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4 5 N K ngsworth St ,
P O Box 5455, Port and, OR 97228
Te ephone (503) 285-5555
E-ma : **info@theskanner.com**
Wor d W de Web s te:
http://www.theskanner.com
Fax: **(503) 285-2900**

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Why Credit Access is Critical to Recovery

International Franchise

Steve Caldeira & Chad Moutray

Most Americans understand that small businesses — not massive corporations — generate most new U.S. jobs. And when these enterprises hurt, they likewise lose jobs in similar proportions.

As influential financial analyst Meredith Whitney observed last May, "Small businesses created 64 percent of new jobs over the past 15 years, but they have cut five million jobs since the onset of this credit crisis. Large businesses, by comparison, have shed three million jobs in the past two years."

Like Whitney, the National Small Business Association believes the situation is dire. NSBA's 2010 Year-End Economic Report found that "fully one-third (36 percent) — which translates into more than 10 million — of the nation's small businesses are not able to get adequate financing." Consequently, the NSBA added, "small-business owners continue to be financially stymied and unable to grow their business, thereby restricting their ability to create jobs."

The Milken Institute's Managing Economist, Kevin Klowden, on March 21 lamented "the bleakest hiring outlook since early 2008."

While the entire small-business sector gasps for credit — the oxygen of free enterprise — the situation is both troubling and promising for franchisees.

Consider 7-Eleven. Franchisees run some 5,000 of the company's 6,100 U.S. outlets. They, in turn, are part of a worldwide, 36,000-store network that produced $58.9 billion in sales in 2009.

From 2001 to 2005, before the Great Recession began, franchised small businesses populated one of America's most rapidly growing sectors. Their direct economic output expanded by more than 40 percent versus only 26 percent for other businesses. In those years, the franchising industry created jobs at more than three times the rate of other non-franchised business segments. All told, more than 825,000 franchise small businesses in 300 different industrial sectors yielded $2.1 trillion (with a T) in direct and indirect economic output. Franchisees also created one of every eight non-farm, private-sector jobs in America.

This solid record shows that, with sufficient access to capital and a stable public-policy and regulatory environment, franchised small business can be a job-creating locomotive that pulls the rest of the economy forward.

But, once again, the recurring problem is a lack of coal to shovel into that mighty engine's boiler. In a recent survey, fully 55 percent of the International Franchise Association's members called themselves "moderately" or "significantly" affected by tight credit. This stunts their growth. While 2011's stronger overall economic outlook encourages franchisors and franchisees, a lingering lack of credit sinks their spirits and smothers a broader recovery.

> ... the recurring problem is a lack of coal to shovel into that mighty engine's boiler

For their part, lenders have their own cows on the tracks. Banks face sharp declines in the value of their borrowers' collateral. A much more rigid regulatory environment has bankers looking over their shoulders like never before. Meanwhile, the unemployment rate has hovered near 10 percent, limiting the income that the jobless otherwise would deposit in banks and lowering their demand for lucrative banking services. Many banks' business customers have watched sales volumes slide, forcing them to live with lower profits, if any.

The Obama Administration, to its credit, recognizes the importance of credit for small firms. Thus, Small Business Administration chief Karen Mills has worked to raise federal guarantees on SBA loans to 90 percent. She has reduced or eliminated fees on such loans and lifted the maximum amount that a business may borrow from $2 million to $5 million. Meanwhile, the U.S. Treasury has shown a flash of creativity with a new plan to spur state-level lending to small businesses.

To find even more solutions to these problems, the International Franchise Association, in cooperation with the National Association of Government Guaranteed Lenders, the Consumer Bankers Association, the National Restaurant Association, and other leaders from the financial and small business communities recently convened at a Small Business Lending Summit in Washington, D.C.

Participants — including entrepreneurs, financiers, and regulators — discussed the establishment of a franchise registry that would streamline loan approvals and provide a pipeline of qualified borrowers, eager to be financed.

