

LEGISLATIVE SUPPORT TO OUR SMALL BUSINESS OWNERS IN UNIFORM

HEARING

BEFORE THE
SUBCOMMITTEE ON REGULATORY REFORM AND
OVERSIGHT

OF THE
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THURSDAY, SEPTEMBER 29, 2005

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON REGULATORY REFORM AND
OVERSIGHT
COMMITTEE ON SMALL BUSINESS
Washington, DC

The Subcommittee met, pursuant to call, at 10:36 a.m. in Room 2360, Rayburn House Office Building, Hon. Todd Akin [Chairman] presiding.

Present: Representatives Akin, Bordallo, Sodrel, Poe

Chairman AKIN. The hearing will come to order. I just wanted to say officially welcome, everybody, and thank you for taking time out this morning to join us, and with that, I will go ahead and get started with an opening statement, and then also I will recognize the Ranking Member for an opening statement as well.

I would like to extend a warm welcome to those of you who have taken time. I have already done that. That is important. As you know, this past June, we held a hearing to discuss the current obstacles that prevent veterans' access to capital, as well as the barriers that self-employed reservists and Guardsmen face in maintaining financially solvent businesses during deployment.

As we had learned at the previous hearing, small businesses employ approximately 18 percent of all reservists who hold civilian jobs. Moreover, the Congressional Budget Office estimates that out of the 860,000 reservists in the selected reserves, approximately 9 percent are self-employed. Many reservists and guard members experience economic hardship, both during deployment and after their tour of duty. According to one Department of Defense survey, 22 percent of reservists who had recently been activated said that the damage done to their business was a serious or very serious problem.

While there are several federal programs that have been set up to assist these small businesses, on Tuesday, I introduced a bill called the Entrepreneur Soldiers Empowerment Act, which is H.R. 3898, which I hope will further help these brave men and women and their families back home obtain the assistance they need for their continued professional success.

This piece of legislation will eventually do two things. It will codify in law the establishment of veteran business outreach centers in each SBA regional office, as well as technical mentoring assistance Committees in each SBA regional district.

Mr. Elmore, it is very nice to see you again. I appreciate the time all of you have taken to participate in our numerous events on this issue.

Dr. Holtz-Eakin, I appreciate your taking time out of your schedule as well to join us. I am excited to hear what you are here to discuss, this year's CBO report on the effects of Reserve call-ups on civilian employees.

Dr. Winkler, thank you for joining us. I know the welfare of our nation's guard and reservists is a top priority for both you and the secretary.

Witnesses, I thank you for coming.

And last, but certainly not least, I would like to greet my distinguished colleague from Guam, Ranking Member Congresswoman Bordallo, and invite her to say a few words.

[Chairman Akin's opening statement may be found in the appendix.]

Ms. BORDALLO. Thank you very much, Mr. Chairman, and good morning, gentlemen. I want to thank you, Mr. Chairman, for holding today's hearing on providing business assistance when our reservists and National Guardsmen are called up to active duty.

So often these service members have answered the call to protect our nations in time of need and are ready to deploy whenever and wherever they are needed. They have served their communities and countries with great honor, with the flexibility of being able to attend college, own businesses, and pursue full-time careers. But success does not always come easy. This group of entrepreneurs faces a myriad of challenges in starting and running their businesses, including access to capital, providing health care, and securing federal contracts, coupled with the fact that many veteran small business owners are either being deployed themselves, or their employees are being sent overseas. The challenges of running a small business only multiply when a small business owner or his or her employees received orders to deploy.

Today, our service members are asked to make great sacrifices, whether it is fighting in Iraq or Afghanistan or providing relief in the wake of natural disasters, such as Hurricanes Katrina and Rita. These brave Americans always meet the challenge. Clearly, given the sacrifice that these men and women continue to make, it only makes sense to provide our nation's soldier entrepreneurs with the resources they need to keep their businesses successful while they are serving us at home or abroad.

Over the years, a number of programs have been designed to promote entrepreneurship and provide assistance to our nation's reservists and guardsmen, including the Small Business Development Centers [SBDC]. These centers provide critical, one-stop services to small firms by providing a wide variety of information and resources. In concert with the national SBA and the SBDC network, Veterans' Benefits Outreach Centers [VBOC] provide still another source of business and technical assistance for this important community of small business owners. This Committee also created the Veterans Corporation that was designed to exclusively cater to the needs of veteran entrepreneurs.

It is my understanding, then, that the legislation we are reviewing today, the Entrepreneur Soldiers Empowerment Act, will ex-

pand this network and solidify the work of the VBOCs. I am interested in learning how the proposed program will work, and, additionally, I want to ensure that we are maximizing the use of resources to serve these businessmen and women. As our economy continues to experience challenges, it is important to provide substantial assistance to veteran entrepreneurs and all sectors of the small business community. America's small businesses are capable of pulling us out of this period of economic uncertainty and creating the jobs that we so desperately need.

So I look forward, gentlemen, to hearing your testimonies today. Your thoughts and concerns are very important to us as we review this proposed legislation. Thank you.

I would also like to recognize Mr. Sodrel. He has possibly a comment or two here, just that we do not have that many congressmen here. So, Mike, if you want to run for a minute or two, we will get started right after that with the witnesses.

Mr. SODREL. I would like to thank you all for coming this morning. I have more than a passing interest in the subject, being a former noncommissioned officer in the First Battalion, 151st Infantry, of the Indiana Army National Guard and being a former small business person, and I have stayed pretty close to the unit.

Lieutenant Colonel Paul Grube is the current commanding officer of the One of the 151. They were deployed to Afghanistan. In between the training prior to departing the country or being deployed and the one-year deployment,—he was gone for about 15 months—he was a small business person, had a restaurant, and found that the strain of being deployed in Afghanistan and having a restaurant back home was really too much for him, so he had to sell the restaurant basically while he was still deployed in Afghanistan.

So I really look forward to the testimony here this morning, and I thank you for coming.

Chairman AKIN. Thank you, Mike.

Our first witness is going to be Bill Elmore,— Bill, you have been with us before—Office of Veterans Affairs, Small Business Administration. We are going to try and stick with the lights. Remember the light drill here. Green means go, and yellow means you have got one minute left, and then red means you are supposed to wrap it up. Thank you.

STATEMENT OF BILL ELMORE, VETERANS BUSINESS DEVELOPMENT, OFFICE OF VETERANS AFFAIRS, U.S. SMALL BUSINESS ADMINISTRATION

Mr. ELMORE. Thank you. Chairman Akin, distinguished members of the Subcommittee, I am Bill Elmore, the associate administrator for Veterans Business Development at the SBA. Thank you for the opportunity to testify here today to express SBA's views on the Entrepreneur Soldiers Empowerment Act. SBA is grateful for your continued support, and we appreciate the opportunity to share our views. Let me begin with a brief overview of SBA's present outreach activities for veterans of the U.S. military and reserves.

S.B.A. opened four Veterans Business Outreach Centers in 1999 to expand SBA outreach and assistance to veterans. In the first five years of operation, we have refined this program by, among other things, increasing outreach to Reserve component members of

the U.S. military. Last year, legislation enabled the SBA to include reservists in our definition of “veterans,” assuring them access to our programs and services. This resulted in significant steps to enhance outreach and assistance to reservists through our Vet Business Outreach Centers, SBA’s two primary technical assistance programs, SCORE and SBDCs, and SBA’s district offices.

SBA recently recompleted the VBOC grants. We expressly included Reserve component members as part of the target for service delivery and evaluated proposals for the VBOC program grants based on the applicant’s ability to reach reservists. SBA has also enhanced the SCORE and SBDC programs through outreach to reservists who are self-employed or small business owners. SBA’s intake and data collection and reporting forms in the district offices were updated to include questions on veterans, service-disabled veterans, and Reserve and National Guard status of program participants. Data collection helps us measure our success in reaching our veterans’ outreach goals.

