



## Obama's Claim About Shrinking Government Is a Ruse

By Lloyd Chapman

Obama has duped the public, the media and Congress with his latest proposal to 'streamline' government.

He talks about reducing the size of the federal government and increasing efficiency but it's all a scam.

It's an insult to taxpayers' intelligence to say that combining the SBA with the Department of Commerce and a few other agencies will 'streamline' the government. As any observer of federal government can tell you, the SBA is one of the smallest agencies in the federal government and has a miniscule budget. If the president was really interested in streamlining the government he would cut the larger, bloated agencies like the Pentagon.

The proposed merger that Obama announced on Friday is supposed to save the federal government \$3 billion over the next decade, but that number is an infinitesimal amount to save over 10 years when rationalizing closing a crucial federal agency, especially when compared with the federal government's overall budget.

In the next decade, the Pentagon alone is projected to spend over \$6 trillion dollars -- the \$3 billion in savings proposed by the president's plan to merge the SBA with the Department of Commerce is equal to only .0005 percent of that.

I don't think any president in recent history has ever called a press conference to talk about cutting such a tiny portion of the federal budget.

That's because President Obama is not trying to shrink government with this proposed merger of the

SBA. Here's what his real goal is:

As I predicted on Sept. 16, 2008, November 2010 and August 2011, President Obama's administration is attempting to wind down the Small Business Administration and all of its federal small business contracting programs.

The Small Business Act, a longstanding federal law that was established by Congress in 1953, says that 23 percent of all federal purchases must be with small businesses. This law is the most successful economic stimulus program the federal government has ever had, because it directs federal infrastructure spending to the nation's job creators.

However, ever since the Small Business Act was established big businesses have been working against its congressional mandate and trying to eliminate the 23 percent contracting goal, for one reason: Greed.

Big businesses, including some of the largest corporations in the world, actively seek to dismantle the Small Business Act, the Small Business Administration and its small business contracting programs because they want 100 percent of all federal contracts every year.

By dismantling federal programs that ensure women-owned, minority-owned, veteran-owned, and other small businesses receive federal infrastructure spending, large corporations can be guaranteed that 100 percent of all contracting dollars go to them.

This is the real goal behind President

Obama's most recent move -- greed.

Obama knows that by doing this political favor for the corporations that dominate K Street and political lobbying contributions, he will in turn receive millions in campaign contributions from the defense and aerospace industry.

If you want to talk about shrinking government, the SBA is the last place to go. Unfortunately, because the president works for big businesses, his proposal to merge the SBA will actually end up completely shutting down the SBA and all of its programs, within five years.

That is my prediction -- with his proposal to consolidate federal agencies, President Obama has quietly proposed to eliminate the SBA and ensure that all of its federal small business contracting programs cease to exist within five years. His administration has even acknowledged that the consolidation move will eliminate between 1,000 and 2,000 jobs from the merged federal agencies.

So far not one reporter has figured out what President Obama's true motivation is.

It's a shame that no one has caught onto Obama's smoke and mirrors tactics yet -- he's been using them ever since he was elected.

For example, while President Obama, the nation's first African American president, was honoring Martin Luther King Jr. yesterday for his acclaimed and historic civil rights efforts, his administration is working to wind down the oldest and most

successful program for minority job creation our nation has ever seen:

On Sept. 9, 2011, his administration published a notice in the Federal Register that they intend to eliminate a program that mandates that five percent of federal contracts be spent with minority-owned small businesses. The American Small Business League estimates this will cost minority-owned businesses between \$25 and \$50 billion in losses a year.

In conclusion, President Obama's proposal to merge six federal trade and commerce departments including the SBA, is not a plan to shrink government but a plan to end federal small business contracting programs.

Mark my words -- if he's successful, SBA and its programs are gone in five years.

This is a tragedy. In the midst of the worst U.S. economic downturn in 80 years, the president is proposing to take it out on our nation's job creators. Small businesses create 90 percent of all net new jobs, account for half of the GDP, employ half of the private sector workforce, and account for 90 percent of all U.S. exports.

To end federal programs that assist small businesses is economic suicide and the president should know better.

I only hope that someone in the mainstream media wakes up and sees the handwriting on the wall -- that there's enough attention to this tragedy for us to be able to stop President Obama from destroying the SBA.

## Lloyd Chapman and the ASBL: What Is It All About?

*ASBL President Lloyd Chapman has been the nation's leading small business advocate and an expert on federal contract law for two decades.*

By ASBL Staff



Mr. Chapman began his career working for legendary Texas political leader Bob Bullock. He spent eight years in the Texas Controller's office, before moving to California in 1986 to enter the computer industry. It was at this time that he first became aware of major problems in federal small business contracting programs, and soon became an advocate for small technology firms. In this role, he closely monitored federal "set-aside" contracts for small businesses. His work triggered a 1991 Congressional investigation into the F-22 Stealth fighter that forced the Air Force and Lockheed Martin to allocate an additional \$501 million to small and minority-owned firms.

In his continuing role as a small business advocate, Mr. Chapman spearheaded litigation to acquire information on small business utilization in government contracting. In 1993, a ruling by the U.S. Court of Appeals

for the 9th Circuit led to the release of vital information documenting small business contracting awards. This has paved the way for greater participation by small businesses in federal contracting.

In 2003, information provided by Mr. Chapman prompted a GAO investigation confirming that, in direct conflict with the Small Business Act of 1953, a significant number of small business contracts were being awarded to some of the world's largest corporations.

In order to form a coalition to promote fair policy in federal small business contracting, Mr. Chapman founded a trade group, the Micro Computer Industry Suppliers Association, in 2003. When membership began to include businesses in other industries, the name of the organization was changed to the American Small Business League in 2004.

