

**NATIONAL PRESS CLUB LUNCHEON WITH HECTOR BARRETO,
ADMINISTRATOR, U.S. SMALL BUSINESS ADMINISTRATION
LOCATION: NATIONAL PRESS CLUB BALLROOM, WASHINGTON, D.C.
TIME: 1:01 P.M. EDT DATE: TUESDAY, SEPTEMBER 21, 2004**

JONATHAN SALANT: Good afternoon, and welcome to the National Press Club. I'm Jonathan Salant, the reporter for *Bloomberg News*, and treasurer of the National Press Club.

I'd like to welcome club members and their guests in the audience today, as well as those of you watching on C-SPAN or listening to us on National Public Radio. Please hold your applause during the speech so we have time to ask as many questions as possible. For our broadcast audience, I'd like to explain that if you hear applause, it may be from the guests and members of the general public who attend our luncheons, not from the working press.

The video archive of today's luncheon is provided by ConnectLive and is available to members through the National Press Club web site at www.press.org. For more information about joining the Press Club, please call 202-662-7511. Press Club members can also access transcripts of our luncheons at our web site. Non-members may purchase transcripts, audio tapes and video tapes by calling 1-888-343-1940. If you have any questions for our speaker, please write them on the cards provided at your table and pass them up to me. I will ask as many as time permits.

Before introducing our head table, I would like to remind our members of future speakers. On Friday, September 24th, Secretary Rod Paige, U.S. Department of Education, will discuss the transformation of our public schools. That same Friday evening, the 24th, Olusegun Obasanjo, president of Nigeria, will be our guest at a special evening newsmaker event. And on Monday, September 27th, Coach Bobby Knight of Texas Tech University will be our luncheon speaker.

I would like to now introduce our head table guests and ask them to stand briefly when their names are called. Please hold your applause until all head table guests are introduced.

From your right, Ron Bew, associate deputy administrator for Capital Access of the U.S. Small Business Administration; Ashley Roche (ph), Inside the Army; Adela Soriano, associate administrator of Strategic Alliances for the SBA and a guest of our speaker; Bennett Clemens Smith (sp), president of We Represent Diversity (sp); Melanie Sabelhaus, deputy administrator of the U.S. Small Business Administration and also a guest of our speaker; Clayton Boyce, former National Press Club president and vice chairman of the club's Speakers Committee. Skipping over our speaker for a moment because he has a nice introduction coming up, Shawn Bullard, vice president of Golin/Harris and the member of the Speakers Committee who arranged today's luncheon — thank you, Shawn — Raul Cisneros, associate administrator for Communications of the SBA and a guest of our speaker; and Karin Fischer, an associate editor of the *Kiplinger Letter*. (*Applause.*)

If small business is the engine that pulls the American economy, our speaker finances the railroad. Hector Barreto, head of the U.S. Small Business Administration, got his start working in a small business: he was nine years old and he waited on tables in his father's restaurant in Kansas City, Missouri. He went on to college and, living the American dream, eventually began his own business in Southern California, growing Barreto Insurance and Financial Services into a multimillion-dollar enterprise. He was also vice chairman of the U.S. Hispanic Chamber of Commerce, which his late father helped found 25 years ago.

Now Barreto is helping other small businesses as head of the SBA, which recently celebrated its 50th anniversary. One of his pet projects was called Business Matchmaking, in which he paired small and large businesses together to discuss ideas and suggestions, with SBA providing the conference environment and the resources needed for success. The idea was that if small, medium and large companies could talk to one another, they just might be able to find a need for each other's services or learn about a government program that they didn't know about they could bid on.

After the terrorist attacks of September 11th, 2001, Barreto spent days walking through Lower Manhattan to offer low-interest, long-term loans to the businesses devastated in New York City. He also did the same and helped businesses devastated by the attack on the Pentagon. In all, the SBA arranged some \$800 million in loans for 7,000 businesses.

Barreto's tenure has also been without — has been with controversy. In February, angry business owners claimed that the SBA was failing to adequately help America's 25 million small businesses. They said Bush administration cuts in the agency's budget and its loan program were preventing them from getting the help they needed.

We're in the midst of a presidential election, and with — pollsters tell us that the economy is still the number one issue on the minds of Americans. And the National Federation of Independent Business tells us that small businesses create two-thirds of American jobs. So let's hear from the head of the U.S. Small Business Administration about the economy and what he's doing to help business grow.

I'd like to welcome Hector Barreto to the National Press Club. *(Applause.)*

MR. BARRETO: Thank you. Thank you very much, Jonathan.

And thank all of you for being here. I know that your time is your most valuable asset, so I appreciate you sharing a little bit with us today.

I want to thank everyone at the head table, and I want to thank the National Press Club for holding this very important and auspicious opportunity for the SBA.

I want to start off by talking a little bit about what Jon referenced, and that's really where it all started. You know, I like to tell people that everything important that I learned about business I learned it in a Mexican restaurant. And it's true. My father was an immigrant to this country in the late 1950s, and he came here. And you know, in the beginning it was very difficult, very tough. He started off his dream by picking potatoes for 50 cents an hour in rural Missouri. I mean, that's where he started. And later on he worked his way up to working on the railroad. And my father was even the janitor at the elementary school that I would eventually go to.