All of us - including franchisees, franchisors, lenders, policymakers, and taxpayers - have a stake in igniting the economy by giving entrepreneurs the tools to create jobs and grow. Small business franchising can contribute the missing spark.

Steve Caldeira is the president and CEO of the International Franchise Association (IFA). Chad Moutray, a former chief economist of the U.S. Small Business Administration's Office of Advocacy, serves as a senior advisor to the IFA.

Human Deficit Looms in Wake of Budget-Cuts

Enterprise

Riane Eisler & Rene Redwood

A financial debt can be paid back. But the debt we'll owe our children if investments in health, nutrition and education are slashed is irreparable. Investment in human infrastructure – providing the human capacity development for optimal economic productivity and innovation through both government and business investments – is essential for success in the post-industrial economy, and this should be our policymakers' guiding economic principle.

It's up to us to ask the hard questions: Why are we being told we can't raise taxes on the rich, but must cut wages for teachers, nurses, child-care workers and others on whom our future depends? There is no evidence that lower taxes on corporations and millionaires "raise all boats," or that massive cuts in social services have ever helped people in developing nations rise from poverty. The opposite is true. It is countries like Canada, Sweden, New Zealand and Finland that have made commitments to caring for future generations that have risen from poverty to prosperity. And today nations such as Brazil, South Korea, and other "emerging advanced economies" are heavily investing in their people.

Why are we told that cutting social programs is the road to prosperity, when our past prosperity was the result of the very opposite?

At the beginning of the 20th century, the United States was what we today call a "developing country." Except for the super-rich, our general living standard was abysmal: child and general mortality rates were extremely high, as was poverty. Then we invested in prenatal and child health care such as vaccines; abolished child labor; mandated not only primary, but also secondary public education; and promoted college education through the GI Bill for returning soldiers. These kinds of government expenditures, along with Social Security, Medicare, Head Start and other government programs to care for and educate our people had a huge return on investment for our people and nation.

Today, largely as a result of retrenching in such public expenditures, the U.S. has higher child mortality, maternal mortality and poverty rates than any other developed nation. According to a 2007 UNICEF study, the U.S. ranked 24th of 25 developed countries with children living below the national poverty level. By comparison, the Netherlands, Sweden, Denmark, Finland and Spain topped the list. The U.S. Census Bureau estimates that poverty afflicts roughly one in six American children—some 13 million youths, a figure that's expected to rise as poverty trends continue to soar.

> 'Our priorities should be exactly what the 'deficit hawks' are putting on the chopping block'

In 2009, more than 4.4 million single mothers earned wages below the national poverty level and were barely able to supply their children with basic needs. That number of women had increased 6.7 percent compared to the previous year, according to census figures. The kinds of cuts now proposed — especially cuts to programs to help impoverished families with children — will push us down even further.

By contrast, investing in education, health care, child-care and eldercare drastically reduces unemployment, poverty, public assistance, spending on prisons — and at the same time provides a trained work force and higher tax base. According to a recent NBC/Wall Street Journal poll, 37 percent of Americans believe job creation/economic growth is our nation's No. 1 issue, and only 22 percent named the deficit/government spending as the top. What's more, while Americans find some budget cuts acceptable; they adamantly oppose cuts in Medicaid, Medicare, Social Security and K-12 education.

That's because most of us know that our most important assets are our people. If we don't invest in human infrastructure, we cannot be economically successful.

We urgently need a realistic long-term perspective on how national and state deficits are calculated. The human capital deficit created by cutting social programs will be irreparable.

There's an old saying that an ounce of prevention is worth a pound of cure. Our priorities should be exactly what the "deficit hawks" are putting on the chopping block. Cutting those programs is criminal behavior, not sound policy.

Riane Eisler is president of the Center for Partnership Studies (www.partnershipway.org) and author of The Real Wealth of Nations and The Chalice & the Blade. Rene Redwood is CEO of Redwood Enterprise in Washington, D.C. (www.redwood-enterprise.com).