A vocal crusader for the rights of small business, Mr. Chapman is a familiar figure at the Small Business Administration and in the United States Congress, where he has continued to work tirelessly during the last two presidential administrations to prevent federal small business contracts from being diverted to large corporations.



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# Obama Set to Eliminate Programs Established Through the Efforts of Martin Luther King Jr.

By Lloyd Chapman

On September 9, 2011 the Obama administration announced plans to dismantle a federal contracting program originally established through the efforts of Martin Luther King Jr., and the passage of the Civil Rights Act, a move that could economically devastate minority communities.

The Obama administration announced the plans to end one of the oldest and most effective minority-owned small business federal contracting programs in the Federal Register. A final ruling on the proposal is pending. The proposal is aimed at ending federal programs that establish, for the Department of Defense (DOD), NASA and the U.S. Coast Guard, a five percent federal contracting goal with minority-

owned small businesses.

This is the latest in several instances of abuse of federal small business contracting programs. In addition to attempts to eliminate minority-owned federal contracting programs, the Obama administration has been criticized for diverting billions of dollars a month in federal small business contracts to Fortune 500 firms and other large businesses worldwide.

“It’s a tragedy that the mainstream media has refused to report on this story and that the first African American president is presiding over the elimination of the nation’s most successful program to direct federal infrastructure dollars to minority-owned small businesses,” said

American Small Business League (ASBL) President Lloyd Chapman. “Nobody knows about this; it’s gone completely unreported, and it’s hard to believe that this has happened.”

Close to 35 percent of the U.S. population is made up of ethnic minorities, and 5.8 million businesses are minority-owned. To date, minority organizations nationwide have been unsuccessful in blocking the Obama administration’s plan to eliminate the minority-contracting program. The ASBL projects that once the program is eliminated, minority-owned companies across the country will lose between \$25 billion and \$50 billion per year in federal contracts.

## American Small Business League Launches Campaign Opposing Obama’s Plan To Wind Down Federal Small Business Programs

By Lloyd Chapman

This week the American Small Business League (ASBL) launched a national campaign to educate the media, the public and members of Congress about the negative ramifications of President Obama’s plan to combine the Small Business Administration with the Department of Commerce, which will ultimately lead to the elimination of federal small business programs.

On September 16, 2008, in November 2010 and August 2011, ASBL president Lloyd Chapman predicted that Obama would try to eliminate federal small business contracting programs by combining the SBA with the Dept. of Commerce.

Combining agencies is a typical Washington

technique to eliminate an agency that you could not get public support to eliminate—the budget for the agency that you want to get eliminated will slowly be zeroed out and the staff quietly laid off. This avoids any direct confrontation with the public, media or Congress, and allows Washington bureaucrats to eliminate agencies that the public and Congress might not normally agree to get rid of.

The ASBL believes that saving \$3 billion over the next decade is infinitesimal — a drop in the ocean — especially when it involves winding down the only agency that exists to support small businesses.

“I can’t believe anybody in the media bought this,” Chapman said. “I can’t remember any

president in recent history holding a national press conference talking about \$3 billion in savings over 10 years. To put that in perspective, that’s approximately .0005 percent of what the Pentagon is projected to spend over the next decade. If President Obama were serious about streamlining government, he wouldn’t start with one of the smallest agencies in Washington. He’d start with one of the largest agencies, where the majority of federal dollars are spent.”

The ASBL is calling on the public, members of Congress and the media to try to bring attention to what they believe is the Obama administration’s real goal with the proposal to merge six federal agencies, which is to eliminate federal small business contracting programs.

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## ASBL in the News:

### Among Small-Business Advocates, Reaction to President's Plan Is Mixed

By Robb Mandelbaum, NY TIMES 1/14/2012

Advocates for small business — including those in Congress — had near uniformly mixed reactions to President Obama's proposal Friday to temporarily elevate the Small Business Administration to a cabinet agency but then fold the S.B.A. into a super trade and commerce department. Uniformly mixed in that most people The Agenda contacted praised the decision to make the S.B.A. part of the cabinet but expressed caution about the consolidation proposal.

The president called for merging the S.B.A. with the Commerce Department and four trade-related agencies into, as the president put it in a speech on Friday, "one department, with one Web site, one phone number, one mission: helping American businesses succeed." In a conference call with reporters, Jeff Zients, deputy director for management at the Office of Management and Budget, said the prospective new department would comprise four broad "pillars." Small business and economic development would be one of those pillars, and the S.B.A. would be combined with economic development programs at other agencies into one of those mission areas. (The other pillars would be trade, technology and innovation, and statistics.)

As for concerns that the new agency might dilute the S.B.A.'s authority to speak for small business inside the government, Mr. Zients seemed to suggest that all American businesses might have to ally in a global economy. "This integrated department will be about serving America's businesses — small, medium and large — as they compete in the global marketplace," he said.

Once the agencies are merged, Mr. Zients added, the S.B.A. would lose its seat at the president's table. "Once we have consolidation authority, once this specific proposal passes," he said, "we will have one integrated department that is led by a secretary who will be on top of all of the important assets and services that serve businesses." The

United States trade representative, whose office would be merged into the new department, would retain a separate cabinet position.

Leaders of the small-business committees in Congress said in separate statements that while they supported streamlining government, they would review the president's plans carefully. "The details will be critical," said Senator Olympia Snowe of Maine, the top Republican on the Senate Small Business Committee. "Of particular concern will be ensuring that entrepreneurs do not face new hurdles in obtaining assistance in starting, operating or expanding their small businesses — whether accessing capital, pursuing exporting opportunities, or contracting with the federal government."