But for my father, all of that was a means to an end. You see, the reason he came to this country was to create a better life for his family. The greatest thing for my father was the opportunity to be your own boss, and my father and mother saved their money and they were able to open up a little Mexican restaurant in Kansas City, Missouri, of all places. And they were really living their dream.

By the way, this is not a new dream; this is a dream that really has defined our country for centuries. It's really the American dream, that dream that tells us that it really doesn't matter where we start. It only matters where you end up. And if you work hard enough, and if you create an environment for yourself, you can accomplish anything that you want. And that's what I learned. I learned that from my father. I used to like to say that, you know, that restaurant was our home. But I didn't sleep there, but I do remember spending a lot of afternoons there, a lot of weekends there. Sometimes I wondered why we were the unlucky ones whose parents were entrepreneurs, because my friends could always have time off and they always were doing all kinds of fun things. And we were working in that restaurant. But I learned so much what it takes to be successful in business. I learned about commitment and dedication and customer service.

And this last year I had an opportunity to get connected with that all over again. You see, the SBA was celebrating its 50th anniversary, and what we decided to do is to go around the country, to every region of the country, and talk to our customers, which are those small businesses, and hear directly from them what was on their mind. And we didn't just go to big cities. We went to places like Bangor, Maine, and Bend, Oregon, and Jacksonville, Florida. And we had round tables with these small businesses. Literally hundreds of small businesses participated in these round tables, and thousands of small businesses came to these regional events that we did.

We learned a lot about their achievements, but we also talked about their frustrations. We talked about their hopes. And yes, we talked about their fears. But most of all, what we wanted to talk to them about was their needs and how the federal government could help those small businesses meet their needs. Now no summary can do justice to all the comments that we got. But I will tell you that two points emerged loud and clear.

First, the entrepreneurial spirit of those 25 million small businesses is alive and well. Regardless of whether or not they were male or female; whether they were part of a minority group or part of the majority; whether they were immigrants or native-born, novices or old hands, the small business owners that are responsible for our economic recovery today are filled with the same drive and dreams and determination that small businesses have always needed to succeed. They want to provide for their families, and they are very proud of the contributions that they make to their communities. They feel an important responsibility to their employees, and they share a deep love of this country and a desire to help it grow and prosper.

Second, those small business men and women are cautiously optimistic. They're worried. They're worried about things like frivolous lawsuits and how those lawsuits can devastate a small business. They're also worried about burdensome federal regulations that eat up a lot of their precious time and resources. And finally, they're concerned with the rising costs of health insurance. That's probably the number-one small business issue, no matter what part of the country that you're in. Many feel that the economic landscape has been traditionally tilted against small business, and they hope that the federal government in Washington is aware of their needs and concerns.

Now while many of these worries exist, we also heard that small business owners across the country are feeling relief from these burdens, thanks to many of the actions that have been taken over the past four years. In fact, those of us who are privileged to be part of the president's economic team care very deeply about the fate of small businesses in America, and we're working very hard to remove those obstacles that are often in the path of their success.

Now after holding these round tables in 11 cities with over 100 small business owners and meeting with thousands of small business owners and entrepreneurs along the way, we were encouraged to see that this administration is moving forward; we are moving in the right direction in the major areas of concern for our nation's job creators. And that's really what small businesses are.

Let me tell you about these concerns and about how this administration is responding to them.

First, small business owners want affordable and predictable health care. Virtually all the small business owners we talked to were convinced that when it comes to health care, that playing field is not a level one. After all, both the federal government and large corporations can use the advantages of scale that are conferred to them by the large numbers of men and women they employ to negotiate huge discounts on their health insurance. Small businesses, of course, cannot do this. More than half of the uninsured are small business employees and their families.

Small businesses face obstacles in providing health benefits, including high costs, complicated regulations, and a lack of bargaining power with insurance companies. A recent poll conducted by the Kaiser Foundation indicates that Americans are more concerned about rising health care than they are about the stock market or terrorism. This concern is particularly acute for small business workers in the smallest businesses that provide health insurance pay on the average, which is 17 percent more for health benefits than workers employed for — by those large companies. Let me give you an example.

In 2002 61 percent of all small business owners between — that had employees between 93 and 199 employees offered health coverage to their employees. Now, that's down from 67 percent that provided this health coverage for their employees just two years before.

In response to this phenomenon President Bush has signed legislation last December creating health savings accounts, or what we refer to as HSAs. These are new, affordable options in health care coverage. HSAs are tax-free savings accounts that people can set up when they purchase a low premium, high deductible policy to cover major medical expenses. Money from the HSA can be used to pay for routine medical expenses, or it can be saved for future health needs, while the major medical policy helps cover the big expenses like hospital stays. This administration has proposed allowing individuals who set up HSAs to deduct from their income taxes the premiums they pay for their major medical policies, thus reducing the net costs of those policies.

