REVERSING THE ENTREPRENEURSHIP DECLINE

HEARING

BEFORE THE

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HOUSE OF REPRESENTATIVES

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CONTENTS

OPENING STATEMENTS

WITNESSES

APPENDIX

REVERSING ENTREPRENEURSHIP DECLINE

WEDNESDAY, JULY 19, 2017

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 11:00 a.m., in Room 2360, Rayburn House Office Building, Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Luetkemeyer, Radewagen, Knight, Kelly, Blum, Bacon, Fitzpatrick, Marshall, Norman, Velázquez, Murphy, Lawson, Clarke, Adams, Espaillat, and Schneider.

Chairman CHABOT. Good morning. The Committee will come to order.

We appreciate the panel being here, and I will be brief in my opening remarks so we can get the testimony.

Last month, the national unemployment rate was down to 4.4 percent, and the stock market continues to rise, setting new highs almost daily. But amid these encouraging statistics, the American economy continues to grow at only half its historic average. A slower economy means lower growth and wages for American workers, a higher national debt, and makes it harder for Americans to achieve the American dream.

Just last week, the administration acknowledged the need for faster economic growth through their MAGAnomics plan, a term I am told was coined by our former colleague and new OMB director, Mick Mulvaney. I look forward to continue working with the administration on their priorities of regulation and tax reform to grow the economy.

One group that should benefit from these reforms are new and small businesses, as they are the main engines of economic growth. They create the majority of our nation's jobs and spur innovation. However, since the great recession, there has been a significant decline in entrepreneurship, which may in part explain the slow economic growth experienced in American today.

With last week marking Major League Baseball's All-Star Game, the Committee has put together its own group of small business and entrepreneurship all-stars to testify this morning. By listening to solutions that can be made by the federal government, universities, and the private sector, we can all work together to ensure America remains the most innovative and entrepreneurial country in the world.

We appreciate the testimony of the witnesses today. As some members may be aware, originally, I had Larry Kudlow also on the panel, and unfortunately, he informed us yesterday he was unable to make it today. So he will not be here. But we have three great witnesses we will turn to shortly.

And I would now like to yield to the Ranking Member for an opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. And thank you for holding this timely hearing.

In this Committee, we often say that small businesses are the backbone of the economy, and that is absolutely true. However, when we think about job creation, something I know all of our constituents want us to focus on, it is not just small firms, but specifically, new firms, that lead the way. Fledging companies that scale up rapidly need to add employees to their payrolls and that translates into new jobs. This type of entrepreneurship has long been a cornerstone of our economy, and it is necessary for the United States to see continued economic prosperity.

While the last 2 years have seen a slight uptick in business formation, unfortunately, entrepreneurship and business creation has seen a decades-long decline since the 1970s. In 2014, our nation created slightly over 450,000 new firms. That represented the lowest number of firms created in any year in more than 4 decades. This troubling trend stems from a confluence of factors. Lack of capital remains an ongoing problem for all entrepreneurs. However, the problem is particularly pronounced for traditionally disadvantaged demographics, like women and minorities. In fact, the Kauffman Foundation found that over 70 percent of Asian, Hispanic, and Black entrepreneurs, relied on personal and family savings as their main source of startup capital. And women typically launch their ventures with 25 percent less capital than their male counterparts.

These disparities come with significant cost to our economy. According to one analysis, if minorities started businesses at the same rate as non-minorities, the U.S. will have more than 1 million additional employer businesses, and as much as an extra 9.5 million jobs.

We must also look at ways to foster entrepreneurship among younger people. With over $1 trillion in national student loan debt and an average of $37,000 for recent graduates, too many young people are foregoing the opportunity to create a new business. I have authored legislation that will provide student loan relief to recent graduates who launch startups and to their employees. I would be interested in hearing the panel's view on that idea today.

Finally, we must ensure that our nation remains the land of opportunity for foreign-born entrepreneurs. Immigration and entrepreneurship have long been drivers of our economic success. For generations, America has been the place to take a chance, build a business, and ultimately, strengthen our economy and communities. In my city, New York, nearly half the small businesses are owned by immigrants. Nationally, more than half of startups valued at $1 billion or more, were founded by immigrants.

To reverse declines in entrepreneurship, we must build on this asset. I am concerned that the current administration policies and anti-immigrant rhetoric, could severely stifle this important source of talent. We should be advancing strategy that draws on immigrants' innovation, hard work, and entrepreneurial spirit, not creating additional barriers.

During today's hearing, we will hear a wide array of ideas to foster entrepreneurship. This is an important topic that directly affects the livelihood of all our constituents, whether you are from Brooklyn, New York, Silicon Valley, Cincinnati, Ohio, or Lincolnshire, Illinois, I hope today's discussion provides a range of new ideas that members of the committee can coalesce around.

In that regard, I want to thank all the witnesses for their participation and insight.

And with that, Mr. Chairman, I yield back.

Chairman CHABOT. Thank you very much. The gentlelady yields back.

And if Committee members have an opening statement prepared, we would ask that they be submitted for the record.

I would like now to take just a moment to explain our timing rules here. It is pretty simple. You get 5 minutes to testify and we get 5 minutes. I know some of you have been through the drill before many times. And there is a lighting system to assist you. The green light will be on for 4 minutes. The yellow light will come on and let you know that you have got about a minute to wrap up and then the red light will come on and we ask you to stay within that timeframe if at all possible.

I would now like to introduce our distinguished panel here this morning. Our first witness is Dr. Gregory Crawford, the current president of Miami University, the real one in Oxford, Ohio, not that one down in Florida. And I might note that our staff director, Kevin Fitzpatrick, is a graduate of Miami University, and my son, Randy, and my brother, Dave. And Dave is a Miami merger because his wife Ellen also went there. They have four kids and live in Florida. But in any event, we welcome you here, Dr. Crawford. Under your leadership, the Entrepreneurship Program at Miami University Farmer School of Business is ranked sixth among public institutions and first in social entrepreneurship. He is also an entrepreneur himself, co-founding Myomics, a drug discovery company and Corum Medical, which produces non-invasive optical devices. And we thank you for being here.

Our second witness is Ms. Karen Kerrigan, President and CEO of the Small Business and Entrepreneurship Council. Not a stranger, of course, to this Committee. Ms. Kerrigan has testified before numerous House and Senate Committees, and we welcome her back. She is an advocate for protecting small businesses and promoting entrepreneurship here in Washington, D.C.—not just here in D.C. but all over the country. She has served on numerous federal advisory boards, including the National Women's Business Council, and the U.S. Treasury Taxpayer Advisory Panel. And we again welcome you here.

I would now like to yield to the Ranking Member to introduce our third witness.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

It is my pleasure to introduce Mr. Joe Schocken, the president and founder of Broadmark Capital, headquartered in Seattle, Washington. He currently serves on the United States Commerce Department's National Advisory Committee on Innovation and Entrepreneurship. He holds a degree from the University of Washington and an MBA from Harvard University. Welcome. Thank you for being here today.

Chairman CHABOT. Thank you very much.

Dr. Crawford, you are recognized for 5 minutes.

STATEMENTS OF GREGORY CRAWFORD, PRESIDENT, MIAMI UNIVERSITY; KAREN KERRIGAN, PRESIDENT AND CEO, SMALL BUSINESS AND ENTREPRENEURSHIP COUNCIL; JOE SCHOCKEN, CEO, BROADMARK CAPITAL

STATEMENT OF GREGORY CRAWFORD

Mr. CRAWFORD. Thank you. Chairman Chabot, Ranking Member Velázquez, and Committee members, I am just thrilled to be here today to talk about entrepreneurship. So thank you so much for the invitation.

I would like to answer three questions today: How do universities cultivate entrepreneurial leaders? The second question, how does Miami University promote the entrepreneurial spirit? And thirdly, kind of the new metric we are looking at is not just if our students get jobs, but how many jobs they actually create.

So a little bit about my biases and my background. I am a physicist and inventory, so a little bit geeky, I bet. Co-founder of two tech startup companies, industrial experience out in Silicon Valley and Xerox Park Economic Development in Indiana, and then leadership at three top universities. And so over my time in my career have sort of come to the definition of entrepreneurship as seeking potential, seizing opportunity, and synthesizing solutions for societal impact.

And many folks think that at a university, that entrepreneurship is fully embedded in the business school, and we have one of the best business schools in the country, the Farmer School, but nevertheless, entrepreneurship is all throughout our campus, and more than half of our students are actually outside the business school in all different majors, across all the different colleges and so forth.

One example is the company OROS, which just was featured in the Forbes Magazine article, Why Ohio is the Best State in America to Launch Startups, that were two science students at Miami who actually leveraged the NASA technology, Aerogel with low thermal connectivity, and made great new coats and apparel for that. So we are very excited about that.

Entrepreneurship education and how do we do it? We kind of think of it in three steps. Number one, we think of the T-shaped individual, and that is the person that has both depth, so there are good computer scientists, for example, but then we have this wonderful liberal arts core where they can study philosophy and ethics and anthropology and so forth. And then surrounded by that we look at entrepreneurship as a co-major, so they back that on. But what we bring to the table for our students is really to get them involved with entrepreneurship, exercises, experiences, and so forth, and those experiences. And so we look at it that way. We have a top-ranked institute for entrepreneurship, as you mentioned, Mr. Chairman, and also, we have a wonderful entrepreneurial faculty and students in our Armstrong Institute for Interactive Media Studies.

Our ecosystem, a student can go along all different paths in the university. They can be involved with entrepreneurial clubs. They can live in a dorm that is a LLC, a living, learning community, where they are all entrepreneurial-minded. They can go and start a social entrepreneurship company through a net impact club. We do all kinds of great things on events and they can be part of a venture competition. We have a startup weekend where they just involve starting a company over a 3-day period. And we have internships all around the world, around the country. We think that Oxford, Ohio, is fantastic, but we need to get in the heart of some of these entrepreneurial environments.

And so I would love to talk to you about a few of the examples there. Number one, we just think there is no replacement for students getting involved with an entrepreneurial company. They are real projects, real states, real consequences. It is messy, complex, and risky, and we want to get them involved with that. And one of our affiliations is Cintrifuse in Cincinnati, and it is just a wonderful place, which is a catalyst for high-tech startups and small startups and so forth. And so our students are engaged with companies such as Roadtrippers or Frameri, 84.51 and the Brandery, and they really get mixed up in those type of experiences.

The second one is putting our students in the heart of Silicon Valley. And so we were one of the first external satellite campuses out there in Silicon Valley in the San Francisco area, and it is a study abroad experience in a sense but in our country. And the students are embedded in startup companies for 4 days of the week, and then on the fifth day they get to meet with executives and thought-leaders in the Silicon Valley area at places like Facebook, Apple, Instagram, Google, and Twitter. So we are very excited about that program, getting them deeply engaged in that.

The impact of our alums is pretty fantastic. We do a lot of focus on our undergraduate education at Miami. That is what we are known for. And if we look at LinkedIn, we have more than 1,500 Miami alums that categorize themselves as founders. Over the last 5 years, since 2011, we have brought in more than $2 billion in venture capital money for affiliated high-growth companies coming out of the university with our alums.

And thirdly, we had about 94 Miami companies exit high-growth companies since 2011.

So the role of entrepreneurship, it really plays sort of a big national role today and universities can add on the research side, which I did not speak too much about but we love to address. And they also can really train and provide innovative curriculums for students to really engage in that kind of enterprise.

The outcomes are great. Students can graduate and start companies, which is fantastic, but they can also take those entrepreneurial skills and go off and be great lawyers and work in the medical enterprise and be congresswomen and senators and so forth. And I do believe there is the intangibles that an entrepreneurial kind of education offers that sometimes we do not talk about. We often talk about the skillset, but it creates an environment for them at a university where they can embrace failure, and when they fail, they can embrace it with kind of enthusiasm and optimism, knowing that it is just a step to success.

Second of all, it gives you the courage to step out and do something that nobody else has ever done in the world or nobody else has ever succeeded at.

And third, it enables our students to think about an idea and bring unity to a concept, and also bring unity to a team.

And so I am very happy to be here and report that we are not just counting students who get jobs after graduation. More than 95 percent of our kids have a job 6 months after graduation. But my new metric is looking at impact on the university and how it impacts society in our country. And so how many jobs that our students create after graduation. Thank you.

Chairman CHABOT. Thank you very much.

Ms. Kerrigan, you are recognized for 5 minutes.

STATEMENT OF KAREN KERRIGAN

Ms. KERRIGAN. Well, great. Thank you so much, Chairman Chabot and Ranking Member Velázquez, Members of the Committee. It is great to be here.

Chairman CHABOT. Could you pull the mic a little closer, maybe?

Ms. KERRIGAN. No. Actually, I think—oh, this? The whole box? Okay.

Chairman CHABOT. Yeah.

Ms. KERRIGAN. Okay. Got it. How are we doing?

Chairman CHABOT. Good.

Ms. KERRIGAN. Good.

Chairman CHABOT. Much better.

Ms. KERRIGAN. Okay. Thank you.

So my group, the Small Business and Entrepreneurship Council, we are very grateful that the Committee has convened this hearing on this very critical issue. Restoring healthier levels of entrepreneurship and new business creation is vital to our country's economic strength and to opportunity in America. Thank you for the invitation to be here.

