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My jobs plan for small businesses

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Editor

Now that President Obama has announced his “American Jobs Act” to decidedly mixed reviews in the political arena, I’d like to suggest a follow-on proposal.

I call it the “American Entrepreneurship Act.” This act would focus exclusively on rebuilding America’s tattered culture of entrepreneurship and small-business formation.

My argument would be that during the past decade, small businesses have been over-taxed and overregulated and that new company formation has been slowed to a crawl because working professionals are discouraged from striking out on their own. They are content to cling to their unhappy positions, their cubicles and their 401(k)s because the perceived risks of starting new enterprises are too great.

Moreover, there is a new class of entrepreneurs out there that has great potential. These are the folks Los Angeles financier Lloyd Greif describes as “entrepreneurs of necessity,” unemployed people who take their last nickel and launch a bakery or catering company or office cleaning business because there are no alternatives.

How many new barriers have been erected to starting a small business? The Small Business Administration’s own Office of Advocacy shows that beginning in 2003 new startups slowed to a crawl and never really have rebounded.

Here’s what I would say if I were asked to write the speech announcing the American Entrepreneurship Act:

“In order to produce jobs, we need more small businesses. And we need to create a few millionaires who don’t

make their money moving money around on Wall Street.

“We need more people to seize the opportunity that America and only America has provided for more than 200 years. That is the ability to strike out on your own and create a small business.”

Here would be the cornerstones:

- In addition to the temporary payroll tax relief proposed in the American Jobs Act, I’d propose an exemption on the first \$5 million in capital gains for the sale of a business that’s been in existence for at least five years. The same exemption would apply to small-business owners who leave their businesses to their heirs — attacking the death tax and the sales tax with one quick blow.

- Suspension of Sarbanes Oxley and stock-option grant rules on small public companies and private or closely-held companies with under \$25 million in revenue. Sarbanes Oxley puts a huge paperwork burden on small companies, even closely held ones. It has an enormous hidden impact on stock option grants to valued employees.

- Relief from Dodd-Frank for small, well-capitalized community banks, those with under \$1 billion in assets, until the economy improves or until unemployment drops below 7 percent. As California Lutheran University economist Bill Watkins said in a Santa Barbara talk on Sept. 27, the recession has zapped the home equity many entrepreneurs use to start their companies. Restarting small business means loosening lending rules at the community bank level for people who have demonstrated the ability to borrow and pay loans back.

- A 50-state competition to recognize small companies that are having a big impact on their local communities, particularly inner cities. Look at Sam Seng, one of the Business Times Spirit of Small Business winners this year. His gas and

mini-mart is sprucing up a tired Oxnard neighborhood and attracting new businesses, including a Chase Bank branch. I'd partner with a big foundation and hand out some cash prizes with this competition — and make the cash prizes tax free.

- Speaking of private partnerships, I'd use the leverage of the government to twist arms at big foundations and quadruple the amount of money available through organizations such as Women's Economic Ventures for micro-loans to fledgling companies. Maybe that's where some of the fines levied or to-be-levied against Goldman Sachs or Bank of America should go.

- A serious effort by the federal, state and local authorities to remove or streamline rules that have stymied the robust creation of new businesses that began around 1990 and ended 13 years later. We can't roll back the clock but we can learn from the past.

A real tragedy of the housing meltdown is that it has ripped through the entrepreneurship sector, depriving thousands of would-be employers of the home equity capital necessary

to start their business. Rules that make funding a business and offering stock options complex and expensive also have gotten in the way.

The awards programs offered by the SBA and the U.S. Chamber of Commerce help, but they don't offer a national platform for setting examples for others to follow. Micro-loans are way, way, way underfunded given the amount of people they can potentially help.

My "American Entrepreneurship Act" is not meant to address the big budget deficits, tax policy and things that are above my pay grade. It does not address what economist Watkins believes to be the biggest potential source of new businesses in the United States — comprehensive immigration reform.

But these modest proposals would be a start toward putting the dysfunctional pieces of the American jobs machine back into working order.