Individuals who set up HSAs can save substantial sums on their health insurance AND their taxes. Moreover, HSAs give Americans more control over their health care spending. If you own an HSA, you can go to the doctor of your choice. And you can keep that account even if you change jobs.

To extend the benefits of HSAs to low-income families and individuals, the president proposes giving low-income families a thousand-dollar contribution made directly to their health savings account, along with a \$2,000 refundable tax credit to help purchase a policy to cover major medical expenses. A family of four, for example, making \$25,000 or less will be able to get a thousand dollars from the federal government to put in their HSA. These families can use the money to pay for doctor visits, medicines and other routine medical expenses. What the family does not spend in in a given year can be saved in the account and carried over into the next year. Earning interest tax-free each year, that family remains eligible. The government will deposit another thousand dollars into their health savings account. The family, not the government and not the employer, owns the health savings account and keeps it whether a family member changes jobs or increases his or her earnings. Low-income individuals could receive a \$300 contribution to their HSA.

In addition to the thousand-dollar contribution to their HSA, the same low-income family of four will be eligible to get a \$2,000 tax credit that's refundable to help them pay for an insurance policy that covers them from major medical expenses. The \$2,000 will cover significant amounts of the premiums on their insurance policy. Currently, the average premiums for a family for major medical costs is a little over

\$3,300 a year. And according to the Kaiser Foundation and the data that they collect on health insurance, low-income individuals could receive a refundable tax credit of about \$700.

Families who elect not to set up an HSA may use the refundable \$3,000 tax credit to buy standard medical coverage instead. And individuals will be able to claim a thousand dollar refundable tax credit. Those low-income families will not have to wait until tax time to get their tax credit. The low-income health care credits will be advanceable and available immediately to qualifying families.

The president has also proposed \$4 billion in grants to encourage states to create state-run insurance pools to make sure low-income Americans get the most out of the credit. These insurance pools or health pools will provide people an easier and faster way to shop for coverage. Now, this is very important. States can make it easier for coverage through toll-free numbers and websites by making applications available at state government offices, motor vehicle administrations or private workplaces. Health pools will use the purchasing power of thousands of individual families to help reduce the cost of health insurance premiums for all eligible families.

Feedback from our tour tells us that we need to allow small businesses to join together inside association health plans, which really gives them the purchasing power that large corporations have. This is very important. To make health care coverage more affordable and accessible to all Americans, we must give Americans more choices in how they buy their health insurance. Most people get their health insurance through their job. Yet more than half of the uninsured in this country are small business employees and their families.

To ensure that employees of small businesses also get coverage, the president wants small businesses to have the same bargaining power that large companies do. And that's why he has called for the creation of HSAs and AHPs. AHPs are Association Health Plans, and that really allows small businesses to band together inside of groups or organizations and really get that leverage that they currently don't have. This administration also proposes to expand the concept of AHPs to private, non-profit, multi-state entities to band together to offer coverage to their members outside the workplace.

In addition, the president envisions transforming the health care marketplace to make it easier for all Americans to shop for affordable coverage. Today it's easy to use the Internet or 800-numbers to shop for just about anything anywhere. If you want to buy a car, or furniture, you can go online and you get the best deal.

But different rules apply to health insurance. Americans today may only purchase health insurance in the state where they currently live. And they can't shop around for a better deal in another state. If an individual lives in a state where there are cumbersome and expensive regulations on health insurance, he or she may end up paying more than someone else in another state. The president's proposal for a national marketplace for health insurance would change that. It would give people the freedom to shop across state

lines to get the best coverage at the most affordable prices. Lowering barriers to affordable and accessible health coverage should not sacrifice strong consumer safeguards. And the president's plan would protect consumer rights and include standards to protect against fraud and abuse. This proposal will help individuals save on health insurance and competition across state lines and can help drive down the cost of health insurance for everyone, not just small business owners.

Besides health care, many of the small business owners we spoke to on this tour were concerned about the impact of frivolous lawsuits on their businesses, and their concerns are justified. Frivolous litigation sharply increases the cost of doing business all across America and often does irreparable harm to America's top job-creators, which are small businesses, and the jobs that they support.

You know, Treasury John Snow said, and I quote, "We know that the current tort system is costing America's individuals well over \$200 billion each year, which is essentially a tort tax." This is paid in the form of lower wages, higher product prices and reduced investment. This works out to be about \$809 for every individual, and more than \$3,200 for a family of four.

President Bush has proposed, and the House has approved, measures that would allow more class action and mass tort lawsuits to be moved into federal courts. The president's reforms would also ensure that in a class action lawsuit most of the benefits of a settlement would actually go to the people who have been injured. These reforms will help businesses focus on creating jobs rather than fighting junk lawsuits. Third, it was very clear from our discussions with small business owners that they depend on steady, reliable and affordable energy supplies. Energy shortages, price spikes and blackouts have been devastating and have had a terrible impact on small businesses, forcing them to lay off workers and sometimes to liquidate their businesses altogether. President Bush has proposed a comprehensive national energy plan to upgrade America's electrical grid. The plan would also promote energy efficiency, it would increase domestic energy production, and provide enhanced conservation efforts while simultaneously protecting our environment. Small business owners on our tour were also particularly vocal about the need to streamline regulation and paperwork.

