

**TESTIMONY TO
MISSOURI SMALL BUSINESS REGULATORY FAIRNESS BOARD
BY RICHARD J. SACKS
February 13, 2007**

“Micro businesses” or businesses with 10 or fewer workers, are a crucial part of Missouri’s economy, but in a mis-guided effort to help these businesses, the State of Missouri has exempted these businesses from many programs, in effect ignoring this critical part of our state’s economy and work force.

In Missouri alone there now are more than 95,000 of these micro businesses, with more than 272,000 Missouri workers depending on the micro businesses for their income and livelihood.

To put the size of this work force in perspective, please consider that these 272,000 workers equal the entire populations of

- Cape Girardeau
- Rolla
- Lebanon
- and Belton.
- Columbia
- Joplin
- Mt. Vernon

PLUS to account for the full 272,000 workers we still must include

- Hannibal
- Lamar
- Poplar Bluff
- and West Plains.

All of these Missouri workers depend on income generated by micro businesses, which our State government considers in the same category as small businesses, defining a small business as a company with up to 100 workers. Worse yet, Federal government agencies define a small business as being even larger -- up to 250 workers.

By not classifying these micro businesses in a separate category, we essentially are ignoring them. They are so far down the food chain that they cannot compete for small business benefits provided to larger “small” companies.

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The Missouri Small Business Regulatory Fairness Board ensures that state agency rules and regulations don't create an unfair burden for small businesses. Yet, government is placing hardships on micro businesses when government overlooks or ignores these very small businesses simply due to size, and the out-moded perception of what constitutes "success."

The State's criteria for judging success is the same for all businesses both large and small -- the size of the year's profit or the total employee complement. But that yard stick simply doesn't work for micro businesses, which instead should be judged by longevity.

Since two-thirds of these micro businesses fail within their first five years, if a micro business can survive through its first five years, regardless of its income, that business should be considered a success.

For many people, the small family business pays the bills and hopefully allows for retirement. In the truest sense, these businesses are simply a way to make a decent living -- they are "self-created" jobs. They WANT to be micro businesses. They will NOT create many new jobs, they will NOT pay large amounts of tax. But they will keep their owners and employees working and contributing to the economy and providing goods and services to the community.

It's time we stop ignoring these micro businesses and begin supporting them. Let's start by creating a more contemporary definition of small business, and then by treating the companies that fall into that category differently than those with 100 workers.

Organizing a micro business department or subset of a State agency would help, where different solutions for the smaller businesses could be formulated in the areas of employment regulations, health insurance and capital assistance.

State income tax credits, for example, do no good unless the recipient pays a lot of state tax. A well-managed micro business may never show a profit (and therefore never pay much state income tax) because the principals will always take out compensation equivalent to "whatever is left."

On the other hand, currently Missouri doesn't require companies with fewer than five employees to carry worker's compensation insurance. Missouri SHOULD require micro businesses to carry worker's compensation. Does a roofer working for a small contractor have less risk doing his or her job than another roofer who happens to work for a large contractor? I don't think so. Yet one major personal injury claim can wipe out an uninsured company -- and often does. If micro businesses cannot afford worker's compensation insurance, then Missouri

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should have a program to help them out. Exempting them does not make the problem go away, it makes the problem worse.

Programs designed to allow communities to take care of their own entrepreneurs through a range of assistance should be addressed. Local Workforce Investment Boards, for example, currently aren't able to claim starting a business as a positive outcome for the unemployed. Current theory requires a "job for a job."

A pilot grant recently became available to Workforce Investment Boards to establish entrepreneurial training. However, the grant specifically stipulates that programs utilizing the Kauffman Foundation's "Fast-Trac" program will be given special consideration. All due respect to the Kauffman Foundation, but their programs have been around for years and have not put a dent in the micro business failure rate. We must encourage new thought in this arena, not try the same things over and over again.

We urge you to consider, that as a state, we must stop ignoring our micro-sized businesses and start supporting them. A hearing addressing specific ways micro businesses are being served by the State of Missouri would be beneficial to the state and to each of its 95,000 micro businesses.

In a classic business sense, micro businesses may not be going anywhere. They may never go public, but they provide a necessary and vital resource to our communities. And many of us know those communities well -- because they're the communities in which we live.

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