



THE DEPARTMENT OF COMMERCE EMPOWERMENT

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December 27, 2008 (DRAFT)

The Department of Commerce's Mission (from Department of Commerce website)

The historic [and legal] mission of the Department is "to foster, promote, and develop the foreign and domestic commerce" of the United States. This has evolved, as a result of legislative and administrative additions, to encompass broadly the responsibility to foster, serve, and promote the Nation's (the US's) economic development and technological advancement. (emphasis added) In this regard, it should be noted that the department should and needs to work with the Small Business Administration as the SBA has as a mandate to support small businesses in the US.

Historical Legacy

This mission and its implementation was not an active challenge, an active necessity or an active process as long as the US was the world's economic and financial leader, albeit still true until recently but a much weakened one. It was also not necessary as long as there was full employment in the US, or what economists view as full employment, namely unemployment at 5% or less, which is viewed as necessary for a functioning and flexible workforce in an economy. The Department is the center for considerable data and information, which is a valuable resource, and has engaged in the promotion of US business overseas. But as the present economic situation can be described as critical with emergency needs, it is important that the Department more engagedly fulfills its mission.

Economic Challenge

With the financial and economic meltdown in the US and steadily overseas, the challenge in words is simple but in action is challenging: how do you get the economy moving again and as quickly as possible. What is necessary is obviously a stimulus package or traditional pump priming with investment in infrastructure and other comparable projects. This is clearly being approached and is to be instituted with President elect Obama's inauguration. But what is also needed is the establishment and creation of a self-sustaining growing economy with increased employment, as infrastructure projects are just that, namely projects, and are not necessarily self-sustaining. The obvious question is how does one get there? What does one do?

If one is honest, no one has the answer, or the complete answer, as the challenges are deeply rooted, sudden, extensive and broadly based. Financial engineering has been a mirage at best, with alienation of lender from borrower as financial instruments are simply commoditized and sold. This means that the banker and borrower no longer have any personal relationship. Manufacturing has been lost to a great degree overseas and we have lost the skills to produce things with our hands, certainly we do not respect that skill. (Leading business schools have about 19% of the student body from manufacturing companies.) Even engineering services are outsourced or more exactly off-shored. Services, for which the US is often the pioneer, are engaging nationals in the nations where services are being provided with the result that the US does not necessarily benefit from its own innovative ideas. Consultancies, for example, hire Chinese for China or at least train them.



Assuming the above, then one has to try a number of different paths, a number of different solutions, and act out of the box. One has to re-examine old concepts. Moreover one has to keep in mind that policy is one thing, implementation another. Thus the old caveat that the “devil is in the detail” must be borne in mind at all times.

Certain Overlooked Facts

1. The Department of Commerce is in concept the same as a Ministry of Economy as such a department/ministry is named in most nations. It is also sometimes called Ministry of Economy and Commerce and/or Industry. The Ministry of Economy is usually one of the most influential and powerful ministries in any nation, on par with Treasury or Finance and Foreign Affairs (State in the US). It is the ministry that seeks to promote, develop and grow a nation’s business. (It is too often dismissed as a chamber of commerce, with persons forgetting that business promotion is central to economic growth.) In the US, the concept of national business promotion is also there in respect of the Department of Commerce but the recognition of the importance of the concept or mandate is not. Simply put: the Department of Commerce needs to be the champion of all US business, as business brings prosperity and jobs. With the US hemorrhaging jobs, there is no alternative but to, among other things, look overseas to determine what an empowered Ministry of Commerce can and should do.
 - a. Having an influential Ministry of Economy is in keeping with free market and capitalistic principles as practices by nations as diverse as Germany, India and Japan testify.
 - i. The Ministry of Trade and Industry in Japan, its ministry of economy, is the poster child of such an influential and historically effective ministry, admittedly it failed at introducing innovation into businesses, which businesses in reality did themselves.
 - ii. The Ministry of Economy of Estonia, where I was a key advisor, was the prime mover into making Estonia the most successful economy of the ex-Soviet Union and the leading Baltic Tiger. In fact Estonia has one of the most dynamic economies of Europe/the EU, although now its challenge is to be more innovative.
 - iii. Having such an influential ministry that promotes a nation’s business does not conflict with international agreements or treaties such as WTO or with free trade agreements generally.
 1. France is a leading example of how a nation’s use or engagement of such a ministry is not only positive and not necessarily protective, although protective nationalistic.
 - a. My experience in Estonia and in other emerging nations led me to pioneer, already in 2000/1, a class at Stanford Business School entitled “Investment Climate in Emerging Markets.” It was to my knowledge the first class of its kind at any business school. This is a concept which has now caught on and has become accepted knowledge and is furthered by international institutions. Although the theory was developed in respect of emerging markets, the principles are the same (with adaption of course) for the US.
 - b. Lesson: One can learn from such foreign economic ministries to see what can and should be done to promote and grow a nation’s, here US, business. (More on this issue upon request.)
2. The mainstay of any economy is small and medium sized businesses (hereinafter small business), in short businesses that are not “too big to fail.” Some overlooked key facts are:
 - a. Small businesses are often family businesses, in other words businesses which are owner operated. Businesses where the owner managers have their own money at stake, in short where the owners take risk seriously as they have much to lose.
 - b. Small businesses are rooted in a neighborhood, a community, a town and state. In other words, small businesses must develop community skills to survive as they are judged by their own communities.
 - c. Small businesses do not move or relocate as they are community situated, based and located. In short, small businesses are the ballast/foundation of a community.