In our discussions with small business owners around the country, it was clear that many of them believed that burdensome government regulations are the greatest single impediment to small-business formation and growth. There is an ample justification for this belief. Indeed, the SBA has calculated that hidden costs of regulation amount to almost \$7,000 per employee of a small business. Regulations are especially burdensome in the health care industry, and as much as 25 percent of doctor costs are due just to the paperwork.

The Office of Management and Budget or OMB's data reveal that from 1987 through 2003, there were \$103.6 billion in new regulatory burdens imposed on the economy; in other words, unfunded mandates on the private sector and state and local governments. The Bush administration has made great strides in its efforts to combat overly burdensome government regulations. The overall budget or the overall burden

of government-mandated paperwork declined in fiscal year 2003 for the first time since fiscal year 1996. The overall volume of paperwork burden has declined in only eight of the 24 years since the Paperwork Reduction Act passed.

The growth of major regulatory cost burdens has also declined sharply during the Bush administration. In the last three years, for example, the SBA Office of Advocacy has saved American small businesses over \$31 billion in foregone regulatory costs. The administration has also recently streamlined tax reporting requirements for small businesses, helping 2.6 million small businesses save over 61 million hours of unproductive work.

At the SBA we have strengthened small businesses' voice in regulatory policymaking by carrying out Executive Order 13272, which provides the SBA Office of Advocacy with the authority to review agency policies on how the agencies take small entities into consideration in their rulemaking procedures. Well, let me tell you something that you might find surprising that we also learned when we were out there traveling around the country. We found in our tour that small businesses are also concerned about new markets for their products and services, and the reason some people might find this surprising is because they don't realize that small businesses account for such a large part of what we know in this country as international trade. Just to give you an example, 97 percent of all businesses that export products are considered small businesses by our definition at the SBA, but they only represent 30 percent of all the trade that is going on in this country. Not only that, but over 95 percent of manufacturing exporters are small- and medium-sized businesses, but they contributed 15 percent of the sector's \$444 billion in exports.

But although small businesses have demonstrated time and time again that when they're given a level playing field they can dramatically increase the level of their exports, the exporters we spoke to are worried that foreign taxes and tariffs are making their products more expensive and less competitive than those priced elsewhere.

The president has acted aggressively to negotiate trade agreements that slash foreign tariffs and remove the barriers that disadvantage American exporters. President Bush recently signed into law new free trade agreements with Chile, Singapore, and Australia. These agreements will enable U.S. manufacturers to compete on an even playing field. And he will continue to open up markets to American products.

Whether assisting with customs issues, addressing enforcement concerns, or educating small businesses on their important role in trade, the Office of Small Business Affairs — which, by the way, is a new office at the United States Trade Representative — has been very responsive and a meaningful voice for small business in the U.S. trade area.

And that, of course, there is the issue on taxes. That's a very important issue to small businesses. Time and time again the issue of tax reduction and simplification came up wherever we were around the

country. To make important spending, saving and investment decisions, small businesses need to be able to plan for the future.

Now, small businesses employ more than half of all of the U.S. work force and it is therefore likely that they pay more than half of the nation's employment taxes. In a similar vein, small businesses account for more than half of the United States economic output, and so likely pay more than half of the federal and state income taxes. Because tax compliance costs are relatively fixed, small businesses still pay a disproportionate amount to comply with tax laws than even larger businesses do.

The Tax Foundation has stated that small businesses pay at least 27 times more on tax compliance as a percentage of their assets than do large businesses. Therefore, while small business pay(s) its fair share, at least in taxes, it suffers more than its fair share for the complexity of the current tax system. The time that people spend complying with an overly complex tax code is a burden and a waste of resources that has been growing over time. Let me give you an example.

The Internal Revenue Code contains more than one million words. The number of pages in the Internal Revenue Code and regulations has more than doubled over the past 20 years. Today's, quote, "short" income tax form takes more than 11 hours to prepare, about the same time that the long form took just a decade ago. It takes 12 pages of instructions to calculate the earned income tax credit, a basic element of income support for the working poor. By 2010 more than one in five taxpayers will be forced to calculate their income taxes twice, once for the regular income tax and once for the alternative minimum tax, and then they'll be asked to pay the greater amount.

To counteract this in part, the administration and Congress provided significant relief last year in the form of tax cuts which save small businesses on the average of about \$3,000 apiece. Small businesses in the United States historically account for more than two-thirds of the net new jobs. Many of these small businesses are taxed at individual rates, and thus the tax cuts for individuals also benefit these vital engines of our economic growth. Owners of flow-through entities, for example, including small businesses and entrepreneurs, comprise approximately three-quarters — about 460,000 — of the 600,000 tax returns in the top tax bracket.

