

July 10, 2019

Dear Senators,

As Congress begins considering the first reauthorization of the *Small Business Act* in nearly two decades, we are encouraged to see bipartisan support for reforms that will bring the Small Business Administration (SBA) into the twenty-first century.

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. New business formation makes our economy stronger, boosts competition, and creates good jobs for American workers. Yet for that very reason, we are deeply concerned by the sharp decline in U.S. business dynamism observed over the last three decades.¹ The rate of new business formation is at an unprecedented low, while the role of small businesses in job creation has suffered in particular due to the disappearance of young, high-growth firms.²

There are many forces behind the decline in U.S. small business dynamism, but high among them is underinvestment in the industries of the future amid a period of intensifying global competition.³ The United States cannot afford to lose its entrepreneurial edge to anti-democratic, mercantilist competitors like China. We therefore urge you to support the modernization of the SBA with reforms that address high-growth business formation directly. Doing so will not only help jumpstart U.S. productivity growth, competitiveness and job creation, but also create opportunities for struggling communities throughout the country.⁴

Support Export Industries

Businesses that export are consistently more productive than businesses that don't. Research suggests this is in part because the intensity of international competition forces export-oriented firms to invest in their workers and production processes.⁵ We therefore support Congress in consolidating the SBA's duplicative and under-utilized export programs into a single streamlined and improved program. We also strongly support the focus on high value-added manufacturing industries that seek to scale-up and export, and applaud the innovative use of benchmarks to enforce accountability.

Expand Patient Capital

Small Business Investment Companies (SBICs) were early investors in many businesses that are now household names. But by helping catalyze America's private venture capital (VC) industry, SBICs have become partial victims of their own success. In addition to reducing overhead and

red-tape in the SBIC program, the proposed legislation ensures that SBICs fill genuine institutional gaps in patient capital, whether for underserved regions, or for capital-intensive industries like advanced manufacturing that the private VC industry has largely been unwilling to take on.⁶

Strengthen Commercialization Pathways

The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs are vital for small businesses engaged in research and development of new technologies. This legislation rightly builds on this success by making SBIR and STTR permanent, streamlining award timelines, and making it easier for small business contractors and awardees to raise capital, grow their businesses, and transform new technologies into commercial products and services.⁷

Combined with a broader modernization, the above reforms will help breathe new life into the SBA's mission and ensure American small businesses continue to thrive in the global marketplace. For this reason, we urge you to support the *Small Business Act's* reauthorization, and help spawn a new generation of innovative entrepreneurs.

Sincerely,

Samuel Hammond
Director of Poverty and Welfare Policy
Niskanen Center

Robert D. Atkinson, Ph.D.
President
Information Technology and Innovation Foundation

Dani Rodrik
Ford Foundation Professor of International Political Economy
John F. Kennedy School of Government
Harvard University[†]

John W. Lettieri
Co-founder and President
Economic Innovation Group

John Dearie
Founder and President
Center for American Entrepreneurship

Carrie Hines
President & CEO
American Small Manufacturers Coalition

Sridhar Kota
Executive Director
MForesight: Alliance for Manufacturing Foresight

Oren Cass
Senior Fellow
Manhattan Institute[†]

Mark Muro
Senior Fellow and Policy Director
Metropolitan Policy Program
Brookings Institution[†]

Andrew Stettner
Senior Fellow
The Century Foundation[†]

David Adler
Co-editor of “The Prosperity Puzzle: Restoring Economic Dynamism”
XA Investments[†]

¹ Economic Innovation Group, 2017. “Dynamism in Retreat: Consequences for Regions, Markets, and Workers,” EIG. <https://eig.org/dynamism>

² Decker, Haltiwanger, Jarmin and Miranda, 2016. “Where has all the skewness gone? The decline in high-growth (young) firms in the US,” European Economic Review 86: 4–23. <https://www.sciencedirect.com/science/article/pii/S0014292116300125>

³ Thomas P. Griffin, 2018. “Globalization and U.S. Industry Concentration,” SSRN Electronic Journal. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3287328

⁴ Samuel Hammond, 2019. “Bring the Small Business Administration into the 21st century,” Struggling Regions Initiative. <https://www.strugglingregions.com/small-business>

⁵ Andrew Batson, “Rediscovering the importance of export discipline,” April 2019. <https://andrewbatson.com/2019/04/09/rediscovering-the-importance-of-export-discipline/>

[†] Affiliations for identification purposes only.

⁶ 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-vcs-arent-the-answer/>

⁷ Stephen Ezell, “Testimony Before the Senate Small Business and Entrepreneurship Committee on Reauthorizing SBA’s Innovation Programs,” ITIF, May 2019. <https://itif.org/publications/2019/05/15/testimony-senate-small-business-and-entrepreneurship-committee-reauthorizing>