- d. Small businesses do not offshore as they keep jobs at home, in the community, in the US. “Businesses too big to fail” are always looking to reduce input costs, which is good for producing generally needed universal commodities at lower cost but not necessarily the specialized products needed. If one looks at Germany, the niche or specialized products are still produced in Germany and design and innovation is not off-shored, if anything needed foreign labor is, to the extent feasible, brought to Germany. Know-how is kept in Germany as German companies are community rooted.
- e. Small businesses have the personal touch in training people.
- f. Small businesses do not lobby, they do not speak up for themselves (to their disadvantage).
- g. Small businesses do not join industrial and service organizations (to their disadvantage).
- h. Small businesses do not make political contributions (to their disadvantage).
- i. Small businesses do not have the ear of public servants (to their disadvantage) as they are not united in their approach because they do not organize which is too costly and too time consuming for a small business.
- j. Small businesses have longer time horizon thinking, not short term or quarterly (monthly) thinking. Small businesses think permanent.
- k. Small businesses are the ballast of a society, of a nation.
- l. Challenges for small businesses:
 - i. Official administration: too many forms to fill out at local, state and national level.
 - ii. Too many different types of taxes to pay per too many different forms
 1. Learning i and ii: this takes time, effort and money.
Lesson: Need one size fits all approach (one stop shopping so to speak). As noted, the devil is in the detail. Information should be provided once by a business and thereafter the states and the federal authority should be required to communicate it across department lines.
 - iii. Discriminatory taxation, fees etc.
 1. Larger businesses get “subsidized” at the rate of 35% as each expense is worth so much as a deduction on the federal corporate income tax return, as well as additionally on a state corporate income tax return.
 2. Progressive valuation of expenses/deductions (namely if a business is not making considerably more than where the marginal income tax rate is 35%) handicaps small businesses, namely an expense is worth less as a deduction if the business earns less, obviously this negative progression impacts smaller businesses. This discourages entrepreneurialism/risk taking as the cost of starting a business is therefore increased as persons have to provide more of their own money. The system favors established businesses but not the creation of new businesses.
 3. Cost of health insurance and other types of insurance, which is a fact commonly known, is too expensive as large companies can negotiate better terms and rates. Cost of insurance for small businesses should be equal to a tax credit.
 4. Small businesses pay more (on a per employee, per capita, basis, etc) as fees for various registrations etc. than “too big to fail companies” as fees are frequently capped or decreased proportionally. Therefore small businesses are at a competitive disadvantage. Perhaps the larger a company, the more it should pay per capita. Or there should be a uniform per capita fee or another more equitable basis applied.
 5. It makes a difference for small businesses from a tax and filing point of view whether they are a partnership, corporation or unincorporated. Why should there be form over substance? Equal business activities should pay equal taxes and fees.



- m. The mainstay of the German economy, the largest exporter in the world, ahead of the US and China, has 75% of its businesses which are deemed small or mid-sized, often family owned companies. In short, small is beautiful.
- n. Lesson: small businesses need help, support (as they do not organize, officials need to be more creative in understanding and supporting their needs), need to be treated on an equal or equitable footing with larger “too big to fail businesses.” “Too big to fail businesses” when they fail, they really fail and need a bailout. And the treatment that should be provided is not just policy in general but the devil in the detail reform. Quantity (large) discount approach does not necessarily work in an age where businesses have become too big to fail.

