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DEVELOPING AND STRENGTHENING HIGH-GROWTH ENTREPRENEURSHIP

ROUNDTABLE

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

FEBRUARY 1, 2012

Printed for the Committee on Small Business and Entrepreneurship

Available via the World Wide Web: http://www.fdsys.gov

U.S. GOVERNMENT PRINTING OFFICE

73–268 PDF WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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DEVELOPING AND STRENGTHENING HIGH-GROWTH ENTREPRENEURSHIP

WEDNESDAY, FEBRUARY 1, 2012

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, at 10:04 a.m., in Room 428–A, Russell Senate Office Building, Hon. Mary L. Landrieu, Chair of the Committee, presiding.

Present: Senators Landrieu, Brown, and Moran.

OPENING STATEMENT OF HON. MARY L. LANDRIEU, CHAIR, AND A U.S. SENATOR FROM LOUISIANA

Chair LANDRIEU. Good morning, everyone. I would like to call the Small Business roundtable on entrepreneurship together, and I thank all of you for making the special trip and effort.

I know some of you have come from the West Coast for 24 hours on the ground, so we really appreciate the effort by this spectacular team of experts on entrepreneurship and the entrepreneurship ecosystem in our country and, in some cases, of the world. I thank you so much.

I am going to give a brief opening statement. We are expecting one or two other members of the Committee. When they come, they will be recognized.

This is different from a hearing in that what we are hoping for is a lot of interactive exchange between the participants. I will be leading off, of course, with questions, et cetera. Let me set the tone for this morning, again thanking you for coming.

This Roundtable is the first of a series of three that I will be organizing through this Committee to explore options and opportunities to strengthen the ecosystem for entrepreneurship in America.

Welcome, Senator Brown.

We have assembled an impressive group of experts and entrepreneurs to discuss of some of the more exciting ideas that are being discussed here on Capitol Hill.

According to the Webster dictionary, the definition of entrepreneur is, "one who organizes, manages, and assumes the risk of a business or enterprise."

The term was originally a loan word from the French and was first defined by the Irish-French economist, Richard Cantillon. Entrepreneur in English is a term applied to a person who is willing to help launch a new venture, enterprise, and accept full responsibility for the outcome.

Jean-Bapiste Say, a French economist, is believed to have popularized this word in the 19th century. He defined an entrepreneur as one who undertakes an enterprise, especially a contractor acting as an intermediary between capital and labor.

Whatever your definition of an entrepreneur is, we believe that we need more of them in America and we need entrepreneurs who can grow companies quickly and create the jobs that we need in the future.

New York Times op ed columnist, Tom Friedman, wrote recently, the future, "will require our kids not so much to find their next job as to invent their next job."

That is what this Roundtable is about today.

It is often said that America's nearly 28,000,000 small businesses are the backbone of this country's economy, and I agree. Federal law defines a small business as all of those businesses having anywhere from one to 500 employees or less. They may all fit under the same broad category as far as our Federal Government is concerned but they are very, very different in size, shape, leadership, and potential to change the landscape of our economy in the United States.

So, it makes no sense to me for the Federal Government to have a one-size fits all policy, and that is what we are going to try to break down today. We must put a special focus on those firms that have the capacity to grow quickly in the near future.

If small businesses are the backbone of our economy, and I believe that they are, then high-growth firms are the engine of our economic growth. According to studies provided by the Kauffman Foundation that are here with us today represented by Brink and Jonathan, fast growing young firms comprising less than 1 percent of all companies generate roughly 10 percent of new jobs in any given year.

Additionally, as stated in the interim report from the President's Council on Job Competitiveness, over the last three decades, young firms less than five years old have created 40 million net new jobs according to the U.S. labor data. Those 40 million jobs actually account for all net new jobs created in the United States over that period.

It is clear from this data that some entrepreneurs have the secret sauce or found the secret sauce that led them to be successful and grow their workforce.

According to Steve Case, Chairman of the founding board of Startup America Partnership, "America's best chance to achieve robust, sustainable growth and prosperity is by ensuring that the United States increases its entrepreneurial competitiveness relative to the rest of the world."

Many of us continue to believe that America is still the world's greatest home for innovation, entrepreneurship and that our small businesses are the most innovative. We have some evidence to suggest that that remains true.

The U.S. Patent and Trademark Office reports the U.S. filed more than twice as many patents as any other country in 2010. More specifically, the U.S. filed nearly 108,000 followed by Japan, a far second at 50,000.

In particular, small firms are a significant source of innovation and patent activity. SBA's studies shows that from last October small businesses developed more patents per employee than large businesses did. With the smallest firms, those with fewer than 25 employees producing the greatest number of patents per employee.

Finally, small firm patents tend to be more significant than large firms, outperforming them in any number of categories including growth, citation, impact, and originality.

This is largely because small firms tend to specialize in high-tech, high-growth industries such as biotechnology, pharmaceuticals, information technology, semiconductors to name just a few, which brings us back to the purpose of this roundtable, to give entrepreneurs a platform in the United States Capitol, to give this issue the focus that it deserves in the current economic climate, to discuss what the federal role should be, if any, in creating and strengthening an ecosystem for entrepreneurs that results in more successful startups and more high-growth firms and, in my mind, spread more evenly throughout the country.

Today's discussion is the first in a series of three roundtables, as I said, and I will continue after these three roundtables on a variety of different subjects to then move to a hearing on a piece of legislation that will combine some of the ideas, the best ideas out there, and then have a markup some time in early spring. That is our goal for this Committee.

I recognize that some of the specific pieces of what will be discussed today will have to be taken up in the Finance Committee or the Commerce Committee or the Banking Committee because they have primary jurisdiction over these issues.

But this Committee has the platform for entrepreneurship, and I want to make sure this issue is getting the attention that I believe it deserves in the current political debate.

So, let me begin by, of course, recognizing Senator Brown for any opening remarks that he might have. He has to sit at 10:30.

Senator BROWN. In managing the floor, yes.

Chair LANDRIEU. At 10:30. So, we will recognize him for opening remarks and then I think he has a question or two and then we will go to introductions.

Senator BROWN.

