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STATEMENT OF
HENRY ESCHWEGE, DIRECTOR
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE
SUBCOMMITTEE ON GENERAL OVERSIGHT AND MINORITY ENTERPRISE
HOUSE COMMITTEE ON SMALL BUSINESS
ON
THE [SIZE STANDARDS FOR SMALL BUSINESSES]

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE HERE TODAY TO DISCUSS OUR AUGUST 9, 1978, REPORT ON OUR SURVEY OF THE SMALL BUSINESS ADMINISTRATION'S (SBA'S) DEFINITIONS OF SMALL BUSINESSES, REFERRED TO AS SIZE STANDARDS, WHICH CONTROL ELIGIBILITY FOR FEDERAL SMALL BUSINESS ASSISTANCE PROGRAMS (CED-78-149). WE WILL ALSO REFER TO CERTAIN PARTS OF OUR APRIL 5, 1979, REPORT ON THE SET-ASIDE PROGRAM FOR FEDERAL TIMBER SALES (CED-79-8) WHICH WAS PROMPTED BY SIX MEMBERS OF THE CONGRESS, WHO ASKED US TO LOOK INTO VARIOUS ALLEGATIONS REGARDING THE SET-ASIDE PROGRAM.

THE AUGUST 1978 REPORT WAS BASED ON A LIMITED SURVEY OF HOW SBA DEVELOPED 10 SIZE STANDARDS, AND HOW THE SIZE STANDARDS AFFECTED THE DISTRIBUTION OF LOANS IN THE AGENCY'S 7(a) LOAN PROGRAM AND SMALL BUSINESS SET-ASIDE CONTRACTS IN THE APPAREL INDUSTRY.



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BACKGROUND

FOR A BUSINESS TO PARTICIPATE IN MOST OF THE PROGRAMS ADMINISTERED BY SBA, IT MUST BE "SMALL" AS DEFINED IN THE SMALL BUSINESS ACT AND AGENCY REGULATIONS.

THE ACT GIVES ONLY A GENERAL DEFINITION OF SMALL BUSINESS BUT DECLARES THAT THE POLICY OF THE CONGRESS IS THAT THE GOVERNMENT SHOULD ASSIST SMALL BUSINESS CONCERNS TO "PRESERVE FREE COMPETITIVE ENTERPRISE." THE ACT STATES THAT A SMALL BUSINESS CONCERN IS "ONE WHICH IS INDEPENDENTLY OWNED AND OPERATED AND WHICH IS NOT DOMINANT IN ITS FIELD OF OPERATION." THE SBA ADMINISTRATOR IS AUTHORIZED TO EXPAND ON THIS DEFINITION BY THE USE OF OTHER CRITERIA, INCLUDING NUMBER OF EMPLOYEES AND DOLLAR VOLUME OF BUSINESS. SBA HAS ESTABLISHED SIZE STANDARDS FOR INDIVIDUAL INDUSTRIES OR FOR BROAD INDUSTRY CATEGORIES.

THE CURRENT SIZE STANDARDS ARE PUBLISHED IN THE CODE OF FEDERAL REGULATIONS, ALONG WITH A STATEMENT OF SIZE STANDARDS POLICY AND A LIST OF FACTORS WHICH SHOULD BE CONSIDERED IN FORMULATING INDUSTRY SIZE STANDARDS. THE REGULATIONS STATE THAT

--THE PURPOSE OF SBA ASSISTANCE IS TO PRESERVE FREE COMPETITIVE ENTERPRISE BY STRENGTHENING THE COMPETITIVE POSITION OF SMALL BUSINESS CONCERNS;

--IN THE ABSENCE OF PROOF TO THE CONTRARY, THERE ARE BUSINESSES IN EACH INDUSTRY WHICH, BECAUSE OF THEIR SMALL SIZE, ARE AT A COMPETITIVE DISADVANTAGE. THE STANDARDS SHOULD BE LIMITED TO THE SEGMENT OF EACH INDUSTRY "STRUGGLING TO BECOME OR REMAIN COMPETITIVE";

--BECAUSE SMALLER CONCERNS OFTEN ARE FORCED TO COMPETE WITH MIDDLE-SIZED AS COMPARED WITH VERY LARGE CONCERNS, THE STANDARD FOR EACH INDUSTRY SHOULD BE ESTABLISHED AS LOW AS REASONABLY POSSIBLE; AND

--SMALL BUSINESSES SHOULD NOT RELY ON CONTINUING ASSISTANCE BUT SHOULD PLAN FOR THE DAY WHEN THEY WILL BE ABLE TO COMPETE WITHOUT ASSISTANCE.

