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**STATEMENT FOR THE RECORD**

**BEFORE THE HOUSE SUBCOMMITTEE ON TECHNOLOGY, INFORMATION  
POLICY, INTERGOVERNMENTAL RELATIONS AND PROCUREMENT  
REFORM ON UNFUNDED MANDATES AND REGULATORY OVERREACH  
PART II**

**MARCH 30, 2011**

**JOHN ARENSMEYER  
FOUNDER & CEO  
SMALL BUSINESS MAJORITY**

Good afternoon Chairman Lankford, Ranking Member Connolly and members of the Subcommittee. We thank you for the opportunity to testify before the Subcommittee on Technology, Information Policy, Intergovernmental Relations and Procurement Reform.

I'm John Arensmeyer, founder and CEO of Small Business Majority, a nonpartisan small business advocacy organization founded and run by small business owners and focused on solving the biggest problems facing small businesses today. We represent the 28 million Americans who are self-employed or own businesses of up to 100 employees. Our organization uses scientific opinion and economic research to understand and represent the interests of small businesses.

I ran two small businesses for 15 years and have run a nonprofit organization for the past five. As such, I am well aware there are times when small businesses are overburdened by government regulation. This is why Small Business Majority supports Executive Order 13563 "Improving Regulation and Regulatory Review," an initiative by President Obama to review government regulation on business. We also support the Small Business Administration Office of Advocacy's role in monitoring compliance with the Regulatory Flexibility Act, which requires federal agencies to analyze the impact of proposed regulations on small firms. We share the view that any regulations that impact small businesses should be carefully scrutinized and we support the requirements already in the Unfunded Mandates Reform Act that require government to analyze and report on the impacts of its new regulations.

That said, there is a legitimate role for government in passing laws that address private sector business activity. Preventing all regulation that might in some way affect small business would be short sighted and could remove an important tool that can stimulate small business innovation and contain costs. Indeed, our research has shown small business supports government as a facilitator and an arbiter that sets down the rules of the road.

The effects of legislation on the private sector should be carefully considered as each bill is being debated; not via a blanket one-size-fits-all approach. Research shows that the

first things on small businesses' list of concerns are the need for markets and customers and finding ways to deal with burdensome expenses.

Right now, small businesses are hurting and in need of an effective partnership with government to help. I'm going to focus on two successful examples of this: The Patient Protection and Affordable Care Act and The Clean Air Act.

The No. 1 problem we hear about is the cost of healthcare. The Affordable Care Act is an example where government stepped in and offered benefits and financial relief to small business owners.

### Benefits of the ACA for Small Business

Small business owners want to offer health coverage, and our surveys show that most of them feel they have a responsibility to do so. We conducted surveys of small business owners in 19 states between December 2008 and August 2009.<sup>1</sup> Our key findings included the following:

- An average of 86% of small business owners who don't offer health coverage to their employees said they can't afford to provide it, and an average of 72% of those who do offer it said they are struggling to afford it;
- An average of 67% of respondents said reforming healthcare was urgently needed to fix the U.S. economy.

It should be noted that respondents to these surveys included an average of 15% more Republicans (39%) than Democrats (24%), while 27% identified as independent.

The exorbitant cost of insurance means that many small businesses are forced to drop coverage altogether. According to the Kaiser Family Foundation, 54% of businesses with fewer than 10 employees don't offer insurance.<sup>2</sup>

This makes small business employees a significant portion of the uninsured population. Of the 45 million Americans without health insurance in 2007, nearly 23 million were small business owners, employees or their dependents, according to Employee Benefit Research Institute estimates.<sup>3</sup> And nearly one-third of the uninsured—13 million people—are employees of firms with less than 100 workers.<sup>4</sup> Moreover, 28% of the 22 million self-employed Americans have no insurance at all.<sup>5</sup>

Not only a problem for the uninsured, the state of healthcare was a metastasizing financial burden on small business. An economic analysis we released in June of 2009 and based on modeling by MIT economist Jonathan Gruber concluded that without

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<sup>1</sup> Small Business Majority, State Surveys Highlight Small Business Support for Healthcare Reform, August 2009, <http://www.smallbusinessmajority.org/small-business-research/opinion-research.php>.

<sup>2</sup> Kaiser Family Foundation/HRET, Employer Health Benefits Annual Survey, 2008, <http://ehbs.kff.org/2008.html>.