3. Overlooked statistics. (from US census bureau)

| | # firms | # employees | payroll (\$1,000) |
|-------------------------------|-----------|-------------|-------------------|
| Firms with 1 to 4 employees | 2,777,680 | 5,844,637 | 165,904,564 |
| Firms with 5 to 9 employees | 1,043,448 | 6,852,769 | 195,519,100 |
| Firms with 10 to 19 employees | 632,682 | 8,499,681 | 257,802,789 |
| Firms with 20 to 99 employees | 526,355 | 20,642,614 | 670,418,442 |

More than 1/3 of all US employees, more than 40 million people, work in firms that employ less than 100 people. If such firms would employ 5% more workers that would be 2 million jobs, jobs that would not and cannot be outsourced to foreign nations. These jobs would be tied to and embedded in the community. Moreover, as there is increased unemployment, more people will seek to open up consultancies and small businesses, they need to be encouraged and supported and not discriminated against or overcome with forms, fees, taxes etc. People want to stand on their own two feet and the rules of the game must make this possible.

Revitalized Mission for Department of Commerce

Department of Commerce needs to create new revitalized policies for the US and make the US into a bedrock entrepreneurial nation, and not just a nation of aspiring IPOs (Initial public offerings) subject to the up and down impact of the stock market. It needs to support not just the “too big to fail companies” but the ballast of the nation that employs over 1/3 of the workforce as well as the next group, companies which employ less than 500 employees and compose another 15% of the workforce. In short businesses with less than 500 employees employ nearly half the workforce, a workforce that is not off-shored, cannot off-shore and are community based and oriented.

Department of Commerce should create, implement and manage whatever it takes to

- Support small and medium sized business with policy initiatives with detail (the devil is in the detail) that
 - Create one size fits all forms for small businesses to be used throughout the nation. Filling out multiple forms is a discouraging administrative challenge for companies that do not have administrative staffs. (Yes, states will also have to get on board for such a program.)
 - Fill out the forms for small businesses at nominal or no cost for the first few years of operations to lessen start up costs.
 - Equalize tax burden
 - Give tax credits rather than deductions (this can be the easiest way of equalizing the progressive value of deductions), with unlimited carry forward of unused credits, e.g. if there is an expense of \$1,000 it should be equal to the



- top corporate deduction of 35% which is \$350, which should then be applied as a credit against the taxes).
- Permit unlimited carry forward of small business losses –small businesses do not necessarily recoup their losses in 7 years, which is too short and encourages short term thinking--- and without requiring that you allocate a majority of your time to a business
 - Small business owners often try several businesses, including real estate businesses, simultaneously
 - Or prudently hold a part time job to make ends meet (there is too much concern that business activities are hobbies, a concept which needs to be rethought)
 - Equalize fee burdens for registrations for small and big businesses
 - Equalize time burden for small and big businesses
 - The list goes on.
 - Learn from (by adapting) German export model for small and medium sized businesses (most of the US exports are by large Fortune 1,000 companies, which are also the largest offshorers), admittedly the German market is smaller so US companies can better balance the US domestic market with exports
 - Free, active and engaged consultancy in pointing up opportunities overseas
 - In short the Department should be a no-cost small business export promotion agency and consultancy---and more exports will help the dollar.
 - The Department needs to seek out businesses that can export and not just let businesses react--- the reason is that many small businesses do not yet have a global mind set as they think overseas is too difficult.
 - Overseas should not just mean Mexico and Canada
 - Change/expand the mindset of small businesses by making them global
 - Give tax credits to officially organized overseas business promotion trip expenses
 - Yes, the tax system must be used as an incentive and not as a disincentive to promote US exports of goods and services
 - US schools/universities are a service that could be promoted and expanded.
 - Expand minority business support to an all/universal small/medium business support –this type of work is done to great degree by the SBA, but needs to be made universally applicable and to a greater extent. In addition, this work must be streamlined and the use of middlemen should be curtailed or their fees limited for advising on small business government loans or guarantees. If the government is your partner, then you should not need a middleman to understand what the government offers.
 - Follow the example of post war Germany –we are in critical economic period, of course not like that of post war Germany, but lessons can be learned --- and create a national small business/development bank (the SBA now serves only as guarantor of bank loans, which process should be streamlined so that banks share the gains they make by using small business loans (SBA guarantees). This will also require a massive advertising and public relations effort. Such a bank would have its best people focus not on the easier “too big to fail companies” but on the bread and butter companies of the US. The US needs a small business development bank on par with that of post war Europe which kicked started business again---yes we are in an emergency and need to support the ballast of the US, the real entrepreneurial sector, small business.

Conclusion

In short, the Department of Commerce needs to become that which is stated in its legal mission: a promoter of domestic and foreign commerce, and national economic developer, for the US. This requires a focus on devil in detail issues (not just the broad picture), a rethinking of existing programs and



requirements (again especially the detail) and the creation of a global mindset with a special focus on the needs of the overlooked US rooted companies, the small and medium sized companies.