AT THE TIME OF OUR SURVEY SBA REGULATIONS LISTED 498 SIZE STANDARDS FOR SBA'S LOAN AND PROCUREMENT PROGRAMS.

SIZE STANDARDS ARE OFTEN HIGH AND NOT JUSTIFIED BY ECONOMIC RATIONALE

MANY SIZE STANDARDS MAY NOT DIRECT ASSISTANCE TO THE TARGET GROUP DESCRIBED IN SBA REGULATIONS AS BUSINESSES "STRUGGLING TO BECOME OR REMAIN COMPETITIVE" BECAUSE

--THE LOAN AND PROCUREMENT SIZE STANDARDS FOR MOST INDUSTRIES WERE ESTABLISHED 15 OR MORE YEARS AGO AND HAVE NOT BEEN PERIODICALLY REVIEWED,

--SBA RECORDS DO NOT INDICATE HOW MOST STANDARDS WERE DEVELOPED, AND

--THE STANDARDS FOR MANY INDUSTRIES DEFINE AS SMALL A VERY HIGH PERCENTAGE OF INDUSTRY FIRMS CONTROLLING A HIGH PERCENT OF INDUSTRY SALES.

MANY SIZE STANDARDS ARE OLD AND
HAVE NOT BEEN REVIEWED

SBA HAS ESTABLISHED FOR LOAN AND PROCUREMENT PURPOSES, (1) SIZE STANDARDS FOR MAJOR INDUSTRY CLASSES, SUCH AS MANUFACTURING AND SERVICES, AND (2) STANDARDS FOR PARTICULAR INDUSTRIES WITHIN THESE MAJOR CLASSES, SUCH AS MEAT-PACKING PLANTS WITHIN THE MANUFACTURING CLASS AND FOOD SERVICES WITHIN THE SERVICES CLASS. THE STANDARDS FOR MAJOR CLASSES APPLY ONLY TO THOSE INDUSTRIES WITHIN THE CLASSES FOR WHICH NO SPECIAL STANDARDS HAVE BEEN ESTABLISHED.

EXCEPT FOR A 1975 ADJUSTMENT TO STANDARDS EXPRESSED IN DOLLARS TO ACCOUNT FOR INFLATION, MOST OF THE LOAN AND PROCUREMENT STANDARDS FOR THE MAJOR CLASSES ARE STILL AT THEIR ORIGINAL LEVELS WHICH WERE ESTABLISHED SHORTLY AFTER THE AGENCY WAS CREATED. BECAUSE OF THE LARGE NUMBER INVOLVED, WE DID NOT ATTEMPT TO TRACE THE SPECIAL INDUSTRY STANDARDS BACK TO THE YEARS THEY WERE ESTABLISHED OR LAST REVISED. HOWEVER, FROM JANUARY 1, 1968, THROUGH APRIL 25, 1978, SBA CREATED OR REVISED SPECIAL STANDARDS (AGAIN WITH THE EXCEPTION OF THE 1975 INFLATION ADJUSTMENT) FOR ONLY 81 OF THE 534 INDUSTRIES COVERED BY THE SPECIAL STANDARDS.

OFFICIALS OF THE SIZE STANDARDS DIVISION SAID THAT BECAUSE OF A LACK OF STAFF, SIZE STANDARDS ARE NOT PERIODICALLY

REVIEWED TO DETERMINE THEIR CONTINUING VALIDITY. SIZE STANDARDS FOR PARTICULAR INDUSTRIES HAVE USUALLY BEEN REVISED ONLY WHEN NEW SMALL BUSINESS PROGRAMS ARE INTRODUCED OR BECAUSE OF SUGGESTIONS FOR CHANGE FROM SBA PROGRAM OFFICIALS OR COMPLAINTS FROM BUSINESSES.