SBE Council, just real quickly, we are a nonprofit advocacy research and education organization dedicated to protecting small business, promoting entrepreneurship. For nearly 25 years, we have been working on policy initiatives and private sector initiatives to strengthen the ecosystem for startups and successful small business growth. Our members have testified many times before this Committee, and they have seen that their participation and your positive engagement has led to successful policy outcomes in a number of areas—access to capital, tax policy, regulatory relief, government procurement, and more. So we appreciate your continuous work and your ability to actually get things done. That is very much appreciated by our members. Every hearing, every piece of legislation and your advocacy is very important to building an environment where people want to take risks and pursue the dream of starting a business.

John Lettieri, the cofounder of the Economic Innovation Group, he recently participated in our event we had on the Hill, the Startup Policy Forum last month, and he made an observation that I think is worth repeating here. He noted that, indeed, there is a growing awareness about the trends in entrepreneurship, but there is a lack of connectivity in the policy debate regarding just how severe these trends are and what their implications are for the broader economy. And we think that really needs to change at every level of government and within the business community itself because entrepreneurship, as you know, is so critical to our country, its dynamism, and strength.

In a series of gap analysis studies at my organization conducted in the summer and fall of last year, our chief economist, Ray Keating, looked at key gaps in the economy. We looked at gaps in wage growth. We looked at the gaps in private sector investment. We looked at the gap in jobs. And of course, we looked at the gap in entrepreneurship.

Keating looked at three data points—the incorporated self-employed, unincorporated self-employed, and employer firm data. He looked at the pre-recession high—that is 2008—for each measure as a share of the civilian, noninstitutional population and compared those to where we are now according to the latest data. His findings show that there is a gap of about 3.5 million businesses in America. That is businesses that simply do not exist because people never started them.

An Economic Innovation Group study reinforces our findings, but also finds that new business creation during the 2010-2014 recovery was highly concentrated. Their study notes that the five metro areas of New York, Miami, Los Angeles, Houston, and Dallas, produced as big of an increase in Businesses as the rest of the Nation combined. And for comparison, the recovery and expansion during the 1983-1987 period found much less concentration, with new business creation in 25 metro areas produced the same increase as the rest of the Nation.

So obviously, this has been happening over some time. We know this recovery has been imbalanced. There are those left behind, those who currently think they are still, or we are still in a recession, and we know this difficult period has left these scars on many. We believe it is showing up, for example, in the big drop-off in entrepreneurship among younger Americans, those ages 18 to 34. I cite several reports in my written testimony, the Millennial Entrepreneur study from the SBA Office of Advocacy, a Wall Street Journal report, the latter of which finds that the share of younger people who own private businesses has reached a 24-year low.

Now, there are some groups, and there is some positive news. Some groups and sectors of the population that have bucked this trend where entrepreneurship remains stronger is growing. Entrepreneurs aged 55 to 64 made up for 25 percent of all new entrepreneurs in 2016, and that is up from 14.8 percent in 1996. Immigrant entrepreneurs continue to show strength as they account for 30 percent of new entrepreneurs.

So, you know, there is obviously some bad news on the entrepreneurship front, but I do think there is a lot to be hopeful for in the future. At the state and local level there is a tremendous amount of policy changes and initiatives that are focused on lowering barriers and providing support to help people start businesses. In terms of the states of the two witnesses here, I mean, both of their states rank in the top 10 in terms of from a policy environment, but that took a lot of hard work in terms of keeping taxes low, streamlining regulations, engaging the business community and making those places great places to start businesses. Business leaders and successful entrepreneurs are stepping up and bringing their capital, know-how, energy, and networks back into their communities and cities to help rebuild and revitalize areas that particularly need help. We heard a great success story from Dan Gilbert, the founder and chairman of Quicken Loans at our policy forum where he is really pumping billions of dollars back into Detroit and making that a great place for people to live, and obviously, for new entrepreneurs.

There is great news on the broadband front. A whole lot of things that are going on. We just need more of this activity to happen. And certainly, Congress has a role to play in terms of tax, regulatory, and healthcare reform as well. So I look forward to discussing these things with you and the Committee.

Chairman CHABOT. Thank you very much. We appreciate it.

Mr. Schocken, you are recognized for 5 minutes.

STATEMENT OF JOE SCHOCKEN

Mr. SCHOCKEN. Good morning, Chairman Chabot, Ranking Member Velázquez, and members of the Committee. My name is Joe Schocken, and as the president and founder of Broadmark Capital, I spent my entire career on new company formation, capitalization, and development.

I am very pleased this Committee is willing to tackle this vitally important subject of reversing the entrepreneurial design. At the same time, we also need to accelerate our economic growth, create high wage jobs, build an economy that offers opportunity for all, and can compete effectively in the face of increasing globalization and automation.

The solution to these problems is to unleash the power of our innovation economy. That is where all the new net jobs get created, and the good news is that there are some pretty simple answers. The answers come from the Jobs Act, which I had the honor of working with members of Congress and the Obama Administration to pass. I say pretty simple because that law passed with broad bipartisan support, and it showed that some minor policy tweaks will produce the capital that unleashes the innovation economy and does it without creating problems. So here are some immediate solutions that we should all be able to agree on to remedy this decline.

First, fix general solicitation. Seventy billion dollars of capital was raised in the first 27 months following the Jobs Act, almost all of which went into additional capital, into small companies and new projects spurring job growth, and that was done under the severe regulatory burden of third-party verification. Go back to the previous standard of self-certification, which was never a problem, and the $70 billion number will grow instantly and exponentially.

Next, fix equity crowdfunding. Crowdfunding is an important and useful tool, especially for attracting capital to our struggling inner cities and capital-starved regions. It has failed because the SEC's unworkable regulations have limited its potential.

Make it simpler and more attractive for small companies to do IPOs. Costs and regulatory burdens continue to make the traditional IPO path unattractive for small companies. The Jobs Act took a small step to correct this and we need to do more. Expand the pool of accredited investors by allowing people to become accredited through educational and employment qualifications. Finally, here is a novel idea; let early stage companies raise additional capital by selling their net operating losses. Let them leverage their hard-won capital in many cases that will make a difference between success and failure.

These are simple, short-term fixes that will have a major and quick impact on reversing entrepreneurial decline and create real growth in the American economy. But we also need to address the bigger, harder, long-term systemic issues that impede our innovation economy. For that, we should create a commission on the innovation economy. Bring in the best and brightest venture academic, legal, and experienced entrepreneurs to advise the Congress, White House, and the agencies. A bill to do this is being introduced in both houses and we encourage its immediate adoption. This commission should be tasked with addressing some of these difficult, long-term systemic issues, such as bringing back the small regional IPOs. We used to have small IPOs for the regional manufacturers and retailers which would create regional jobs and spread economic growth more equally across the country. Spread venture capital more evenly across the country, and expand opportunities for women and minorities. The regional gender and racial imbalance is a real problem and contributes to the economic and political stress in this country.

The number of venture firms in this country is down by 50 percent, starving the innovation economy of the $5 and $10 million A round financings designed to bring the experience and management expertise of venture professionals to follow the initial seed and angel financings. Our leaders are just beginning to acknowledge the problems created by a 50 percent decline in the number of public companies. Increasing the number of public companies would boost jobs, enhance transparency, lower the cost of capital, and make pricing more efficient.

So there is a formula for reversing our entrepreneurial decline. Move quickly to solve the easier, near-term issues and create a commission of the best and brightest around the innovation economy to solve the tougher long-term issues. The American innovation economy has long been the envy of the world. The countries that are envious now are investing deeply to compete with us and we need to respond.

Thank you for taking the time to address this vital issue. I look forward to working with you on solutions, and I am pleased to answer any questions.

Chairman CHABOT. Thank you very much.

And I will begin with myself and recognize myself for 5 minutes.

Dr. Crawford, I will start with you first. So just how great is Miami University of Ohio?

Mr. CRAWFORD. Well, since you asked.

Chairman CHABOT. No, my real question. As an entrepreneur yourself, what were some of the biggest lessons that you learned as a co-founder of two startup companies?

Mr. CRAWFORD. Thank you for the question. I there were several areas. I was a physicist, number one, and when I started my first company I thought, you know, I can do quantum mechanics, therefore, I can do accounting. And boy was I wrong. And so I really learned how to actually pull together a team and bring unity around something that is very transdisciplinary and requires all types of expertise. And you just simply cannot do it on your own.

The second area was just how much inertia is out there in the marketplace, and you fight against change, and if it is disruptive change, it is even more difficult to kind of move the needle forward. But as one of my mentors put it, if there is no inertia, you probably do not have a very good idea, which was actually absolutely right.

And the third area I think, just on the personal side, as a physicist, you can kind of over engineer everything, and so the mentorship on really how to bring simplicity to your project, I think, is very important. And so, but what I did learn overall, when you look at entrepreneurship and you look at it from your company's perspective or building it through the university is just how important the partnerships are. If you do not have that ecosystem, if you do not have the infrastructure in place that you can go to the intellectual property attorney, the corporate attorney, you can go to the venture capital or the angel investment firm or your local state for seed funding, you just cannot make it all work. So the most important I would say learning is how to actually develop those partnerships and move forward in a more strategic way with both your state and the country.

Chairman CHABOT. Thank you very much.

Ms. Kerrigan, I will go to you next.

In your written testimony, you stated that risk aversion after the financial crisis has become an issue preventing Americans oftentimes from taking on risk and starting new businesses. What solutions would you suggest to potential entrepreneurs to ease their anxiety in starting a business? How would you address that?

Ms. KERRIGAN. Well, I think it all starts with the economic climate and, you know, bringing back sort of robust economic growth in the country. I think once there is that traction and there is sustainable growth, you are going to have more private sector investment. You are going to have more job growth, more quality job growth. I mean, things will just brighten up overall. And so if you have that breakthrough, sort of that light in the economy where there is sort of more competence and more optimism, I think it will bring more people off the sidelines and take those risks.

I talked about the Millennial generation, and particularly I think in my written testimony, why this generation might be so risk averse, but I was very heartened to see an American Small Business Development Center survey that they just released in May of 2017, that found that 50 percent of millennials planned to open businesses in the next 3 years. Wow, that would be terrific, you know, for our economy. So we need to enable that. We need to encourage that. But the two things, the two barriers that stood out at me are issues that this Committee has dealt with, access to capital being a key issue. And the other which was a surprise; they do not know where to go to start a business.

So I think really building out the ecosystem. Making sure, you know, the policy environment has to be right, access to capital, access to markets, and then access to education and information that people have that can successfully start and scale their business.

Chairman CHABOT. Thank you very much.

Mr. Schocken, are there any particular regulations that you would like to see revised or removed that would especially help entrepreneurs or small businesses generally?

Mr. SCHOCKEN. Well, Mr. Chairman, I would go back to my testimony. We suggested a series of minor regulatory changes that would have a dramatic impact on the innovation economy. They build on our learnings from the Jobs Act. I mean, take general solicitations. Seventy billion dollars. You create a general solicitation in the Jobs Act and $70 billion of capital was directed into new companies and new projects across the country. And that is with basically one-and-a-half hands tied behind our back because of this third-party verification requirement.

So Congress has accepted the notion of general solicitation. The SEC wrote a set of regulations that effectively fixed a problem that did not exist. There was no third-party verification before required for these securities, and you will not find anything in the literature that said it was a problem. The problem got created, and even with that major impediment to capital formation, $70 billion of new capital. And lack of access to capital is one of the most significant factors in impeding the innovation economy. So I have given you an outline of a couple of easy things to fix and also outlined some long-term issues that I think are terribly important.

Chairman CHABOT. Thank you very much. My time is expired. The Ranking Member is recognized for 5 minutes.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Mr. Schocken, can we go back again to the concentration of capital, access to capital, in terms of geographic areas? Not only about debt financing but venture capital. How do you see or what role can we play in addressing that issue? It is one that constantly, you know, we bring up to the Small Business Administration, even the VC program that we have at SBA, is doing a poor job in reaching every corner of America, particularly rural America and minority and women-owned businesses.

Mr. SCHOCKEN. You could not be more correct. And let me begin with a really startling statistic. Since the 2008 recession, 50 percent of new business formation in the United States has come from .64 percent of the counties in the United States. Fully 50 percent of new businesses came from 20 of 3,100 counties across the United States. That is a total concentration of economic growth in just a very small set of areas.

Let me give you one other statistic. Fifty percent of all venture capital last year went to one state. So this problem is a really serious problem. And as a business guy, it does not come easily for me to suggest that there is a Federal role here, but I am going to suggest that I think there is. We used to have an SBIC program, where the SBIC sponsored venture capital funds around the country. We in the industry viewed it as a successful program. It was viewed as unsuccessful because the bonds were not paid off by the investments that were made. And my view is the study that proved that was a poorly done study because, in fact, the debts were not paid back, but in doing that calculation, nobody bothered to take into account the taxes that had been generated by those companies and by those employees. And so I think part of the answer to your question is bring back that SBIC program.

Ms. VELÁZQUEZ. Thank you. Thank you.

Mr. Crawford, would you like to comment?

Mr. CRAWFORD. Thank you. Could you repeat the question, please?

Ms. VELÁZQUEZ. Let us talk about the changing face of the economy. More women are creating jobs and business formation and minority businesses. How can we improve access to capital, not only debt financing, but venture capital?

Mr. CRAWFORD. Sure.

Ms. VELÁZQUEZ. You see the role that $2 billion in VC did to—the kind of impact that it had in your program.