I would now like to discuss the proposed legislation. While SBA is supportive of the underlying goals of these proposals, i.e., increased outreach to veterans, the agency cannot support this legislation, which redirects resources from existing programs which are designed to reach similar objectives.

The Entrepreneur Soldiers Empowerment Act would require SBA to expand the VBOC program to a minimum of one center per geographic region. SBA does not believe this is the most efficient method to provide the required assistance to veteran entrepreneurs. SBA’s current VBOC locations are based on the population of veterans and reservists in the host state. Our current centers are in the four most populous states for veterans: California, Florida, Texas, and New York, with a fifth center due in Pennsylvania. Establishing VBOCs based on geography instead of population may result in states with smaller veterans populations receiving centers before states with more significant veteran populations. Furthermore, SBA believes the chain of new VBOCs will disperse small business expertise and dilute SBA resources.

The underlying intent of the bill to provide additional information and outreach to businesses affected by mobilization is worthwhile; however, we are not supportive of the means sought to achieve that end. Utilizing preexisting resources to achieve the objectives of this legislation would be a better use of taxpayer dollars and a faster, more efficient method of providing the services needed. SBDCs and SCORE already provide these essential programs and services. Our VBOCs provide supplemental assistance in the most veteran-population-heavy states. Establishing new VBOCs is unnecessary and will create a competing redundant organization.

The legislation also requires SBA to establish technical and mentoring assistance Committees that would be responsible for recruiting local volunteers to serve as veteran business mentors. SBA supports the involvement of volunteer business counselors and mentors for veterans and reservists and their families, but this proposal is problematic from a budgetary perspective. SBA would be required to establish TMACs in each district and allocate \$20,000 per Committee, costing more than \$1 million annually.

This proposal is unnecessary. Presently, SBA's district offices are authorized to establish local veterans' business mentors, and this is an effective service-delivery approach. To mandate private and public volunteers would be duplicative.

S.B.A. previously managed a plan called the Veterans Business Resource Councils. That approach was more flexible and depended on the local veterans' business community to organize their own community-based Committees. Using those Committees to assist and support outreach, training, and seminars for veterans, they served as a basis for our district office outreach program that is voluntary and relies on coordination between our district offices and the SBA's local resource partners like SBDC and SCORE. This is a better model, based on the resources and commitment of local veteran business owners.

This concludes my testimony. I welcome any questions you may have.

[Mr. Elmore's testimony may be found in the appendix.]

Chairman AKIN. Thank you, Bill, for your testimony. We will proceed with our second witness here. John, would you please proceed?

**STATEMENT OF JOHN D. WINKLER, Ph.D., OFFICE OF THE
SECRETARY OF DEFENSE, U.S. DEPARTMENT OF DEFENSE**

Dr. WINKLER. Good morning. Mr. Chairman and distinguished members of the Subcommittee, I would like to thank you for allowing me to testify before this Committee on a very important topic.

We know that small business owners face significant challenges when a reservist is called to active duty for an extended period. We are working to understand their needs and develop policies and programs that meet them.

We must have the support of employers if we are to sustain a strong, viable Reserve force. Recognizing the important role of employers, the Department has implemented a number of policies aimed at encouraging employer support and helping mitigate some of the challenges that employers face.

First is the policy of judicious and prudent use of the Guard and reserve, using reservists only when needed or as short as needed, and to perform meaningful work.

Second is to limit frequency and duration of mobilization. Under the current mobilization authority, we limit the period of involuntary service to a total of 24 cumulative months, and we have established a one-year-in-six planning factor for involuntary activations.

Finally, we strive to provide employers with as much advance notice of pending mobilization as possible. The goal is at least 30 days' notice.

These policies are intended to provide employers with as much predictability as possible so they can better plan for the absence of a reservist employee. We all want to help employers, but we also need to understand better who employs Guard and Reserve members and what will really help them. I am familiar with the CBO study that addresses the effects of Reserve call-ups on civilian employers and identifies several possible courses of action: employer tax credits, subsidized loans, business insurance, and exempting certain reservists from mobilization.

Their findings parallel an Institute for Defense Analysis study, which the Department sponsored, on small businesses and the self-employed. One of the recommendations in that study was for the Department to conduct a survey of employers to gain further insights into impacts of activation on employers and policy options for addressing problems they may experience. We are currently working with the Office of Management and Budget to field a large-scale employer survey.

We also now require reservists to provide information about their civilian employer. As of this date, 77 percent of reservists, amounting to approximately 570,000 service members, have provided employer information to the Department of Defense, and we are beginning our analysis of these data. This will provide a more detailed understanding of reservists' civilian occupations and the makeup of their employers. The information that we derive from these initiatives will help us focus our efforts where they will have the most impact.

Finally, we are developing a much closer working relationship with the Small Business Administration. The Military Reservists Economic Injury Disaster Loan program, passed by Congress in 1999 and administered by the SBA, was the first financial-assistance program targeted at small business owners affected by the military service of an employee and self-employed reservists. We are working with the SBA to determine what more may be done.

Again, I would like to thank the Committee for holding this hearing, and I look forward to answering any questions.

[Dr. Winkler's testimony may be found in the appendix.]

Chairman AKIN. Thank you, Doctor. I did not give you the proper title, but just for information, you are manpower and personnel under the Office of the Secretary of Defense, Department of Defense. So we will get that down for the record. Thank you very much, John.

And let us go ahead, then. Dr. Douglas Holtz-Eakin, director of the Congressional Budget Office. Please proceed, Doug.

**STATEMENT OF DOUGLAS HOLTZ-EAKIN, Ph.D.,
CONGRESSIONAL BUDGET OFFICE**

Mr. HOLTZ-EAKIN. Mr. Chairman, Ranking Member Bordallo, and members of the Subcommittee, CBO is very pleased for the opportunity to be here today, and I want to also take this opportunity to thank both of the gentlemen to my right who provided extensive assistance to the CBO in producing the report that will be the focus of my oral remarks.

I really want to make three points. The first is that Reserve mobilizations and deployments are large and unusually long at the moment; that the costs of such mobilizations are concentrated on a very few, and for that reason, they are not a significant impact on the national economy as a whole but have notable impacts on some small businesses and self-employed reservists; and, finally, that, in thinking about policy options, including the legislation that is under consideration, it is important to distinguish the importance of minimizing the overall costs of these mobilizations upon small businesses and the self-employed and then, for whatever

costs are incurred, striking the right balance between employers, employees, and taxpayers as a whole, so let me do that.

The first is simply to remind everyone that mobilizations are substantial and quite extended. A great many of the reservists have been mobilized through July of 2005. About 455,000 reservists have been mobilized in the past four years, and, at present, about 36 percent of those forces in Iraq and Afghanistan are reservists. Their tours are much longer than in the past and likely longer than they anticipated when they joined the reserves. Prior to 9/11, a tour of over 180 days was somewhat unusual. Only about 15 percent of reservists experienced this length of mobilization, whereas since that time, the average tour has been over 300 days.

These tours impose costs. There are a large number of reservists, either self-employed or employed in small businesses. I have a bit of information about these folks. There are 50,000 self-employed reservists and about 120,000 reservists who are employed in small businesses, which, for this purpose, we define to be those private firms with fewer than 100 employees. Perhaps as not well appreciated is the fact that a large fraction, 36 percent, are employees of federal, state, or local governments. So there are significant impacts in the call-ups on both very small firms as well as the larger private firms, and, indeed, there are impacts on the government sector as well.

In scaling the size of the problem, it is important to recognize that this is a small fraction of our national labor force, that there are about 5 million small businesses overall and about 15 million self-employed, with the result that only about 6 percent of employers are affected by call-ups, and only about half of 1 percent of the self-employed are affected in this way.