INADEQUATE JUSTIFICATION
FOR SIZE STANDARDS

SBA RECORDS DID NOT SHOW HOW SIZE STANDARDS ESTABLISHED BEFORE 1971 (ALL BUT 64 OF THE 498 CURRENT LOAN AND PROCUREMENT STANDARDS) WERE DETERMINED. OFFICIALS OF THE SIZE STANDARDS DIVISION WERE UNCERTAIN ABOUT WHAT, IF ANY, ANALYSIS OF INDUSTRY CONDITIONS WAS DONE TO ESTABLISH THESE SIZE STANDARDS.

THE RECORDS DID CONTAIN SOME EXPLANATION FOR HOW SOME OF THE STANDARDS ESTABLISHED SINCE 1971 WERE DEVELOPED. BUT THE ANALYSES SUPPORTING 10 OF THESE STANDARDS DID NOT DEMONSTRATE THAT THE STANDARDS WERE SET IN CONFORMANCE WITH AGENCY REGULATIONS; I.E., AS LOW AS REASONABLY POSSIBLE AND LIMITED TO BUSINESSES WHICH ARE STRUGGLING TO BECOME OR REMAIN COMPETITIVE. NOR DID THESE ANALYSES CONSIDER (1) WHETHER BUSINESSES OF CERTAIN SIZES WERE FAILING OR LOSING THEIR MARKET SHARE BECAUSE OF COMPETITION FROM LARGER FIRMS, (2) THE IMPACT OF ALTERNATIVE SIZE STANDARDS ON THE PROBABLE DISTRIBUTION OF ASSISTANCE, OR (3) THE SIZE OF BUSINESSES WHICH HAVE BEEN UNABLE TO OBTAIN FEDERAL CONTRACTS BECAUSE OF COMPETITION FROM LARGER FIRMS.

THE LAST OF THESE POINTS SEEMS ESSENTIAL TO SETTING SIZE STANDARDS FOR THE SET-ASIDE PROGRAM. THIS PROGRAM IS DESIGNED TO ENABLE FIRMS TO WIN FEDERAL CONTRACTS THEY OTHERWISE COULD NOT GET BECAUSE OF COMPETITION FROM LARGER BUSINESSES. BUT BECAUSE SBA HAS NOT COLLECTED DATA ON THE SIZE OF BUSINESSES THAT HAVE BID SUCCESSFULLY AND UNSUCCESSFULLY ON SET-ASIDE AND UNRESTRICTED (NON-SET-ASIDE) CONTRACTS, IT DOES NOT KNOW THE SIZE OF FIRMS IN MANY INDUSTRIES WHICH NEED SET-ASIDE PROTECTION.

OUR REPORT EXPLAINS IN DETAIL HOW SBA DEVELOPED THREE SIZE STANDARDS. AS AN EXAMPLE, LET ME SUMMARIZE HOW ONE OF THESE STANDARDS WAS DEVELOPED.

IN 1975, SBA RAISED THE SIZE STANDARDS FOR SPECIAL TRADE CONTRACTORS FROM \$1 OR \$2 MILLION IN ANNUAL SALES, DEPENDING ON THE TRADE, TO \$5 MILLION. WORK UNDER THIS CATEGORY OF CONTRACTORS INCLUDES PLUMBING, PAINTING, AND CARPENTERING. THE INCREASE WAS PROMPTED BY COMPLAINTS FROM OFFICIALS OF THE GENERAL SERVICES ADMINISTRATION AND SBA OFFICIALS IN CHARGE OF THE SET-ASIDE PROGRAM THAT THE STANDARDS WERE TOO LOW. ALTHOUGH THE ASSISTANT SBA ADMINISTRATOR BELIEVED THAT A SALES STANDARD APPLYING TO ALL CONTRACTS WHICH WAS HIGHER THAN \$2.5 MILLION WOULD BE UNFAIR TO THE SMALLER SPECIAL TRADE CONTRACTORS, THE SBA ADMINISTRATOR APPROVED A \$5-MILLION STANDARD. THERE WAS NO EVIDENCE IN THE FILES TO EXPLAIN WHAT CONSIDERATION WAS GIVEN TO THE ASSISTANT ADMINISTRATOR'S CONCERN.

IN OUR APRIL 1979 REPORT ON FEDERAL TIMBER SALES WE REVIEWED TWO ALLEGATIONS CONCERNING THE SIZE STANDARD THAT SBA USES TO DETERMINE ELIGIBILITY. ONE ALLEGATION WAS THAT THE SBA SET THE CURRENT TIMBER INDUSTRY SIZE STANDARD WITHOUT STUDYING INDUSTRY CONDITIONS. IMPLIED IN THIS ALLEGATION WAS THAT THE CURRENT SIZE STANDARD HAS NO FACTUAL BASIS AND IS NOT JUSTIFIED.