The increase in expensing, from 25,000 per year — that was part of that tax relief — and we increased it to 100,000 per year, was another significant element of the Jobs and Growth Act of 2003, and it benefitted small business owners immensely. Expensing reflects the actual cash outlay of the small business, and it ultimately reduces the cost of the capital acquisition, thereby saving money that small businesses can apply to other needs that they have in running these businesses. These rate reductions benefit more than 90 percent of small businesses that pay taxes at the individual income tax rates — not the corporate rate; the individual rate.

Right now, however, many small-business owners told us that because some key elements of the tax relief passed by Congress and signed into law by President Bush — such as the elimination of the death tax, for

example, and the new incentives for small business investment — they will expire soon, and that concerns a lot of small businesses. They tell us it's going to be impossible to plan ahead if we don't know exactly what these tax rates are going to be. President Bush has urged Congress to make these vital tax reductions permanent so that America's small businesses can plan ahead with confidence. Raising taxes on small businesses will hurt economic growth and job creation.

President Bush also announced that he's making tax reform a key priority. The president will begin this effort by creating by executive order a bipartisan panel to advise the Treasury secretary on options to fundamentally reform the tax code to make it simpler, to make it fairer, and to make it pro-growth. Taxes should be applied fairly, and reform should recognize the importance of homeownership and charity in our American society.

A final lesson we learned during our tour was the need to promote entrepreneurship in rural and urban areas. Americans across the country are now realizing the benefits of new economic growth. Small businesses on Main Streets and across America are thriving. But it became apparent from our conversations that America's economic growth is not felt equally throughout the nation. In poor communities and communities where traditional industries do not employ as many workers as they did a generation ago, opportunity can seem very distant.

This administration believes that government must be on the side of all people — we must be on the side of people in these communities — and that America's economic prosperity should extend to every corner of our country. To help reach that goal, the president recently has proposed new opportunity zones, an initiative to assist America's transitioning neighborhoods. These are areas that have lost a significant proportion of their economic base as a result of our changing economy — for example, due to the loss of manufacturing or textile employment — and are now in the process of transitioning to more diverse, broad-based 21st century economies. Opportunity zones would ease that transition by targeting federal resources and encouraging new existing businesses to invest in these areas.

To help transitioning areas, the SBA will incorporate procurement initiatives into the administration's new opportunity zone proposal.

In addition, on July 9th, 2004, President Bush announced a new initiative to expand business ownership and entrepreneurship among minorities. The administration is undertaking a unique association with the National Urban League to create an entrepreneurship network. Supported by the Business Roundtable and the Ewing Marion Kauffman Foundation, the National Urban League's Network will include one-stop centers for business training, counseling, financing and contracting. I'm delighted that the SBA will offer an array of resources to help the National Urban League local offices reach out to minority entrepreneurs. These communities are some of the fastest-growing segments of small business in the United States. So these are some of the concerns that I encountered in the course of this economic growth tour and some of the initiatives that we're taking to respond to them.

And let me say the tour has made me very proud of that commitment that my father made all those years ago. I'm very proud of America's small business owners. I'm very proud to be a member of this administration that has done so much to relieve the tax burden on small businesses, the regulatory burden on small businesses, to create more opportunity. I'm proud to be part of an administration that has done more loans for small businesses in every community, more than has ever been done in 51 years. We've trained more small business entrepreneurs than ever before in 51 years. We have helped more small businesses access opportunities than ever before, through federal contracting programs.

I'm very proud of where I come from. I will tell you that the president of the United States made a commitment to small business at the very beginning of his administration. The president has kept that commitment, and I pledge to continue keeping that commitment as well on small businesses.

I'm very proud of where I come from, and it all started scrubbing tiles in my parents' Mexican restaurant. Thank you very much for being here, and thank you for everything that you do for America's small businesses. God bless you all, and may God continue to bless our great country, America. Thank you very much. (*Applause.*)

MR. SALANT: There are a lot of questions. If you have other questions, please write them on the cards on your table and send them up. We'll ask as many as we can.

Our first question: What is SBA doing to help all the businesses hurt by those three hurricanes that hit the Southeast United States?

MR. BARRETO: Well, that is a great question. And as many of you know, SBA is also America's disaster bank. Whenever there's been a disaster — and Jon, you mentioned, at the beginning of your comments, after 9/11, we were right there, three days after the president. And we are right there right now, helping all of those small businesses that need help in Florida, in Mississippi, in Alabama, North Carolina, West Virginia and everywhere they need to.

We've received, just in the initial couple of hurricanes, over 160,000 referrals. Now remember, we don't just help the small businesses, but also people whose residences were hurt, or maybe it was somebody who lost personal property. We do the low-interest loans. We do those loans directly. There is no cap on how much we can lend out in total, but small businesses can apply up to one-and-a-half million dollars if their business has been damaged or injured, a homeowner can apply for loans up to \$200,000, and personal property losses can be covered up to \$40,000.

The first step is to call our partner, FEMA, at 1-800-621-FEMA, F-E-M-A, and then they will take the information and refer that over to us. But we will be there as long as we need to. We've already approved tens of millions of dollars in these loans, and we know that it's just a down payment for what we're going to need to do when this is all over.

Thanks for that question.

MR. SALANT: There are many Americans who have been laid off as part of corporate downsizing or saw their jobs go overseas. Should they start their own business, their own small business? And if so, what advice do you have?