<sup>3</sup> Employee Benefit Research Institute, Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2008 Current Population, [http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content\\_id=3975](http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3975).

<sup>4</sup> Center for American Progress, What Will Happen to Small Business if Health Care Is Repealed, July 23, 2010, [http://www.americanprogress.org/issues/2010/07/small\\_biz\\_reform.html](http://www.americanprogress.org/issues/2010/07/small_biz_reform.html).

<sup>5</sup> "The Uninsured: A Primer," Kaiser Family Foundation, Oct. 2009, Page 11 (Table 9).

reform, small employers would pay \$2.4 trillion to cover healthcare costs by 2018, and 178,000 small business jobs and \$52.1 billion in profits would be lost due to those costs.<sup>6</sup>

This crisis compelled Congress to take action. The Affordable Care Act addresses all these issues and more. Without reform, we would impede our overall economic growth. Small businesses with fewer than 100 employees employ 42% of American workers.<sup>7</sup> Traditionally, small businesses lead the way out of recessions. Continuing to address the healthcare crisis by implementing the Affordable Care Act was and continues to be essential to our vitality as a nation. This is an excellent example of how government can clear obstacles that threaten small business success.

Our research also shows that small business owners are more likely to provide insurance to their employees because of the tax credits and exchanges provided through the new healthcare law. In January, we released a national survey of 619 small business owners. We gauged how entrepreneurs view two critical components of the Affordable Care Act: the small business tax credits—a provision allowing businesses with fewer than 25 employees that have average annual wages under \$50,000 to get a tax credit of up to 35% of their health insurance costs beginning in tax year 2010—and health insurance exchanges—competitive online marketplaces where small businesses and individuals can band together to purchase private insurance starting in 2014.<sup>8</sup> The survey found that one-third of employers who don't offer health insurance said they would be more likely to do so because of the small business tax credits, and 33% of respondents who currently do not offer insurance also said the exchange would make them more likely to do so.

We believe that once the public, and small business owners in particular, become more familiar with the new law, they will understand the financial benefits and cost savings it provides. In fact, a Kaiser Family Foundation study conducted in January 2010 found that although the public was divided overall about reform, they became more supportive when told about key provisions. After hearing that tax credits would be available to help small businesses provide coverage to employees, 73% said it made them more supportive, and 63% felt that way after learning that people could no longer be denied coverage because of preexisting conditions.<sup>9</sup>

The huge number of small businesses eligible for a credit on their 2010 tax returns shows how wide-ranging the benefits of the ACA are. Small Business Majority and Families USA's study on the number of small businesses eligible for a tax credit on their 2010 tax returns shows that more than 4 million small businesses are eligible.<sup>10</sup> That equates to

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<sup>6</sup> Small Business Majority, Economic Research: The Economic Impact of Healthcare Reform on Small Business, June 11, 2009, <http://www.smallbusinessmajority.org/small-business-research/economic-research.php>

<sup>7</sup> U.S. Bureau of Census, 2006 County Business Patterns

<sup>10</sup> Small Business Majority, Opinion Survey: Small Business Owners' Views on Key Provisions of the Patient Protection and Affordable Care Act, Jan. 4, 2011, <http://smallbusinessmajority.org/small-business-research/small-business-healthcare-survey.php>.

<sup>9</sup> Kaiser Family Foundation, Americans Are Divided About Health Reform Proposals Overall, But the Public, Including Critics, Becomes More Supportive When Told About Key Provisions, Jan. 22, 2010, <http://www.kff.org/kaiserpolls/kaiserpolls012210nr.cfm>.

<sup>10</sup> Families USA and Small Business Majority, A Helping Hand for Small Businesses: Health Insurance Tax Credits, July, 2010, <http://smallbusinessmajority.org/small-business-research/tax-credit-study.php>.

83.7% of all small businesses in the country. Perhaps even more encouraging is that nearly 1.2 million small businesses nationally are eligible to receive the maximum credit.

Those tax credits are helping small business owners, and our economy, today. For example, Mark Hodesh, the owner of Downtown Home and Garden in Ann Arbor Michigan, qualified for a \$15,000 tax credit this year. Knowing he had that credit gave Mr. Hodesh, who covers 75% of his employees' health insurance premiums, the confidence he needed to add another person to his staff. His new employee, who was unemployed previously, now has a job and health coverage and is contributing to the economy by paying taxes and buying goods. That's an excellent example of how government can create opportunity for economic growth.

