

SBA charade

Congress must stop letting corporate giants steal from little firms

By Lloyd Chapman
Rocky Mountain News
August 26, 2006

People across the country were horrified when ABC and CBS recently ran stories reporting that millions of dollars in contracts to firms such as AT&T, Microsoft, Wal-Mart, Rolls Royce, Exxon and Northrop Grumman were reported as federal small-business awards. As shocking as these stories were, the reality is that the problem actually is much worse.

Thousands of large companies have received small-business contracts in amounts up to a half a billion dollars - and this has been going on for years. To make matters worse, Congress currently is proposing legislation that will dramatically worsen the problem.

Research has found that the list of firms receiving hundreds of millions in small-business contracts contains a who's who of giant defense contractors, including Boeing, Bechtel and Lockheed Martin.

In the past 36 months, there have been more than a dozen federal investigations that have found that billions of dollars in federal small-business awards have been diverted to some of the largest companies in the world. The problem has become so severe that the Small Business Administration's own inspector general called it one of the government's biggest challenges.

Government officials have been struggling to do damage control, denying vehemently that this problem is ongoing in spite of much evidence to the contrary. Frequently, they claim that this is a result of clerical error, or "miscoding." This rationale is difficult to accept because only large businesses are coded as small businesses, never the reverse.

Now Congress has proposed three new policies that will increase the opportunities for large businesses to obtain federal small-business contracts:

- First, the Senate SBA Reauthorization Bill includes a provision to increase the small-business size standard by more than 100 times the average American small business of 10 to 12 employees. This new, tiered system would triple the current ceiling of 500 employees and make it legal for large firms with up to 1,500 employees to take contracts away from legitimate small businesses.
- Another provision would allow some of the largest financial institutions in the world to be considered small businesses. Essentially, this policy allows a venture capital corporation to buy controlling interest in a small firm in the government-funded small-business research and development program and still retain its small business status for grants and contracts.
- Finally, Rep. Don Manzullo, R-Ill., has put forth a provision as part of the House SBA Reauthorization bill that would repeal the current federal law that prevents large franchisers from illegally receiving small-business contracts by using their franchisees as fronts. Manzullo's proposal, curiously, was added shortly after Illinois executive Steven Preston was nominated to head the SBA. Preston hails from ServiceMaster, one of the nation's largest franchisers.

All three of these proposals were included among policies the SBA put forward last summer for public comment. The policies received the highest overall response in SBA history and more than 90 percent of the comments were against them. Why will Congress not pay heed to the will of the people?

Even without these new loopholes, it's estimated that the diversion of small-business contracts to large companies could top \$100 billion a year. The SBA Office of Advocacy reported that \$119 billion in prime and subcontracts were awarded to small businesses in one year. But by factoring in the magnitude of the abuse by Fortune 1000 corporations, it's projected that small businesses with 100 employees or fewer may be receiving less than \$20 billion a year.

It now appears that the federal system that was set up to help small businesses has, without question, led to the destruction of hundreds of thousands of businesses within the past few years. These small firms never knew they were competing head-to-head with some of the world's biggest companies for what they thought were contracts set aside for small business.

It's time for our nation to stop tolerating this charade. Small-business owners need to step up and demand that Congress put an end to the policies that have killed the American dream for so many. Contact your senators and congressional representatives with calls, e-mails or letters. Speak out and let them know that a system that favors corporate giants is not the American way.

Lloyd Chapman is president and founder of the American Small Business League. The ASBL monitors existing policies and proposed policy changes by the Small Business Administration and other federal agencies that affect its members.