Nevertheless, for those who are affected, there are important costs. Those costs take the form of uncertainty about when call-ups will take place and thus impose an extra layer of planning requirements on small businesses. They are the costs of vacancies or the costs of hiring replacements for those employees who are not available while they are away. There is a loss of skills, in some cases, quite significant skills. One of the focuses of the report was trying to document the degree to which those reservists who are employed by small businesses might be the highly skilled reservists who are necessary for the conduct of those businesses. Using a variety of judgments, we guessed it was on the order of eight to 30,000 such individuals.

There is also just the loss of business income, and the scale of that loss is hard to know. CBO did its own survey, a far-from-representative survey, that we tried to use to shed some light on the problem, and I look forward to the results of the larger survey that is going to be available as a result.

The last point I will make before closing is that, in thinking about the policy options, there really are the two steps. Step 1 is what are the costs of these mobilizations? Assuming that DoD does not change its use of reservists extensively, those costs can be minimized either by additional planning on the part of small businesses, and the CBO survey suggested many had not planned for the loss of their key employees, or by providing targeted exemptions for hardship cases, and that raises issues of fairness in con-

ducting that; and then, for whatever costs are present, what is the right balance among the various stakeholders involved? In some cases, for example, with the existing law, the employer is asked to bear the cost of continuing to pay pension and health benefits, holding the job, and providing the employment. Is that the right balance? Is that a policy question? Or could those costs, in part, be shifted to taxpayers through tax credits, loans, or insurance vehicles which would take the costs out of the employer-employee relationship?

These are important questions, and we are pleased to have the chance to be here today, and I look forward to your discussion.

[Mr. Holtz-Eakin's testimony may be found in the appendix.]

Chairman AKIN. Thank you very much, Doug. It sounded like your analysis, from the questions, is very crisp and does raise some interesting questions. Who is really paying for some of these things? If you take a look at somebody that runs their own business, and they are going to be gone for 300 days, how many small businesses could take that kind of a hit, and who is really paying for that, then? Where does that put a lot of the load, and how do we absorb that as a society? Good questions, indeed.

Let us see. I guess I will start with you, Bill. It seemed like, from what you were saying, your bottom-line concern is cost. Is that probably accurate to say?

Mr. ELMORE. I think it is a combination of cost and maximizing our already available, perhaps helping to focus even more intently the broader range of services we have through our Small Business Development Centers and through our SCORE counselors and chapters.

Chairman AKIN. So the concern is one of cost. In other words, are you saying that this makes you too specialized to deal with this one problem, too much resources in just one particular area where there are a lot of other things you are trying to do with those offices?

Mr. ELMORE. It is not so much that. As I read the draft of the legislation, there were sort of two parts of it. One was targeted to the self-employed Reserve and Guard members themselves. The second was targeted to the much broader issue of the small businesses that employ Reserve and Guard members, that 35 percent number. It is much bigger than the 6 or 9 percent number, depending on how you look at that.

So I think to try to take what is a pretty small focus specifically on veterans programs inside the agency and broaden it out into an area where SCORE and SBDCs already have a significant and ongoing expertise just, to us, did not make a lot of sense financially and from a program-planning perspective. Those programs are up and running. How we focus their effort into this community is, I think, more important perhaps than trying to create what might become a redundant system.

Chairman AKIN. Let me see if I understand what you are saying. This bill really is doing two different, separate things. You are saying that one piece of it is probably more logical than the other piece. Is that what you are saying?

Mr. ELMORE. Well, the other part of the question, I think, goes back to the district offices and the idea of these volunteer men-

toring Committees, which is an idea we do support, but trying to fund volunteer Committees, we think, is problematic. Questions about everything from FACA to how do we create and ask volunteers to then help us design plans that would require approval, that would require allocation of resources that, at this point, we have not budgeted for is part of the problem.

So there are really kind of two sides of it. One is the expansion of the VBOCs into additional areas and into additional service beyond specifically the veterans that presently we focus on. The other is the idea of mandating required local volunteer Committees when we have that authority to do that now, and most of the work I have done through our district office outreach effort has focused on developing not essentially official Committees but local collaborative approaches that approximate Committee work that do not have mandated resources allocated to them that have to flow through our district office.

Chairman AKIN. There are four Veterans Business Outreach Centers currently. Is that right?

Mr. ELMORE. Yes, sir. And there is a fifth being created in Pennsylvania right now.

Chairman AKIN. Do you think that is sufficient to provide services for the nation's veteran population, both mathematically and geographically?

Mr. ELMORE. Good questions. I can tell you that what we have tried to do with our centers, realizing all along that we had a limited number of locations that we could operate in, is we have tried to focus them into targeted services where they operate but also Internet-based services, and we have tried to promote the availability of all of our centers so that veterans across America, including reservists, will know about, hopefully, where these centers are, contact them, and then they do what I call "directed referrals."

So if someone from Oklahoma contacts our Texas vet business center, the Texas center will direct that veteran back to a localized resource in Oklahoma, be it an SBDC, a district office, a SCORE counselor, a chapter, a women's business center, the full range of SBA services.

Chairman AKIN. Okay. I think, in November 2004, as I recall, in the SBA Office of Advocacy report, it was reported that the existence of useful government and private programs for entrepreneurs ranked second and third on the problem list of both service-disabled and nonservice-disabled veteran entrepreneurs, a high priority currently. If the services provided by SBA are currently sufficient for the veterans' population, how do you explain the fact that they projected this tremendous need?

Mr. ELMORE. Well, I think there are probably two parts, at least how I would think of that. The first is, obviously, not every veteran knows of SBA services and programs; hence, why we continue to conduct what I think is pretty aggressive and comprehensive outreach.

The second is every year we are creating another 200,000-plus veterans who discharge out of active service, and the other part of it would be, with the definitional change that you enabled us with with our reauthorization last fall, we do now include reservists in

our internal definition of “veterans” for purposes of all of our programs.

So through that and through, for example, strengthening the Small Business Development Center program announcement, we are directing those Small Business Development Centers now to include outreach to Reserve and Guard members and Reserve and Guard units for purposes of business assistance, business planning, business preplanning, and also for post-mobilization planning after they have returned.

Chairman AKIN. Okay. I think I have probably used up my five minutes. Thank you very much, Bill. And the Ranking Member.

Ms. BORDALLO. Thank you very much, Mr. Chairman.

Mr. Elmore, just a little aside here. The last time you appeared before this Subcommittee, you may recall that I was concerned that the military reservists economic injury disaster loans, the loans that we, in Congress, created to help returning reservists with their businesses, were not really before used to their fullest extent. In fact, at that time, you had made about 280 such loans in five years. That would be about one loan per state per year, and as long as you are here, can you give us a progress report on that program? You were going to make an effort, you said, if I recall, to publicize its availability, and we have heard testimony today that these reservists do need help. Have you increased the use of that important loan program during the summer? Could you give me some statistics, numbers?

Mr. ELMORE. Yes, ma'am. Actually, when we were up here in June at the hearing, it was 228 loans, as I recall, that we had approved at that point.

Ms. BORDALLO. Oh, I have inflated it a little. Okay.

Mr. ELMORE. What we have now, through August 31, 2005, and this is the latest report I have, we have had 400 applications, and we have approved 243 loans.

Ms. BORDALLO. In addition to the—

Mr. ELMORE. No, no. In total over four years—

Ms. BORDALLO. So that is just a few more, then. Right?

Mr. ELMORE. Yes, ma'am. The program was implemented August 24, 2001.

Ms. BORDALLO. If there are that many applications, why so few, because you did say you were going to make it available?

Mr. ELMORE. Yes. There are two things. One is, typically, in our disaster loan program, only approximately 50 percent of the loan applications are approved. There is a whole range of reasons, everything from can the business show the ability to pay a loan back? That is one of the primary things that we have to look at because we are allocating the public's resources. So we are approving a higher percent of them MREIDL than we do our other disaster loans.