MR. BARRETO: Well, the first advice I have is call the SBA. That's the first advice. Go to your SBA district office, call us at our 1-800 number, 1-800-U-ASK-SBA. In fact, a lot of people go onto our web site, SBA.gov, and ask a lot of these questions. "How do I start a business?" "What do I need to watch out for?" "What kinds of tools do I need?" We even have something called the Small Business Startup Kit that we can send out to people, and that kind of gives them the basics.

The more that you learn about what it's going to take to start a small business, that will inform your decision. I always tell people to do their homework. You know, there's an old saying in business, "no business plans to fail," but sometimes businesses fail to plan, and so we can help them with that.

But a lot of folks who are transitioning are thinking about starting small businesses. We have 25 million small businesses in the United States. Fastest-growing segment of small business, my deputy always reminds me, is women-owned small businesses. They already own 40 percent of all the businesses. So there's a lot of opportunities out there and a lot of tools that folks can access, and we're there to be a very strong partner to all those folks who are thinking about starting a small business or want to grow their small business.

MR. SALANT: What needs to be done to get Congress to allow small businesses to band together and form groups to purchase health insurance?

MR. BARRETO: Well, I get asked that question a lot, and my answer is we're halfway done. The House of Representatives has passed this legislation twice on a bipartisan basis, but the Senate has yet to take it up. It's critically important that this issue be debated. Small businesses deserve to have access to affordable health coverage. We believe that through association health plans, they can lower their health insurance premiums double digits.

It is not the entire solution to the health care crisis, but we think it's a very important step. Small businesses deserve to have this opportunity, and we hope that small businesses will let their senators know how important getting access to affordable health care, how important having an opportunity to participate in association health plans would be to them. I think that is very important.

MR. SALANT: What do you regard as the most important tax issues for small business today, especially talking about startups and existing small companies and exporters?

MR. BARRETO: Well, I talked a little bit about what the jobs and growth package did, and I think that is very important for a lot of small businesses.

You know, the majority of small businesses are not incorporated. They pay taxes at their individual tax level. So if you're paying taxes at your individual tax level and you're a small business, the jobs and growth package lowered your tax burden. There's another saying in small business: It's not what you make, it's what you get to keep. And if a small business gets to keep more of their own hard-worked — earned money, we know what they're going to do with it. They're going to put it right back to work in their business, they're going to buy equipment, technology, create those jobs. And so, making those tax cuts permanent we think is important.

Another thing that was very important was quadrupling the business deduction from \$25,000 to \$100,000. You know, there were a lot of small businesses out there that needed equipment and technology, but they weren't buying it a year ago because they were a little bit concerned about the economy. Now we've incented them, and a lot of them are making those purchases today who weren't purchasing before because they can now deduct up to \$100,000. We think that that's very important.

Another issue that small businesses talk to us about all the time is, they want to see the death tax go away forever. They don't want to see that death tax coming back. They say, Look, we've worked all of our lives, we've paid taxes all of our lives, and after we're gone, when we want that business to pass on to the next generation, the government might come back in and take as much as 50 percent of it. That's not fair, and it's not right. And so, they want to see that go away as well.

And I already talked about all of the costs that small businesses expend on just compliance. So anything that we can do to simplify that tax code and some of the reporting responsibilities will also be a big bonus for small business.

MR. SALANT: You just mentioned the estate tax and, you know, the president has said that a tax — that businesses really want it eliminated. Critics say that the — it's just a giveaway to the rich. How many small businesses have had to shut their doors in the last four years because heirs couldn't afford to pay the estate tax bill?

MR. BARRETO: You're absolutely right. You know, many small businesses have been affected by this. You know, it's amazing to me. You know, the majority of those 25 million small businesses? They're not the richest 1 percent in the country. Many of these are mom-and-pop businesses that are just struggling to get by. And somebody will say to them, Well, you own a building, and you — and you own a business, and on paper you should be worth this much. It's not how much money they have in their account that is going to be factored into that. So we know that this affects a lot of small businesses. And I will tell you that as we went around the country, this was one of the issues that small businesses are most passionate about. And they don't feel like they're the rich 1 percent. They don't feel like it's right that they've worked all of their lives, and just when it's time to pass it on to that next generation to keep that business going, that business may be in jeopardy. As many of you know, those taxes have to be paid very soon after the death of that business owner, and oftentimes assets have to be sold at a very big discount just to pay for the estate taxes.

I don't know how many have been affected by it (sic). I will tell you that we've heard incredible stories as we've gone around the country. I'm sure that some of this data is being covered. But the definition for small business people about what they consider rich and what some folks in Washington, D.C. consider rich are very different.

MR. SALANT: What is the SBA doing to specifically reach out and support the self-employed and those businesses with 10 or less employees, who have very different needs than a business with 100 or 200 employees?

MR. BARRETO: Well, we're doing a lot, and really it's the place that we touch the most small businesses. I'll give you an example.