Outside Congress, most small-business advocates treaded with similar care. "On the one hand, reorganizing federal agencies to create a 'one-stop-shop' for America's small businesses could streamline processes and make accessing information and assistance much easier," Todd McCracken, chief executive of the National Small Business Association, said in a statement. "On the other hand, such a reorganization could minimize the emphasis placed on small business by the federal government and lead to an even greater imbalance toward promoting the interests of large businesses over those of small business."

John Arensmeyer, chief executive of the Small Business Majority, a group initially formed to back the administration's health care reform, said: "Right now small business has an independent agency that reflects its needs. The obvious concern is that by bringing this into larger agency there's a risk that some of that voice gets lost. We know that government is held in very low esteem by small business, but the S.B.A. is an exception to that right now."

There were some stronger views. For example,

the American Small Business League, which protests the diversion of federal contracts for small business to large corporations, sided firmly with the other hand. "This is not a move to save money," said the league's president, Lloyd Chapman, in a statement. "This is a move to eliminate federal small-business contracting programs."

But the head of one trade association for S.B.A.-backed lenders was optimistic. "The lending policies and centralized loan operations of S.B.A. are among the more sophisticated in the federal government," said Chris Crawford, president of the National Association of Development Companies, which represents lenders in the S.B.A.'s 504 loan program. In a reorganization, "they become the model for the collapse of the far-flung bureaucracies into one unit called small-business lending — worldwide. If anything, even in a larger reconstituted Commerce Department, access to credit for small businesses becomes a primary mission goal with much higher visibility."

But opposition from the small-business constituency and its Congressional representatives, should it materialize, is only one obstacle for the administration to overcome — many interests, and Congressional fiefdoms, are at stake. Just a few hours after the president spoke, Sen. Max Baucus, the Democratic chair of the Finance Committee, and Dave Camp, the Republican chair of the House Ways and Means Committee, jointly rejected any effort to relocate the Office of the U.S. Trade Representative, an agency under their purview: "Making it just another corner of a new bureaucratic behemoth would hurt American exports and hinder American job creation."

And if the consolidation were to fail, those small-business advocates just might get the best of both worlds: an independent S.B.A. but with cabinet-level status.

## Top 6 Reasons Why Obama's Economic Policies Failed in 2011

By Lloyd Chapman

Politically and economically, the U.S. in 2011 fell flat on its face. There are several reasons why our government miserably failed us this year but the most devastating reason is that it did absolutely nothing to help the economy. In fact, the Obama administration helped make matters worse. Here are my top six reasons why the Obama administration failed us in 2011:

1. Failed to realize that small businesses create all the net new jobs and instead directed most economic stimulus to large corporations that, according to the U.S. Census Bureau data and the Kauffman Foundation, most likely have not created one net new job in 30 years.

2. President Obama failed to honor his 2008 campaign promise to end the diversion of federal small business contracts to corporate giants. The federal government is required to award 23 percent of all prime contract dollars to legitimate small businesses but because of fraud, loopholes and lack of oversight, most of that money is awarded to Fortune 500

corporations and their subsidiaries.

3. Decreased transparency in federal contracting by removing the parent company duns number from the Federal Procurement Data System, making it easier for large corporations to misrepresent their size status in order to hijack small business contracts and for the government to misrepresent the true volume of contracts awarded to small businesses.

4. Announced plans to remove from the Federal Acquisition Regulation (FAR) one of the largest and most effective federal contracting programs for minority-owned small businesses, originally established through the efforts of Martin Luther King Jr., and the passage of the Civil Rights Act. Dismantling of this program could cost minority-owned small businesses up to \$25 billion annually and unemployment among minorities will undoubtedly rise as a result. It is ironic that minority communities were moved to tears when Barack Obama was elected president and now he is removing one



of their simplest and most effective methods of economic stimulus.

5. He tried to create jobs by using tax cuts when most leading economists agree that tax cuts do not create jobs. Tax cuts will increase the deficit and ultimately harm the economy.

6. He will extend the Comprehensive Subcontracting Plan Test Program (CSPTP), which establishes anti-small business policies that exempt large defense contractors from disclosing whether they've met

their small business subcontracting goals and also exempts large defense contractors from any penalties of non-compliance with congressionally mandated small business procurement goals. All evidence shows that this hurts small businesses.

Judging by his actions, it seems that Barack Obama is becoming one of the most anti-small business presidents in U.S. history. People need to stop listening to what he says and start watching what he does.

## Obama Extends Program That Reduces Opportunities for Small Business

By Lloyd Chapman

President Obama has extended a 21-year-old defense program that allows large defense contractors to withhold subcontracting information from the public, media and Congress.

The program — known as the Comprehensive Subcontracting Plan Test Program (CSPTP) — was established in 1990 in an attempt to reduce administrative burdens associated with small business subcontracting goals. The program's three-year reauthorization was included in the National Defense Authorization Act of 2012.

The American Small Business League (ASBL) has long

maintained that the CSPTP allows large defense contractors to evade the Small Business Act, which requires that 23 percent of all federal contracts (including subcontracts) must be with small businesses.

Participants of the CSPTP, including 12 of the largest federal contractors, are exempt from submitting subcontracting reports used by federal agencies to monitor compliance with small business goals. This allows large contractors to dodge the Federal Acquisition Regulation "liquidated damages" clause, which requires any government contractor that fails to meet its small business-subcontracting goal to pay damages

to the federal government in the amount of the deficiency.

The only known evaluation of the program is a 1994 report obtained by the ASBL through the Freedom of Information Act. The 1994 report indicated a decline in subcontract work for small businesses since implementation of the CSPTP.

In 2010 five members of Congress led by New York Congresswoman Yvette D. Clarke called for a federal investigation of the program. In a letter written to the General Accountability Office (GAO) the representatives stated, "Federal contracting data calls into question whether ... participants in the

CSPTP are actually meeting their small business subcontracting goals." Despite these efforts, the GAO has not investigated the CSPTP.