Mr. CRAWFORD. It has, and I would say another thing. Coming from my perspective at a university as well is that some of the ideas that we have are very early on. They are very embryonic in a sense, and so we have to kind of get them to the level where you can even be in a series A kind of round. And so personally, I have been the beneficiary, and I know many other people who have on the SBIR programs and the STTR programs, so that early kind of see nondilutive capital through grants I think is a great way to take some of those early, those big ideas that we have to get to the next stage and get to the prototyping stage and how that would work out I think would be great from that perspective.

And also, I do like your idea of just reimbursing students for debt if they go into small business and so forth. That is just a fantastic idea.

Ms. VELÁZQUEZ. Thank you.

Mr. CRAWFORD. And I hope you move that forward.

Ms. VELÁZQUEZ. Thank you.

Ms. Kerrigan, tax reform remain a high priority, but also an elusive one, even in this Congress. So members on this committee understand the importance of keeping the interests of small firms and entrepreneurs in mind as we approach tax discussion. How could simply updating thresholds and adjusting them for inflation annually help create a better entrepreneurial environment?

Ms. KERRIGAN. I think that is a great question. For example, if you look at the—and I am talking about the tiniest businesses here. They just start up and if you look at the self-employment threshold, for example, where you start paying self-employment tax at $400, that has not been updated since the 1950s. And if that had kept pace with inflation, whatever they do, that would be over $6,000 right now, and there is a lot of complexity with that. It is a big turn off, particularly for young entrepreneurs. I am talking about people that start businesses that are 15, 16 years old. This is the Tax Code. This is what I am going to have to deal with. So that is just one idea I think of a threshold that the Congress can look at and to update and to modernize.

Ms. VELÁZQUEZ. Mr. Chairman, I yield.

Chairman CHABOT. Thank you. The gentlelady's time is expired.

The gentleman from Missouri, Mr. Luetkemeyer, who is the Vice Chairman of this Committee, is recognized for 5 minutes.

Mr. LEUTKEMEYER. Thank you, Mr. Chairman. And thank all of you for being here today.

As the ranking member indicated, there are a number of concerns that we have with regards to small businesses. We have talked about taxes, regulations, broadband last week, and then access to capital is what has been discussed with the two previous questioners. And to me, this is a really key situation because you may have a great idea, but until you can get the money to put it in place to operate your business, you are stuck.

And so it is interesting, Mr. Schocken, you mentioned that 50 percent of all venture capital went to one state last year. Can you explain why? Have they just got all the brainpower there to come up with all the ideas or is that where they have all the money? Or they have both? Or how does this all work?

Mr. SCHOCKEN. Well, first of all, 50 percent went to one state and just as consequential, there has been a 50 percent decline in the number of venture firms in this country. There has not been a decline in the amount of capital managed in the industry. So the number of firms is down by 50 percent. What that means is the firms are making fewer, larger, and later stage investments, and those are concentrated in just a couple of these markets. And that is one of the most important long-term systemic issues that we should be addressing.

Mr. LEUTKEMEYER. One of the things that you also mentioned in your testimony was with regards to regional IPOs. Can you elaborate a little bit? That is kind of an interesting concept to me. I would like to delve into that just a little bit. Can you talk about it a little bit?

Mr. SCHOCKEN. When I grew up——

Mr. LEUTKEMEYER. That makes two of us.

Mr. SCHOCKEN. The way I grew up in this industry, we had small regional IPOs. Today, every IPO, virtually IPO is $100 million or larger, and there are many small companies across this country, small, regional manufacturers, craft brewers, small manufacturing companies. The $25 million IPO has gone away.

Mr. LEUTKEMEYER. And the reason for that is?

Mr. SCHOCKEN. Well, there are lots of reasons for it. My suggestion is we create this commission to figure out what the reasons are, but you lost the regional investment banking firms. You used to have regional investment banking firms across the country. Now you have got a couple of major national banking firms. And so because of that concentration of capital in larger firms, because of regulatory requirements, because of costs, because of decimalization, there are a whole series of reasons why the regional IPOs have gone away. And one of our most important tasks should be to bring back those regional IPOs. That is one of the ways to create jobs around the country. I am not sure I have got the magic answer for that one, but it is such an important issue. It should be one of the major long-term systemic issues that we address.

Mr. LEUTKEMEYER. Well, I deal a lot with community banks and banking folks in general with one of the other Committees I serve on, and one of the things that we have seen is we really have got kind of a two-tiered economy going right now where we have the big banks and big companies doing well and you have the small banks and small companies that are kind of struggling. And a lot of it goes back to regulatory costs of compliance that the small banks are having to deal with and then they pass those costs on to their small lenders, to the small borrowers, and it makes it more difficult, number one, to afford the loan, and number two, the regulatory environment makes it more difficult for the small banks that should give a loan to small businesses as well. So it is kind of a one-two punch there.

The problem is if we do not have a way to generate some economic activity and some access to capital for entrepreneurs, we are going to dry up as a country. We wonder why our employment numbers are stagnating, and we had this discussion this morning with some folk at the Fed. And it is pretty simple to me. The small businesses are where the generation of jobs are, and if you do not have small businesses, you do not generate the jobs.

I know one of the other things I want to talk about, and you had mentioned crowdfunding in your testimony. And also, I know we had somebody I think testify in this Committee that PayPal now has small business online lending. There are a lot of other options out there. How viable are those options for entrepreneurs?

Ms. KERRIGAN. I know Mr. Schocken said crowdfunding has been a disaster, Title 3 crowdfunding, but there is a positive story to tell here. There have been 400 offerings to date in Title 3 crowdfunding, and that was sort of, you know, Title 3 was really meant to focus on these startups, on these smaller businesses. And you do have some businesses that have been successful at raising a million plus. There is also a diversity of businesses that are raising money through crowdfunding. I think food and beverage is the top category. You have entertainment and media, transportation. So I think the early signs are really good. And also, PricewaterhouseCoopers just released a survey. They said women were better at crowdfunding. So this is, I think, really very positive. It comes down to, I think, some regulatory relief. The SEC and perhaps things that Congress can do to make this right. You know, lift some of the costs on those small businesses who want to use crowdfunding through their CF filing and all the compliance they have to do and make it more practical. And I think you can really build from some of these successes that you see. And also work against, or help in terms of this concentration, this density of capital as well, using these platforms that businesses everywhere can use.

Mr. LEUTKEMEYER. Thank you very much. My time is expired. Thank you, Mr. Chair.

Chairman CHABOT. Thank you very much. The gentleman's time is expired.

The gentleman from Illinois, Mr. Schneider, who is the Ranking Member on the Subcommittee on Agriculture, Energy, and Trade, is recognized for 5 minutes.

Mr. SCHNEIDER. Thank you, Chairman. I want to thank Chairman Chabot and the Ranking Member Velázquez for holding this hearing, and thanks to you for all you do for joining us today to share your thoughts.

We have talked a lot about the fact that entrepreneurship, small business startup, new business startup numbers are down, and dramatically down, and have been declining for a while, and reversing this decline obviously is something very important to grow our economy because as was noted, two-thirds of the jobs in this country are created by these small businesses.

From the beginning, if these businesses are going to succeed, they need to have the resources, the access to capital, the access to talent, the skillset that will create these well-paying jobs, to create more investments, to create the virtual circle. Mr. Schocken, as you touched, we have moved away from the regional development and we have this great concentration in a few places. But I also think we need to invest in education and schools. And Dr. Crawford, you talk about in college, and I love the fact that we are permeating the entrepreneurial spirit into every class but we need to get that into high schools and middle schools, I think, and create it earlier. Because if you think about what is an entrepreneur, or the definition of an entrepreneur. There are many academic definitions. For me, it is someone who has a vision, a dream, and the will and passion to pursue that dream, to take that risk, and there is an element of risk-taking. But entrepreneurs, as is my experience from 20 years in the business working with entrepreneurs has demonstrated, they also have blind spots. And I do not mean that in a bad way. These are people who do not see barriers, who do not see stop signs, who are not willing to accept no from people who cannot say yes and go out and try to do that. But that spirit seems to be declining. My worry is we are seeing a diminishing of that can-do attitude, belief in the American economy that defined the 20th century as the American century. If we are going to make the 21st century an American century as well, among the many other things we have to do, I believe it has to be driving this entrepreneurial spirit across the entire country.

So I did not know the number about. Was it .064?

Mr. SCHOCKEN. .64.

Mr. SCHNEIDER. .64 percent of the counties. And you hear this discussion of the struggling rural economy. Well, if we can start up businesses in these rural economies, if we can create, and I have had the privilege of introducing legislation, promote the hubs and the ecosystems and create the incubators that will help companies go from the idea to start up, to step out, to success. And I did not mean to give a speech but I am passionate about this.

Chairman CHABOT. It was a fine speech, by the way.

Mr. SCHNEIDER. Thank you.

So Dr. Crawford, I will start with you, this idea of installing the spirit. You are a physicist; I am an engineer. That science helps, but you talked about the fact that you do not know, did not know about accounting but you thought you could do it. How do we help these people? And it is not just young people, it is people of all ages, to get over the hump that maybe I do not know how to do it but I know how to learn and I know how to ask questions. How do we get that spirit instilled?

Mr. CRAWFORD. Well, I think you are exactly right. I really do believe that entrepreneurship is a mindset. It is sort of how you tackle and solve problems. It is not necessarily a discipline in and of itself. But one of the areas which I see, both at the college level and as you mentioned, the high school level, is that I do not think that we prepare students how to fail and then how to kind of move forward with failure. So if you want to be naïve and move forward and break down walls and bust it down rather than trying to go over, you really need to try things and fail and then how to kind of repurpose yourself and redirect and know it is a stepping stone and a way in which you will pivot and go in a new direction. I think high school is a good place for that. I think college is an exceptionally great place for that because you are surrounded by mentorship and you are surrounded by people that can help you sort of get through the messiness of entrepreneurship.

So I am in complete agreement with you. But the one thing I would say and it sounds kind of funny, but we really need to teach our youth how to fail and how to move forward because that is all about the entrepreneurial mindset. When you hear successful entrepreneurs, they do not be successful on their very first time. It is two, three, four times. And they talk about that failure. How do we teach it and learn it? How do we pool that creativity?

Mr. SCHNEIDER. It is the difference between failure and defeat. John Wooden, the great basketball coach said, "I never lost a game. I just ran out of time."

Mr. CRAWFORD. Exactly.

Mr. SCHNEIDER. And I think failure is that lesson.

Mr. Schocken, the last few moments I have, is the culture of failure is unacceptable affecting the ability for small firms, new businesses to raise capital, because the idea of we have to succeed becomes such a paramount issue for them?

Mr. SCHOCKEN. The problem for the innovation economy is access to capital and regulations. If we solve those problems, we will get back to creating the kind of vibrant economy where there is success and failure becomes less of a factor. We have got to create the jobs.

The other reason we have to create these jobs is you are all dealing with the onsets of globalization and automation and you know what is coming down the road. That genie is out of the bottle.

Mr. SCHNEIDER. I do not think we are at the onset; I think we are in the midst of it and we need to beat it.

Mr. SCHOCKEN. We are, and it is only going to accelerate. And therefore, unleashing the innovation economy to create the jobs that are needed is absolutely essential. And as someone who has worked in this industry my entire career, the answer is around access to capital and some minor regulatory reform. That is how you make this industry succeed and that is how you address these economic disparity issues.

Mr. SCHNEIDER. I am out of time, and thank you for the extension. I yield back.

Chairman CHABOT. The gentleman's time has expired.

The gentleman from Iowa, Mr. Blum, who is Chairman of the Subcommittee on Agriculture, Energy, and Trade is recognized for 5 minutes.

Mr. BLUM. Thank you, Mr. Chairman. Thank you to our panelists for being here today.

Mr. Schocken, I am very intrigued by your ideas of simpler IPOs and other means of financing startups. My little software company in Iowa that started as three people in a basement went public in the mid-90s and we were one of those $30 million IPOs you referred to. Piper Jaffray out of Minneapolis and William Blair out of Chicago were our co-lead underwriters and I will never forget the days of sitting in a high-rise in Chicago at Sidley Austin, a law firm of 2,000 attorneys. Good firm. But at $1,000 an hour per attorney, there were probably 10 of them in the room. We were running up a bill of $10,000 an hour. And in the process that it took to put together a prospectus and a red herring and initially go public was fascinating but overwhelming, I think, to most small entrepreneurs. Can you give me some ideas? The regional IPO is an excellent idea. I could not agree with you more. Do you have other ideas about financing options? I know there is—well, I used to call them vulture capitalists. I know there are venture capitalists out there, which we managed to go public without using their services, but other ideas you have? Because it intrigues me and it is much needed. I could not agree with you more.

Mr. SCHOCKEN. Thank you. And congratulations on that success.

Mr. BLUM. Thank you.

Mr. SCHOCKEN. That is a good story. I love to hear those kind of stories.

You know, what happens when there is an economic event, the laws tend to overreact, and it is the smaller companies that get punished when that happens. And you will remember what happened at the end of the 1990s when the tech bubble burst and the reaction congressionally was Sarbanes-Oxley. And what happened was they swept the small companies in under the bigger companies in terms of regulatory requirements for doing IPOs. And those have just become so costly and so burdensome. The accounting requirements and the undertakings required, where your small company would have been subject to the same kind of accounting and legal standards as the Boeings and Exxons of the world.

Mr. BLUM. That is crazy.