SBA REGULATIONS SPECIFY SEVERAL FACTORS TO BE CONSIDERED IN FORMULATING INDUSTRY SIZE STANDARDS. HOWEVER, SBA FILES CONTAINED NO RECORD THAT THESE FACTORS WERE CONSIDERED IN 1964 WHEN THE AGENCY INCREASED THE SIZE STANDARD FOR THE TIMBER INDUSTRY FROM 250 EMPLOYEES TO 500 EMPLOYEES. CURRENT SBA OFFICIALS, AS WELL AS A FORMER OFFICIAL WHO WAS FAMILIAR WITH SIZE STANDARDS AT THAT TIME, WERE UNAWARE OF ANY STUDY MADE TO JUSTIFY THE INCREASE.

LARGE PERCENTAGES OF BUSINESSES IN
INDUSTRIES CONSIDERED SMALL

AS I POINTED OUT EARLIER, SBA RECOGNIZES THAT SMALLER CONCERNS OFTEN ARE FORCED TO COMPETE WITH MIDDLE-SIZED AS COMPARED WITH VERY LARGE CONCERNS. THEREFORE THE SIZE STANDARD FOR EACH INDUSTRY SHOULD BE ESTABLISHED AS LOW AS REASONABLY POSSIBLE. BUREAU OF THE CENSUS DATA SHOWED HOWEVER, THAT THE STANDARDS OFTEN DEFINE AS SMALL A VERY HIGH PERCENTAGE OF INDUSTRY FIRMS CONTROLLING A HIGH PERCENT OF INDUSTRY SALES.

SBA'S OFFICE OF ADVOCACY REPORTED IN JUNE 1977 THAT FOR 147 (35.4 PERCENT) OF THE 415 INDUSTRIES FOR WHICH DATA WAS AVAILABLE, THE PROCUREMENT SIZE STANDARDS INCLUDED AT

LEAST 90 PERCENT OF FIRMS ACCOUNTING FOR AT LEAST 60 PERCENT OF THEIR INDUSTRY'S SALES. THE REPORT ALSO SHOWED THAT THE LOAN STANDARDS INCLUDED 90 PERCENT OF INDUSTRY FIRMS IN 289 INDUSTRIES FOR WHICH INFORMATION WAS AVAILABLE. GENERALLY THE BUSINESSES CONSIDERED SMALL BY THE LOAN STANDARDS ACCOUNTED FOR A SMALLER PORTION OF INDUSTRY SALES THAN THE BUSINESSES CONSIDERED SMALL UNDER THE PROCUREMENT STANDARDS.

FROM CENSUS STATISTICS FOR 1972 (THE MOST RECENT AVAILABLE AT THE TIME OF OUR REPORT), WE IDENTIFIED 15 INDUSTRIES OR INDUSTRY GROUPS IN WHICH THE PROCUREMENT STANDARD INCLUDES VIRTUALLY ALL INDUSTRY FIRMS. FOR EXAMPLE, ACCORDING TO THE DATA, ALL BUT 7 OF THE 107,450 BUSINESSES IN THE PAINTING, PAPERHANGING, AND DECORATING INDUSTRY GROUP WERE CONSIDERED SMALL BY SBA FOR PURPOSES OF FEDERAL PROCUREMENT. ABOUT THREE-TENTHS OF 1 PERCENT (667 FIRMS) OF THE MORE THAN 211,000 GENERAL BUILDING CONTRACTORS ARE NOT SMALL BUSINESSES ACCORDING TO SBA'S SIZE STANDARD. FIRMS DEFINED AS SMALL ACCOUNTED FOR MORE THAN 72 PERCENT OF SALES. IN THESE AND OTHER INDUSTRIES, WHERE THERE ARE ALMOST NO BIG BUSINESSES BY SBA'S DEFINITION, SETTING ASIDE CONTRACTS FOR SMALL BUSINESSES MAY BE MEANINGLESS.