Now, I can give you some rudimentary information. For example, of those 400 applications, 63 of the applications were withdrawn by the applicant, another 90 were actually declined by SBA, and we have four, at least of August 31, 2005, that were pending. So there is a whole range of issues that come into this, everything from it may turn out that someone has a criminal background. If they have a criminal background, they are not going to be eligible for

some of our loan programs. So there is a range of those things that enter into all of our programs.

Ms. BORDALLO. So, in your opinion, is this loan program really functioning as it should?

Mr. ELMORE. I think it is functioning as designed. If you sort of dig into the difference between a typical business loan and a disaster loan, a disaster loan, by its design, is not designed as a business loan, per se. You cannot consolidate debt, for example, and that is the way the statutes were written.

So I think I suggested, even at the June hearing, that the loan program is very important for those that it fits, but additional debt for a business that has been impacted by an activation of the owner may not be the best solution. I think it really goes back to what the gentleman from CBO has suggested, is there a range of things. There is not—I think I said this in June at the hearing—there is not a one size fits all, and MRIEDL, while it is important, does not meet all of the needs that I think business owners—

Ms. BORDALLO. Mr. Elmore, how are you advertising the loan program, returning soldiers? Is it going out to everybody?

Mr. ELMORE. There is a full range of things we have done. We have had hundreds of thousands of what we call “SBA Reserve and Guard fact sheets” inserted into demobilization kits that are put together by the National Committee for Employers in Support of the Guard and Reserve. We have sent out hundreds of thousands of those fact sheets in addition to that. We have also produced business-mobilization planning guides.

We have a post-mobilization business planning guide that we have sent out tens of thousands of copies to all of our partners through DoD, through DOL, through VA, through the American Legion,—the VFW has just asked me for 100 more copies—through states, the State Department of Veterans Affairs of Missouri, for example; and through lots of reciprocal Web efforts as well. The Army Family Support Centers, for example, in DoD; we have some reciprocal links that advertise the availability of these programs.

We have also, and I have not passed them out yet because we only just received them in the last couple of days—we have now received our pre-mobilization business planning guide. I am having 5,000 of these printed, and we also are having 5,000 CDs produced that reflect not only the contents here but also a lot of the other detailed program information that is in there.

Ms. BORDALLO. Mr. Chairman, I would like to have a copy of some of those fliers.

Mr. ELMORE. The only reason we have not provided them to you is literally, this morning, we are beginning distribution inside SBA to all of our program office heads so that they know of the availability, and they can ask my office for whatever number of copies that they need. We printed 5,000 professionally, but we also have the ability to print these internally. So we are going to produce as many of these as are necessary. They are designed for all of our programs, all of our program partners, and specifically designed to try to assist Reserve and Guard members themselves with the things we believe they need to do to preplan before they are called.

Certainly, I understand that no matter how well we design these things, no matter how good a job we do at putting the information

out in the hands of the reservists, ultimately the work that has to be done rests, to a great degree, with the Reserve and Guard members themselves. If they do not take the steps to do the kinds of preplanning that are required, there are going to be too many instances of restaurant owners activated for 300 days that either are forced to be in a position where they have to sell their business, or they have to depend on someone else to try to manage them in their absence. Those are things that paper products and outreach can assist and support, but we cannot fix every instance. It really does take the Reserve and Guard members themselves to work with our resources.

Ms. BORDALLO. Thank you, Mr. Elmore. I do not know which one, perhaps Dr. Winkler. Do you have an opinion for this Committee on the level of success of these other entrepreneurial development programs in helping reservists? How are the others? Are they working because I think, especially you, Mr. Elmore, you are quite negative at the money situation and all for another new program, so how are the others working? Are they, in your opinion, a success?

Dr. WINKLER. I will really have to look into that and get back to you.

Ms. BORDALLO. Well, maybe, Mr. Elmore, you might be able to answer that.

Mr. ELMORE. I think what I see, and if you understand the structure of the agency, I do not manage the SBDC or the SCORE program; I work with them. They are a counterpart inside the agency. We have certainly seen, I think, a significant increase in activity out of our Small Business Development Centers into this arena. SCORE, for example, has increased their activity as well. They have created a special Web site, and they have e-counseling specifically targeted to Reserve and Guard small business owners, and they have asked their 12,000 volunteers, who would like to sign up to additionally try to work with and support small business owners that are in the reserves?

So we have seen that happen, and this is an example I can share with you. I received this actually by e-mail that today there is a Veterans Small Business Resource Day in the State of New York that one of our district offices, with our business outreach center, with SCORE, with SBDC, and with a number of other partners, are participating in to try to offer the full range of all of the SBA services and programs available to veterans, including Reserve and Guard. So I can share that with you.

I cannot sit here and tell you that in every instance it is working. Of course, not. We have to build this, and that is what we have been trying to do, and there is a unique expertise that is developing inside SCORE and SBDC based on this. If you go back to the June hearing, we talked about the sort of dual responsibility business owners have. They have the responsibility that they have taken on to serve us and protect us in the Reserve and Guard, but they also have the responsibility to try to manage, maintain, and grow their business. So they do face unique circumstances and unique things that they need to deal with that most other small business owners do not.

Ms. BORDALLO. Thank you.

Mr. Chairman, I have further questions on the next round.

Chairman AKIN. Thank you. I think our next questions come from Mike, and also we have been joined by Ted Poe, and you are just about in line for questioning next, Ted, so, Mike, why don't you fire away?

Mr. SODREL. Yes. A couple of things I left off my list of what I was. I am also a fiscal conservative, so you are getting my attention. As I was thinking through this, maybe being a facilitator more than a source of funds. The financial loss is the effect, not the cause. The cause is the person or persons have gone to military service. If you can avoid the financial loss, then no harm, no foul.

I was just sitting here making a list: the SCORE, the Service Corps of Retired Executives,—

Mr. ELMORE. —of Retired Executives, yes, sir.

Mr. SODREL. —trade associations. You know, it may be that what we have here is the private sector really was not prepared for long-term deployments. When I was in the Guard, Company B of our battalion went to Vietnam on a long term, but mostly it was going to a flood like Katrina, tornado, some kind of civil disorder or something, where it was a two-, three-day, week, two-week deployment; it was not a long-term deployment. The unit went to Bosnia for longer term.

So it seems to me that the mission of the Guard is changing over time, and people need to be more prepared. I think there are people out here that would volunteer to help the small business owner if they were prepared in advance and some system was put together. Maybe the SBA needs to be a facilitator more than a financier, working with the ESGR, SCORE, and trade associations, and what-not being prepared in advance.

I personally had to make a decision between small business and Guard service after seven years, and I chose the small business. I knew I could not balance both. But we have some really good people. We do not want to discourage them from serving in the Guard or Reserve just because they are a micro-business.

This is a really good piece, just a cursory look at it. Are there any funds available where you could be trying to facilitate, bring different groups together where we might prepare for this?

Mr. ELMORE. I think the approach that we have taken through the agency, and this really goes back to—it began in September 2001, we reached out to Dr. Winkler's office, for example. My office did a little digging around and said, Who do we contact in DoD to try to begin to coordinate and collaborate? So we approached his office, and it was through his office and some meetings there that we began to engage in the broader side of DoD, the family support centers, for example, and ESGR.

It was Dr. Winkler and his staff who said, Work with the National Committee for Employers in Support of the Guard and Reserve. They are, and I do not mean to speak for them, but they are representatives—they are a branch that engages into America's private sector on behalf of Reserve and Guard members. So a lot of the work we have done nationally has been to do that, to coordinate with them, to coordinate with the Department of Labor Veterans Employment and Training Service, with the president's National Hire Veterans Committee, for example; with the Department

of Veterans Affairs through their Center for Veterans Enterprise; with ODEP and Department of Labor, which is a disability policy group focusing on those veterans that come back with disabilities.

