

July 27, 2020

The Honorable Nancy Pelosi
Speaker, U.S. House of Representatives

The Honorable Mitch McConnell
Majority Leader, U.S. Senate

The Honorable Kevin McCarthy
Minority Leader, U.S. House of Representatives

The Honorable Charles Schumer
Minority Leader, U.S. Senate

Dear Speaker Pelosi and Leaders McConnell, Schumer, and McCarthy,

The COVID-19 pandemic sparked an economic crisis the likes of which the United States has never experienced before, and which we hope will never experience again. Many lives, incomes, and businesses have been lost or disrupted, demanding swift and unprecedented action to merely keep the economy afloat. Yet as Congress debates the next phase of relief legislation, we are encouraged to see a series of reforms to the Small Business Administration (SBA) that look beyond short-term relief, and which set the stage for a robust Main Street recovery.

Since its creation in 1953, the SBA has supported small business development as a core component to the health and dynamism of the U.S. economy. The Small Business Investment Company (SBIC) program, in particular, has expanded access to capital for tens of thousands of innovative small businesses across the country, by helping nudge private investment into the likes of Apple when it was still a fledgling computer startup.

The *Continuing Small Business Recovery and Paycheck Protection Program Act* before Congress would establish a \$10 billion capital facility at the SBA, designed to match SBIC-led investments in small businesses that suffered substantial declines in revenue due to COVID-19, but which have strong prospects of rebounding given adequate investment. While many small business bankruptcies may be unavoidable, the same facility will help propel new business formation in low-income census tracts and within our domestic manufacturing supply-chain,ⁱ promoting sustainable, high-wage job growth across the country,ⁱⁱ including in many of our hardest-hit Black and Brown communities.ⁱⁱⁱ

Importantly, the legislation makes long-overdue modernizations to the SBIC application process itself, allowing the Administrator to approve new investment funds quickly, while prohibiting “buyout” strategies that merely scavenge what assets struggling businesses have left. SBICs would be further required to return a share of their profits back to the SBA capital facility, both

protecting the SBA from losses and allowing on-going investments to be supported at no cost to taxpayers.^{iv}

Before this crisis hit, the rate of new business formation was already at an unprecedented low, having never fully recovered from the Great Recession.^v This slowed the pace of the previous recovery, as fast-growing small businesses drive the rate of overall employment growth.^{vi} Coming out of this crisis, we cannot afford to let thousands of small businesses fail while new business formation only steepens its decline.^{vii} We therefore urge you, as a diverse group of experts in innovation and economic development policy from across the political spectrum, to support these reforms in the final relief package, and empower American entrepreneurship to not just lead the recovery, but to help build a stronger and more resilient economy along the way.

Sincerely,

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ⁱ David Adler, “Financing Advanced Manufacturing: Why VCs Aren’t the Answer,” *American Affairs* 3, no. 2 (Summer 2019). <https://americanaffairsjournal.org/2019/05/financing-advanced-manufacturing-why-vc-arent-the-answer/>

ⁱⁱ Mark Muro, June 26, 2019. “How the Small Businesses Investment Company Program can better support America’s advanced industries,” Testimony Submitted to the U.S. Senate Committee on Small Business & Entrepreneurship, *Brookings Institution*. <https://www.brookings.edu/testimonies/how-the-small-businesses-investment-company-program-can-better-support-americas-advanced-industries/>

ⁱⁱⁱ Senator Marco Rubio, May 27, 2020. “Deindustrialization, racial discrimination, and the case for common good capitalism,” *Medium*. <https://medium.com/@SenatorMarcoRubio/deindustrialization-racial-discrimination-and-the-case-for-common-good-capitalism-dafabef958e2>

^{iv} Samuel Hammond, 2019. “Bring the Small Business Administration into the 21st century.” *Struggling Regions Initiative*. <https://www.strugglingregions.com/small-business>

^v Economic Innovation Group, 2017. “Dynamism in Retreat: Consequences for Regions, Markets, and Workers,” *EIG*. <https://eig.org/dynamism>

^{vi} SBA, April 15, 2018. “Small Businesses Drive Job Growth in the U.S.” *SBA.gov*. <https://www.sba.gov/advocacy/small-businesses-drive-job-growth-us>

^{vii} Lucia Mutikani, April 16, 2020. “U.S. business formation tanks as coronavirus shuts economy,” *Reuters*. <https://www.reuters.com/article/us-usa-economy-businessformation/u-s-business-formation-tanks-as-coronavirus-shuts-economy-idUSKBN21Y35L>