WE HAVE ATTACHED TO OUR STATEMENT A CHART LISTING 15 INDUSTRIES IN WHICH THE SBA SIZE STANDARD INCLUDES VIRTUALLY ALL INDUSTRY FIRMS. THE PERCENTAGE OF FIRMS CONSIDERED SMALL IN THESE INDUSTRIES IS NOT TYPICAL OF ALL INDUSTRIES FOR WHICH PROCUREMENT STANDARDS HAVE BEEN DEVELOPED. HOWEVER,

THE QUESTION RAISED BY THE STANDARDS FOR THE 15 INDUSTRIES IS RELEVANT TO ALL PROCUREMENT SIZE STANDARDS COVERING A HIGH PERCENTAGE OF INDUSTRY FIRMS: I.E., DO LARGER FIRMS WITHIN THE SIZE STANDARD OBTAIN SET-ASIDE CONTRACTS AT THE EXPENSE OF SMALL FIRMS WHICH HAVE A GREATER NEED FOR ASSISTANCE?

IN ADDITION TO COVERING A LARGE PORTION OF THE INDUSTRIES, THE SIZE STANDARDS INCLUDE MEDIUM-SIZED FIRMS MANY TIMES THE SIZE OF THEIR SMALLER COMPETITORS. FOR EXAMPLE, THE PROCUREMENT STANDARD FOR THE WHOLESALE INDUSTRY IS 500 EMPLOYEES. TO BE ELIGIBLE FOR SET-ASIDE CONTRACTS, WHOLESALERS MUST ALSO FURNISH A PRODUCT MANUFACTURED BY A SMALL BUSINESS. ALTHOUGH LESS THAN 1 PERCENT OF THE FIRMS IN THIS INDUSTRY HAD BETWEEN 100 AND 500 EMPLOYEES, THEY ACCOUNTED FOR 14.8 PERCENT OF INDUSTRY SALES. FIRMS WITH FEWER THAN 50 EMPLOYEES REPRESENTED 97.3 PERCENT OF THE INDUSTRY AND HAD 65.2 PERCENT OF THE INDUSTRY'S SALES AND RECEIPTS.

EFFECT OF SIZE STANDARDS ON DISTRIBUTION
OF LOANS AND CONTRACTS

THE SIZE STANDARDS ESTABLISHED FOR MANY INDUSTRIES HAVE HAD LITTLE EFFECT ON THE SIZE OF BUSINESSES WHICH RECEIVE 7(a) LOANS BUT MAY HAVE BEEN DETRIMENTAL TO SMALLER FIRMS COMPETING IN THE SET-ASIDE PROGRAM.

THE SIZE STANDARDS FOR THE 7(a) LOAN PROGRAM ARE GENERALLY EXPRESSED AS A MAXIMUM NUMBER OF EMPLOYEES OR

DOLLAR AMOUNT OF ANNUAL RECEIPTS. THE STANDARDS FOR MANUFACTURING AND AIR TRANSPORTATION ARE EXPRESSED IN NUMBERS OF EMPLOYEES. ABOUT HALF THE INDUSTRIES IN THESE 2 GROUPS HAVE STANDARDS RANGING FROM 500 TO 1,500 EMPLOYEES; THE OTHER HALF ARE SUBJECT TO A 250-EMPLOYEE STANDARD. HOWEVER, IN THE 2 YEARS WE ANALYZED, 98 PERCENT OF THE MANUFACTURERS AND AIR TRANSPORTATION COMPANIES RECEIVING DIRECT LOANS AND 96 PERCENT OF THE COMPANIES RECEIVING GUARANTEED LOANS HAD FEWER THAN 100 EMPLOYEES. OVERALL, THE MEDIAN SIZE OF THOSE BORROWERS SUBJECT TO A DOLLAR SIZE STANDARD WAS FEWER THAN FIVE EMPLOYEES IN THESE 2 YEARS.

SMALLER APPAREL MANUFACTURERS WON ONLY A SMALL PERCENTAGE OF THE SET-ASIDE CONTRACTS THEY BID ON AT THE DEPARTMENT OF DEFENSE'S DEFENSE PERSONNEL SUPPORT CENTER BECAUSE OF COMPETITION FROM LARGER FIRMS CONSIDERED SMALL UNDER THE SIZE STANDARDS. THESE SMALLER FIRMS MAY NEED FEDERAL ASSISTANCE MOST, SINCE CENSUS BUREAU STATISTICS SHOWED THAT THE NUMBER OF SMALLER APPAREL FIRMS HAS DECLINED SIGNIFICANTLY.