OPENING STATEMENT OF HON. SCOTT P. BROWN, A U.S. SENATOR FROM MASSACHUSETTS

Senator BROWN. Thank you, Madam Chair. I appreciate you all doing that. I am on the Insider-Trading Bill. It is my bill, and I am managing the floor along with Senators Lieberman and Collins. So, I appreciate that consideration and appreciate your holding this roundtable this morning to encourage entrepreneurship.

I would also like to thank Tim Rowe for participating in this roundtable. Tim is the CEO and founder of the Cambridge Innovation Center in Cambridge, Massachusetts.

Really you should see it. It is an amazing facility. We have 450 startup businesses, some in the size of a phone booth, others in the size of this room. The new Droid application process was started in his building which is now obviously taking over technology in certain sectors, and I am proud that the Commonwealth of Massa-

chusetts, as you know, is an innovative state and we are an incubator for high-tech and biotech startups.

We can do better in helping encourage small businesses not only in Massachusetts but nationally, and people like Tim are an example of a truly unique entrepreneur who recognizes that creating an environment where startups feel nurtured creates unbelievable growth, and we need to have more risk-taking in the economy.

This past November, I introduced the Democratizing Access to Capital Act, which allows for crowdfunding which is something that the President quite frankly referenced in his State of the Union.

I was thankful for that. I think I need to have another, hey, by the way, Mr. President, that bill is already ready to go and it is stuck in Committee, and maybe he will put that on Fox and get that out again so we can get it heard right away.

As you know, that bill allows the average person with no more than $1,000 to invest up to $1 million and not deal with a lot of the SEC regulations that do not allow for that simple model of investing. It is kind of a no-brainer.

So, we need to figure out how to do that and how to get that sort of thing out. And as I referenced, the President referenced it in his State of the Union. I have talked about it long before that.

One other thing that will not help business creation right now and, as I travel around Massachusetts, the number one thing I recognize is the lack of certainty and stability, the fear of not knowing what is next, whether it is regulatory certainty, tax certainty, you do not know if we are going to have an estate tax, do not know if we are going to have a lot of the incentives associated with the R&D tax credit, the investment tax credit. You do not know if they are going to be around.

So as a result, a lot of these businesses that I visited in Massachusetts are especially are saying, you know, we are just going to hang tight. We are not going to do A, B, C, or D, and raising taxes in the middle of a three-year recession and not having that certainty and stability is a problem.

I was happy and honored to sign on to the bill of Senators Landrieu and Snowe and the Small Business Tax Extenders of 2012. There is more that we can do.

The Learn to Earn Reemployment Training Improvement Act is once again a bill that is done. It is ready to go. It is sitting in the HELP Committee.

That is one of the biggest problems. We have a lot of great ideas not only in other committees but in this Committee in particular. You look at crowdfunding, the Small Business Tax Extenders, the Innovate America Act with Senator Klobuchar, the SBIR reauthorization, the overregulation.

I have had the opportunity in Massachusetts to hold jobs fairs in Massachusetts. We had 3,013 people show up at the last one. That day a bank, TD Bank, hired 10 people on the spot. So there are jobs. People are hungry to do them, and sometimes we need to cut through the impersonal nature of the Internet and actually do a face-to-face and let those folks convince themselves why they want a job and why you would want to hire.

So, I appreciate your holding this. I would like to start out with two questions, if that is okay.

Chair LANDRIEU. Go ahead.

Senator BROWN. I will start with Tim.

Tim, thank you for taking time out of your busy schedule to come. From your on-the-ground perspective and everything you have been doing at the Cambridge Innovation Center, what do you think the biggest problems facing small business entrepreneurs right now are?

Mr. ROWE. One of the biggest problems is lack of talent, enough talented people——

Chair LANDRIEU. You all have to press your mic and you are going to have to speak into it.

Mr. ROWE. This is my first time in one of these forums.

Chair LANDRIEU. That is okay, Tim. You are doing great. Just press that button and lean right into it.

Mr. ROWE. Nobody told me I was going to get the first question.

Senator BROWN. That is the way it is.

Mr. ROWE. I think the biggest problem is access to talent. We talk about the challenge of unemployment in this country, and I know it is high. But you would not know that in the tech sector.

Everyone, what I hear is they cannot find people to hire. They cannot find enough qualified people in the tech fields in particular.

So, you know, what we are really looking for is in two areas. One is let us follow the President's lead also in the State of the Union where he called for more work at the community college level to get the mid-skilled workers, people who do not have jobs, trained up so they can take some of these tech jobs.

The second area that you hear very often is access to capital. You know, we are very excited about the crowdfunding bill. In other countries, in India we call it micro finance. It is the hottest thing in development economics.

If anyone has never heard of micro-finance, I would be surprised. We do not have it in this country because it is illegal. You cannot invest $100 in a startup or you cannot ask, you know, a thousand people to invest $100 in your startup. That is called a public offering and you would have to go file a full million-dollar SEC filing. It just does not happen.

Those are probably the two biggest areas that we think need to be addressed. And I would make one last comment.

When we heard about this bill, one of the entrepreneurs in my center said, look, I think that is a great idea. I want to build a startup that helps people do crowdfunding, and he started a startup called Wefunder.

They launched on Saturday. I think Sunday was the official launch. By Monday, they had something like 1,200 people who had committed to, this is yesterday, 1,200 people who committed to invest $1,000 each if the crowdfunding bill goes through. They are asking Congress to make it possible to do this. And I think they had about $4 million just over a couple of days. Saying let us do this.

Chair LANDRIEU. Good job.

Senator BROWN. It is interesting that you say that. We have a high-skilled bill that Senator Lee and I are working on and it is

ready to go to allow people when they graduate, MIT, Harvard, et cetera, BC, WPI, and Massachusetts alone. I know all of you have your own interests. You graduate and you get not only a diploma but you get a work visa here. We are losing a lot of that talent.

Mr. ROWE. So there is research that says that, and I just got this out of Berkeley where they did this, that 52 percent of companies in Silicon Valley, this is the place they researched. It is probably true elsewhere. Fifty-two percent have a founder who is not American born. More than half of our startups have at least one of their founders who is not American born.

This resource, these are job creators that come to this country to study, and it is really a shame that when they graduate, they want to stay here, they want to build companies, and I get these people talking to me all the time. And we say, no, you have to leave because you are taking an American job, and these people are not the people that are taking American jobs.

Most of them, by the way, overwhelmingly, and if you are interested later, I can show you charts and things, the lion's share are doctoral students.