Along with small business tax credits and insurance exchanges, the ACA helps entrepreneurs by controlling costs and reining in administrative expenses for small businesses. Small businesses pay 18% more on average than large businesses for comparable health policies. This is largely due to high administrative costs, which can be up to 30% of premiums. The law includes administrative simplification programs, helping to put the country on a path to lower-cost, standardized administrative transactions, processes and forms. Additionally, it establishes insurer efficiency standards that require 80% of premium dollars be spent on care, not administrative overhead and executive compensation, for small group and individual plans. For large groups plans, the standard will be 85%. All of these measures will lower the time doctors have to spend on paperwork.

The ACA also includes numerous reforms in Medicare that will reward value of care, not the volume of care. It requires the Department of Health and Human Services (HHS) to adopt value-based purchasing and payment methods for Medicare reimbursements for both physicians and hospitals, and move away from the fee-for-service system that is so costly and inefficient. What's more, cost containment measures made to Medicare will have a ripple effect to other areas of the system, further reducing costs. In addition, a provision of the Affordable Care Act includes \$200 million for small businesses to establish health and wellness programs that will empower their employees to make healthy lifestyle choices and lower the cost of health insurance.

In short, the ACA is a big relief to small business, not a burden or a cost.

### **Benefits of the EPA to small business**

But it's not just new changes to the healthcare system that are helping small businesses. Government support to the clean energy sector of the economy is also providing much-needed aid. Over the last 40 years, the Environmental Protection Agency has proven itself as much a protector of our economy as of the public's health, and we see new EPA standards under the Clean Air Act as a key component to progressing toward a clean energy economy and to creating jobs. That view is based upon the fact that during the last two decades under the Clean Air Act, Gross Domestic Product has increased by 64% while emissions of the most common air pollutants have declined by 41 percent.<sup>11</sup>

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<sup>11</sup> Small Business Majority economic research: THE CLEAN AIR ACT'S ECONOMIC BENEFITS: PAST, PRESENT AND FUTURE, October, 2010, [http://www.smallbusinessmajority.org/energy/index\\_national\\_economic.php](http://www.smallbusinessmajority.org/energy/index_national_economic.php)

We know that small business owners support key strategies needed to reduce pollution and transition to a clean energy economy. A national poll of small business owners we conducted found that 61% of respondents agree that moving the country to clean energy is a way to restart the economy and make their businesses more competitive in the global economy.<sup>12</sup> The same poll found that small business owners want the government to create incentives that will help them be part of the clean energy economy, such as interest-free loans for energy-efficiency upgrades and small businesses that switch to clean energy, grants or subsidies to help small businesses upgrade to more energy-efficient equipment and free training or consultation on how to profit from the emerging clean energy industry. Numerous small businesses are already taking steps to conserve energy and many are interested in doing even more. It should be noted that 33% of those polled identified themselves as Republicans, 26% as Democrats and 22% as independents.

Contrary to misleading claims from opponents of clean energy and environmental safeguards, reducing pollution is good for business, and the Clean Air Act has proven to be a wise investment for long-term economic growth. Studies show that the economic benefits of the Act have far exceeded the costs to businesses. According to the Office of Management and Budget, the total economic benefits of the Clean Air Act are estimated at more than 4 to 8 times the costs of compliance.<sup>13</sup> Additionally, between 2010 and 2015, capital investments in pollution controls and new generation will create an estimated 1.46 million jobs or almost 300,000 year-round jobs on average for each of those five years.

Another example of government regulations creating opportunities for small business comes out of California. In 2006, California passed clean energy standards, commonly known as AB 32, that we found provide significant opportunities to small businesses throughout the state. Those opportunities include:

- Increased investment in energy efficiency. The legislation will fuel demand for and increase investment in energy efficiency goods and services, thus generating new prospects for small businesses that provide them.
- Incentives for companies to go green. AB 32 will create savings and boost profit margins for new and existing “Main Street” small businesses that successfully go green and employ brand differentiation strategies to grow their businesses.
- Increased spending on non-energy purchases. AB 32 will reduce spending on energy expenses and increase demand in many sectors for goods and services, which will in turn pad small businesses coffers.
- New innovation. AB 32 is already driving investment in and development of technological innovation, and will continue this trend through its implementation.