"If President Obama thinks eliminating reporting requirements for large defense contractors and exempting them from penalties is a good idea, then the IRS should adopt the same policy so the public wouldn't be required to submit income tax returns and there would be no penalty for not paying your taxes," said ASBL President Lloyd Chapman. "This is another Obama administration anti-small business policy that you won't read about in the national media."

American  
small  
business  
League

Every year the ASBL conducts a review of the top 100 highest dollar recipients of federal small business contracts. The most recent data released by the Obama administration (for fiscal year 2010), shows that 60 of the top 100 federal small business contractors were actually large corporations including the ones listed below.

[Click here to view the full report](#)

### Fiscal Year 2010 Top Small Business Contractors

#### Large Corporations Listed in FY 2010 Small Business Data

Lockheed Martin  
Raytheon  
Textron Inc.  
L-3 Communications  
British Aerospace (BAE)  
Northrop Grumman  
General Electric  
Thales  
General Dynamics  
3M Company  
Hewlett-Packard  
AT&T  
John Deere  
Bell Helicopter Textron, Inc.  
Rockwell Collins

Oshkosh Corporation  
ManTech International Corp.  
Starwood Hotels and Resorts  
Rolls-Royce  
Dell Computers  
Corporate Express  
Office Depot  
Xerox  
Science Applications International Corp. (SAIC)  
Harris Corporation  
Honeywell International Inc.  
Motorola  
PriceWaterhouseCoopers LLP  
Computer Sciences Corp. (CSC)

## H.R. 3184 Will Curb Federal Small Business Contracting Fraud

By Brian Reeder

Rep. Hank Johnson (D-GA-04) introduced a bill to the house that aims to channel hundreds of billions of dollars in existing federal infrastructure spending to the nation's middle class.

H.R. 3184, "The Fairness and Transparency in Contracting Act," will prevent the federal government and contracting officers from reporting contracts awarded to Fortune 500 corporations and other publicly traded companies as small business contracts.

"Large companies need to stop masquerading as small businesses to get government contracts," said Johnson. "Especially given how many small businesses are struggling in this economy, H.R. 3184 will go a long way in helping stop this abuse."

H.R. 3184 is the result of more than 15 federal investigations, originally prompted by American Small Business

League (ASBL) President Lloyd Chapman, that have all uncovered hundreds of billions of dollars in federal small business contracts being awarded to some of the largest companies worldwide.

In Report 5-15, the Small Business Administration Office of Inspector General (SBAIG) described the abuse as, "One of the most important challenges facing the Small Business Administration and the entire federal government today."

In February of 2008, President Barack Obama acknowledged the magnitude of the problem when he stated, "It is time to end the diversion of federal small business contracts to corporate giants."

The bill is based on current provisions of the Small Business Act, which define a small business



[Click here to view the full text of H.R. 3184, and here to learn what you can do to support H.R. 3184, "The Fairness and Transparency in Contracting Act."](#)

as a company that is "independently owned," which would exclude any publicly traded company. Chapman estimates that H.R. 3184 could redirect more than \$100 billion a year in federal small business contracts back to middle class firms.

The ASBL conducted a review of the top 100 small business contractors for FY 2010 and identified 61 large companies. Among these were Lockheed Martin, ManTech

International Corporation and Italian defense conglomerate Finmeccanica. "H.R. 3184 is a deficit-neutral and permanent economic solution that will create more jobs than anything President Bush or President Obama ever spoke of," said Chapman. "The diversion of federal small business contracts to corporate giants has gone on for over a decade. Now is the time to pass this legislation as a means of boosting the middle class economy."



## Some businesses worry about Obama's SBA move

By Jose Pagliery, CNN Money 1/13/12

NEW YORK -- President Barack Obama's proposal to consolidate several agencies, including the Small Business Administration, aims to streamline government, but some worry about tossing big and small corporations together.

"Throwing a small business in the same pot with General Electric (GE, Fortune 500) or Microsoft (MSFT, Fortune 500) or eBay doesn't work very well," said Dan Danner, president of the National Federation of Independent Business.

"There's such dramatic differences between the needs and interests of the small business guys," said Danner. "If they're going through the same door as the big business guys, they will be lost in the shuffle."

The announcement came Friday, when the president called on Congress to grant him the power to consolidate the SBA with the U.S. Trade and Development Agency, Overseas Private Investment Corporation, Export-Import Bank, Office of the U.S. Trade Representative and some U.S. Department of Commerce programs.

Obama assured small businesses would benefit from having a one-stop shop for entrepreneurs to launch an idea, seek patents, acquire financing and expand overseas. In an effort to reinforce his dedication to listening to small business concerns, Obama elevated the SBA to a cabinet-level agency, expanding administrator Karen Mills' responsibilities.

Mills echoed the president's sentiments during an afternoon call with industry advocates.

### Medicare doctors fed up with Washington

"You should take this as an indication that he

will continue to be focused on small business," she said, adding that the SBA's role "does not go away. It becomes a critical piece of integrating lots and lots of small business activities."

The administration stated it consulted with small businesses before proposing the idea, and some who learned of it Friday seemed warm to it.

One was Kathrine Gregory, founder and director of Mi Kitchen es su Kitchen, a consulting firm that helps food manufacturing startups. Although she's concerned forcing companies of all sizes in through a single door will be chaotic, she said it could help in the long run.

"The concept is excellent," she said. "Most entrepreneurs get lost in the maze of where to go, what to do. If you consolidate you can maximize your employees -- you can do more with less. Possibly this agency will require less of our tax dollars. It's truly the way to go."

However, moving operations into one worries Lloyd Chapman, president of the American Small Business League. He said the existence of a larger department will eliminate transparency and ease the ability to cut staff that ensures small businesses receive the legally-mandated 23 percent of all federal contracts.