Chair LANDRIEU. Who are creating jobs.

Mr. ROWE. These are people coming out of places like MIT and Harvard and Worcester Polytechnic and other schools around the country. It looks like about 80 percent of them are doctors and masters students. About 70 percent hard doctor students. These are not the people taking the production jobs in Detroit.

Senator BROWN. Right.

Mr. ROWE. These are people creating businesses that are going to create jobs and we need to invite them and encourage them to stay.

[The statement of Mr. Rowe follows:]

The Senate Committee on Small Business and Entrepreneurship
Developing and Strengthening High-Growth Entrepreneurship
Wednesday, February 1, 2012

Written comments for the record
Timothy Rowe
Founder and CEO, Cambridge Innovation Center
Cambridge, Massachusetts

Thank you for inviting me to speak today. As you know, I am the CEO and Founder of Cambridge Innovation Center. CIC houses approximately 450 startup companies in a 150,000 square foot office tower in Kendall Square, Cambridge. We are told that CIC has more startups under one roof than any other building on the planet. More than a billion dollars have been invested in these companies, and we have been a launch-pad for several well-known companies, most famously Google Android.

This past December I was asked by my peers in Massachusetts to speak for our state's innovation community at the Startup America summit at the White House. The ideas abstracted here come from a broad group of Massachusetts startup leaders.

We believe startups are at the root of restoring the US to full economic health. As is now well known, US Census Bureau and the Kauffman Foundation published findings recently that say that over the last quarter century *all* net new jobs (and then some) in the United States have come from companies *five years old and younger.* Existing firms (that is, those 6 years old and older) collectively *lost* jobs during that same quarter-century period analyzed (1980 to 2005). For every job lost by existing firms, new firms generated three. It seems clear that supporting startups and entrepreneurship is the key to job creation.

How to do so is a legitimate question for debate. My colleagues and I, however, have settled on five concrete suggestions: ideas worth exploring. The policy changes that follow have the potential to make a difference:

1. **Reform visa laws:** Many startups are led by bright young people who come here to study from overseas. Yet our laws force most such people to go home. Let's change visa laws to make it easier for foreign-born students who earn degrees from US universities to stay and start companies in the US. They will not take American jobs, they will create American jobs.
2. **Streamline IPOs:** Startups typically require investment to get going. To be willing to invest, investors need a way to get their money back, typically through a public stock offering (an IPO). Yet today's laws make it very hard for smaller, new companies to go public. Let's change laws to create an "on ramp" to being a public company, by reducing paperwork requirements for the first 5 years after an IPO.
3. **Enable crowdfunding of startups:** Another way to help startups is to make it easier for everyday people to support would-be entrepreneurs. Yet today its illegal for a bunch of everyday people to pool funds to help someone get a startup going. In other countries, they call this micro-finance, and it is a major force for change. Let's change

laws to permit crowd-funding of startups in the US. Valid concerns about fraud must and can be addressed as we do this.

4. **Ban non-compete agreements:** We all studied in school that "labor mobility" is key to a healthy economy. Yet the proliferation of the use of "non-compete agreements" has made it much harder to start new companies. And for some, such agreements amount to indentured servitude (e.g. I am forced to stay with my company, because I can't take another job in my chosen field). Many states already ban these agreements. And those states that ban them have more startups. Let's change laws to ban non-compete agreements in employment agreements. While this has traditionally been a state-by-state issue, there is a valid role for the federal government to fix this.
5. **Retrain US workforce to meet changing demands:** We have thousands of unfilled jobs, despite today's high unemployment. Insiders at community colleges admit that there is no tight link between what the market needs, and what they teach. Yet the shortage of qualified tech employees holds back the creation of more startups. This is a fixable problem, and other countries address it head on. Let's focus the government's workforce development programs on training the workforce needed for the new Millennium. We should not have both high unemployment and hundreds of thousands of unfilled job openings, particularly in tech fields, such as software developer jobs.

There are bills already in front of congress to address #1, #2, and #3 above. We are hopeful that the Senate will find some of these proposals to have merit, and that they will work to influence congress to enact them.

Senator BROWN. Thank you. And, Mr. Crews, my last question. You have written extensively about federal regs and the urgency of getting a hold of our regulatory oversight process. I know this Administration has had a tremendous amount of regulations come out and the burden of small businesses is great. What are your thoughts on that?

Mr. CREWS. Just quickly. I know we will hit a lot on this during the discussion but you mentioned regulatory uncertainty in the opening remarks, and I think that is the key thing because every year there are about 3,500 rules that are coming out from the federal agencies.

And a lot of them are just budget rules, you know, they are relating to administration of Medicare and Social Security and other programs like that.

But for the rest, it is really important to get a handle on what their real impacts are. If you look at the latest OMB report on costs and benefits of regulations, of the 3,500 or so, OMB looks at around 400.

Of that subset, there are 66 that are so-called major, economically significant rules, and these are the big rules. EPA regulations, OSHA rules, and things like that.

But even of those, it is only about 18 that have a cost-benefit assessment on both sides. So, we know very little about the real impacts of regulation.

What we are trying to do is emphasize that, and especially with some of the bills we will talk about today like the FREEDOM Act and some others.

There are ways of enhancing the way we look at regulations coming down the pipeline that are about to have an affect on small business or may have an affect on small business.

I think there is a lot of low hanging fruit kinds of things that we can do to deal with those with respect to reporting on those rules annually and knowing what the impacts are and quickly whether or not we can say anything with an assurance about their benefits and costs. Thank you.

Senator BROWN. Thank you.

Thank you, Madam Chair.

Chair LANDRIEU. Thank you, Senator Brown.

I really appreciate you attending and I know you have to leave to manage your bill. But Massachusetts is so fortunate to be one of these states that receives a significant portion of federal research dollars, both through the university, through SBIR. They are one of the top recipients of SBIR funding and NIH funding.

And we are going to present some documentation at the next hearing to show or ask, is there a relationship between federal investment and the creation of entrepreneurs; and if so, maybe we should be doing that in other states besides Massachusetts, New York, and California, who are the three largest recipients of federal research dollars. But that is a very interesting question.