Those are the ones that I recall off the top of my head. At the same time, the district office effort and our business outreach centers have been directed to reach to these same communities locally. So when I work with a district office in Philadelphia, we ask that district office to touch base with and ask for the involvement of Labor, of VA, of ESGR to identify Reserve and Guard units themselves, to ask the state adjutant general to participate, to work with the state department of veterans affairs, to work with the American Legion to bring the VFW to the table, to really go out and try to bring what I think is sort of the veterans' side of the community into the mix because quite often it is their sons and daughters that are serving. Again, I expect you know that as a veteran yourself.

So we are doing that now. This is a big country, and it does take a lot of work to do that. Each district office has a veterans business development officer inside SBA, and part of their job is to reach out to and engage vets, including now Reserve and Guard. That is where the district office outreach initiative comes into play, and if they give us a rudimentary plan on how they are going to include all of these potential partners, we will provide them resources out of my office to help them put those seminars, those programs, those outreach events like the one in New York together.

Mr. SODREL. Thank you, Mr. Chairman.

Chairman AKIN. Thank you, and let us see. Ted, I believe you are next.

Mr. POE. Thank you, Mr. Chairman. I appreciate all of you being here today. I was a former reservist in the United States Air Force Reserves and proud of it. I found, when I got to Washington, that everyone in Washington, D.C., outranked me and still outranks me, but I was proud to serve, and I am a big fan of the reserves and the Guard. I think that the country needs a stable Reserve and Guard, and we encourage young men and women to be in both as a national defense.

I am concerned, over the years since when I served,—it has been a long time ago—the Guard and Reserve seem to be on the national scale and with government sort of the stepchild to the military. Their mission was not as important, or they were not as capable as the standing military. I do not know that that still is the perception or not. Be that as it may, it is very important to me that we do all we can here. It is better for the reservists when they go back home as our home Guard.

I noticed that the SBA does not support the chairman's legislation, and one of the reasons is it would supposedly stretch the SBA's limited resources. Bottom line: How much more money would the SBA need to properly implement the Entrepreneur Soldiers Empowerment Act?

Mr. ELMORE. Is that a question, sir?

Mr. POE. Yes.

Mr. ELMORE. Well, if you do the math, and we were required to create another five centers funded at \$200,000 each, presently we provide, maximum, \$150,000 per center, so I think the math is

pretty straightforward. The number of district offices that would require the local mentoring Committees would be \$20,000 per location per year. In 2006, as I read the legislation, that would exceed a million dollars.

I do not have the number at the top of my head, but obviously we are talking a couple of million dollars more, I think.

Chairman AKIN. I think the numbers that the staff provided me on that would be you have got 10 regions at \$200,000 each, so that is \$2 million, so that is one piece of it is \$2 million, and the other piece is really \$1.3 million. So, Bill, you were right when you said it is just north of a million. We are looking at a total of \$3.3 million, and the question is, is there a sufficient problem, and is there enough cost being picked up by families and people whose small businesses have been disrupted, whether this would be a good investment or a waste of money? That is what we have to figure out.

Mr. POE. Mr. Chairman, that is the only question I have.

Chairman AKIN. The second round of questions. Ms. Bordallo.

Ms. BORDALLO. Thank you very much, Mr. Chairman. I have a couple of questions here for Mr. Holtz-Eakin. Is that correct?

Mr. HOLTZ-EAKIN. That is correct.

Ms. BORDALLO. Are you familiar with the federal government's spending on veterans' programs, and if so, can you give the Subcommittee a general idea of how much money we spend on veterans' transition programs?

Mr. HOLTZ-EAKIN. I do not know off the top of my head. We could certainly get back to you with that for the record. I would be happy to.

Ms. BORDALLO. You do not have anything on the top of my head, ball park figure, really?

Mr. HOLTZ-EAKIN. No.

Ms. BORDALLO. Okay. Mr. Chairman, I might note here, just for the record, that I am very proud to be representing a small territory in the Pacific where we have more reservists and Guardsmen per capita than any state in the nation, and that is a fact.

Now, the second part of the question: What is, in your opinion, the most important thing the Congress and the federal government can do to ease the burden of difficult deployments on small business? Should the Congress allocate more funds to current programs, or should the Congress seek to improve the functions and the programs themselves, or is it a combination of the two?

Mr. HOLTZ-EAKIN. I think it would be useful for the Congress to target solutions to particular problems, and two problems exist which get intermingled. One is the problem for business owners and the survival of those businesses while key employees are away. The second is income maintenance for those individuals who are actually deployed. Those are not necessarily the same thing. They get intertwined, particularly with the self-employed.

So one set of solutions should be to do what is necessary to provide the ability to fill the economic hole with finances while the deployment is away,—that can maintain businesses—and the second set of problems is coming up with appropriate ability for individuals to maintain their incomes while they are deployed, and that raises questions which spill over into appropriate manpower policy for the Department of Defense. Do you want to pay people dif-

ferently who might have the same skills and the same job in the reserves because of their civilian occupations?

So separating those, I think, is the first step, and then clearly one would want to make as effective a use of federal resources as possible. Planning would certainly be helpful in this regard so that, to the extent that there are disaster assistance loans available, there is knowledge of that, that people plan and think about the application in advance so that they can fill the hole the moment the reservist is called up.

Those are the kinds of things that, I think, would make all of the existing programs more effective.

Ms. BORDALLO. Were there any others of the witnesses that want to elaborate on that question? I see a couple of you writing. Is there anything you wanted to share with us?

Mr. ELMORE. I was writing "plan" because I think it reiterates what we were talking about, is focusing our resources to make sure that the Reserve and Guard self-employed have the ability to take those steps to plan for what is going to happen in the event of an activation. I think, at its core, that is where the work, and the work primarily on the part of the owner, him or herself, has to take place. I think that is the best way to minimize whatever the damage or disruption may be.

Ms. BORDALLO. And getting back to your answer, are any of our current programs targeting those priorities that you mentioned?

Mr. HOLTZ-EAKIN. Certainly, the military reservists' economic injury disaster loans are about that problem. They are an attempt to fill the financial hole left in a small business, and the success of that program, I think, is one of the discussions we had earlier, whether enough people know about it—

Ms. BORDALLO. I do not think the numbers—I thought they would be much higher than they are. I am surprised. I did not know there were that many that withdrew that you do not approve, so that was kind of a disappointment to me. But I would like to have those figures, Mr. Chairman, for the Committee. Thank you.

Chairman AKIN. If we could get those numbers, that would be helpful. I think there were a few other questions that were prepared. I am not going to take everybody's time on those, but we may have a few additional questions for the witnesses.

Any other questions? If not, the hearing is adjourned.

[Whereupon, at 11:29 a.m., the Subcommittee was adjourned.]

OPENING STATEMENT
29 SEPTEMBER 2005

SUBCOMMITTEE CHAIRMAN W. TODD AKIN
SUBCOMMITTEE ON REGULATORY REFORM & OVERSIGHT

“Entrepreneur Soldiers Empowerment Act”

Good Morning. I would like to extend a warm welcome to those of you who have taken time out of your busy schedules to testify before this committee today.

As some of you know, this past June we held a hearing to discuss the current obstacles that prevent veterans’ access to capital as well as the barriers that self-employed reservists and guardsmen face in maintaining financially solvent businesses during deployment.

As we had learned at the previous hearing, small businesses employ approximately 18 percent of all reservists who hold civilian jobs. Moreover, the Congressional Budget Office estimates that out of the 860,000 reservists in the Selected Reserves, approximately nine percent are self-employed.