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<sup>12</sup> Small Business Majority opinion research: SMALL BUSINESSES AND CLEAN ENERGY POLICY - NATIONAL SURVEY, June, 2010, [http://www.smallbusinessmajority.org/energy/index\\_national.php](http://www.smallbusinessmajority.org/energy/index_national.php)

<sup>13</sup> Small Business Majority economic research: THE CLEAN AIR ACT'S ECONOMIC BENEFITS: PAST, PRESENT AND FUTURE, October, 2010, [http://www.smallbusinessmajority.org/energy/index\\_national\\_economic.php](http://www.smallbusinessmajority.org/energy/index_national_economic.php)

Through these opportunities, AB 32 helped lay the foundation for significant growth throughout California's small business community. In fact, a report we released in October of 2010 found the law will help increase revenues to small service businesses—50% of all small businesses in the state—by \$4.6 billion by 2020, and more than 15,000 jobs will be added. Because of requirements in the law that spur greater fuel and energy efficiency, consumers will spend less on electricity and gasoline, freeing up cash to spend locally on services. The financial benefit translates to an extra \$1,115 per employee for California small service businesses.<sup>14</sup>

## **Conclusion**

As these examples show, a constructive partnership between business and government can provide economic opportunity where none existed before and can help entrepreneurs cut some of the unnecessary and onerous costs of doing business.

A blanket solution to government regulation could damage our small businesses. Rather, each time government creates regulations it must examine how they will impact small business. That is why Small Business Majority supports the requirements already in the Unfunded Mandates Reform Act that require government to analyze and report on the impacts of its new regulations.

Wielding a legislative hammer rather than employing a judicious and precise scalpel risks quashing regulations that are a boon to small businesses, along with those that are a burden.

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<sup>14</sup> Small Business Majority economic research: Economic Opportunities for Small Business Under AB 32, October, 2010, [http://www.smallbusinessmajority.org/energy/index\\_CA\\_AB-32.php](http://www.smallbusinessmajority.org/energy/index_CA_AB-32.php).

## John Arensmeyer—Founder and CEO

John Arensmeyer is the founder and CEO of Small Business Majority, a national nonpartisan organization, founded and run by small business owners, that brings the voices of America's 28 million small businesses to the public policy table. The organization has been focused most recently on solving the single biggest problem facing small businesses: the skyrocketing cost of healthcare, and has now begun to address clean energy, access to capital, jobs and other issues.

With offices in the San Francisco Bay Area, Washington, DC, Sacramento and New York, Small Business Majority uses scientific research to understand and communicate the interests and needs of all small businesses, from sole proprietors to 100-person companies. The organization advocates for small business interests on the national and state levels and has built strong relationships with other leading business organizations and a network of individual small business owners.

Prior to starting Small Business Majority, John was the founder and CEO of ACI Interactive, an award-winning international e-commerce company. *Information Week* named ACI's signature product one of the nation's top 100 e-business innovations, and the company was cited by the *San Francisco Business Times* as one of the top 100 fastest growing private companies in the Bay Area.

Earlier, John was the chief operating officer of a pioneering multimedia business, and prior to that was a practicing attorney. He began his career in national and municipal politics, including three years as an aide to Mayor Bill Green of Philadelphia.

John is a frequent speaker on small business policy issues and is a regular guest on TV and radio, including *PBS NewsHour*, *Fox News*, *CBS Evening News*, NPR's *Marketplace*, and MSNBC's *Hardball with Chris Matthews*. In 2009 John served on a panel at the White House summit on healthcare reform. He testifies regularly before congressional committees, and has briefed congressional leadership on the small business perspective on the small business perspective on healthcare reform, energy policies and small business lending.

Committee on Oversight and Government Reform  
Witness Disclosure Requirement – “Truth in Testimony”  
Required by House Rule XI, Clause 2(g)(5)

Name: John Arensmeyer

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1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

None

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2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

Founder & CEO Small Business Majority

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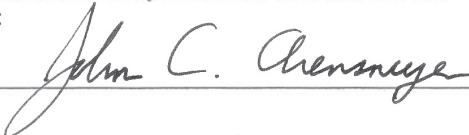
3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None

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*I certify that the above information is true and correct.*

Signature:



Date: 03/28/2011

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