The Department should be able to support small and medium sized businesses without being accused of doing the business of private industry, which charges small businesses more as the perceived risks are higher. In fact small businesses are smaller and better credit risks especially if the loans are kept by the granting banker and not resold ---in short where there is personal contact.

Admittedly the SBA, the Small Business Administration, which should separate its relief/disaster work from its develop or small business work, which are not the same in purpose, scope or needs, and the Department of Commerce, need to work together and act in a unified fashion. The Department of Commerce has the international and global reach and cabinet status and SBA has local expertise but not necessarily the expansiveness or the reach, let alone the stature of a cabinet department. The reason is simple: small businesses have been given lip service support, or have been viewed only through the eyes of the poorer part of our society, and not as a necessary mainstay, foundation or ballast of the US society and have not been given real policy support and institutional support, let alone educational support. The theme of "small is beautiful" needs to be applied to business.

One challenge is that the Department and SBA have been prohibited in fact, if not in law, from competing with the private sector. At least in these emergency times, the US must follow the example of nations overseas in real public private partnerships where the ministry of economy is an important national champion. The goal should be nothing less than the creation of a land of entrepreneurs, with global thinking, and with the Department of Commerce as a marketing/distribution arm of half of the economy -- of course it does not have to, and should not, neglect the other half, but larger companies have independent capabilities. Small businesses are composed of people close to the ground and they are the real micro-implementers of macroeconomic policies, which policies have too often focused on the too big to fail companies and not on the day-to-day needs of small US based and rooted companies. It needs to be kept in mind that policy is 5% genius and 95% hard detailed work--- a policy is only as good as its implementation. In short the focus of the American economy must be broadened to include the needs of non-Fortune type companies. If all small businesses, those with a work force under 500 increased their employment number 5%, that alone would be 2,500,000 to 3,000,000 jobs. Admittedly it is not so easy, but small businesses see opportunity faster than large companies with higher overhead, more administration, and more levels of decision makers. Thus it is easier and faster for a small company to add one or two persons than for a large company to approve hiring 50 people. But this will only become reality if the cost person for a small company is the same as for a large company and this requires, among other things, equalizing the tax impact (see above re deductions and credits.)

The Department of Commerce needs to reorient and become more engaged --and it must be given the resources to do so-- in order to champion all US businesses, including small businesses. And the Department needs to become an active official champion of US business.



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In the early '80s, Radon founded *Radon and Ishizumi*, an international law firm representing international corporations and foreign public entities. From 1999 to 2007, Radon was one of the Executors/Trustees of Vetter Pharma, a privately-held German pharmaceutical company, the world leader in the production of aseptic systems, for which he now serves as counsel. In 1980, Radon co-founded the Afghanistan Relief Committee that supported refugees displaced during the Afghan-Soviet war and freedom for Afghanistan. Advisor during Estonia's independence struggle, Radon co-authored the country's foreign investment, mortgage/pledge, privatization and corporate laws and was an architect of Estonia's privatization. In 1990 he was the first to officially raise the U.S. flag in Estonia since the 1940 Soviet invasion and was awarded the Medal of Distinction of the Estonian Chamber of Commerce. Radon was Georgia's key foreign advisor and negotiator of the multi-billion dollar oil and gas pipelines from Azerbaijan through Georgia to Turkey (the BTC), featured in the James Bond movie, "The World is Not Enough". In 2000, he was awarded Georgia's highest civilian award, the Order of Honor.

Radon has written numerous articles including "Getting Human Rights Right," Stanford Social Innovation Journal (December, 2007); "How To Negotiate Your Oil Agreement," in *Escaping the Resource Curse*, ed. Macartan Humphreys, Jeffrey Sachs and Joseph Stiglitz (Columbia University Press, June 2007); "Ethics in Business (MBA) Education - A New Must," International Management Development Research Yearbook, "Technology, Structure, Environment, And Strategy Interfaces In A Changing Global Business Arena" (June 2006); "Sleepless, Clueless, Dangerous," in *Ergo-Med* (Haefel Verlag, Germany, March 2006); *The New Mantra: Bribers Beware!* "The Journal for Transnational Management (Vol.11, No.4, 2006); "Hear No Evil, Speak No Evil, See No Evil" *Spells Complicity*, (UN) Compact Quarterly (Volume 2005, Issue 2), published by the (United Nations) Global Compact. Radon obtained his B.A. from Columbia University, a M.C.P. from the University of California, Berkeley and a J.D. from Stanford Law School.