### Small business to candidates: What about us?

"Worst idea ever," he said. "They should be taking that agency and quadrupling the budget and hiring a few thousand people."

The president cannot proceed with the plan without congressional authority, and details of what a new agency would look like remain unclear. But many industry leaders welcomed Mills' elevation

to the cabinet, including House Small Business Committee Chairman Sam Graves (R-MO).

"This platform could provide an opportunity to advocate for small businesses in an environment where important decisions are made," he said in a statement.

But Graves said he plans to closely examine the proposal to ensure significant changes to federal commerce and trade programs are done carefully.

The International Franchise Association, while supporting Mills' elevation, also expressed concern over the changes.

"As part of any proposed reorganization, it would be essential that SBA loan programs remain intact and at their current funding levels, to ensure franchise small businesses can continue to access capital through these successful loan programs," CEO Steve Caldeira said in a statement.

Robert Litan, vice president of research and policy at the Kauffman Foundation, shrugged off any hopes and fears associated with the president's proposal. He said little of consequence occurs at the cabinet level, calling Mills' elevation a political move. And he said the consolidation, which he doubts will be approved because it is an election year, isn't likely to result in smoother operations.

"What they're hoping is that all these different agencies will work together. Maybe that could happen. But the wheels of change grind slowly in Washington, and even if they magically get this approved, it would take years to realize these kinds of synergies," he said.

--Parija Kavilanz contributed to this report.

# ASBL in the News:

## Small business committees, advocates hesitant to back Obama's restructuring proposal

By J.D. Harrison, Washington Post 1/13/12

Lawmakers and small business advocacy groups Friday applauded President Obama's decision to add a cabinet seat for the head of the Small Business Administration, but many were hesitant to back his broader proposal to restructure part of the federal government.

On the heels of the president's announcement that SBA Administrator Karen Mills would join his cabinet, Sen. Mary Landrieu (D-La.) and U.S. Rep. Sam Graves (R-Mo.), the heads of their chambers' respective small business committees, commended the elevation of her position. Landrieu expressed confidence that Mills would "keep small business issues at the forefront of the conversation" in the cabinet, while Graves said he hopes that she helps the president better understand the needs of the nation's smallest employers.

"This platform could provide an opportunity to advocate for small businesses in an environment where important decisions are made," Graves said in a statement.

Several small business support and advocacy groups echoed the lawmakers' remarks, as the National Association of the Self-Employed, the Small Business Majority and the International

Franchise Association touted the move as evidence that the president recognizes small firm's important role in the economic recovery. The IFA, for instance, expects Mills to use her elevated status to continue pushing for easier access to capital for entrepreneurs.

"Today's announcement...serves as a stamp of approval for her diligent and proven work to improve small business access to credit during a still very-challenging economic and public policy environment," IFA chief executive Steve Caldeira said in a statement. "Small business access to credit is the number one challenge facing prospective and existing franchisees and any steps that will enhance small business access to credit will help to boost our economy and create the jobs our country so desperately needs."

However, both congressional committees and most small business groups aren't ready to throw their support behind the larger proposal Obama laid out Friday. Should Congress grant him the authority, he plans to merge six federal entities with overlapping commerce and trade responsibilities into a single agency.

"I need to see the details of the [president's] plan and review any plan put before Congress," Landrieu said in a statement. "However I am open to streamlining the government, particularly

if it will achieve savings and greater efficiency."

Graves' reaction was much the same, noting that he looked forward to examining the proposal further. "Decreasing the size of government and reducing bureaucracy is something that I support in principle, however, it is important that any effort to make significant changes to federal commerce and trade programs must be done carefully, and in a way that protects America's small businesses," he said.

While most small business groups said they too will wait to hear the details of the president's plan before passing judgment, at least one organization has already voiced strong opposition. The American Small Business League said it was "vehemently opposed" to the restructuring plan, which the group says would "negatively impact millions of small businesses and reduce the power of the only federal agency that helps small businesses."

The proposed merger would cut more than 1,000 government jobs while saving an estimated \$3 billion over the next decade thanks to reduced paperwork and human resources costs. Obama said he would initially focus on the agencies that support business interests, but ultimately, he hopes to eliminate similar inefficiencies throughout the federal government.

## Obama Plan: What Do Small-Business Advocates Think?

By Janean Chun, Huffington Post 1/14/12

Is President Obama's announcement that he plans to consolidate the Small Business Administration with five other government offices into one agency and to elevate the SBA Administrator to a Cabinet-level position good news or bad news for small business? It may be too early to tell, but several small-business advocacy groups and associations did weigh in with some immediate reactions. Here are excerpts of what they had to say, starting with the SBA administrator herself:

### Karen Mills, Administrator, Small Business Administration:

"Today was an important day for America's small businesses. President Obama asked Congress for the authority to reorganize and modernize government and he elevated my position as the SBA Administrator to Cabinet-level status.

"These actions are a reflection of the importance he places on small business, economic growth, and job creation.

"He asked Congress for the authority that Presidents from Hoover to Reagan have had to reorganize and modernize the federal government. This authority lapsed in 1984, but, today, the federal government needs to be updated to ensure that it meets the demands of entrepreneurs and small business owners in the 21st century.

"The President's first proposal under this authority would be to create a unified department fo-

cused on economic growth and job creation, so that we can be more effective at helping businesses do what they do best -- create jobs.

"For the entrepreneurs and small business owners that SBA and other agencies serve, this is very good news. A more integrated approach would ensure that small businesses would have access to all of the federal government's programs in a more seamless, coordinated, and coherent way."