Many Reserve and Guard members experience economic hardship both during deployment and after their tour of duty. According to one Department of Defense survey, 22 percent of reservists who had recently been activated said that the damage done to their business was a “serious” or “very serious” problem.

While there are several federal programs that have been set up to assist these small businesses, on Tuesday, I introduced a bill called the Entrepreneur Soldiers Empowerment Act (HR 3898) which I hope will further help these brave men and women and their families back home obtain the assistance they need for their continued professional success.

This piece of legislation will, essentially, do two things. It will codify, in law, the establishment of Veteran Business Outreach Centers (VBOCs) in each SBA regional office, as

well as establish Technical Mentoring Assistance Committees (TMACs) in each SBA regional district.

Mr. Elmore, it is very nice to see you again. I appreciate the time all of you have taken to participate in our numerous events on this issue. Dr. Holtz-Eakin, I appreciate you taking time out of your busy schedule to join us. I was excited to hear you would be here to discuss this year's CBO report on *The Effects of Reserve Call-ups on Civilian Employers*. Dr. Winkler, thank you for joining us. I know the welfare of our nation's guard and reservists are a top priority of both you and the Secretary. Witnesses, I thank you for coming.

And, last, but certainly not least, I would like to greet my distinguished colleague from Guam, Ranking Member Congresswoman Bordallo and invite her to say a few words.

TESTIMONY OF
WILLIAM ELMORE
ASSOCIATE ADMINISTRATOR
VETERANS BUSINESS DEVELOPMENT
US SMALL BUSINESS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT
COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

Thursday, September 29, 2005

Chairman Akin, distinguished Members of the Subcommittee, I am William Elmore, the Associate Administrator for Veterans Business Development at the U.S. Small Business Administration (SBA). Thank you for the opportunity to appear before you today to express SBA's views regarding the proposed legislation entitled the "Entrepreneur Soldiers Empowerment Act."

As always, SBA is grateful for your continued support and we appreciate the opportunity to share our views with you. For background, let me begin with a brief overview of SBA's present outreach activities aimed at veterans of the U.S. military and its reserve components.

SBA opened four Veterans Business Outreach Centers (VBOCs) in 1999 to expand SBA outreach and assistance to veterans. In the first five years of operation, we have continued to strengthen and refine this grant program by, among other things, increasing outreach to Reserve components members of the U.S. military. Last year, Congress enacted legislation providing SBA with the authority to include Reservists in our definition of "veterans", assuring them participation in the full range of our programs and services. This has resulted in a number of significant steps to enhance outreach and assistance to Reservists through VBOCs, SBA's 2 primary technical assistance programs, SCORE and Small Business Development Centers (SBDCs), and SBA's district offices.

SBA recently recompeted the VBOC program grants. We expressly included Reserve component members as part of the target for service delivery, and evaluated proposals for the VBOC program grants based in part on the applicant's ability to reach Reservists. In addition, SBA has enhanced its SCORE and the SBDC program by conducting specific outreach to Reservists who are self-employed members or small business owners. Finally, Entrepreneurial Development intake and data collection and reporting forms used in SBA's district offices have been updated to include questions on veterans, service-disabled veterans and Reserve and National Guard status of program participants. Data collection is an important method of measuring our success in achievement of our veterans outreach goals.

I would now like to discuss the 2 main parts of the proposed legislation, the expansion of the VBOC program and the establishment of the "Technical and Mentoring Assistance Committees." While SBA is grateful for the intent and supportive of the goals of these proposals, the Agency cannot support this legislation because it redirects resources from existing programs, which are designed to reach similar objectives.

This legislation requires SBA to expand the VBOC program by establishing a minimum of one center per geographic region. SBA does not believe this is the most efficient method to manage this program or to provide the required assistance to veteran entrepreneurs. SBA's current VBOC locations are chosen in part based on the population of veterans and reservists in the host state. Our current centers are in the four most populous states for veterans -- California, Florida, Texas and New York. We are also establishing a fifth center in Pennsylvania, our fifth most heavily veteran populated state. Establishing VBOCs based on geography instead of population may result in states with smaller veteran populations receiving centers before states with more significant veteran populations. Furthermore, SBA believes establishing a chain of new VBOCs will simply disperse small business expertise and dilute SBA resources. SBA believes the underlying intent of the bill, to provide additional information and outreach to businesses that would be affected by mobilization, is worthwhile. However, we are not supportive of the means sought to achieve that end.

SBA believes that utilizing pre-existing resources to achieve the objectives of this legislation would be a better use of taxpayer dollars and a faster, more efficient method of providing the services specified in the bill. SBDCs and SCORE already provide significant programs and services targeted at affected businesses. Our existing VBOCs provide additional technical assistance in the most veteran-population heavy states. Establishing new VBOCs based on geography is unnecessary and will create a competing, redundant organization.

The legislation also requires SBA to establish "Technical and Mentoring Assistance Committees (TMACs)" where no VBOC exists. The TMACs would be responsible for, among other things, recruiting local volunteers to serve as veterans business mentors. While we fully support the involvement of volunteer business counselors and mentors for veterans and Reservists and their families, this proposal is problematic from a budgetary perspective. In FY 2006, the Administrator may be required to establish TMACs in each of SBA's districts and to allocate \$20,000 per committee, which could cost more than \$1 million dollars annually.

SBA believes this proposal is unrealistic and unnecessary. Presently, SBA's district offices are authorized to establish local veterans' business mentors, and this is an effective service delivery approach. To mandate the involvement of private and public sector volunteers would be costly and duplicative.

In the 1980s, SBA managed a similar effort called the Veterans Business Resource Councils (VBRC). That approach was more flexible and depended on the local veterans' business community to organize their own community based committee. Using

those committees to assist and support outreach, training and seminars for veterans, the prior program served as a basis for our district office outreach program that is voluntary and relies on coordination between our district offices and the SBA's local resource partners, like SBDCs. We believe that this is a better model based on the local resources of veteran business owners.

This concludes my testimony; I welcome any questions you might have.

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TESTIMONY
OF
DR. JOHN D. WINKLER

DEPUTY ASSISTANT SECRETARY OF DEFENSE
RESERVE AFFAIRS
(MANPOWER AND PERSONNEL)

BEFORE THE
SUBCOMMITTEE ON REGULATORY REFORM AND OVERSIGHT
COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

10:00 AM
SEPTEMBER 29, 2005

ROOM 2360
RAYBURN HOUSE OFFICE BUILDING

FOR OFFICIAL USE ONLY
UNTIL RELEASED BY THE COMMITTEE

Dr. John D. Winkler

Deputy Assistant Secretary of Defense for Reserve Affairs Manpower and Personnel

John D. Winkler was appointed Deputy Assistant Secretary of Defense for Reserve Affairs (Manpower and Personnel) on August 6, 2001. He serves as the principal staff assistant and advisor to the Assistant Secretary of Defense for Reserve Affairs for all National Guard and Reserve manpower, personnel and compensation policies; including Reserve component manpower requirements and utilization, personnel programs and management, the official Reserve component personnel database and system, Reserve medical readiness and programs, and development of legislation affecting Guard and Reserve manpower, personnel and compensation.



While serving in Reserve Affairs, Dr. Winkler led the Department's QDR-mandated "Review of Comprehensive Review of Reserve Component Contributions to National Defense," which proposed new ideas for building force capabilities and for creating flexibility in management that can assist the Department in meeting its transformation goals. These included approaches for rebalancing active/reserve force mix, meeting requirements for emerging and traditional missions, and establishing a "continuum of service" and streamlined management practices for the Total Force.

Dr. Winkler was previously a Senior Behavioral Scientist at RAND and Associate Director of the Manpower and Training Program at the RAND Arroyo Center, a federally funded research and development center for the U.S. Army. As such, he managed and directed studies addressing personnel management, readiness and resources, individual and unit training, and the Army Reserve Components. He also served as the Arroyo Center's liaison officer, assisting the Director of the Arroyo Center and serving as the point of contact for the Army regarding research program development and execution and results of policy studies. He has authored and co-authored numerous RAND publications.