This year, the SBA will train 2.1 million small businesses. Now, who are they training? They're not training, you know, huge companies with hundreds of employees; they're training people that may have one employee or just started their business, they need help putting together a business plan, they need to go to get their first loan, they may need to learn how to use technology, how to do international trade, how do you market. You know, sometimes small businesses are really good at doing one thing, but they're not good at doing some of the other things.

I'm very proud of the SBA network. We have small business development centers that do an incredible job. They'll probably train 700,000 small businesses. We have the Service Corps of Retired Executives, over 10,000 senior executives who volunteer their time to help small businesses. They'll train over 500,000 small businesses. We have women's business centers. We have business information centers. We have an SBA district office in every major city in every state in the country, and so we're helping them.

Also, we're doing more loans to them. Since we've been on board, the average loan size at the SBA has gone down so we can reach more small businesses. It used to be that the average loan size at the SBA was a quarter of a million dollars. Most small businesses will tell you, "I don't need a million dollars; I need \$10,000." "I need \$20,000." We're doing more of those loans than ever before in every community. This year we'll break the all-time record in loans. We'll do over 25 percent more loans to women, over 30 percent more loans to minorities. We'll do more loans to veterans, rural loans. We'll do more loans in every community, and I'm very proud of that.

And we're also helping to match up more small businesses to get contracts at the federal level. Through our Business Matchmaking initiative, we set up 20,000 appointments between small businesses and the buyer of every federal agency. Those businesses that we set the appointments for, those were small businesses that never got a shot before to get access to these contracts. We can't guarantee somebody a contract, but we want to guarantee them an equal shot, an opportunity, access.

And so in all of those areas, I believe that we've done more to reach those emerging small businesses that are just getting started.

MR. SALANT: With continual decreases in the SBA budget, this questioner writes, how can SBA effectively assist small businesses and fulfill its role in the federal government with reduced resources?

MR. BARRETO: Well, you know, I disagree with that premise. You know, when you're in business, what you consider — when you're in business, what you're always looking at is the bottom line: are my revenues increasing, is my business longevity better than it was before, do I need to hire more people to keep pace with capacity? Those were the bottom line. You know, when I was in business, I didn't talk to other businesses about what's your cost of doing business and are you more efficient than I am. I mean, efficiency's very, very important, but the SBA this year is reaching more small businesses than ever before.

Our bottom line is, are we doing more loans? And the answer to that question is yes. Are we training more people? And the answer to that question is yes. Are more people getting contracts from the federal government? Last year the federal government bought \$65.5 billion worth of goods and services from small businesses. Almost 24 percent of all federal purchases went to small businesses. Our bottom line is better than it's ever been.

The president demands results on behalf of small businesses. The SBA runs much more efficiently, much more effectively than it ever has before. And the president's provided it with the resources that we need to get the job done. In fact, this year he signed legislation that increased our budget authority on those loans from 9.5 billion (dollars) to 12.5 billion (dollars) — a 30 percent increase in our budget authority. So I think our record is pretty good, and I think the small businesses that we talk to around the country are aware of that. They just want us to keep going, and we're pledging to do that.

MR. SALANT: Given your experience with a small import-export business, what is your view of the China currency and the balance of trade problem?

MR. BARRETO: Well, that's an interesting question as well. You know, I had an opportunity — I sit on the President's Export Council, and a little over — I think it was about two months ago the President's Export Council visited China. And we had an opportunity to visit with the highest leadership in the country, from the premier and the vice premier and the heads of all of the departments that are responsible for business — and what they told us is, they think a great opportunity to decrease their trade deficit is if they were able to do more business with small businesses. So we think that that is an important opportunity.

A lot of times small businesses don't know what they don't know, and it's not their fault. They want to go into these markets, but they need somebody to help them. And that's where our Office of International Trade can come into play, the Commercial Service at the Commerce Department can come into play, the

Trade Development Agency, the American Chambers of Commerce in those countries. We visited with the American Chamber of Commerce in Shanghai and Beijing. They do a phenomenal job.

So we believe there are tremendous opportunities, and in fact we believe that small business could be a solution to a problem that we have between these two countries in terms of our trade imbalance.

MR. SALANT: High rents and poor zoning laws are killing small businesses. Can anything be done?

MR. BARRETO: Well, some of those issues are local issues, especially when you're dealing with, you know, real estate costs and what rents are going for, and zoning. Oftentimes, again, technical assistance can be very helpful to them. Maybe the way that a company is set up is not the best way for them to be set up.

I'll give you an example. Sometimes small businesses are renting a building, and they've been renting it for years and years and years. Right now, with interest rates low and with programs like our 504 loan program, we make larger loans for small businesses to buy real estate and equipment and large fixed assets. There's a great opportunity to buy that building and become the owner of the building, versus just the renter of it. In terms of zoning, obviously small businesses need to be working very closely with their elected officials on a local basis. They need to let their statewide officials, their governors know about, you know, what their environment is.

And I will tell you, when they don't, small businesses vote with their feet. They move out of that city. They move out of that state. And I think most governors I've talked to understand that 99 percent of every business in their state is a small business. They can't afford to lose any small businesses.