I want to submit, before we ask everyone, a portion of the President's statement at his first Cabinet meeting for the record of this Committee and to acknowledge and compliment the Administration for their moving Karen Mills as the Administrator for the Small Business Administration to a Cabinet-level position which really

demonstrates this Administration's commitment to the subject at hand.

Without objection, I want to submit a portion of that statement at his first Cabinet meeting which he directed the subject of entrepreneurship which I think is important.

[The document follows:]

The White House

Office of the Press Secretary

For Immediate Release
January 31, 2012

Remarks by the President Before Cabinet Meeting

10:48 A.M. EST

THE PRESIDENT: Hello, everybody. This is our first Cabinet meeting after my State of the Union address, and it gives me an opportunity to share my ideas and initiatives with my Cabinet, but also to get some feedback from them.

One of the top priorities that I mentioned during the State of the Union was the need for us to promote small business. And I'm very pleased that we've got Karen Mills here, who has participated in our meetings before, but is now an official member of the Cabinet.

It is a symbol of how important it is for us to spur entrepreneurship, to help startups, to move aggressively so that we can assure more companies that create the most jobs in our economy are getting a leg up from the various programs that we have in our government.

I mentioned at the State of the Union that there have been discussions, bipartisan discussions between Republicans and Democrats, about a whole set of measures that can accelerate financing to startup companies; can provide tax breaks to startups and small businesses that are interested in either hiring more workers or increasing their wages; that looks at innovative ways for them to raise capital.

And my expectation and hope is, is that they will get a bill together quickly, that they will pass it and get it on my desk. I will sign it right away, and I would like to see that bill signed this year.

In addition, we've got all the Cabinet agencies, who are here represented. They are putting forward their own initiatives to enhance the ability of entrepreneurs to get up and running. So, for example, the Department of Homeland Security, my understanding is we're going to be talking about how we can improve the visa

Chair LANDRIEU. All right. Let us start, Jim, with you if you do not mind; and if you could just go around and introduce yourself briefly, this is the 30-second, 60-second test, and just say either your best idea, throw it out there for strengthening the ecosystem or why you think this hearing is important or this topic is important.

Mr. KESSLER. I am Jim Kessler. I am the Vice President for Policy at Third Way, which is a centrist think tank and a startup ourselves.

This is critical here in the US, the question, is there a federal role in the ecosystem? The answer is definitely yes.

We have tons of ideas. I am going to second what Tim said. I think the biggest thing that we can do is we need to become a global magnet for talent in this country. We actually already are but we discard that talent. These are job creators. It is just a tremendous opportunity for us.

Just imagine if we were facing the same problem and we were not attracting the most talented people in the world to our country and we had to attract them. Well, we already do. We just tell them to go home.

[The statement of Mr. Kessler follows:]

"Developing and Strengthening High-Growth Entrepreneurship"
Senate Small Business and Entrepreneurship Committee
February 1, 2012

Statement by Jim Kessler, Senior Vice President for Policy, Third Way

Chair Landrieu, thank you for the opportunity to participate in today's Small Business Committee roundtable, "Developing and Strengthening High-Growth Entrepreneurship." I commend your attention to this vital and timely topic.

Innovation and entrepreneurship are keys to spurring an American economic resurgence and ensuring that we continue to lead the world. If Americans are going to thrive in a globally competitive environment, we must make it easier for businesses to start, grow, and hire here at home. For years, Third Way has advocated policies that create middle-class opportunity and economic growth, including a series of ideas that would foster entrepreneurship. I am happy to share these proposals with the Committee.

1. Allow the R&D Credit to be Tradable

This idea would allow those businesses that claim the Research and Experimentation credit (commonly known as the R&D credit) but do not have enough tax liability to use it to sell the credit to investors at a slight discount. As a result, small businesses and start-ups without tax liability would gain access to much-needed cash for R&D rather than having to hold the credit until their businesses become profitable. The credit structure could be based on state R&D credits, the Low Income Housing Tax Credit, and state filming credits.

2. Create Small Business Start-up Accounts

Small Business Start-up Accounts would employ the structure of a Roth IRA, but the account would be used for building start-up capital instead of saving for retirement. Post-tax dollars would go into the account, and funds (including any derived from investment growth) would later be withdrawn tax-free. Eligible uses of funds would be similar to those under the small business start-up tax credit, including capital, space, and advertising. Third Way's Idea Brief can be read at: http://content.thirdway.org/publications/214/Third_Way_Idea_Brief_-_Small_Business_Start-Up_Accounts.pdf.

3. Create a Standard Home Office Deduction

This proposal would create a standard home office deduction of $2,500 to make it easier for business owners to take advantage of the home office deduction, which is difficult to file for and only available to itemizers. Third Way's Idea Brief can be found at: http://content.thirdway.org/publications/164/Third_Way_Idea_Brief_-_Standard_Home_Office_Deduction.pdf.

4. Become a Global Magnet for Talent

Each year, America educates nearly 700,000 foreign students at our colleges and universities. For the most part, we educate them and send them home to create businesses that compete with American companies. We should allow those who earn degrees in STEM and business here to receive a green card so that they keep their talents in the United States. In addition, we should offer several thousand entrepreneurial visas each year and consider policies that tilt future immigration flows toward skill. Here is a link to Third Way's report on this issue: http://content.thirdway.org/publications/390/Third_Way_Report_-_Becoming_a_Magnet_for_Global_Talent.pdf.

5. Establish a Bonus Manufacturing Credit

This idea would offer a bonus R&D credit to companies that also manufacture 50% or more of their products in the U.S. The bonus credit would be awarded on a sliding scale, based on the share of the company's total manufacturing output that is produced domestically. Often times during research, design, and production, smaller, start-up companies are created to handle certain aspects of the manufacturing process. By incentivizing businesses to conduct both their research and manufacturing in the U.S., we can spur the creation of new small businesses and entrepreneurs. Here is a link to Third Way's idea brief on this idea: http://content.thirdway.org/publications/196/Third_Way_Idea_Brief_-_A_Bonus_Manufacturing_Tax_Credit.pdf.

6. Convert Vacant Government Buildings into Small Business Space

This idea would encourage federal and state governments to provide small businesses access to vacant office space at reduced rents. Providing small businesses access to affordable office space would allow proprietors to focus on growing their business rather than paying their rent. Additionally, governments would receive some revenue for the use of this space.