Dr. Winkler has a Ph.D. in Social Psychology from Harvard University and a B.A. (with honors) in Psychology and Anthropology from the University of Pennsylvania.

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to discuss with you the effects of reserve service on small business owners and the self employed.

To sustain our military, the Department must have programs and policies that support and encourage recruitment and retention among service members. We frequently speak of a triad of support programs: those for servicemembers, their families, and civilian employers. Individuals who serve in the Guard or Reserve must balance two careers—their full-time civilian career and their part-time military career. To make this work effectively and successfully, employers must be willing to support their employees who have made a commitment to serve our country in the National Guard or Reserve.

While the law provides certain job protections, we know we must offer more than the minimum the law provides if we are going to sustain a viable reserve force. We must work closely with employers since we share the same employees and we, as the federal government, impose certain requirements upon them. I would like to note that the support employers have provided over the past four years with the largest mobilization since the Korean War has been phenomenal. There are employers who have gone well beyond the basic requirements placed on them under the Uniformed Services Employment and Reemployment Rights Act of 1994.

We know that mobilizations are more apt to affect small businesses that employ reservists and reservists who are self employed. Larger companies may find it easier to absorb the absence of an employee, but they are not immune to the impact of mobilization depending on the position or functions the reservist-employee performs. However, the loss of a single employee from a small businesses and the sole proprietor is far more likely to have an immediate and significant impact on the business.

With employers in mind, DoD has taken steps to help mitigate the effects of mobilization on employers. First, the Department established and enforces policies calling for judicious and prudent use of the Guard and Reserve. We have placed limits on the frequency and duration of mobilization. Finally, we established a policy to provide employers with as much advanced notice of a pending mobilization as possible, with a goal of providing notice at least 30 days in advance. These policies are part of a larger strategic goal of providing as much predictability as possible. Early notice and predictable terms of activation will help employers develop more effective and cost efficient plans to accommodate the absence of a reservist-employee.

The Department is also developing information on the make up of the reserve force with respect to their civilian employment. The most recent, comprehensive survey information we have is found in the 2000 Survey of Reserve Component Personnel. The survey results show 59 percent of reservists work in the private sector; 32 percent work in the public sector; six percent are self employed and five percent work in a family business. (Note that this exceeds 100 percent due to rounding and the possibility of reservists working multiple jobs.) The private sector segment is further refined by the number of employees. Seventeen percent of reservists reported working for a company that employs fewer than 100 employees. When combined with self employed, one quarter of the reserve force either has an employer who may face a serious problem if the employee is mobilized or a sole proprietor who must make some difficult choices.

But we don't want to rely solely on survey data. The Department's first comprehensive effort to collect empirical information on employers of reservists began in September 2001 when the Civilian Employer Information (CEI) database started as a voluntary program. When it became apparent that we were not getting the desired results with a voluntary

program, the Under Secretary of Defense for Personnel and Readiness mandated that reservists report civilian employer information. Now, with 77 percent of reservists having reported information on their civilian employers to this point, we are having the CEI database analyzed to obtain a more detailed understanding of reservists' civilian occupations and the types of employers for which they work.

The CEI database has several purposes. First, it will now enable us to focus our employer outreach programs required by section 4333 of title 10 USC, on those employers who actually have reservist-employees. Next, it allows us to make more informed decisions about mobilization as required by section 12302(b) of title 10 USC Code. Finally and most importantly for the purposes of this committee, it will enable us to direct our research efforts in identifying programs or initiatives that would be the most effective in helping civilian employers and the self employed cope with an absence because of military service.

We did not wait for the CEI data to begin our research efforts on the effects of activation on employers. Research began in 2002 with a project conducted by the Institute for Defense Analyses (IDA). Although IDA noted the absence of statistical data which precluded a systematic evaluation of the effects on mobilization, it did use survey information and other administrative data as well as conducted interviews—the same methods used by the Congressional Budget Office (CBO) in preparing its May 2005 paper titled *The Effects of Reserve Call-Ups on Civilian Employers*. IDA did make several recommendations, which included establishing mandatory reporting of civilian employer information (which has been done) and conducting a survey of employers to help identify their most pressing issues and

needs. We are continuing our research effort with IDA who will analyze the CEI data and the survey results to make further recommendations.

We are also developing a much closer relationship with the Small Business Administration. We believe that by working collaboratively, we will be able to improve upon the programs designed to assist reservist-employer that were enacted in the Veterans Entrepreneurship and Small Business Development Act of 1999 and develop new approaches to assist small business owners and the self employed.

I have read the CBO's paper on the effects of reserve call-ups on civilian employers and I was briefed by the CBO staff on the findings and options. This paper is consistent with the approach DoD is taking to assess the impact of mobilization on employers and helps shed light on this issue. As noted in the paper, CBO relied on interviews and other techniques to determine the possible effects of activation. Based on the limited information available to them, CBO suggested legislative and policy options for mitigating costs of mobilization to employers.

- Compensating businesses through tax credits or direct payments
- Subsidizing loans to employers
- Providing or subsidizing call-up insurance for businesses
- Exempting certain reservists from mobilization

There have been a number of bills introduced this year (and in previous years) to provide a tax credit to employer who continue to pay some or all of a mobilized employee's salary or wages—one of the possibilities in the first options. Other bills have also included a tax credit to help offset the cost of temporarily replacing a mobilized reservist. The Department of Defense has deferred to the Department of Treasury as amendments to the tax code are under the purview of that Department. However, CBO also suggests direct payments which would more than likely be made by DoD—an alternative presented in the first option. The next two options suggested also involve some form of subsidy from the federal government. CBO suggests that these approaches could be used as a forcing function for DoD to possibly recruit reservists employed in business where the cost of providing subsidies would be smaller.

The Department believes further analysis is needed before any of these options are enacted. We need a much more detailed understanding of the economic and other impacts of mobilization on employers to design cost-effective programs. Our research efforts are targeted at those issues.

I would like to comment directly on the CBO recommendation to exempt certain employees from mobilization. The Department would not support this recommendation. Essentially, we would have reservists in the force that we would not be able to employ. It is unwise and wasteful to spend tax payer money to train someone who cannot be activated. This is contrary to the very purpose of having a reserve component.

Regarding the draft of the "Entrepreneur Soldiers Empowerment Act," the Department would defer to the Small Business Administration as the agency responsible for implementation.

As our research efforts begin yielding insights into various options that could help employers, we would like to work with the committee to develop well thought out legislation, if that is required, so we are able to wisely apply taxpayer dollars to programs that will produce results.

I would again like to thank the Committee and its staff for all of your efforts on behalf of our servicemembers. The Department of Defense appreciates this opportunity to discuss these important matters with you.

CBO TESTIMONY

Statement of
Douglas Holtz-Eakin
Director

How Reserve Call-Ups Affect Civilian Employers

before the
Subcommittee on Regulatory Reform and Oversight
Committee on Small Business
U.S. House of Representatives

September 29, 2005

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Chairman Akin and Members of the Subcommittee, thank you for inviting me to discuss the Congressional Budget Office's (CBO's) recent analysis of the effects of reserve call-ups on civilian employers. The military reserves provide trained service members and units that are available for active military duty during peacetime and war.¹ Over the past decade, the Department of Defense (DoD) has dramatically increased its reliance on the reserve forces, particularly since the terrorist attacks of September 11, 2001. The reserves are integral to current operations—of service members deployed in November 2004 in Iraq and Afghanistan, about 33 percent were reservists—and DoD foresees continued reliance on them. (Throughout my testimony, “reserves” refers to the individual services’ National Guard and reserve components: the Air Force Reserve, the Air National Guard, the Army Reserve, the Army National Guard, the Coast Guard Reserve, the Marine Corps Reserve, and the Navy Reserve.)