Mr. SCHOCKEN. Yes. And so we took a step towards resolving that problem in the Jobs Act by creating a couple of minor benefits for the smaller companies. Unfortunately, it has not been as useful for bringing back the IPOs as we would have hoped, and the reason for that is because of low interest rates. Low interest rates have been drawing so much capital into private equity that private equity has turned out to be a very strong competitor to going public. But at the same time, we have got to really answer this question—how do you bring back the smaller IPOs? Because there are lots of great little companies that, you know, for which a $25 million IPO means another 200 or 400 employees. And it is one of the ways of solving this problem of the regional concentration. And there are answers to that. And that is why I designed, you know, in my testimony, here are some easy, short-term fixes that we can do, but then here are some longer term systemic issues that really need attention. And to me you do those two things and you will unleash this innovation economy. But you have got to bring back those $25 million IPOs as one of the answers.

Mr. BLUM. We did this in Iowa, by the way, and I tried to coin the phrase "Silicorn Valley." I do not know if it stuck or not, Mr. Chairman.

Question for Mr. Crawford. Are the young people, the Millennials, young people in general, becoming risk averse?

Mr. CRAWFORD. It is a great question. I think it goes back to some of the earlier comments that we had about failure and if you are ready to really work in that kind of environment where you may fail three or four times before you succeed. I am not necessarily convinced that they are risk averse, but I must say that there is one thing. When we trained these entrepreneurial kids at the university level and, you know, we would love for them to go out and start small businesses and so forth, but what we do see is that the bigger companies, the Fortune 500s and so forth, are not gobbling those kids up because they really see those entrepreneurial skills as being very viable to their larger organization in an entrepreneurial way that they can walk and get through things. And so I think it is hard to say whether it is risk averse or not because even though they may not end up in a small company or a small startup, they are able to go work in some of the bigger firms these days which are becoming more entrepreneurial in and of itself.

Mr. BLUM. I have 8 seconds left. We cannot do another question. I yield my 5 seconds back. Thank you.

Chairman CHABOT. The gentleman yields back. Thank you very much.

The gentleman from New York, Mr. Espaillat is recognized for 5 minutes.

Mr. ESPAILLAT. Thank you, Mr. Chairman, and Ranking Member Velázquez. In the 13th Congressional in New York, we are working to increase access to necessary capital for all our entrepreneurs. Just last week, the ranking member—thank you. Is this better? Okay.

Yes. Just last week, Ranking Member Velázquez and I had a Small Business Summit, which was focusing on connecting small businesses owners with agencies both at the Federal, state, and city level, to assist them in their role to starting and growing a small business. And we noticed that a good number of the folks that participated were young people with questions regarding establishing and supporting their small businesses. And no doubt, this has shown that there is a high interest still in young entrepreneurs in succeeding. Yet, they are failing, as you have mentioned, in accessing capital, finding a pathway to the necessary capital that will make their business successful and sustainable. And in a time where we work in the technology and research fields, it this is quickly advancing. Yet, IPOs are down. We need to be focusing on how to better supply our entrepreneurs with the capital they need to succeed and ultimately create jobs and grow our economy.

But you mentioned that some of the hurdles that some of these small entrepreneurs are the overregulation often overburden small businesses, and particularly startup businesses, and the tax inequities that exist, they are saddled with these tax inequities. They are unable to like get some oxygen out of the tunnel and continue to move forward.

So as we move as a Congress in this session to consider, potentially consider, hopefully, some tax reform legislation, what real, precise recommendations do you have for tax reform that will help small businesses? It will be a real travesty if we engage in tax reform and only like the big corporations walk out of here with their pockets full and small businesses, again, continue to struggle with overregulation and tax inequities. What real recommendations do you have for easing the pain with regards to tax inequities and regulation itself? Any one of you?

Ms. KERRIGAN. Sure. And thank you for pulling together that summit with business owners or potential business owners and entrepreneurs because, you know, as I mentioned in my testimony, many of them do not know where to go. I know the SBA administrator is out traveling the country and sort of promoting the SBA as a resource and getting the word out about that. But certainly, we have a long way to go in terms of telling them where to turn.

I think on tax reform, look, I think from a small business perspective is very simple. I mean, we do have to keep small businesses at the center of tax reform, so we need to lower individual rates along with corporates rates. We need to lower taxes, definitely a more simplified system, and again, updating, I think, some of these thresholds is going to matter to small entrepreneurs. And complexity, I think, is really the key thing that has to be addressed. So if you get rid of a lot of the loopholes. For example, allow for full expensing. I mean, again, it all boils down to simplicity and these lower rates that again are going to make the system I think more competitive. So simplify, lower rates. There are a lot of great ideas out there. Updating, modernizing, and just certainty in the Tax Code as well, not changing it all the time I think is very, very important from a small business perspective.

Mr. SCHOCKEN. And if I could?

Mr. ESPAILLAT. Yes, go ahead. Yes, Mr. Schocken?

Mr. SCHOCKEN. So, first of all, I gave you a suggestion in my testimony when I said allow these young companies to sell their net operating losses. They have to work terribly hard to raise capital. Those losses that sit on their balance sheet do not do them any good. If they could sell that, that would be a way of really leveraging the equity they have created. And I know from my own experience in many cases that would make the difference between success and failure. The first thing I would say.

The second thing I would say for the kind of businesses that you are talking about, equity crowdfunding is just enormously important. If someone is going to start a business and their friends and their cousins and the people in other states that they know will want to own a portion of that business. The ability to invest in that business, whether it is a neighborhood bakery, a small manufacturing company, to raise that money via equity across the country under equity crowdfunding under a reasonable set of rules different than what we have today would make an enormous difference.

And the third thing, you have got to somehow simplify the regulations. People want to start their businesses. They want to bake their breads. They want to deliver, they want to do whatever they want to do, and they get just buried under the city, the state, the county, and all the various regulatory requirements. Make that simple for small businesses. You are correct wanting to keep these benefits away from big businesses. I agree with you, whether it is selling the net operating losses or whether it is simplifying, you can do that for the small businesses and it would make an enormous economic difference in this country.

Chairman CHABOT. The gentleman's time is expired.

Mr. ESPAILLAT. Thank you so much.

Chairman CHABOT. Thank you.

The gentleman from South Carolina, Mr. Norman, who used to be the new guy on the Committee but now he has been around a couple of weeks, so he is an old hand now, is recognized for 5 minutes.

Mr. NORMAN. Thank you, Mr. Chairman. Thank each one of you for coming.

In our role in Congress, there is no shortage of the need for public-private partnerships, but in many cases you see where the public is the one that gets the short end of the stick. What would you say that we could put in, safeguards that we could put in, benchmarks to make sure that any dollar that the taxpayer invests, there is a return on investment. And failure is a great teacher. But from our role, what would you say we do to make sure that there is a return on investment, that it is a smart investment, and not dole out to either one state or one group? This is for each one of you.

Mr. SCHOCKEN. Well, earlier I had said that one of the ideas for dealing with driving capital into rural and other counties across the country is to reestablish the small business investment program at the SBA. So specifically to your question, how do you avoid losses by the government, the answer is to have each of those investments be partnered with private venture capital or private equity firms where the government is not making the win-lose decisions on each investment, but they are doing it in partnership with private capital. And that discipline would have an enormously positive impact on government money being invested in the correct companies that have a chance to succeed.

Ms. KERRIGAN. That sounds good to me.

Mr. NORMAN. As a follow-up, you know, typically the SBA, they are the last to get paid. The repayment of equity comes back from the private investors.

Mr. SCHOCKEN. No, no, the SBA gets paid back first. Absolutely.

Mr. NORMAN. In every case?

Mr. SCHOCKEN. Well, under the original SBA program, the SBA was the debt. The win that was there was for the private investors but the government always got their money back first. I was trying to address your question, how do you avoid the government making the wrong decisions? And I think the way to do that is through what you would call a public-private partnership that each of these investments are only in investments that are vetted by private capital, where they do the due diligence. And let us say the government is 40 percent of the investment and private capital is 60 percent of the investment. The government gets its money back first. The government is the lender in this situation. The upside, the real potential is to the private capital but the government gets its capital back first. That is exactly how you should design a program like that.

Mr. NORMAN. I agree.

Ms. KERRIGAN. Generally, I will just say this, being that I really am not an expert in public-private partnerships, but going back to our gap analysis reports that I talked about, we looked at private sector investment. And over the past decade there has been a dearth of $1.5 trillion. We really have a problem with private sector investment in this country. So the more that we can encourage investment on the private side, perhaps the less we need it on the public side. So I think policies really need to get back to encouraging private sector investment incentives, and that is going to happen through tax reform. I think it is going to happen through regulatory relief across the board, including in the financial services sector. We just need more people investing more of their dollars. I mean, letting go and investing not only in our startups and our small businesses, but our economy, their own companies to really get the economy going again.

Mr. CRAWFORD. I agree. I think the companion-type of grants that they are talking about, how to bring the public and private together, could also work at the research level as well with some of the Federal Governments and their research enterprises, to bring those early seed ideas out of the place and having them, sort of the due diligence done by the private side as well as the private side. And I think the big question is also where are you going to put your dollars on the Federal side? Where is the risk assessment going to be? Is it going to be where the ideas are so early on and you are only going to get one out of 10, or are you going to be down further on in the series B and C rounds of venture capital where you are going to have a much higher probability of success?

Mr. NORMAN. Thank you, Mr. Chairman. I yield my time.

Chairman CHABOT. Thank you very much. The gentleman yields back.

The gentlelady from Florida, Ms. Murphy, who is the Ranking Member of the Subcommittee on Contracting and Workforce is recognized for 5 minutes.

Ms. MURPHY. Thank you, Mr. Chairman. And thank you all for being here today. Fascinating testimony.

Mr. Crawford, I really enjoyed reading through your testimony, as well as hearing you talk about Miami University and all of the initiatives that you have launched to help build the next generation of entrepreneurs and innovators. And my colleagues on this Committee have heard me talk about similar incubators and apprenticeship programs that have been launched by universities and colleges in my district in Florida, specifically at the University of Central Florida, Rollins College, and Valencia College. So I completely agree with you that universities play a vital role in the startup ecosystem. And if that sounded like a shameless plug, it was.

My first question is for either Dr. Crawford or Ms. Kerrigan.

You know, as we look at the future of work and think about the startup ecosystem, the way that the workforce is engaging with the workplace is changing, particularly in the startup ecosystem. And even I think the dynamics and demographics of the workforce is changing. So right now about a third of the workforce is millennial. By 2020, I think about 50 percent of the workforce will be millennials. And we are moving away from sort of the idea of working for one large corporation for the period of your entire life. When it comes to benefits and the other sorts of programs that are normally provided through that type of employment, what do you think we could do? What can Congress do to adjust to these changes in what work will look like, particularly as it relates to the startup ecosystem?

Ms. KERRIGAN. I mean, that is a great point because, I mean, I think you are talking about the gig economy; right?

Ms. MURPHY. Yes.

Ms. KERRIGAN. And really, this desire to do your own thing. I mean, there are some people that really like that arrangement a lot, but they really do wish they would have the benefits that go along with full-time work.

I think there is a lot that can be done, you know, hopefully or potentially on the portability front. And I would encourage the Congress to look at things a little more innovatively as well. Say for example that you do have an independent contractor who wants to be independent and wants to stay independent and perhaps is working for a larger enterprise or a larger business, is there any way that they can tap into their benefits without losing that independent contractor status? If both of them agree, he wants to be or she wants to be independent but I value this person, so is that a possibility, sort of looking at the independent contractor test and making that a little bit more flexible? I mean, that is one idea that I think of right now.

Mr. CRAWFORD. And I do think it is interesting. I mean, on the front end, when you graduate college and you get out there and benefits and so forth are not a big deal, we see the kids that are going out to San Francisco and Silicon Valley and they will spend every last penny of their disposable income on rent and it does not matter to them, and we have seen the uptick in the crowd of 55-plus and the entrepreneurship, so they are more stable and they can actually get out there. And I think one of the questions is when you graduate school, you go off and work 3 to 5 to 8 years, how do we get those folks back in after they have worked at a big company and how to get them back in to the startup economy? And I think that is when benefits play a big role. If people have families and so forth, other responsibilities, and so how you could kind of be innovative on that front as a Congress in terms of pulling them back in or how we call it in Cincinnati, the boomerang effect where we can pull the 30-somethings back into the entrepreneurial economy.

Ms. KERRIGAN. And I think anyway, we can allow independent contractors to either, you know, if they are joining some type of business group or some type of association, or some type of entity, you know, where they can pool, whether it is health care, whether it is retirement benefits, or et cetera, I think that would be a great solution as well. I know that would take some regulatory changes at the Federal and probably state level as well. But I think having those places where independent contractors can go where they can, again, use sort of the collective power of all of them to negotiate for better prices for healthcare, et cetera, or to share their risks I think would be ideal.

Ms. MURPHY. That is great. And just another sort of follow-up question. There has been some talk about how the Millennials do not really know where to go, the know-how for starting up a business. I know we try to address it a bit in some of the universities and school systems, but there are also SBA entrepreneurial development programs, and this Committee has done a lot to try to enhance those programs. How do you think we can enhance the programs so that they are meeting the needs of Millennials entrepreneurs and that they are more accessible or readily available or they know more about them?