7. Hold Regional Bank Summits to Encourage Small Business Lending

In order to help ease access to capital, the Small Business Administration could host regional summits with banks to learn why they are holding capital so tightly, and to hear from small business about the troubles they've had securing loans.

8. Establish a Small Business Loan Loss Reserve Program

Under this idea, the federal government would incentivize states to establish a loan loss reserve program for small businesses. Loans would originate from a private lender, but borrowers would have to pay a registration fee of 1% of any loan up to a maximum loan amount. The federal government could incentivize states to create these programs by matching the borrower's fee. These fees would be deposited in an account for the lender that is owned and managed by the state. In the event of defaults, the lender's losses would be paid out of such an account. The federal government would authorize $1 billion to fund the program, and the funds would be allocated on a first-come, first-serve basis.

9. Create "Innovate America Bonds" Program

Similar to the "Build America Bonds" program, the federal government could create a new financing tool to stake fledgling businesses that are developing what the state deems to be commercially viable products. This program would reduce borrowing costs for state and municipal governments in order to support investment in start-up businesses. The federal government would pay a direct subsidy to state or municipal bond issuers equal to 35% of the interest costs on taxable bonds. State financing entities could then lend capital at lower interest rates to small businesses and start-ups to help advance their businesses.

10. Create "Innovate America Bonds" Program

Innovation is a driver of economic growth, and by funding basic research we can ensure that small businesses and start-ups will have the opportunity to develop and produce tomorrow's dominant technologies. This means making significant investments in agencies like the National Science Foundation and NASA as well as university research.

The clean energy sector is an example of an area that could spur significant economic growth as a result of more government investments. Congress could devote $300 million to ARPA-E to pay for the development of technologies like advanced battery cells and new biofuels to help American businesses capture part of the $2 trillion global clean energy market. An additional investment of $15 billion per year to create a new National Institutes of Energy, modeled after the NIH, would effectively apply R&D funding to the goal of developing new, low-cost commercial clean energy technologies through a nationwide network of regionally based, commercially focused, and coordinated innovation institutes.

Again, I appreciate the invitation to contribute to this important discussion. My hope is that Third Way can be a valuable partner with the Committee in developing policies that create pathways to success for our country's start-ups and small businesses.

Chair LANDRIEU. Thank you. Sean.

Mr. GREENE. Sean Greene. I run the investment and innovation programs at SBA and have responsibility for focusing on entrepreneurship. I come to this as a former entrepreneur and former investor, having invested in dozens of companies. So, I bring a real passion.

Chair LANDRIEU. And we hope successful companies, Sean.

Mr. GREENE. I am still standing.

Chair LANDRIEU. All right.

Mr. GREENE. So, I think what I would like to talk about subsequently is what we have been doing in the Startup America effort, obviously talk more to the legislative agenda that the President put forward yesterday but also talk about what we have accomplished over the past year but in particular access to capital, a critical issue.

We need to be attacking it on all fronts, not just crowdfunding, not just the IPO issues but we see real opportunities with the SBIC program. So, we can talk more about that.

Secondly, what we have seen in our interacting with entrepreneurs across the country is there are many great organizations like Idea Village in New Orleans which you obviously know well, Senator, which are doing great work on the ground, who are accelerating the growth of small businesses.

So, we think there is a great opportunity to accelerate those accelerators.

Chair LANDRIEU. Dr. Holtz-Eakin.

Mr. HOLTZ-EAKIN. Senator, thank you for the chance to be here today.

Chair LANDRIEU. You are going to have to speak a little bit closer. You are going to have to lean into your mic for us to pick it up please.

Mr. HOLTZ-EAKIN. I am Doug Holtz-Eakin. I am President of the American Action Forum, also a startup think tank. In my career as an academic, I spent a lot of time doing research into entrepreneurship.

I would highlight the very important role that tax policy plays toward the success of entrepreneurs and the fact that the U.S. tax policy at this point is a jump ball. We have no idea what the future is.

In the end, an ecosystem for entrepreneurs is a philosophy and it says that at every point in the policy process when you have to break the tie between an objective that might be a social goal versus one that is about growth and entrepreneurship, break it in favor of entrepreneurship, and that includes all of the big tax policy issues that are on the table.

Chair LANDRIEU. Mr. Farmer.

Mr. FARMER. Hello. My name is Michael Farmer. I am the Founder, CEO of a mobile search startup. We are in the seed stage. We are going to be launching our app here in a couple of days literally. I think my team is wondering what I am doing here when they are out back developing code right now.

One thing I would offer is I was here in Washington quite a few years ago and moved back to Kansas, and one of the things we did in Kansas, which I think there are larger implications here, is we

took to the growth segments of certain sectors of our economy and we actually said if you grow that statement, and in our case it was biotechnology, we would plow a certain percentage of that money back into a fund that would help to capture some of this knowledge because startups are going to fail all the time, not only that but you start to get alignment, geo-clustering and all of these things.

Chair LANDRIEU. Is it a state-run fund or private?

Mr. FARMER. It is, yes.

Chair LANDRIEU. A State-run fund. And it is called the Kansas?

Mr. FARMER. Yes. Emerging Investment Act basically.

Chair LANDRIEU. The Emerging Investment Act and Kansas passed it some years ago.

Mr. FARMER. About seven years ago. It is a 600—you know, people ask where does Kansas find $600 million. Well, what we did was we basically said, all right, we have all these different sectors asking for support and we said, you grow it above a baseline and we will plow that money back. And if you think about it, if you could do that on a national basis——

Chair LANDRIEU. A great idea, Mike.

Mr. FARMER [continuing]. For very specific sectors, then it is not about, you know, a lot of our states compete against each other in bioscience and biotech, but we make strategic bets and all of the sudden we are now competing on the world stage because we are getting alignment, clustering, and these type of things.

Chair LANDRIEU. Great idea. Tim.

Mr. ROWE. I would like to say more things but maybe we could hear from the others.

Chair LANDRIEU. Thank you. Wayne.

Mr. CREWS. Wayne Crews, Vice President for Policy at the Competitive Enterprise Institute in Washington, D.C. Our message on issues like this, we are a small "L" libertarian, you might say, policy and advocacy group is, you know, most of the world's wealth has not been created yet.

And if we have the right policies in place in dealing with the future, the sky is the limit. You do not have to tell the grass to grow but sometimes you do have to take the rocks off of it.