### Susan Eckerly, Senior Vice President of Federal Public Policy, National Federation of Independent Business:

"Despite the President's lip service to small businesses in announcing his plan, it is unlikely to help job creators in any meaningful way. If the President really wants to help small businesses succeed, he can start by shrinking the agencies most responsible for standing in the way of their growth, such as the Environmental Protection Agency and the Department of Labor. Unfortunately, the President has consistently opposed meaningful regulatory reform, and we are skeptical that his plan to shrink the government will help tear down regulatory obstacles his agencies continue to impose."

### Steve Caldeira, President and CEO, International Franchise Association:

"Today's announcement by President Obama to elevate SBA Administrator Karen Mills to a Cabinet-level position serves as a stamp of approval for her diligent

and proven work to improve small business access to credit during a still very-challenging economic and public policy environment. Small business access to credit is the number one challenge facing prospective and existing franchisees and any steps that will enhance small business access to credit will help to boost our economy and create the jobs our country so desperately needs.

"While details of the proposed changes to the SBA and other government agencies are still unclear, under the leadership of Administrator Mills, the SBA has been a lifeline to the franchise community that has had difficulty acquiring loans in the commercial lending market during the economic downturn, increasing lending to record levels and reducing lender paperwork for SBA loans. With franchise small businesses poised for modest growth of 2.0 percent in 2012, access to capital, particularly through the SBA's 7(a) lending program, will be critical to achieving our forecasted growth."

"As part of any proposed reorganization, it would be essential that SBA loan programs remain intact and at their current funding levels, to ensure franchise small businesses can continue to access capital through these successful loan programs."

### Todd McCracken, President and CEO, National Small Business Association:

"While NSBA is firmly committed to reducing the deficit, there simply

aren't enough details available yet to know if this will be a net win or loss for small business.

"On the one hand, reorganizing federal agencies to create a 'one-stop-shop' for America's small businesses could streamline processes and make accessing information and assistance much easier. On the other hand, such a reorganization could minimize the emphasis placed on small business by the federal government and lead to an even greater imbalance toward promoting the interests of large businesses over those of small business.

"Any proposal to consolidate agencies must ensure that SBA, Ex-Im Bank, OPIC, USTR and USTDA remain thriving vehicles for the U.S. to promote entrepreneurship. Anything short of that would be a disservice to America's small businesses and the U.S. economy."

### Lloyd Chapman, President, American Small Business League:

"I've been predicting this for years. It has nothing to do with shrinking government but has everything to do with eliminating contracting programs for small businesses. When was last time you heard of a U.S. President holding a press conference to talk about saving \$3 billion over a decade? \$3 billion is nothing compared to what the Pentagon will spend this year alone. It's an amount not even worth mentioning and definitely not worth dismantling the only agency to assist America's 28 million small businesses."

[Click Here to Join The American Small Business League as a Free Member](#)

## Obama proposes big change for Small Business Administration

By Staff, Central Valley Business Times 1/13/12

- Part of proposed bureaucracy shuffle
- "They're not trying to save money; they're trying to close the agency"

The Small Business Administration would be put inside a new government department, but its current chief, venture capitalist Karen Mills, is getting a promotion under a proposal Friday from President Barack Obama.

The SBA, which has been a stand-alone agency since it was formed under President Dwight Eisenhower in 1953, would be combined into the new department along with the Commerce Department, the Office of the U.S. Trade Representative, the Export-Import Bank, the Overseas Private Investment Corporation, and the U.S. Trade and Development Agency.

Congress would have to authorize the changes.

Mr. Obama says the change would make it easier for businesses that have to deal with the federal government.

But the move is being criticized by a long-time critic of the SBA and of Mr. Obama's efforts regarding small business, Lloyd Chapman, president of the American Small Business League, based in Petaluma.

"They're not trying to save money; they're trying to close the agency because large corporations want 100 percent of federal contracting dollars," Mr. Chapman says. "If they can essentially close the SBA by combining it with the commerce department, zeroing out the budget and slowly eliminating the staff, they can essentially wind down small business programs, including the requirement that 23 percent of all federal contracts be awarded to small businesses. That money will be diverted to large corporations."

But the opposite view comes from another small business advocate.

"We were pleased today to hear the president will be elevating the head of the Small Business Administration to a cabinet-level position, as it reflects the importance small businesses play in our nation's economy," says John Arensmeyer, founder and CEO of Small Business Majority, a national small business advocacy organization.

"As SBA administrator, Karen Mills has proven herself a champion of the small business community and an effective leader. We're sure she'll continue her good work as part of the president's cabinet," he says.

Taking a middle ground is the National Small Business Association.



## Fraud and Loopholes Deliver Small-Business Contracts to Big Firms

By Robb Mandelbaum, NY TIMES 11/1/11

It's been a busy season for combating fraud in government contracts for small business, for prosecutors enforcing the law as well as the legislators trying to improve it. But for both, it appears to be an uphill battle.

In June, the federal government charged two men with creating a fake small business to win a \$100 million Defense Department contract. Two months later, a businessman pleaded guilty to obtaining false citizenship papers, which he used to get a security clearance from the Department of Defense so that he could receive preferential small-business contracts.

In October, one man pleaded guilty to a scheme in which he and a partner vouched for the small-business status of each other's company. That, in turn, led the Justice Department to uncover an alleged ring of bribery and kickbacks centered at Eyak Technology, or EyakTek, nominally a small business based in Virginia with a \$1 billion contract to provide information and security technology to government agencies. An indictment announced on Oct. 4 claims that the company's contracting director conspired with officials in the Army Corps of Engineers to steer federal purchases to an unnamed subcontractor. That subcontractor then inflated its bills — by \$20 million, according to the indictment — and used part of the proceeds to pay off the Eyak and Army Corps officials.