Ms. KERRIGAN. Well, yeah, I think, you know, in terms of a lot of the programs at the SBA or educational programs that the SBA provides, you know, both nationally and then within the SBD, I think we really need to look at this and see the way that Millennials and younger people are getting their information is that is there that connectivity? And so I think that is critical. How do we reach them? So I think all the programs we need to look at to sort of go where these people get their information. And using more social media, using sort of the next thing that comes along. I know it continually changes in terms of the platforms that they use, but I do think that we need to get a little bit more innovative in terms of how we reach, but also the programs. Are we staying relevant in terms of what is happening in the marketplace and the training that is actually provided?

Ms. MURPHY. Great. Thank you.

Chairman CHABOT. Thank you. The gentlelady's time is expired.

The gentlelady from North Carolina, Ms. Adams, who is the Ranking Member of the Subcommittee on Investigations, Oversight, and Regulations is recognized for 5 minutes.

Ms. ADAMS. Thank you, Mr. Chairman. Thank you, Ranking Member Velázquez. And thank you all for your testimony and being here today. I spent 40 years on a college campus, small campus in Greensboro, North Carolina, Bennett College. So we were always looking for new ways to do things. But I want to thank you, Mr. Crawford, for serving in the capacity that you do and what you do for students. And I wanted to ask you what you would recommend to those colleges or universities with smaller budgets, lower endowments to cultivate business leaders and to promote entrepreneurship among the graduates.

Mr. CRAWFORD. Well, I think the entrepreneurship programs in many ways, when you get faculty members that are entrepreneurial, them and of themselves, and students that are entrepreneurial, they will actually create the programs, just like they were a true entrepreneur out in the marketplace. And so in many cases, I think when you have that kind of entrepreneurship on campus, you can kind of do things on a shoestring and so forth. And so, I think the way that we have done it at Miami and the way that my past experiences at other fine institutions, has really been through the partnerships that we created, both for the city and the state and the Federal Government and so forth, because the resources go a lot further. And universities, you should never underestimate that you have what the marketplace wants and that is talent, talent, talent. And so to use that talent as a way in which you can offset or fund entrepreneurship programs through those relationships with corporate and industry.

Ms. ADAMS. Thank you. So your institution was successful in developing your ecosystem. Did Miami have any contact with Small Business Administration in setting up your programs?

Mr. CRAWFORD. Yeah, historically it has. Yes. And then also, you know, we do work with our students, too, to get the word out on the various programs for the SBA and so forth, and the other programs that are available through the Federal Government for those startup companies.

Ms. ADAMS. So did they offer their services or did you partner with them? Did you see them out?

Mr. CRAWFORD. I think we sought them out on the front end, and then of late we have been doing a lot more work also with our local chambers and the ones in the state and how we actually get the word out. And then working with the Minority Accelerator Chamber also to women and minority-owned businesses. And so we have been making the connections not just at the Federal level but all throughout the state.

Ms. ADAMS. Thank you.

Mr.—is it Schocken?

Mr. SCHOCKEN. Schocken.

Ms. ADAMS. Schocken. The difficulties that minority-owned and women-owned businesses encounter trying to obtain capital for their businesses is well documented. However, venture capital seems to be particularly difficult to obtain. One report suggests that women-owned businesses drew only 5 percent of all U.S. venture capital. In your testimony, you outlined recommendations to address the geographic concentration of venture capital and the concentration of control of venture capital, but do you have any recommendations to address venture capital's lack of investment in minority and women-owned businesses?

Mr. SCHOCKEN. Thank you. Great question. And I have two answers to you. The first answer is cut the innovation economy loose. Do the kind of access to capital proposals that we have made because it will benefit everybody in that ecosystem. That is the general answer.

The specific answer is that we have this tremendous concentration of venture in this one state and this lack of venture capital availability to minorities, to women, and geographically around the country. In my view, that is a role for the Federal Government, and in my view, you bring back the SBIC program and you specifically target it to those states, regions, women, and minorities that have had such difficulty accessing capital. It is such an important issue, and clearly the private marketplace is not able to answer it themselves. It is, therefore, in my opinion, and I am a business guy, this does not come naturally to me, it is a correct and proper role for the Federal Government to step back in, and I think that is the answer.

Ms. ADAMS. Great. Thank you very much.

Mr. Chairman, I am going to yield back.

Chairman CHABOT. Thank you. The gentlelady yields back.

And the chair would note that we have been joined by Chad Pergram, who not only is a Capitol Hill correspondent for FOX News, but more importantly, Dr. Crawford mentioned the internship program, and Chad heads up the Inside Washington program, which many Capitol Hill offices have taken advantage of over the year, and the Small Business Committee actually has an intern at this time, Nick Tracewell, who is also in the back of the room here. So we are definitely benefitting from Miami's program here and gave FOX News a plug, I guess. That was not the intention. We wanted to recognize how it is working here on Capitol Hill.

I apologize to Mr. Lawson. I am not taking up any of this time, but I did want to get that in before he went on. So thank you.

Our final questioner, I think, is the gentleman from Florida, Mr. Lawson, who is the Ranking Member of the Subcommittee on Health and Technology, is recognized for 5 minutes.

Mr. LAWSON. Thank you very much, Mr. Chairman. And I would like to welcome a Hurricane to a section of Florida, up in Tallahassee. We always enjoy bringing the Hurricanes up and sending them back where they belong in South Florida. And I see a Florida State tie over there.

But my question centers around 36 years ago I was going into small business and I was trying the only access. I think it was $10,000 or $15,000 to go into—I was leaving coaching at FSU and said I am going into small business. And so, as a result, my question always centers around the access to capital because—and I really did not understand at the time. The only thing I had was an FHA loan for about $121,000 on a house, you know, and that was blocking me from getting access to the capital, even though the payment was only about $131 a month. And so how can we work together? I mean, do they work together? So 36 years later, I was still in the business until I got hauled off to Congress. So my concern is that the way I have this question here is how can communities, partners, including local government, entities, and banks guarantee that those who want to start small business have the resources to do so, including the main question is access to capital? And that is all I really needed. And they were asking me to get someone to stand for the loan. And I did not really have the access that I needed, but ever since then the main question has been how do people like myself those years back have access to capital to start a small business?

Mr. SCHOCKEN. Well, if your question is how do we guarantee that access to capital, I do not think there is an answer.

Mr. LAWSON. Okay.

Mr. SCHOCKEN. But I would begin an answer by pointing to equity crowdfunding. That is specifically what equity crowdfunding was designed to do. For the smaller businesses, whether they are neighborhood bakeries or small manufacturers, that was the goal of equity crowdfunding, so that you could bring together people who could then own a stake in that business. That is an extremely important concept. You see the success of Kickstarter and Indiegogo where they can finance early-stage projects by providing t-shirts and merchandise. It shows the hunger around the country to back early-stage ideas. But until the Jobs Act passed and we legalized equity crowdfunding, there was no way to provide ownership in these new ideas to people who wanted to invest in those companies. And unfortunately, the regulations that were developed for equity crowdfunding has really made it not work. In this enormous economy, I think the number is $37 million and maybe $50 million nationally that has been raised around equity crowdfunding.

And so to me the answer to your question is, first of all, fix equity crowdfunding. And the second answer is in each state there ought to be a major concerted effort to simplify the regulations required to start new businesses because, I mean, it is just daunting for entrepreneurs with all the various steps and regulatory things that they need to go through. Those are the two major barriers for getting new businesses off the ground.

Ms. KERRIGAN. I agree on the fix crowdfunding front. You know, the early players that have been raising money, there has been some, I think, some very promising success. So we need to allow that, leverage that success, and really make that available to everybody, but we need regulatory fixes.

The congresswoman, I know she asked about sort of the concentration in capital and how we sort of fix that as well. I know there is legislation that has also been introduced in the House to develop opportunity zones, if you will, that really would leverage private sector money out there. And allow for certain incentives or benefits, whether it is capital gains exclusion, if they are investing in those areas of the country. So I think there are a lot of different solutions and I do agree a lot happens at the lower local level, too, in terms of the regulatory front that we need to lower those barriers.

Chairman CHABOT. The gentleman's time has expired.

The ranking member is recognized for 5 minutes.

Ms. VELÁZQUEZ. Just one question.

Chairman CHABOT. For one question, which may or may not take 5 minutes.

Ms. VELÁZQUEZ. Mr. Schocken, are you aware of any work, interagency work in terms of innovation economy? I know that the White House put together a working group that is basically comprised of CEOs, to address the issue of the innovation economy and what could provide answers to the lack of business formation in our country, if there is anything that is done by the SEC, for example, or even SBA that you are aware of?

Mr. SCHOCKEN. Thank you. So first of all, the innovation name in that commission on the White House I think is an inaccurate name. That Innovation Commission was put together by the White House to bring in best business practices into government; it was not to address the needs of the innovation economy. And I agree with you; that is a very misleading name and kind of implies they are paying attention to the innovation economy and I think they are not. They did create a commission of businesspeople in the White House but that really deals with big business. And I think they were very smart to do that, but there is nobody on that commission that represents the small companies and the innovation economy, and they should have a similar commission for that.

Now, to your question, no. I do not see interagency cooperation on this issue, and I think this issue is just hugely important. We have got this train coming through the tunnel right at us on globalization and automation. You have seen the studies, something like 20 million jobs are going to get destroyed by automation over the next 20-25 years. We have to replace those jobs. The only place you were going to be able to replace them is from the innovation economy. And so that is why we have proposed this commission on the innovation economy. Bring in the smart guys, the bankers, the lawyers, the academics who really understand the innovation economy and be there to give you, as the Congress, to give the White House, here are the easy, short-term things you can do. I have outlined five of those today that are pretty easy fixes that would have major impacts. But we also need to begin to address the major long-term systemic issues that I have also identified that nobody is paying any attention to. And that would be a way to bring all of these agencies, White House, Congress together and prioritize the innovation economy.

Ms. VELÁZQUEZ. Thank you. Thank you.

Chairman CHABOT. Thank you. And I think I will recognize myself for one question just to kind of follow up on that.

Ms. Kerrigan, let me ask you this. I think the impression, or perhaps misimpression has been given that the new administration, relatively new, they have been in office about 6 months now, that they are not doing anything about small business. Now, I know we have a new Small Business Administrator, Ms. McMahon, who has testified before this Committee a couple of times and appears to be very serious about kind of shaking up the SBA and making it much more business friendly. Could you comment on your view as to what you have seen with respect to her?

And secondly, one of the other things the administration has announced fairly early on is that they would like to get rid of two regulations for every new one that comes out of Washington because the small business community in particular has been burdened by being overregulated for many, many years now. So if you could comment on those two things, I would appreciate it.

Ms. KERRIGAN. Sure. Well, I think there are two things. One is there are small businesses and the small business community, existing small businesses, and then sort of what is happening to encourage more startups. So sort of take those two things.

I do think Administrator McMahon is doing a great job. I mean, she is traveling the country, talking to people, visiting her centers, talking to small business people to really see what needs to happen at the SBA in terms of their programs and services.

Chairman CHABOT. Now, is she talking to Boeing and to the oil companies? Or who is she talking to?

Ms. KERRIGAN. She is actually talking to roundtables of small business owners in these local communities, in addition to the staff themselves, to really understand sort of how the SBA works. You know, sort of the impression that small business owners have of the SBA. And she is doing this everywhere. And I think that is a really good idea to listen to the customers, if you will, to see what they need, if the SBA is relevant, what else it can do to help small businesses.

So from a policy perspective, I think the executive orders that the President put forward are just really good ideas to look at sort of the regulatory environment in all of the departments in all the agencies and see what needs to be done to update, to streamline, to repeal, to clean out the regulatory underbrush. I know we are taking part, providing comments, going to meetings. The U.S. Treasury had a big roundtable, very diverse roundtable of stakeholders, in terms of what needs to happen from a financial service regulatory perspective. So I think all those things are positive, and hopefully, when the White House gets these ideas and recommendations, they will actually move forward on this.

I agree though, I think the President, he has his larger business council. I think it is a great idea that he is listening to bigger businesses, but I think it would be a fabulous idea if he put together a startup council and listened to entrepreneurs, young entrepreneurs. I mean, they are the ones that are on the ground. They are going to have the innovative solutions to a lot of these countries' problems, and he will really get a sense of where the economy is. And I think that if you focus on entrepreneurship and small business and their policies, you will get the broader policies right.

Chairman CHABOT. Thank you very much. We will make sure that that gets conveyed.

Mr. SCHOCKEN. Mr. Chairman, if I could just for a moment, you raised the question of the SBA. And I would like to advance the idea that business and the innovation economy has changed so much that it is time to consider perhaps dividing the SBA. The SBA is designed to deal with small businesses, the franchisees and the local stores and that traditional part of the American economy. The needs of those businesses are dramatically different than the needs of the high growth innovation economy that is so important to job creation. And so you have got kind of a mixed mission for the SBA. And so let me just suggest considering really splitting the SBA into its traditional constituency and the needs of the high growth innovation economy.

Chairman CHABOT. Thank you very much.

We want to thank all the witnesses. I think you all three did a great job here this morning.

Obviously, encouraging entrepreneurship is absolutely critical because an awful lot of the new jobs created in America today are created by entrepreneurs and small businesses. And the information that you have conveyed to us, I can assure you on both sides of the aisle, we will do everything we can to put it to good use. So thank you for sharing that with us.

I would ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered.

And if there is no further business to come before the Committee, we are adjourned. Thank you very much.

[Whereupon, at 12:33 p.m., the Committee was adjourned.]