WHETHER OR NOT THE NUMBER OF CONTRACTS TO SMALLER FIRMS CAN BE INCREASED WOULD DEPEND, IN PART, ON THEIR ABILITY TO EFFECTIVELY PERFORM ADDITIONAL CONTRACTS AT A REASONABLE COST.

OUR ANALYSIS OF FEDERAL TIMBER SALES CONFIRMED THAT COMPANIES WITH LESS THAN 100 EMPLOYEES, AND ESPECIALLY THOSE WITH 25 OR FEWER, HAVE USED THE SET-ASIDE PROGRAM LESS THAN

COMPANIES WITH MORE THAN 100 EMPLOYEES. THE ANALYSIS SHOWED THE LARGER COMPANIES WERE ABLE TO OBTAIN A GREATER PROPORTION OF THEIR PUBLIC TIMBER PURCHASES THROUGH SET-ASIDE SALES THAN THE SMALLER FIRMS. THIS HAPPENED BECAUSE THE SMALLER SIZE COMPANIES DID NOT COMPETE AS SUCCESSFULLY FOR SET-ASIDE SALES AS THEY DID FOR OPEN SALES. LOGGING FIRMS, IN COMPARISON TO FIRMS THAT MILL TIMBER, HAD A PARTICULARLY DIFFICULT TIME COMPETING FOR SET-ASIDE SALES. ALTHOUGH FIRMS WITH LESS THAN 100 EMPLOYEES USED THE SET-ASIDE PROGRAM LESS THAN FIRMS WITH OVER 100 EMPLOYEES, AN EARLIER STUDY MADE BY AN INDEPENDENT FOREST ECONOMICS CONSULTANT SUGGESTED THAT THE SMALLER FIRMS MAY NEED THE SET-ASIDE PROGRAM MOST BECAUSE THEY ARE THE FIRMS THAT MOST OFTEN FAIL.

RECOMMENDATION TO THE SBA ADMINISTRATOR

IN CONCLUSION, WE WOULD LIKE TO EMPHASIZE THAT OUR SURVEY WAS NOT INTENDED TO IDENTIFY ANY PARTICULAR INDUSTRY WHICH SHOULD HAVE ITS SIZE STANDARD ADJUSTED. WHAT WE HAVE ATTEMPTED TO DO IS RAISE ISSUES THAT SBA SHOULD ADDRESS. WE RECOMMENDED, THEREFORE, THAT THE ADMINISTRATOR REEXAMINE THE STANDARDS TO ENSURE THAT SBA ASSISTANCE IS DIRECTED WHERE IT WILL BEST PRESERVE FREE COMPETITIVE ENTERPRISE AND PROTECT THE INTERESTS OF SMALL BUSINESS.

--SBA NEEDS TO DETERMINE, IN ACCORDANCE WITH ITS REGULATIONS, THE SIZE OF BUSINESSES IN EACH INDUSTRY WHICH ARE STRUGGLING TO BECOME OR REMAIN COMPETITIVE, AND

--SBA ALSO SHOULD COLLECT DATA ON THE SIZE OF FIRMS BIDDING ON SET-ASIDE AND UNRESTRICTED CONTRACTS, AND DETERMINE THE SIZE OF BUSINESSES WHICH NEED SET-ASIDE PROTECTION BECAUSE THEY CANNOT OTHERWISE OBTAIN FEDERAL CONTRACTS.

IF THE REVIEW DISCLOSES THAT IN CERTAIN INDUSTRIES SMALL BUSINESSES WHICH NEED PROCUREMENT ASSISTANCE TO REMAIN COMPETITIVE CANNOT OBTAIN SET-ASIDE CONTRACTS BECAUSE OF COMPETITION FROM LARGER BUSINESSES CONSIDERED SMALL UNDER THE PRESENT STANDARDS,

--STANDARDS MAY HAVE TO BE REDUCED, OR

--A TWO-TIERED SYSTEM OF SET-ASIDE CONTRACTS MAY HAVE TO BE ESTABLISHED UNDER WHICH CERTAIN PROCUREMENTS WOULD BE AVAILABLE FOR BIDDING ONLY TO THE SMALLER FIRMS AND OTHERS WOULD BE OPENED FOR BIDDING TO ALL BUSINESSES CONSIDERED SMALL UNDER THE PRESENT STANDARDS.