The federal government is the world's largest buyer of goods and service, and it is supposed to make sure that 23 percent of those purchases go to small businesses. In the case of economically disadvantaged businesses, government agencies can often set aside contracts and award them without putting them up for a competitive bid. The government perennially misses those goals, but most observers believe that the amount of small-business contracts the government does report masks a share that have in fact been diverted to larger companies. Fraud is an important, though unquantified, culprit.

Observers say government officials in charge of procurement are often too busy to look closely at a company's small-business credentials. But the Small Business Administration's inspector general, Peggy E. Gustafson, testifying in a Congressional hearing last week, said that her agency often did not effectively oversee the contracting programs and did not aggressively pursue companies that misrepresented themselves as small. The S.B.A., Ms. Gustafson said in her prepared statement, "needs to change its culture so that employees understand that their mission includes not only assisting small businesses but also ensuring accountability and integrity to prevent

fraudulent and improper actions from depriving procurement opportunities for legitimate firms."

Ms. Gustafson also said that despite the recent legal victories, seeking justice in a courtroom was difficult because a company that fraudulently identifies itself as small in order to win a federal contract usually fulfills the contract. "Without an associated and definable loss to the government, criminal prosecutors are sometimes reluctant to pursue action against these companies, or if they do pursue them, may only be able to obtain limited sentences," she said.

That is not the case in the EyakTek case, where the government allegedly paid for the conspirators' BMWs, first-class airfares and Cartier watches. But while the company itself was not implicated in wrongdoing — charges were only brought against its head of contracting — the allegations surrounding EyakTek raised other troubling questions about small-business contracting, because the company had a legally sanctioned leg up in the competition for small-business contracts. Eyak is what's known as an Alaska Native Corporation, and with that designation, it is able to compete for contracts set aside for companies that participate in the S.B.A.'s 8(a) program. This is a program intended to help small, disadvantaged businesses — particularly those owned by minorities — by providing business training coupled with opportunities for no-bid contracts set aside just for them.

In the 1970s, Congress made Alaska Native Corporations a special class of 8(a) business. Unlike most businesses in the program, the Alaskan companies are not subject to a limit to the size of a no-bid contract. And while a typical 8(a) business must be managed by someone who meets the program's definition of disadvantaged, that's not the case with Alaska Native Corporations, which tend to recruit executives with broad and deep ties across government agencies and pay handsomely for their experience.

These features have made Alaska Native Corporations very popular with government bureaucrats because they offer an easy way to meet small-business quotas. In 2009, according to the S.B.A.'s inspector general, Alaskan firms took in 26 percent of total 8(a) contract dollars. EyakTek and other subsidiaries of the Eyak Corporation together took in at least \$338 million, according to a search of the federal contracting records performed by the American Small Business League, which lobbies for integrity in small-business contracting. (If a native company gets too big to participate in the program, the parent corporation can simply create a new company — another advantage not afforded other program participants.)

Any effort to change the rules for Alaskan companies is likely to meet stiff resistance in Congress. (Alaska's representative, Don Young, is the second-ranked Republican in the House in terms of seniority and the sixth most senior of all representatives.)

Surprisingly, even trying to pass legislation to curb fraud is more difficult than one might expect. In her testimony, Ms. Gustafson proposed measures to make it easier to prosecute fraud and stiffen penalties for conviction, in part by defining a loss to the government as equal to the size of the contract.

A bill containing these provisions has passed the Senate, but Rep. Sam Graves, the chairman of the House Small Business Committee, faulted the Senate bill for, among other things, not including an exemption for honest errors. "The small-business affiliation rules are complex and are not intuitive, so I'm hesitant to potentially trigger jail time for companies that make a mistake," he said in an interview with VetLikeMe, a newsletter for business owners who are wounded veterans, "although I agree that we need to more vigorously enforce the certification rules." The House has not yet taken up the Senate bill.

Mr. Graves also expressed skepticism about a separate House bill, introduced last month, that would exclude the subsidiaries of publicly traded companies from the definition of a small-business contractor. The law already requires that recipients of small-business contracts must be independently owned and operated, but a American Small Business League spokesman, Brian Reeder, said a clarification was necessary. "Common sense says that independently owned means not publicly traded," he said, "yet publicly traded companies and their subsidiaries receive contracts that government agencies put towards their small business goals."

The bill was introduced by Rep. Hank Johnson, a Georgia Democrat, with support from 16 other Democrats. No Republicans sponsored the legislation, and Mr. Graves, the Small Business Committee chairman, opposes the bill "because it places further restrictions on how a small business can be organized and the source of its investment," said a spokesman, Darrell Jordan. "At a time of record unemployment, Chairman Graves wants to support measures that help small businesses grow."

Opposition to Mr. Johnson's measure isn't strictly partisan. The Georgia congressman introduced an identical bill last year, while Democrats were in charge. It died in committee.

## Stars and Stripes Ombud: A Step in the Right Direction on Openness

By Mark Prendergast, Stars and Stripes 12/28/11

Identities of Defense contractors may no longer be concealed from public scrutiny without compelling justification under a "significant regulatory action" ordered by the Obama administration to increase transparency and accountability in all government spending.

A proposed rule published in the Federal Register on Nov. 29, and echoed in a Dec. 16 Pentagon advisory to its legion of contract officers, would "strictly limit" and "discourage" identifying recipients of unclassified contracts as "miscellaneous foreign contractors."

That practice was brought to light for Stars and Stripes readers in an ombudsman column posted online July 12, 2010. (At 4,000 words, "Behind the Media Contractors' Veil" was too long for the newspaper.) All told, the column reported, the government spent more than \$40 billion on "miscellaneous foreign contractors" during the previous decade.

The column identified established American public relations firms that had received millions of dollars in unclassified contracts for media services in Iraq and Afghanistan. Part of that work involved assisting Public Affairs operations that provide information to Stars and Stripes reporters, other journalists, readers and the American public at large.