APPENDIX

MIAMI UNIVERSITY

The University's Vital Entrepreneurship Role
July 19, 2017

Chairman Chabot, Ranking Member Velazquez, I appreciate the opportunity to testify before the committee today. I wish to discuss the vital role of higher education in the nation's entrepreneurial economy. I will describe how universities cultivate business leaders and provide examples of how Miami University promotes entrepreneurship so our graduates don't just get great jobs – they create them.

Although a physicist, now that I've launched two companies based on my research discoveries and helped create start-up communities and ecosystems at three universities, I understand entrepreneurship differently -- it reaches far beyond the business world.

I now define entrepreneurship as **"seeking potential, seizing opportunity, and synthesizing solutions for societal impact."** I know that relationship-building is key to its success. By this definition, my role as president of Miami University is entrepreneurial, especially in these days with so many pressures to enhance quality and reduce costs. The entrepreneurial spirit must go beyond the confines of the business school and the President's office to be a central part of the entire university. Just to give you a recent example: When Forbes ran, an article headlined "Why Ohio Is The Best State In America To Launch A Start Up"[1] earlier this year, it featured two of our graduates who as science majors joined our Institute for Entrepreneurship as undergraduates and went on to found OROS Apparel.

The entrepreneurial mindset is as vital for success in the 21st century as the pioneering mindset in the 19th century and the manufacturing mindset in the 20th. Once, a typical career was one job at one hometown company with a gold watch upon retirement. Now, disruption occurs at an accelerated pace.

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[1] Taylor, Peter Lane, Forbes Magazine, "Why Ohio Is The Best State In America To Launch A Start Up" Accessed July 7, 2017: https://www.forbes.com/sites/petertaylor/2017/02/20/why-ohio-is-the-best-state-in-america-to-launch-a-start-up/#7339343b1d94

Entrepreneurial thinking equips us to respond to such rapidly changing circumstances by evaluating options, imagining possibilities, and taking risks.

Universities play a vital role in the start-up ecosystem. Universities provide start-ups with human capital and innovative research solutions, critical components for successfully executing new ideas. This is what John Kenneth Galbraith meant when he said universities would be as important to the 21st century as banks were to the 20th.

The critical question facing universities is: how do we maximize our role in the 21st-century entrepreneurial ecosystem for the benefit of our state, our nation, and our global society? Traditional higher education was designed to make students experts in one subject – to go deep but not broad. That is no longer sufficient in today's economy, where students need both breadth and depth to sustain them through multiple careers.

That's why Miami's teaching philosophy involves the "T-shaped person," a concept first advanced by the marketing company IDEO. In addition to developing depth in a specific subject, our students gain breadth and experience in entrepreneurial thinking and emerging technologies. We treat such skills as coding, social media, and search engine optimization in the same way we treat writing, math, communication, diversity, and inclusive excellence – fundamental skills that all college graduates, regardless of major, require in the new economy.

The entrepreneurial spirit and philosophy at Miami is embedded in every major – not limited to the business school or science, technology, engineering and math (STEM) disciplines. In fact, more than half of our students in entrepreneurial activities at Miami are outside the business school. They can take an entrepreneurship class or co-major, unite the breadth of liberal arts with the depth of discipline knowledge, work in a laboratory with a professor to create value from basic research, and engage the diversity of people and perspectives on campus that make lifetime connections. Exemplary programs offered by the Institute for Entrepreneurship and the Armstrong Institute for Interactive Media Studies, called AIMS, draw students from 79 majors across the university, and their graduates are in great demand.

House Small Business Committee Testimony
The University's Vital Entrepreneurship Role
President Gregory P. Crawford, Miami University
July 19, 2017

Miami's universal approach to entrepreneurship exceeds the conventional higher education mindset on experiential learning. We believe there is no substitute for the messy, complex, sometimes risky, tension-filled aspect of the compromise-driven world of real business and value creation. No classroom can replicate real projects, with real stakes that require real results. This approach has transformed our traditional internships into interactive apprenticeships where students make quantifiable contributions to the entrepreneurial ecosystem.

These apprenticeships provide our students with year-round opportunities to engage in real-life experiences with start-ups and major national corporations. There, they must make the same kinds of choices and trade-offs that you and I have faced in our business careers. We challenge our students to become change agents for both current and future organizations.

Among other things, Miami University has a permanent presence at Cintrifuse in Cincinnati. Cintrifuse is a start-up catalyst, a public/private partnership that exists to build a sustainable tech-based economy for the Greater Cincinnati region. Our students are embedded, full-time, at Cintrifuse and with local start-ups. Miami students are part of actual start-up teams, bringing the depth and experience of our university to help them succeed. Through this partnership, our students have worked directly with such Cincinnati companies as The Brandery, 84.51, Frameri, and Roadtrippers, to name a few.

In addition, Miami offers the San Francisco Digital Innovation Program, which is ranked 5th in the country in Technology Entrepreneurship. In this program, students spend an entire semester living in Silicon Valley. Four days a week, they are in an apprenticeship at a start-up. Like any nascent entrepreneur, they do everything from ideation to product development to cleaning up the office at the end of the day. On the fifth day, they visit executives and thought leaders at companies such as Google, Apple, and Facebook. We were the first undergraduate program of this kind in the Bay Area, and we have since replicated the program in Ohio and Texas.

The results of our approach to entrepreneurship speak for themselves, and we are extremely proud of our students' successes:

- 1,500 Miami alumni currently self-identify their job title as a founder or co-founder on the social network LinkedIn;
- More than $2B in venture funding has been raised by Miami-affiliated high-growth companies since 2011; and
- 94 Miami-affiliated high-growth companies have exited through acquisition since 2011.

Universities have an important role to play in the entrepreneurial ecosystem. We can be critical players as the testing ground for the next generation of innovators. This involves not only focusing on what happens in the classroom but also giving students the breadth of knowledge in entrepreneurial thinking and emerging technologies necessary to thrive in any career. That includes opportunities for invaluable real-world experience that will prepare them to create their own business or excel in one.

Thank you for allowing me to present the University's vital entrepreneurship role in the 21st Century, I will end with this statement: Training in entrepreneurship provides both tangible and intangible outcomes. Universities often benchmark their graduation class by counting those with jobs six months after graduation – at Miami that number is >95%. Beyond that, we want to be known for those graduates who create jobs for others, sometimes thousands or tens of thousands of jobs. That we can measure.

SBE COUNCIL
Small Business & Entrepreneurship Council

Reversing the Entrepreneurship Decline

Testimony of

Karen Kerrigan
President & CEO
Small Business & Entrepreneurship Council

Before

Committee on Small Business
U.S. House of Representatives

The Honorable Steve Chabot, Chairman
The Honorable Nydia Velaquez, Ranking Member

July 19, 2017

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Protecting Small Business, Promoting Entrepreneurship

Reversing the Entrepreneurship Decline

The Small Business & Entrepreneurship Council (SBE Council) is grateful that the Committee on Small Business has convened this hearing on this very critical matter. Members of this committee fully recognize how important small business is to job creation, innovation, opportunity and overall dynamism for our economy. Restoring healthier levels of entrepreneurship and new business creation are vital to our country's economic strength and future competitiveness.

Thank you for the invitation to be a part of the hearing today. My name is Karen Kerrigan and I am president & CEO of SBE Council. SBE Council is an advocacy, research and education organization that works to protect small business and promote entrepreneurship. Our members have testified many times before this committee, and they've seen that their participation, along with the committee members' positive engagement, has led to successful legislative or regulatory outcomes in a number of areas, including access to capital, tax policy, government procurement and more.

On June 28, 2017, SBE Council hosted our Startup Summer Policy Forum where the state of American entrepreneurship was fully explored. The good news is that there is positive activity at the national, state and local levels to encourage more people to start businesses. I believe everyone left the Startup Policy Forum energized by the progress, for example, of the work of private sector business leaders, like Dan Gilbert, Chairman and Founder, Quicken Loans and Rock Ventures (and majority owner of the Cleveland Cavaliers) who has invested billions in the rejuvenation of Detroit and who talked about his progress on making Detroit a world-class city, which includes a vibrant entrepreneurial sector; and Federal Trade Commission Acting Chair Maureen Ohlhausen's new "Economic Liberty Task Force" initiative to lower unnecessary barriers to occupational licensing at the state and local level, which hurts career entry and entrepreneurial opportunity. Mike O'Rielly, Commissioner of the Federal Communications Commission, covered a host of policies and initiatives underway at the agency to bring broadband access and quality choices in broadband, especially to Americans in rural or underserved areas of the country. Obviously, access to broadband is essential for any new startup or business to access the tools, platforms, services and technologies that are needed for success and growth in the competitive, modern economy.

Solutions and ideas were discussed to reboot entrepreneurship in America, and it will take many people working together across the country to reform policies that in turn will improve access to capital, markets, education and training, quality and affordable broadband and the skilled workers that are needed to start and scale new businesses.

As noted by John Lettieri, Co-Founder of the Economic Innovation Group (EIG) at the Startup Policy Forum, while there is "a growing awareness about these trends in entrepreneurship, there is a lack of connectivity in the policy debate regarding just how severe these trends are and what their implications are for the broader economy."

Advocates for entrepreneurs, like SBE Council, thank the committee for its focus on this issue, which will shed more light on the implications, and hopefully lead to solutions that will reverse these trends.

The State of Entrepreneurship

"Dynamism is in retreat nationwide and in nearly every measurable respect," according to the EIG report *Dynamism in Retreat: Consequences for Regions, Markets, and Workers (February 2017).* One key measure is the lack of new business creation. The report notes:

"The number of businesses being added to the economy has ground to a halt over time. During the recovery period from 2010 to 2014, the economy added just over 100,000 firms. Compare that to a prior era—the recovery from 1983 to 1987—when the size of the national economy was much smaller than it is today and the United States generated an increase of nearly *half a million* new businesses."

In addition, new business creation during the 2010-2014 recovery period was highly concentrated. The EIG study notes, "five metro areas – New York, Miami, Los Angeles, Houston and Dallas – produced as big of an increase in businesses as the rest of the nation combined."

SBE Council also tracks data regarding monthly trends and the overall state of entrepreneurship and small business in the United States. The latest *State of Entrepreneurship* analysis by SBE Council chief economist Raymond Keating shows a continuing dearth of entrepreneurial activity and a significant decline over the past decade, albeit there has been some growth during the past five years.

Keating's analysis looks at three key measures of entrepreneurship and business activity: incorporated and unincorporated self-employed, and employer firms as shares of the relevant population. The data shows a significant shortfall in the number of businesses compared to where we should be. The most recent analysis conducted during National Small Business Week (April 30-May 5, 2017) finds some 3.4 million "missing" businesses in the United States.

Why?

The financial crises, followed by the Great Recession and a weak economic recovery continue to impact the psyche and mindset of many Americans. Starting a business is a major risk, and many people feel like they are still recovering from the recession. Certainly, many Americans will never forget that difficult period and we can understand why there is a strong aversion to risk.

Consider the millennial generation, who are starting businesses at a far lower rate than previous generations:

• According to the Small Business Administration Office of Advocacy report, **The Missing Millennial Entrepreneurs (February 2016)**, this cohort is the least entrepreneurial: "At age 30, less than 4 percent of Millennials reported self-employment income in their primary job in the previous year, compared with 5.4 percent for Generation X and 6.7 percent for Baby Boomers. Trends among the age groups Millennials will join in future years suggest that entrepreneurship among Millennials will remain relatively low for decades."

• An analysis of Federal Reserve data by the Wall Street Journal (**Endangered Species: Young U.S. Entrepreneurs, January 2015**) found that the share of younger people who own private businesses has reached a 24-year low.

• A study by Lavaughn M. Henry published in Business Economics (**Are Young People Becoming More Risk Averse? January 2017**), found "precautionary" savings among young people aged 18-34 "exceeds that of all age groups, and has occurred against a backdrop of declining real income, a tepid economic recovery from the Great Recession of 2008-2009, a tightened credit environment and changing household demographics." In addition, home ownership among young adults in the second quarter of 2016 "reached the lowest level that it ever has been since the survey first began in the first quarter of 1994."

Still, while the trends may not bode well for the Millennial generation as it relates to starting a business, many in this cohort still have aspirations for doing so. In fact, **a May 2017 survey by America's Small Business Development Centers (America's SBDC)** found that "half of Millennials plan to start a business in the next three years." This represents a dramatic shift from the trends noted above. The survey also identifies some of the key barriers and challenges that often get in the way of turning aspirations into action. For example, 45 percent say access to capital is the biggest barrier in starting a business and 46 percent consider "financial stability a must" before embarking on this endeavor. Interestingly, according to the survey, the number one reason that holds them back from starting a business is that they do not know where to go for help.

Addressing Risk: For a generation that is more risk averse than others, strengthening optimism while lowering barriers to risk-taking seems to be key. Sustainable and robust economic growth, where wage growth and opportunity are strong, along with solutions that address their biggest financial fears (for example, an EY & EIG National Survey: **The Millennial Economy, September 2016** found that 74 percent were worried that they would be unable to pay their health care bills if they get sick) generally align with the concerns of many Americans and these are the issues that the U.S. Congress and this Committee have been focused on –

fixing the Affordable Care Act, tax reform, access to capital, regulatory relief and reform, access to markets (global markets and federal contracting), and others.