With respect to some of the things we have already heard about with small business financing, with access to capital, regulatory policy, even health and safety regulation that sometimes can do worse things for health and safety than good things, looking at antitrust policy, looking at frontier industries, biotech, nano tech, and others, and making sure that if we have done bad things in the past in the frontier areas, we do not have to do the same things. We can rethink it as we go forward, and there are some quick ways to do some of that I believe.

Chair LANDRIEU. Thank you. Mr. Ezell.

Mr. EZELL. Hi. I am Stephen Ezell. I am a Senior Analyst with the Information Technology and Innovation Foundation. We are a startup technology and economic policy think tank.

I think when you look around the world you see that other countries are doing a great job of directly supporting the R&D innovation and new product development activities of their small businesses, and one way they are doing that is through innovative tax policy especially around R&D tax credits.

So, it is incumbent not just to make the R&D tax credit permanent but to make it more generous. We actually have a less generous R&D tax credit than Brazil, India, and China. So, we need to increase that.

We also need to bring new innovative approaches with the R&D to supporting SMEs. For example, one thing they are doing in Canada, France, Norway, and the UK is to provide preferential tax treatment to innovative young companies such as buy. Since these companies often are not cash positive, using immediate cash payments as opposed to carry-forward or carry-back provisions.

So, innovation in tax policy will help our small businesses.

[The statement of Mr. Ezell follows:]

Roundtable on Developing and Strengthening High-Growth Entrepreneurship
Perspectives from the Information Technology and Innovation Foundation (ITIF)
Statement submitted by:
Stephen Ezell
Senior Analyst, ITIF
To the Committee on Small Business and Entrepreneurship
U.S. Senate
February 1, 2012

Introduction

Thank you to the U.S. Senate Committee on Small Business and Entrepreneurship and to its Chairman, Senator Landrieu, for the invitation to participate in this roundtable on *Developing and Strengthening High-Growth Entrepreneurship*. The roundtable takes up a crucial subject to revitalizing the U.S. economy. Evidence clearly shows that it is young, high-growth firms that are responsible for the lion's share of employment growth.

In fact, new and young firms have been the primary source of new jobs in the United States over the past three decades. Analysis of U.S. Census Bureau data has shown that companies less than five years old created nearly two-thirds of net new jobs in 2007. And an OECD study found that from 1992-2005, business start-ups accounted for 140 percent of the net growth in employment in the United States. This is true for U.S. states as well. For example, Pennsylvania found that a mere .3 percent of firms (less than one-third of one percent) created 74 percent of all the net new jobs created over a ten year period of time.

There are a number of policies the U.S. Senate's Committee on Small Business and Entrepreneurship should consider enacting or promoting that are positioned to support the growth of entrepreneurship and small business development in the United States.

R&D Tax Credits

Congress should make the U.S. R&D tax credit both permanent and more generous. An increasing number of U.S. competitors are offering more generous R&D tax credit regimes. For example, France offers an R&D tax credit six times more generous than the U.S. credit. Spain's credit is five times more generous. In fact, the United States ranks just 24th out of 38 countries assessed by the OECD in tax credit generosity, behind even Brazil, China, and India.

In many countries R&D tax credits are more generous for smaller firms (e.g. Belgium, Canada, the Netherlands, Norway, and the United Kingdom). Some countries offer preferential tax treatment to young innovative companies, such as immediate cash payment rather than use of carry-forward and carry-backwards provisions (as in Canada, France, Norway, and the United Kingdom). France's JEI program allows young innovative companies an exemption from corporate income tax for the first three years and a 50 percent discount for an additional two years up to a ceiling of €200,000 over 36 months; and offers relief from local taxes on properties for up to seven years. **The U.S. Congress should consider offering preferential tax treatment to young innovative companies, such as a tradable R&D tax credit in addition to the current carry-forward and carry-backwards provisions.**

U.S. firms invest half as much as they did a decade ago on workforce training. Since the benefits of worker training spill over to other firms (and to society at large) when an employee departs, companies underinvest in workforce training to the societally optimal level. Companies also underinvest in new capital equipment/machinery even though this could make them more productive. **Therefore, Congress should consider expanding the R&D tax credit into an innovation tax credit that would also allow firms to deduct investments in workforce training and capital equipment/machinery expenditure beyond a certain baseline.**

Directly Support Innovation through an Innovation Voucher System

Several countries, including Austria, Canada, Belgium, Denmark, Germany, the Netherlands, Ireland, and Sweden have begun using Innovation Vouchers to support R&D, innovation, and new product development in small businesses. SMEs can receive a $5,000-$7,500 voucher for a cooperation project with a university, community college, or research institution for R&D assistance, technology feasibility studies, analysis of technology transfer, analysis of the innovation potential of a new technology, etc. This creates an incentive to bring SMEs and academia closer together and also empowers innovation at SMEs.

The Netherlands' innovation agency, Senter Novem, was the first to create an Innovation Voucher program, in the early 2000s. Like Austria's program, Holland's enables SMEs to "buy" expertise from public research institutions, universities, or large corporations, with the intent of stimulating knowledge transfer to SMEs. Senter Novem has found that the program substantially stimulates innovation—eight out of ten vouchers issued resulted in an innovation that would not have otherwise come to fruition and 80 percent of new R&D jobs created in Holland since 2005 are attributable to the vouchers. **Congress should consider establishing an innovation voucher program funded at $50 million annually, with firms of less than 250 employees eligible to participate. The program could be operated by state governments, who to be eligible would have to match federal support dollar-for-dollar.** One advantage of such a program is that it would spur research funding at universities and federal labs.

Launch a Spurring Commercialization of Our Nation's Research (SCNR) Program

The current federal system for funding research pays too little attention to the process of commercialization (which is chock full of barriers). **Congress should create an SCNR—Spurring Commercialization of Our Nation's Research—program that takes a modest percentage of federal research budgets and allocates them to a technology commercialization fund.** Congress should allocate 0.15 percent of agency research budgets (around $110 million per year) to fund university, federal laboratory, and state government technology commercialization and innovation efforts. The 0.15 percent share could either be added on top of the existing 2.8 percent allocation currently going to SBIR and STTR, or it could be taken from the SBIR share. The SCNR program would be modeled after the SBIR and STTR programs, but would be designed specifically to support university, state, and federal laboratory technology commercialization initiatives.