(As ombudsman, I am directed by Congress to track "the state of the free flow of information to the armed forces via the Stars and Stripes.")

Yet those American firms — with offices or headquarters in Washington, Los Angeles and New York City — were identified only as "miscellaneous foreign contractors" on usaspending.gov.

That Web site was created by legislation co-sponsored in 2006 by then-Sen. Barack Obama to raise public awareness and accountability for the trillion taxpayer dollars spent annually on unclassified contracts and grants.

Beginning two months after my column appeared, the White House Office of Management and Budget, the Defense Department and the General Services Administration all issued advisories in late 2010 cautioning against substituting a generic identifier like "miscellaneous foreign contractors" for a contractor's name and specific ID number, called a DUNS number.

The new measures go further, mandating reform of the practice and an overhaul of contract-reporting procedures.

All official guidance issued in the last year and a half makes note, as did my column, that use of generic ID's impedes compliance with the Transparency Act and thwarts the purpose for which usaspending.gov was created.

The Nov. 29 rule, along with the Dec. 16 Pentagon memo, takes clear, concrete steps to tighten contract-reporting policy and improve compliance with the Transparency Act.

In his memo, the director of Defense Procurement and Acquisition Policy, Richard

Ginman, said that because a generic DUNS number "masks the true identity of the vendor," it "shall not be used" in listing Defense contract transactions — he underlined "shall not" — except under the "rare conditions" detailed in the new seven-page-long rule.

According to that rule, the new policy limits allowable exceptions to "small-dollar" contract "actions valued at or below \$25,000 that are awarded to a contractor that is—

- (A) A student;
- (B) A dependent of a veteran, foreign service officer, or military member assigned overseas; or
- (C) Located outside the United States and its outlying areas as defined in 2.101 for work to be performed overseas, and the contractor does not otherwise have a DUNS number;

(ii) Contracts awarded to individuals for performance overseas; or

(iii) Specific public identification of the contracted party could endanger the mission, contractor, or recipients of the acquired goods or services."

This is much closer to the original intent of generic ID's, which was to give officers in the field flexibility to "micro-purchase" goods and services on a local economy, protect the people who provided them from reprisal, and preserve operational security.

One of the most striking findings I encountered in my reporting was that some established U.S. firms seemed unaware that they had been labeled "miscellaneous foreign contractors."

Indeed, some contractors' Web sites openly touted the very same contracts that the government had listed as having gone to "miscellaneous foreign contractors."

In one case, Pentagon officials and a senior executive even gave newspaper interviews about a particular contract that the Defense Department had nonetheless quietly listed as going to "miscellaneous foreign contractors." (See "Behind the Media Contractors' Veil.")

One corporate spokesman expressed indignation to me that his firm had been so identified. A contracting executive at another said he had no explanation for his firm's being listed as "miscellaneous foreign contractors."

One possible explanation came from a DOD contract officer in Afghanistan. The officer, who reluctantly spoke with me by phone last winter on condition of anonymity, allowed that "miscellaneous foreign contractors" had become the "default" identifier for any contract listing that contained incomplete or inaccurate data on a vendor.

In other words, a couple of digits or letters dropped or swapped could produce a listing showing a contract had gone to "miscellaneous foreign contractors" instead of the actual recipient.

And that could conceal not only who is doing what but who is getting what, both in terms of public disclosure and internal recordkeeping.

The DOD's Ginman noted that even when

a generic ID is allowed, it must "never be placed on the actual contract document" because that "immediately makes any electronic processing of invoices, receiving reports, and payments impossible; and can, in fact, result in mis-directed payments."

The Nov. 29 rule declares that "use of a generic number is contrary to the Transparency Act requirements to make publicly available the total amount of federal funding awarded to a contractor."

This "adversely affects the transparency of the Government's data," it continues, and "the contractor is not able to access and perform its own reporting requirements, such as Transparency Act subcontract reporting, because the contract is not associated with the contractor in Federal-wide processes."

And that is of great concern to budget watchdogs like Lloyd Chapman, president of the American Small Business League, an advocacy group long critical of "miscellaneous foreign contractors" and the like.

Chapman worries that such devices can disguise big-corporation involvement in ostensibly small businesses, leading to underbidding and the diversion of contracts set aside by law for genuine small businesses.

"The problems in federal contracting are so massive, so horrific," he said, "that the DUNS number reforms may just be a symbolic concession."

One can understand Chapman's skepticism.

At one extreme, the trade press consistently lists "miscellaneous foreign contractors" among top Defense contractors, right up there with Boeing and Lockheed Martin.

At the other end is John Brooks Rice.

The Associated Press reported in September 2010 that the Coast Guard had paid him \$9,000 a month to monitor and rate news coverage of the BP oil spill in the Gulf of Mexico.

The contract identified Rice, a New Orleans man who occasionally works for FEMA, as "miscellaneous foreign contractors."

Yet it still remains that commanders in operational situations must have latitude to buy goods and services in-country without excessive red tape or exceptional risk of reprisal to the providers or to their own forces.

At the same time, Americans, in uniform and out, have the right to know not only how their government is spending their money but also who is helping provide information that shapes public perceptions of national undertakings like war and military operations.

The Obama Administration's new initiative is a step in the right direction, toward balancing vital, varied and sometimes even competing national interests.

**“By failing to hold firms accountable, SBA and contracting agencies have sent a message to the contracting community that there is NO PUNISHMENT OR CONSEQUENCES for committing fraud...”**

from the U.S. Government Accountability Office report **GAO-10-108**

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*The American Small Business League is the only not-for profit news organization and small business advocate designed to help increase access to federal contracting opportunities for American small businesses. By becoming a free member, you receive legislative updates and alerts, advocacy information, small business tips, and opportunities to volunteer with our national small business network.*