Reversing the Trends

Removing state and local barriers to entrepreneurship is very important to boosting new business creation. States and localities that understand the connection between burdensome taxes and regulations and economic development are strengthening ecosystems by addressing these barriers. The entrepreneur's or budding entrepreneur's first touch with regulation mostly begins at the local and state level where they are met with licensing, zoning, registration, fees and other regulations that are often burdensome and costly for starting a business.

In addition to fixing and streamlining policies, smart localities and cities are rounding out the ecosystem through private-public partnerships that provide access to mentors, one-on-one assistance or ombudsmen who directly help startups or connect them to the people or places that can help, and creating channels for continuous feedback from the small business community to improve the business environment or develop initiatives to address emerging needs.

Low taxes and a light regulatory environment are indeed factors for encouraging startups and attracting new businesses to a locality or state, but other attributes such as educational and training support, the quality of human capital, affordability and business costs, and the availability and concentration of capital are critical as well (**6 Factors that Make States Attractive to Small Business**, CNBC, July 2017.)

Federal Policy

SBE Council has many entrepreneurs who also serve as mentors to other startup entrepreneurs in their communities, or who have taken an active role in re-building their hometown Main Streets and towns that used to be vibrant centers of commerce. Regarding issues at the federal level, they believe the U.S. Congress and Administration can continue to address these key areas:

Tax Reform: Lower taxes and vastly simplify the system. Our tax code needs to be internationally competitive and to encourage growth. Growth breeds confidence, optimism and entrepreneurial opportunity. Lowering taxes on small businesses is essential as profits are poured back into the business through wage increases, better benefits and updating technology and equipment. In addition, lowering corporate rates would create a downstream effect on small business suppliers and vendors as these corporations spend and invest more at home. But we also must remember that most C-corporations are small businesses. According to the latest Census Bureau data, 86 percent of corporations have less than 20 employees, and 96.7 percent less than 100 workers. Tax reform also presents an opportunity to modernize the tax system by updating various thresholds that have not been addressed since the 1950s, such as when the self-employment kicks in. The threshold on self-employment taxes kicks in at $400, which is 15.3 percent of profits, but has never been updated. However, the standard deduction on federal income tax is adjusted annually. If the self-employment tax floor had been adjusted at the same rate as the standard deduction, it would be more than $6,000.

Health Care Reform: Unfortunately, this is the issue that never goes away. Access to affordable coverage becomes more critical with each passing year that costs go higher. High costs are a deterrent to those currently employed with coverage but who want to strike out on their own and start a business. Diminishing access to affordable coverage compounds risk aversion. SBE Council has supported various reform proposals to improve choices and affordability such as allowing small business owners to also participate in the cafeteria plans and Health Reimbursement Arrangements (HRAs) that they offer to their employees.

Regulatory Relief & Reform: Federal agencies are currently undergoing a process where they are reviewing regulations to identify those that can be streamlined, updated or repealed if they are duplicative or outdated. This is a healthy and needed process, and it is very positive to see the SBA's Office of Advocacy directly engaged through their development of an online platform for small business input, and hosting roundtables across the country to receive their direct input. SBE Council has been active in roundtables being hosted by various department and agencies, such as the U.S. Treasury, and is providing input to these entities in response to their open comment periods. Clearing regulatory underbrush and streamlining rules is a good for startups and the U.S. business environment. Strengthening the business environment overall will improve private sector investment and capital formation, which will enhance the ecosystem for entrepreneurship.

Access to Capital: Committee members have explored this issue continuously over the years. The challenge is ongoing. Reforms to relieve community banks of unneeded regulation, and modernizing and streamlining an array of Security and Exchange Commission rules and compliance requirements will be helpful in unlocking capital for startups and small businesses. Equity and debt-based crowdfunding has had a promising start despite the delay in fully implementing Title III. Regulated crowdfunding can be a much more powerful tool if some simple changes are made to lower costs for startups, and increase the amount that can be raised via Title III crowdfunding. Pro-growth tax reform, if enacted, can be another positive for improving access to capital.

Private Sector Action and Leadership

At SBE Council's Startup Policy Forum, Dan Gilbert expressed his passion for Detroit as a reason why he relocated Quicken Loan's headquarters there. He grew up in Detroit and his father was a small business owner. Mr. Gilbert and several other business leaders have invested billions of dollars into downtown Detroit, which is leading to its incredible rebirth. The revitalization has created new energy, new residents and many new businesses. The United States needs more Dan Gilberts.

SBE Council member and successful entrepreneur Jason Duff is doing the same in Bellefontaine, Ohio. While not on the same grand scale as Gilbert's investments in Detroit, Duff's investment of capital and time is leading to the revitalization of the small town he grew up in. Walking along the streets one day, he was moved by the "Closed," "Out of Business" and "Thank you for 40 years of business" signs. Duff was moved to action and began investing his own money into the old storefronts, recruiting businesses into Bellefontaine, and encouraging people to start businesses. Duff personally mentors those businesses that rent in his buildings and storefronts. Due to his effort, Duff has helped to create dozens of new businesses and the jobs that go along with that **(Bellefontaine Sees Boom in Downtown Shops, Expects it to Continue, Springfield News, February 2017.)**

Thankfully, there are countless examples of successful entrepreneurs who are using their know-how, capital, passion and networks for revitalization and rebuilding projects across the country. These leaders are also helping entrepreneurs and startups meet their most pressing needs – whether that be capital, mentoring, training or encouragement.

Opportunity and Entrepreneurial Rebirth

My members and I continue to be bullish on U.S. entrepreneurship. Changes and reforms are being made at the state and local level as the competitive environment for private investment and business location or relocation is driving that change.

Certain industries, like technology and energy, offer tremendous opportunity for startups and business growth. In fact, the energy industry has bucked the poor trend in entrepreneurship. This sector is a "good news" story for new business creation as highlighted by the chart below.

Employer Firms in Key Sectors	2005	2014	Percent Change 05-14
Total (all sectors)	5,983,546	5,825,458	-2.64
Oil & gas extraction	6,317	6,646	5.21
Drilling oil & gas wells	1,833	2,121	15.71
Support activities for oil and gas operations	6,183	9,735	57.45
Oil and gas pipeline and related structures construction	1,612	1,839	14.08
Oil and gas field machinery and equipment manufacturing	480	599	24.79

Data Source: U.S. Census Bureau (2014 latest data available)

And, like most U.S. industries, the energy industry is dominated by small businesses and entrepreneurs, who have been at the center of America's energy renaissance, as noted by the following chart:

	Percent with Less Than 20 Employees	Percent with Less Than 100 Employees
Oil & gas extraction	90.2	96.7
Drilling oil & gas wells	77.5	92.2
Support activities for oil and gas operations	80.7	95.2
Oil and gas pipeline and related structures construction	59.2	84.0
Oil and gas field machinery and equipment manufacturing	52.9	80.5

Data Source: U.S. Census Bureau (2014 latest data available)

Other trends favoring small business growth and U.S. entrepreneurship include:

• "Buying local" and supporting small businesses - these are not passing fads. Communities and local businesses, however, need to make continuous efforts at marketing their small businesses and reminding consumers about the importance of supporting small business. The consumers' desire for "niche" products and services favors innovative entrepreneurs, and small business owners have a competitive advantage in providing personal customer service.

• The on-demand business model has expanded, grown and gone mainstream. Consumers, including the corporate sector, are embracing on-demand services such as Taskrabbit, Uber, Lyft, Airbnb and the like. The on-demand sector offers incredible opportunity for more disruption and startup activity.

• Older entrepreneurs and immigrant entrepreneurs continue to increase. According to **the 2017 Kauffman Index** entrepreneurs aged 55 to 64 made up for 25.5 percent of all new entrepreneurs in 2016, up from 14.8 percent in 1996. Immigrant entrepreneurs account for nearly 30 percent of all new entrepreneurs in the United States. Immigrants are highly entrepreneurial and are almost twice as likely as the native-born to become entrepreneurs.

• Educational initiatives at the college level have greatly expanded to include entrepreneurship majors and minors. The University of Virginia, for example, was one of the first colleges to offer an entrepreneurship minor for all undergraduate students. Still, we believe it is critical that entrepreneurship courses and teaching needs to be incorporated into educational curricula starting in grade school. Young students need more exposure to a diversity of successful entrepreneurs. Business ownership and entrepreneurship needs to be elevated and celebrated as a career option early on. As suggested by a **Startup America: Reducing Barriers** report published under the leadership of former SBA Administrator Karen Mills, perhaps an "E" for Entrepreneurship needs to be added to STEM - "STEEM."

• Broadband Access: SBE Council is heartened by FCC Chairman Ajit Pai's genuine concern and interest in focusing on "communities left behind" in the recovery and digital economy. Access to broadband, as noted earlier in my testimony, is critical to economic development in these communities. Chairman Pai just returned from a tour of rural America to understand the challenges and opportunities. Rural America has incredible advantages for business development, which includes affordability and a lifestyle that many Americans would like to return to, or simply enjoy. Obviously, access to quality broadband is critical to economic development and an entrepreneurial rebirth in more rural areas of the nation. I believe the leadership is in place to make this happen.

I look forward to your questions and our discussion about reversing the decline in entrepreneurship, and how to encourage more people to start businesses.

This committee's bipartisan work continues to produce results that help to strengthen the ecosystem for entrepreneurship and small business growth. SBE Council applauds the committee's efforts and looks forward to working with you on solutions to encourage and enable more entrepreneurship in the U.S. Thank you for your leadership.

Respectfully submitted,
Karen Kerrigan

TESTIMONY OF JOSEPH L. SCHOCKEN

Founder and President, Broadmark Capital, LLC

Before the House Committee on Small Business

July 19, 2017

Good morning, Chairman Chabot, Representative Velázquez, and members of the Committee. My name is Joseph Schocken, and I am the founder and President of Broadmark Capital LLC, a FINRA member broker-dealer based in Seattle, Washington. I appreciate the opportunity to appear before you today to discuss the critically important objective of reversing the decline in entrepreneurship.

Today's hearing could not be more timely or important. The United States is experiencing a serious decline in new company formation just as the economy struggles to absorb the impacts of automation and globalization. In fact, we now see companies disappearing at a faster rate than new companies are forming. I thank you for recognizing the significance of this trend and the need to take action.

Automation and globalization have created great benefits to consumers and investors, and at the same time fundamentally disrupted and changed the way our economy works. This paradigm shift is permanent, ongoing, and accelerating. A recent study by Forrester Research, Inc. projects that automation and robotics will displace nearly 25 million jobs—17 percent of the American workforce—by 2027, and cause a net job loss of 9.8 million, or 10 percent of the workforce, over that same time period. While automation and globalization produce economic gains, more mature companies tend to shed US jobs in the process of adopting new technology and expanding internationally.

American workers are justifiably anxious about what this means for their futures, and their children's futures. How can people plan for retirement when they don't know whether their jobs will exist in three years? How can they save for their children's educations? How will the new generation joining the workforce be able to afford home ownership, or even health care?

The solution lies in the Innovation Economy, which has and will continue to keep our economy resilient in response to these changes. Innovation has been responsible for the vast majority of American economic growth, and job creation, since the Second World War. Young businesses have been the source of all net new jobs and nearly 20 percent of gross job creation over the past 30 years. Furthermore, employee compensation in innovation-intensive sectors increased by 50 percent between 1990 and 2007, a rate nearly two and a half times the national average.

We are here today, however, because the Innovation Economy is in trouble. The White House too has recognized this problem, and even before his inauguration President Trump announced the establishment of a Strategic and Policy Forum to advise the Administration on government policy to promote economic growth and job creation. That forum, however, is led by the CEOs of large corporate employers, whose challenges and economic impacts are uniquely different from those companies in the Innovation Economy.

Startups and small companies don't have the time or capacity to come to Washington to tell you what they need, and thus you don't have the feedback needed to make meaningful changes. The administration has recognized the value of a commission on economic issues; while this too is important, it currently reflects the interest of big business. I am therefore urging the formation of a Commission on the Innovation Economy to promote innovation and entrepreneurship. This Commission would collect and synthesize information and make bipartisan recommendations for minor, near-term regulatory changes as well as address the long-term systemic issues facing the innovation economy.

This commission would address the two greatest challenges facing would-be entrepreneurs and startup companies: accessing capital and managing regulatory requirements.

Access to capital has never been easy, but it has become especially difficult in recent years. New businesses must spend a great deal of time and energy on finding capital, rather than on executing their business plans, and too often this capital is simply unavailable. Both the number of venture capital firms and the number of public companies have declined by half over the past twenty years, and we see capital increasingly concentrated, both geographically and by company. Nearly fifty percent of venture money now goes to firms in the Bay Area, and in the second quarter of 2016, almost 40 percent of all venture money went to so-called "unicorn" firms, startup companies that already have a market value of more than a billion dollars.

New companies must also wrestle with complex regulatory environments that are often designed for much larger, more mature companies. Even understanding compliance requirements often requires hiring personnel or outside expertise that startups cannot afford.

I was honored to be part of the legislative process that produced the JOBS Act of 2012, which sought to address these concerns. The JOBS Act passed with broad bipartisan support, and has already revealed how small regulatory changes can make a difference. The regulatory relief provisions of the JOBS Act have led to new capital and job creation, with no negative impacts.

Work, however, remains to be done. Our experience with the JOBS Act and the five years of market response since its passage suggest a path for further reform. This Congress has a real opportunity to apply the market feedback to refine the innovation economy's regulatory environment, and make an even greater impact for small businesses and entrepreneurs.