Half the funds would go to universities and federal laboratories that could use the funds to create a variety of different initiatives, including mentoring programs for researcher entrepreneurs, student entrepreneurship clubs and entrepreneurship curriculum, industry outreach programs, seed grants for researchers to develop commercialization plans, etc. The other half would go to fund state technology-based economic development (T-BED) efforts.

Establish stronger university entrepreneurship metrics

Congress should help establish stronger university entrepreneurship metrics. This could be achieved in several ways. First, the United States could collect better data on faculty new business starts and spin-offs of new companies from universities. Congress could direct the National Science Foundation (NSF) to develop a metric by which universities report that information annually. NSF could use this data to reward universities that do a better job; for example, also giving bonus points on research grant proposals they receive. Applicants from universities that do a great job of promoting entrepreneurial spinoffs/start-ups would be more likely to have their private investigator grants funded. In addition, the Department of Commerce should use data available through the ES-202 form (Unemployment Insurance Tax Records), which tracks how many employees an establishment has every quarter. The form could also be made to note the university that the founder of the organization attended, and then that information could be combined, anonymously, to find out which colleges and universities have graduates that are founding and running the most high-growth businesses.

Create a Unified, National, Online One-stop Shop for New Business Registration

Make small business registration much easier in the United States by having the Federal CIO redesign business.gov. **Congress could direct the federal CIO to undertake a *strategic design review* of the federal and state small business registration process**, redesigning it to create an integrated business registration Website encompassing both federal and state requirements and contemplating the entire lifecycle of needs for small business start-ups, thus creating a *one-stop shop* for business registration in the United States.

For example, Portugal went from requiring 20 different forms to create a business (a process that took up to 80 days) to a digitalized process based on one Website. A firm can be created in just a few days using its new "Firm Online" program. 60,000 new Portuguese businesses have registered that way in less than two years.

Reform university engineering curriculum towards more project-based learning and entrepreneurship

The United States needs to transform its colleges into entrepreneurial factories. But traditional universities, taught and administrated by traditional staff, rarely deviate from conventional methods of teaching, yet as the needs of the modern workforce become focused on broad skill sets such as logic, writing, and thinking and less on learning specific facts, such teaching methods have become anachronistic. The United States needs to encourage the development of completely new schools based on the needs of the current workforce. For example, the Olin College of Engineering in Massachusetts reimagined engineering education and curriculum to prepare students "to become exemplary engineering innovators who recognize needs, design solutions, and engage in creative enterprises for the good of the world." The college does not have separate academic departments and all faculty members hold five-year contracts with no opportunity for tenure. Olin College's new method of teaching engineering has been widely praised amongst engineering firms; other colleges and universities should seek similar innovations. On a per-student-graduated basis, Olin graduates start more new businesses than even MIT graduates.

Moving science, technology, engineering, and math (STEM) undergraduate and graduate education towards a more interdisciplinary model would not only attract more students to STEM, but also improve the quality of STEM education. **For truly transformative change to a more interactive, interdisciplinary model of STEM education, Congress should provide funds for NSF and NIH to allocate grants of up to $10M/year for institutional transformation.** For additional recommendations, please see ITIF's report *Refueling the U.S. Innovation Economy: Fresh Approaches to Science, Technology, Engineering, and Math (STEM) Education*.

Provide Support for Recent PhD Graduates to Work at SMEs

Australia's *Researchers in Business* grants allow businesses to bring a researcher from a university or public research agency into the business to help develop commercial ideas. Australian businesses selected to receive a *Researchers in Business* grant receive funding for up to 50 percent of salary costs, to a maximum of $53,000, for each placement for between two and twelve months. In a similar program, Canada's IRAP provides direct financial support for Youth Employment in Canadian SMEs, funding up to $30,500 in salary for twelve months for recent college or university graduates employed by SMEs. **Congress could consider creating a grant program that would defer the cost of (or perhaps provide an R&D credit for), SMEs to hire recent university PhD graduates for up to a twelve-month period.**

Spur inclusion of entrepreneurship opportunities for STEM college students

Expanding the ability of STEM students to engage in STEM entrepreneurship will not only boost innovation and jobs, it will increase the quality and attractiveness of STEM education. There are a number of steps that should be taken. With federal agency cooperation, universities should define an entrepreneurial leave policy for students in which they could retain full-time student status for one to two years while launching their own company. In addition, federal agencies supporting university research in STEM should adopt a policy whereby any graduate or post-doctoral student on an assistantship, fellowship, or other form of federal support can petition for a no-cost extension of their assistantship, fellowship, or traineeship, which would allow them to take a "entrepreneurial leave" for one to two years to start a company, and be guaranteed their former student position on their return.

Also, **Congress should make the necessary changes to SBIR authorization to enable students on "entrepreneurial leave" to fund their startups using SBIR monies**; individuals who are currently full-time graduate or post-doctoral students would be explicitly eligible for such awards, even if they are foreign nationals, as long as their business is located in the United States. In addition, Congress should work with the Department of Homeland Security to ensure that students who receive SBIR funding (and derive their salaries from that funding) while on official "entrepreneurial leave" are still defined as full-time students, and not company employees, for visa purposes.

Create a "Web-based mentor matching program"

This would be akin to an Online Mentor Corp. The idea here is that there may be individuals willing to be mentors but who aren't able or willing to travel (e.g. the retired executive now living in Florida or Arizona) or who are simply in different locations, but who could mentor a company in Ohio for a couple hours a week. So the idea is to create a Web-based matching tool that would vet start-ups and vet the mentors, and then they could use video-conferencing for the mentorship meetings.

Re-focus SBA's SBIC (The Small Business Investment Company) on earlier-stage, smaller deals

Since it was revised over a decade ago, SBIC has been an effective tool. However, to the extent the program provides lower cost capital to venture firms investing in late stage and large deals, it is not fulfilling its purpose of addressing market failure or limitation. **Thus, to increase capital for startups, Congress should restructure the Small Business Invest Companies (SBIC) program so that at least 35 percent of the funded company investments go to early and small deals.**

Do not apply the Volcker Rule to venture capital funds and investments

The Volcker Rule would restrict United States banks from making certain kinds of speculative investments that do not benefit their customers. The proposal specifically prohibits a bank or institution that owns a bank from engaging in proprietary trading that isn't at the behest of its clients, and from owning or investing in a hedge fund or private equity fund, as well as limiting the liabilities that the largest banks could hold. The Agencies should implement the Volcker Rule so that it affects the two types of funds referred to explicitly by Congress—private equity funds and hedge funds—and does not sweep in other activities that do not present the type of risk Congress sought to regulate. **Congress should make clear its intent that the Volcker Rule was not intended to apply to venture capital funds and investments.**

Chair LANDRIEU. Thank you so much.