But they have to do what the president says: create the environment where those entrepreneurs are willing to take a risk, an environment where they're willing to risk their capital, an environment that truly heralds the accomplishments and the contributions of America's small business men and women. That's the role of government — not to create wealth. Small businesses create wealth. Small businesses create jobs. The role of government is to create that environment, and government at all levels needs to be committed to that.

MR. SALANT: What is your view on the state of the economy, and why do you think polls show that a majority of Americans still say the economy is not doing well?

MR. BARRETO: Well, my boss likes to say that he's not going to be satisfied until everybody who needs a job has a job. But there is no doubt that the economy is rebounding. And our economy was hit with a lot of shocks. I don't think that you have a comparable time period of a 9/11, the corporate scandals, the tech bust, the loss in the stock market — you know, having to create a Homeland Security Department, fight a war on international terrorism.

It's incredible what our economy's been able to do in a very short period of time. We've added trillions of dollars back to the stock market. Our unemployment rate right now is 5.4 percent, which, by the way, is an historical low average. It's lower than the 70s, 80s, and 90s. We've created over 1.7 million jobs in the economy, and I believe we've probably created more than that because a lot of the small business job growth doesn't show up on the payroll survey. It's more properly reflected in the household survey.

So there's still more for us to do. We know that there are still some small businesses that are out there that are hurting. But we also know that small businesses, as I mentioned in my remarks, are optimistic about the future, and they always tell us: "Look, we don't need anybody to do anything for us. We just need a hand up. We just need an opportunity and a level playing field, and we'll do the rest." And that's what we're doing.

MR. SALANT: Energy costs have skyrocketed for small businesses — indeed, all businesses and individuals — in recent months. Other than wait for Congress to pass the energy bill, what is being done to encourage conservation and other ways to cut energy costs and reduce dependence on foreign oil?

MR. BARRETO: Well, that's probably a great question for my colleague, Spence Abraham, at the Energy Department. I know that they have a number of good programs that are focusing on conservation. But that energy bill is very important to small business, and it's unacceptable that it's been languishing in the Senate for the last couple of years. Again, we need Congress to act on that. The implications are great, not just for big business but for small businesses too.

You know, oftentimes, when those variable costs go up, small businesses can't pass that on to their customers, and so it eats up their bottom line. They need reliable energy sources. We cannot afford to have another blackout like we did a couple of years ago. We need to do a much better job in exploring for our own energy sources. And I think a lot of that is incorporated in that energy bill.

And I would defer the rest over to my colleague.

MR. SALANT: The self-employed are still unable to fully deduct the cost of their health insurance premiums. All other business entities receive a full deduction. What is the SBA's position on full deductibility of the health insurance for the self-employed?

MR. BARRETO: Well, again, a number of different proposals have been brought forward. The administration is very interested in finding ways that we can incent small businesses to provide more health coverage. They tell us very simply, "We can't afford it."

I mean, I used to have a business that dealt with employee benefits for small businesses, and I used to always say, We always put small business in the role of giving the bad news to their employees, you know? The rates went up again this year, you're going to have to change doctors, we're going to have to

cut benefits, they went up again this year, we're cancelling the health insurance altogether. And so, this is a key issue.

We started the process with health savings accounts, which allows small businesses to put money aside on a tax-deferred basis. The money can grow tax-deferred, it can be taken out tax-deferred. The president is — and I mentioned in my remarks — is very interested in providing tax breaks for small businesses that buy health insurance. Some of this is going to require legislation, and we're going to work very closely with Congress.

But we think it's vitally important. It is the number one small business issue. Through health savings accounts and AHPs we're doing something about the accessibility, and hopefully lowering some of that cost. There's other things that I mentioned. Tort reform can go a long way to reducing some of those costs as well. Prescription drug cost is also an important component. So there are a number of different things that we've got to do to get those costs down for small business. Tax cuts and the tax credit is one piece of it, but there are a lot of other pieces that are very important as well.

MR. SALANT: Before we ask our final question I wanted to give you a certificate of appreciation from the National Press Club suitable for framing —

MR. BARRETO: That's great. Thank you. *(Laughter.)*

MR. SALANT: — and the coveted, nationally famous National Press Club coffee mug. Sort of — *(light laughter)* — suitable for drinking coffee.

MR. BARRETO: I will treasure it. Thank you. *(Laughter.)*

MR. SALANT: A final question. After serving as Small Business administrator, what are your plans next?

MR. BARRETO: Well, you know, I get this question every once in a while. First of all, I'm honored that I was asked to serve as the SBA administrator. I like to tell people I was busy minding my own business literally when the president asked me to do this. I'm passionate about small business. I know I'll be back in business at some point in time in my life, but right now I am very proud and honored to serve at the pleasure of this president, and I look forward to continuing helping him no matter what I'm doing.

Thank you for that, and I thank you for the opportunity to be with all of you today. *(Applause.)*

MR. SALANT: I'd like to thank all of you in the audience for coming today. I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Jo Anne Booz, Melanie Abdow and Howard Rothman for organizing today's lunch. Also, thanks to the NPC library for their research. We're adjourned. *(Gavels.)*