In the near term, several minor policy tweaks would have real and immediate positive effects on our Innovation Economy.

First, fix general solicitation. The ability to raise capital from accredited investors in an enormously important part of capital formation for early-stage companies. General solicitation under JOBS Act reform was expected to boost capital formation by expanding Regulation D; from September 2013 through 2015, $70 billion of the $2.9 trillion raised under Regulation D used general solicitation. While only a small part of the total Regulation D funding, this produced capital which created new companies and jobs. This number, however, would be much higher without the burdensome investor verification requirement. The JOBS Act's changes to general solicitation have already had a positive impact, but minor regulatory changes could unleash this strategy's full potential.

The SEC's regulations on third-party verification have had a chilling effect on capital formation. These regulations fixed a problem that did not exist. Congress should eliminate the requirement for investor verification and allow investors to self-certify under penalty of perjury, which would be a higher standard than applies to other private security offerings. This change alone would encourage capital formation and create millions of jobs.

Even an SEC whitepaper from October 2015 raised early concern that the investor verification requirement may be stifling the success of general solicitation. Industry participants corroborated these findings at the SEC's 2016 Forum on Small Business Capital.

When Congress considered the general solicitation provisions of the JOBS Act, many academics, journalists, and though leaders at the SEC expressed concern about the possibility of investor fraud. In the spring of 2012, we saw articles in the business press with headlines that warned, "JOBS Act Will Open Door to Investment Scams." It is important and gratifying to note that these concerns about investor abuse never materialized. In fact, the SEC's Division of Economic Risk and Analysis last year observed "no measured increase in the incidence of fraud in the new Rule 506(c) market."

Second, **fix equity crowdfunding.** Crowdfunding, perhaps the JOBS Act's boldest provision, has failed to meet expectations. A meager $38 million has been raised for 142 companies since May 2016. By comparison, $1.3 trillion was raised under Regulation D for more than 30,000 companies in the most recent calendar year reported by the SEC (2014).

Despite the nominal dollar value, the SEC's research has shown that crowdfunding is providing a new source of capital for small businesses that may not have otherwise had access to capital. Crowdfunding brings capital to areas underserved by capital markets. Nearly forty percent of crowdfunding campaigns were in areas classified as inner city by the Initiative for Inner City Competitiveness, a non-profit dedicated to enhancing inner city property through private investment.

The success of Kickstarter has demonstrated the need for this type of capital, and Indiegogo, a rewards-based investor website, has partnered with MicroVentures to provide both rewards-based and equity crowdfunding. Government policies should make it easier for entrepreneurs to attract traditional investment through funding campaigns.

The rules for crowdfunding, however, remain overly burdensome for small entrepreneurs seeking modest amounts of capital. The audit requirements for crowdfunding are cumbersome for small businesses, as evidenced by the transactions to date, which have clustered just at the threshold for required audits. Raising this capital threshold will encourage more businesses to take advantage of crowdfunding. The rules should also provide for relief from penalties for startups acting in good faith.

Third, **make it easier for small companies to make initial public offerings (IPSs).** Despite the intentions of the JOBS Act, high costs and regulatory burden keep the traditional IPO unattractive to small companies. These companies may have access to private sources of equity, but the IPO is what creates jobs. Investors in privately held companies prioritize return on investment, while investors in public companies expect growth. Growth creates jobs. Growth requires innovation.

Next, **expand the pool of accredited investors.** Keep the current standards in place, but expand the qualification criteria to allow people to meet those standards through employment and/or education. Knowledgeable employees of early-stage companies in high-growth industries may not have enough money to qualify under current rules; they should be allowed to invest in the companies they're helping to create, based on their education and job experience.

The SEC is considering a proposal to tighten accreditation standards, which would be exactly the wrong decision. Tightening these standards could eliminate nearly 60% of accredited investors, who provide more than one trillion dollars of capital yearly, in private placements. Such a change would devastate capital formation in the innovation economy. We encourage you to support Congressional efforts that maintain current standards, and allow these standards to rise with cost of living adjustments.

Finally, **allow early stage companies to sell net operating losses to raise capital.** If companies are permitted to treat net operating losses as an asset, they can leverage the risk capital invested in the company into additional cash—without further investor risk. Profitable companies would be able to provide significant new funding to early stage companies that are not yet earning a profit.

The changes discussed above can be made before the establishment of a Commission, although the Commission's expertise and guidance would be valuable. That expertise and guidance, however, will be essential as policymakers examine and address the major long-term issues that impact the Innovation Economy. These include:

- **The disappearance of small IPOs.** Today's IPOs start at $100 million, and the smaller IPOs have disappeared. This is a major reordering of the American economy, and requires policy changes beyond the small fixes suggested above. The disappearance of small IPOs is keeping job growth artificially low, and has exacerbated the regional imbalance in entrepreneurship. Regional and mid-sized businesses—small manufacturers, retailers, and craft brewers, for example—used to be able to make an initial public offering of $25 million to fuel growth that created hundreds, even thousands of jobs. When this source of capital disappeared, the jobs disappeared as well. Reviving regional IPOs could make a huge difference in parts of the country the economic recovery has left behind. Regulation A+, mandated by the JOBS Act, was intended to facilitate small businesses' path to IPOs, but is still not the most compelling option for financing. Structural issues have magnified the headwinds facing small companies that seek public capital. These include compliance burdens that favor larger companies and the move to passive investing and indexing, which means lower trading volumes and valuations for equities outside of indexes, and fewer retail brokers to sell an IPO.

- **The decline in the number of public companies.** The precipitous drop in the number of public companies is harmful to the economy in many ways. Public companies enhance the transparency of capital markets and broaden the investment choices for investors' portfolios, and their lower cost of capital implies more efficient markets. As I have noted, and will repeat, IPOs are also true job-creating events. Investors in public companies expect long-term, continuing growth, and this growth creates jobs. SEC Chairman Clayton has said that the agency is encouraging more companies to go public, noting last month that the current trend "ultimately results in fewer opportunities for Main Street Americans to share in our economy's growth, at a time when we are asking them to do more on their own to save and invest for their future and their children's futures."
- **Geographic concentration of venture capital.** Fifty percent of all venture capital currently flows to one state, California. This is a tremendous imbalance that resonates throughout the country, and is already causing systemic distortions in the job market. The disparity in access to capital is a major contributor to the divergence of wealth among regions throughout the United States. Inventive ideas and people are not confined to the coasts.
- **Concentration of control of venture capital.** Venture capital has not only become concentrated by region, but it now comes from fewer sources and is allocated to fewer companies. The number of venture capital firms has declined by 50%, while the amount of venture capital in the market remains steady. Fewer people and companies are controlling the same amount of money, and it's most efficient for them to allocate those funds to fewer projects in larger dollar amounts. The five to ten million-dollar first round of professional investment has largely disappeared. A Commission would examine the reasons for this concentration, consider various reform possibilities, and make meaningful policy recommendations.

The American economy has historically led the world in innovation and entrepreneurship. Today, however, the United States faces new levels of international competition as both allies and adversaries recognize the importance of encouraging innovation. As we seek to maintain our position in setting the global standards for fostering entrepreneurship, the United States can benefit from studying other nations' initiatives—such as France's Station F, a new $265 million startup campus in Paris that brings as many as 1,000 founders of new companies together from around the world to share ideas and pool resources.

If the United States is to remain the world leader in innovation, we must restore the American innovation machine. A bill to create a Commission on the Innovation Economy that would make recommendations for both short-term fixes and long-term policy goals is about to be introduced in both houses. I want to thank the members on both sides of the aisle who are leading this effort. You know that enacting legislation is a time-consuming and laborious process. Action from the White House in this area would also be welcome; the administration could establish a commission similar to the Strategy and Policy Forum, but for smaller, younger businesses.

A prospering Innovation Economy is the key to creating jobs, increasing wages, and reducing income inequality as companies compete for good employees. Again, I thank you for taking the time to address this crucial issue, and I look forward to working with you on solutions that will revive and encourage entrepreneurship. I would be happy to answer any questions you may have.

STEVE CHABOT, OHIO
CHAIRMAN

NYDIA M. VELAZQUEZ, NEW YORK
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0515

July 27, 2017

VIA E-MAIL

Ms. Karen Kerrigan
President & CEO
Small Business and Entrepreneurship Council
301 Maple Avenue West
Suite 690
Vienna, VA 22180

Dear Ms. Kerrigan:

In order to have a complete record for the hearing titled, "Reversing the Entrepreneurship Decline" held on July 19, 2017, the following question is being submitted by Representative Radewagen for your response.

> As you mentioned in your testimony, access to adequate broadband in rural areas would be a huge benefit to rural small businesses and rural communities. What other solutions would you suggest to improve entrepreneurship in rural areas?

Please provide your response to the question by Monday, August 14, 2017 to the attention of the Committee's clerk, Delia Barr, at Delia.Barr@mail.house.gov for inclusion in the hearing record. In addition, please send your response to Representative Radewagen's legislative assistant, Daniel Black, at Daniel.Black@mail.house.gov.

Thank you for your participation in the hearing and your timely reply.

Sincerely,

Steve Chabot

Steve Chabot
Chairman

SBE COUNCIL
Small Business & Entrepreneurship Council

August 28, 2017

The Honorable Steve Chabot
Chairman
Committee on Small Business
United States House of Representatives
Washington, D.C. 20515

Dear Chairman Chabot:

Thank you for the opportunity to provide testimony at the July 19, 2017 hearing, "Reversing the Entrepreneurship Decline." I enjoyed the discussion among all committee members and I am pleased there is bipartisan enthusiasm for boosting entrepreneurship across America.

Below, please find my response to the following question asked by Representative Radewagen: "As you mentioned in your testimony, access to adequate broadband in rural areas would be a huge benefit to rural small businesses and rural communities. What other solutions would you suggest to improve entrepreneurship in rural areas?"

RESPONSE:

Access to Broadband: Access to broadband is one of the most pressing solutions for bringing opportunity and the tools of the modern economy to rural America. Broadband would allow individuals to access the education, markets, networks, digital tools and capital that are all necessary for launching a small business, and competing in the marketplace. Efforts by the Federal Communications Commission (FCC) to streamline rules and modernize regulations will help our nation's smaller ISPs to deploy their capital to build networks (and higher quality broadband), which is a very positive development for rural communities. In addition, changes to FCC rules that would allow the technology community to use "TV white spaces" to deploy broadband in rural areas would get broadband more quickly to these areas. Given the fact that FCC Chairman Ajit Pai has made closing the digital divide the main priority for the commission, with this goal being followed up by aggressive action, I am hopeful that broadband deployment will accelerate in 2018. A policy environment that encourages investment will also allow that to happen, and thankfully we are seeing that on the tax and regulatory front at the federal level.

Access to Capital: Rural America was hit hard by the Great Recession and financial crises and there has been little or no recovery in many areas of rural America. The flight of capital and human capital, combined with the influx of opioids, and the lack of modern tools (like broadband) have compounded the problem. When an ecosystem has no capital to fuel opportunity and economic development, there is little hope for these communities. A combination of solutions is needed to redirect capital to these rural communities.

First, regulators and the Congress must address the regulatory issues around community banks and move quickly to relieve them of unnecessary and costly red tape. This would help to "stop the bleeding" of small-bank closures and perhaps encourage entrepreneurs to start new banks that have both an online and community presence.

Second, we can harness the power of regulation crowdfunding by making smart rule changes (imposed by the Securities and Exchange Commission) that are barriers to small businesses and entrepreneurs utilizing crowdfunding platforms to raise capital. We are already seeing very positive results from "Title III" crowdfunding, which was meant to help small businesses raise capital. It took four long years for the SEC to write the rules for Title III, which is why we are only now beginning to see promising results. Specific reforms – like raising the $1 million cap, reducing red tape and paperwork associated with filing for a raise (and compliance), allowing startups to "test the waters," along with other reforms – would truly democratize access to capital through crowdfunding and unleash this new form of fund raising. I would be more than happy to share the list of reforms with you or committee members.

Third, SBE Council supports "opportunity zones" to incentive long-term private investment in distressed communities across America. The bipartisan "Investment in Opportunity Act" (H.R. 828/S. 293) is a promising piece of legislation that would use "low income community" census tracks to define areas eligible to be an opportunity zone. Governors would have a hand in selection of these areas as well. Investors would be given a modest reduction on capital gains for their original investment after holding qualified investments for five to seven years.

Education and Training: The resources provided by federal, state and local governments need to be reviewed and better coordinated to meet the needs of rural America. A massive amount of tax dollars is going into programs where there is overlap or redundancy, and now is a good time to review federal programs to determine whether a shift needs to occur in these programs to better meet the needs of rural Americans. The Small Business Administration (SBA), U.S. Department of Commerce and other agencies need to think more innovatively in how they are providing their programs. For example, entrepreneurs and small businesses are meeting the needs of customers and testing new markets by opening "pop up stores" and mobile store-fronts. Why can't federal training programs utilize the same approach? Regarding online training, once these communities have access to broadband, individuals will have access to a world of training resources. The SBA is currently working hard to get the word out about their services, and this effort must continue.

Thank you for the opportunity to provide additional recommendations. Please feel free to contact me if you have questions, or need additional information.

Sincerely,

Karen Kerrigan
President & CEO

301 Maple Avenue West - Suite 100 - Vienna, VA 22180
www.sbecouncil.org

Protecting Small Business, Promoting Entrepreneurship