SBA COMMENTS AND ITS PROGRESS

THE ADMINISTRATOR SBA, WAS RECEPTIVE TO OUR REPORT BUT SAID THAT SBA DISAGREED WITH SOME OF ITS POINTS. THE MAJOR POINTS OF DISAGREEMENT WERE AS FOLLOWS:

--SBA HAS NOT USED THE "STRUGGLING TO BECOME OR REMAIN COMPETITIVE" CRITERIA SET FORTH IN ITS

REGULATIONS. SBA BELIEVES IT IS DIFFICULT TO DETERMINE WHICH BUSINESSES ARE STRUGGLING IN A FINANCIAL SENSE, AND EVEN IF SUCH BUSINESSES CAN BE IDENTIFIED, THE QUESTION REMAINS WHETHER THEY SHOULD RECEIVE ASSISTANCE. INSTEAD SBA CHOOSES ITS CLIENTS ON THE BASIS THAT THEY ARE SMALL RATHER THAN STRUGGLING.

--COLLECTING DATA ON THE SIZE OF BUSINESSES WINNING SET-ASIDE CONTRACTS WOULD BE ADMINISTRATIVELY DIFFICULT AND SIZE STANDARDS SHOULD NOT BE BASED ON THE SIZE DISTRIBUTION OF FIRMS WINNING SET-ASIDE BIDS.

--THE SIZE STANDARDS RECOGNIZE THAT CERTAIN INDUSTRIES ARE COMPOSED ALMOST ENTIRELY OF SMALL BUSINESSES.

--A TWO-TIER SYSTEM OF SIZE STANDARDS WOULD CREATE CONFUSION AND COMPLEXITY IN FEDERAL PROCUREMENT.

DESPITE THESE POINTS OF DISAGREEMENT, SBA APPARENTLY RECOGNIZED A NEED TO REVIEW ITS SIZE STANDARDS. WE UNDERSTAND THAT A MAJOR RECONSIDERATION OF SBA'S SIZE STANDARDS IS NOW IN PROGRESS AND SHOULD BE COMPLETED BY SEPTEMBER 30, 1979.

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MR. CHAIRMAN, THIS CONCLUDES OUR PREPARED STATEMENT.
WE WILL BE PLEASED TO RESPOND TO ANY QUESTIONS.

Fifteen Industries in Which a High Percent of
Firms Are Considered Small (note a)

<u>Industry</u>	<u>Total firms in industry</u>	<u>Small firms</u>	<u>Percent of small firms</u>	<u>Percent of industry sales and receipts controlled by small firms</u>
General building contractors	211,462	b/210,795	b/99.7	b/72.5
Painting, paperhanging, and decorating	107,450	107,443	99.9	N/A
Carpentering and flooring	154,715	154,690	99.9	96.6
All wholesale firms	328,535	328,301	99.9	90.8
Women's and misses' suits and coats	1,510	1,499	99.3	80.8
Millinery (note c)	215	215	d/100	100
Girls', children's, and infants' coats and suits (note c)	154	151	98.1	89.5
Setup paperboard boxes (note c)	368	346	94.0	81.6
Commercial printing, lithographic (note c)	8,159	7,984	97.9	68.5
Signs and advertising displays (note c)	3,222	3,188	98.9	87.4
Local trucking with storage (note c)	2,883	e/2,866	e/99.4	94.5
Household goods warehousing and storage (note c)	277	e/274	e/98.9	N/A
General warehousing and storage (note c)	1,674	e/1,613	e/96.4	e/77.4
Hats and caps, except millinery (note c)	252	243	96.4	71.0
Men's, youths', and boys' suits, coats, and overcoats coats	675	640	94.8	N/A

a/Based on 1972 Bureau of the Census data.

b/Figures are for firms with less than \$10 million in annual sales and receipts. Census data is not available to show the number of firms with sales and receipts of \$12 million or less, the procurement size standard for this industry.

c/Excludes firms without payroll, e.g., partnerships and sole proprietorships without salaried employees.

d/Although the procurement size standard for this industry is 500 employees, no firms had more than 250 employees.

e/Represents firms with less than \$5 million in annual sales and receipts. Census figures do not show firms with sales and receipts of less than \$7 million, the size standard for these industries.