Yet many reservists, when they joined the military, probably did not anticipate the increased frequency and duration of the activations that have occurred during the past several years and may be finding those mobilizations more disruptive than they might have expected.² To alleviate difficulties with call-ups, the Congress has enacted legislation to provide civil and employment protections and financial relief. The Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA), the primary legislation governing service members’ employment rights, guarantees the right of reservists to be reemployed by their civilian employer after serving on active duty, prohibits employers from discriminating against individuals in any aspect of employment because of their service in the reserves, and mandates some continuation of benefits to reservists who have been activated.³ By ensuring that people who are interested in military service can retain their jobs and participate in the reserve forces without fear of reprisal by their civilian employers, those provisions may also aid DoD in its recruiting and retention efforts.

The increased pace of reservist activations has focused attention on how call-ups affect the civilian employers of reservists, including reservists who are self-employed. Yet there is little information about the type and magnitude of the disruption that firms experience when their reservist employees or reservist owners

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1. See 10 U.S.C. §10102, added by Pub. L. 103-337, Div. A, Title XVI, Subtitle C, § 1661(a)(1), 108 Stat. 2970, and most recently amended by the Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005, Pub. L. 108-375 §511, 118 Stat. 1877.
 2. Although in some contexts the terms “mobilization,” “activation,” and “call-up” may have different meanings, they are used interchangeably in this testimony.
 3. Codified at 38 U.S.C. § 4301-4333 (2000), as most recently amended by the Veterans Benefits Improvement Act of 2004, Pub. L. 108-454, § 201-204, 118 Stat. 3606. The protections of USERRA do not apply to self-employed reservists or reservist business owners, terms that are used synonymously here to refer to both incorporated and unincorporated businesses owned by reservists.

are activated. As a result, the impact of call-ups on businesses has not been systematically examined.

The Congressional Budget Office (CBO) examined the combined effects of reservists' activations and federal job protections on civilian employers in its recent report *The Effects of Reserve Call-Ups on Civilian Employers*, published in May of this year. That report also addressed the question of financial losses among self-employed reservists, a group that some people maintain deserve special assistance because they may have experienced particularly negative effects from the recent rise in activations. For its recent analysis, CBO used survey information collected by the Departments of Defense and Labor and by other organizations; it also interviewed reservists, manpower experts, business and reserve associations, and others. Although such data are limited and any conclusions drawn from them cannot be generalized to all employers, they provide insight into the problems that some employers are confronting.

CBO's Findings

CBO's analysis revealed that most employers are unaffected by the activation of reservists. Only about 6 percent of business establishments employ reservists, and fewer than half a percent of self-employed people are in the reserves. Among firms with reservist employees and owners, substantial variation is seen in their ability to adjust to a reservist's call-up. Activations create vacancies that firms would not otherwise have had. Some businesses may absorb the loss of personnel at little cost, but others may experience slowdowns in production, lost sales, or additional expenses as they attempt to compensate for a reservist's absence. A smaller number yet may find that they are unable to operate for lengthy periods—or at all—without their reservist and may experience financial losses or insolvency. Such problems are likely to be more severe for:

- Small businesses that lose essential (key) employees;
- Businesses that require workers with highly specialized skills; and
- Self-employed reservists.

Small businesses (generally those with fewer than 100 employees) employ about 18 percent of all reservists who hold civilian jobs; businesses with fewer than 500 employees and self-employed reservists employ about 35 percent. But there are no precise data on the number of reservists who are key employees or who have highly specialized skills. On the basis of survey information about reservists' civilian occupations, CBO estimates that out of the 860,000 reservists in the Selected Reserves (the primary source of reserve personnel), between 8,000 and 30,000 of them probably hold key positions in small businesses. In addition, about 55,000 reservists are self-employed. Considering that snapshot of reservists' employment, CBO expects that as many as 30,000 small businesses (0.6 percent of all such

firms) and 55,000 self-employed individuals (less than 0.5 percent of the self-employed) may be more severely affected than other reservist employers if their reservist employee or owner is activated.

In addition, CBO found that although USERRA provided employment protections to reservist employees, it might be exacerbating the difficulties that call-ups present for those individuals' employers. The legislation limits firms' flexibility in avoiding vacancies and imposes additional costs on some employers.

Options for Mitigating the Effects of Reservists' Activations

To help lessen the adverse effects of call-ups, two broad approaches are available: policymakers could enact legislation, or DoD could change its policies. Either approach, however, would require balancing a number of goals that sometimes conflict, such as providing reservists with a wide range of protected civilian employment, assisting DoD's efforts to recruit and retain the military personnel that it requires, minimizing the value of the labor resources being diverted from the civilian economy and improving DoD's allocation of personnel, and avoiding harm to small businesses. In its analysis, CBO considered several potential measures to mitigate the undesirable effects of call-ups, evaluating the measures in terms of those goals and their effects on DoD, reservists, and their employers. Options might include:

- Compensating businesses through tax credits or direct payments;
- Subsidizing loans to employers;
- Providing or subsidizing call-up insurance for businesses; or
- Exempting certain reservists from call-ups.

The first three options, depending on how they were structured, could advance the goals listed above, including that of maintaining the legislated employment protections that reservists now enjoy. The options would at least partially offset financial losses for firms that had reservist employees or owners who had been activated. In addition, the measures might increase employers' support for reservists' military service, which could in turn encourage more individuals to either join or remain in the reserves. Moreover, if mechanisms could be developed so that DoD faced more of the costs associated with call-ups, it would then be better able to evaluate the most cost-efficient mix of reserve and active-duty personnel. In particular, it might have an incentive to recruit civilians whose absence from their positions would pose less cost to employers and thus decrease any amounts DoD might pay in compensation.

The final option features a different mechanism from that of the others: it would reduce the number or frequency of call-ups rather than compensate employers for activations that had occurred. For example, DoD could exempt certain reservists or particular civilian positions from call-ups. Employers might benefit from that option, but if it was formulated too broadly, it might interfere with DoD's efforts to provide sufficient forces for war and other military contingencies. In addition, if call-ups were limited, reservists who were eager to serve and who wanted to be activated might be less satisfied with reserve service. By the same token, reservists who found the current levels of activation too high might be more satisfied.

All of the options would assist at least some of the businesses affected by call-ups. But none of the measures are likely to completely eliminate the problems that firms face. The rules that established which businesses were eligible for assistance and the extent of that aid would determine the degree to which a particular measure reduced the losses that some reservist employers and owners incurred from a call-up.

Another consideration is that the options entail either direct or indirect costs for the federal government and, consequently, for taxpayers. Even the fourth option, which calls for limiting certain reservists' call-ups, would entail indirect costs. Declaring some individuals ineligible for activation might impede DoD's ability to mobilize sufficient personnel and might discourage participation in the reserves. DoD would then need to use pecuniary or other incentives to attract additional people to reserve service.

The direct costs of compensating businesses through tax credits or direct payments, or by offering loans or insurance—the first three options—could be substantial, depending on how a measure was structured. The more targeted a remedy is, the more cost-effective the solution will be. That notion implies that any remuneration should be based on the actual loss that a firm experiences. However, calculating the decrease in profitability associated with call-ups may be virtually impossible. As CBO's interviews revealed, some business owners, even when they could quantify a change in profits, could not isolate how much of the decline was due to a reservist's activation and how much was due to other causes, such as a downturn in the economy, shifts in demand for the firm's products, or increased competition. Instead, the basis for compensating an employer's loss might be approximated. For example, the reservist's civilian salary or the costs of replacing the reservist could be used as measures of the firm's financial loss. Another approach would be to base compensation more broadly on the type or size of the business.