You do not have to get all your ideas out on this because it is just your best one to stir up some thoughts from the others and then we are going to open it up for more discussion about this.

Diane, real quick.

Ms. TOMB. Thank you, Senator. The National Association of Women Business Owners, as you know, represents over 7000 women business owners.

Unlike what we talked about earlier, I would say our number one issue is access to capital. And, as you know, women are starting businesses at record numbers. There is no shortage of growth-minded entrepreneurs, women. It is just access to capital from the financial institution.

SBA has been doing a phenomenal job. I know there is a lot more that needs to be done in terms of education. Our research shows that lack of knowledge for women on how to grow a business from point A to point B, becoming an employer firm, and also moving from being a technical firm to the business leader are our business challenges.

So, really for us it is education for women entrepreneurs.

Chair LANDRIEU. Thank you. Mr. Evans.

Mr. EVANS. Barry Evans from Austin. I founded Calxeda four years ago and attracted $50 million of private capital to get that company moving. So, we are four years old and growing fast.

Chair LANDRIEU. And what does your company do?

Mr. EVANS. We are a hardware company, and we are building super low power server technology out of cell phone technologies instead of PC-based technologies.

Chair LANDRIEU. Great.

Mr. EVANS. So, our biggest challenge was getting launched and attracting that initial seed capital early on. So, policies that give incentive to get the big piles of private capital off of the sidelines and into launching companies through targeted capital gains incentives will get companies moving.

Chair LANDRIEU. It might be something that would be helpful to you.

Mr. EVANS. And as we are growing, our next big milestone would be to go public, and so, IPO is a key enabler for a company like ours to continue to grow.

Most of the job creation, some say over 90 percent of a company's job creation potential is after the IPO and access those public capital markets. But the bar is too high right now. Some relief on SOX compliance and regulation would open that up for us.

[The statement of Mr. Evans follows:]

February 1, 2012

The Honorable Mary Landrieu
Chair
Committee on Small Business & Entrepreneurship
United States Senate
428A Russell Senate Building

The Honorable Olympia Snowe
Ranking Member
Committee on Small Business & Entrepreneurship
United States Senate
442 Russell Senate Building

Dear Chair Landrieu, Ranking Member Snowe, and Members of the Committee on Small Business and Entrepreneurship:

Austin is honored to participate in today's *"Developing and Strengthening High-Growth Entrepreneurship"* roundtable and to speak with you about our region's vibrant entrepreneurial ecosystem. The Members of this Committee are to be commended for your contributions to the growth of our economy and to fostering innovation, as well as for your current focus on advancing such a key driver of intellectual output and job creation when the country is in dire need of both.

Austin's 20-year metamorphosis into an innovation and entrepreneurship Mecca provides an illuminating case study for others to learn from and apply to their own unique strengths. Austin's entrepreneurial ecosystem is both broad and deep with a proliferation of industries from hardware to software, life sciences to clean energy, and community engagement that involves every stakeholder imaginable including startup entrepreneurs, Fortune 500 companies, academia, the philanthropic, and all levels of government.

The veins of Austin's entrepreneurial ecosystem reach far beyond the technology sector into State government through tools like the Texas Enterprise Fund and Texas Emerging Technology Fund and across university disciplines like the progressive entrepreneurial focus in the University of Texas's natural science, business, and engineering schools. They are interwoven throughout innovative initiatives like the Austin Technology Incubator and Tech Dorm wet lab effort and reach even further to encompass the private sector. Austin lawyers, real estate brokers, and local accounting firms are all responsive to startups, donating their services to help. To invest in you, they don't want to know how big you are, they want to know how big your idea is. Texas is an entrepreneurial state by nature but this speaks to a particular mindset in Austin that highly-values risk-taking and sees failures as educational and functional.

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Enmeshed and engaged, Austin's entrepreneurial culture gives rise to our highly successful public private partnerships that out of necessity and invention are becoming ever more innovative in their collaboration. In the past, Austin created infrastructure and engines for our technology sectors through bold experiments in industry-government cooperation like the semiconductor industry's SEMATECH which made capital intensive investments that would be too costly in today's environment. Traditional pools of capital are shrinking and, just as living organisms adapt when required, Austin's public private partnerships are transforming to adjust, continuously evolving to incorporate broader participation.

These innovative consortiums are breaking the mold. Pecan Street Inc., a community wide collaboration to fully reinvent the energy delivery system, is just one example, incorporating local government, the Austin Chamber of Commerce, universities, the Environmental Defense Fund, the Department of Energy, and corporations such as Whirlpool, Chevrolet, and Best Buy. Austin's long history of government and industry partnership has cultivated a culture that values solutions-based approaches to innovation that keep the consumer in mind. Austin innovators want to be relevant in addition to disruptive and our startups are more compelling and market-appropriate as a result.

Austin's entrepreneurial ecosystem is truly alive and energized by interactive and interdependent relationships and resources. The capacity to evolve, Austin's ability to ride the internet bubble, and Austin's success in spite of the recent economic recession all provide evidence of a living organism. As you continue to explore the characteristics that foster the launching of companies, we invite you to visit Austin and experience the dynamism for yourself. We've coordinated visits by government leaders from across the country and the globe and everybody leaves with a better understanding of our culture. It is something that can't be learned from a PowerPoint presentation or a treatise. We can promise a warm Texas welcome and would be happy to facilitate a memorable visit.

Thank you again for the opportunity to appear before the Committee and participate in this important discussion. Austin looks forward to answering your questions and to serving in any advisory capacity requested.

Sincerely,

Barry Evans
CEO
Calxeda

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Chair LANDRIEU. Okay. Ms. Sumption.

Ms. SUMPTION. Thank you, Senator. I am Madeleine Sumption——

Chair LANDRIEU. You have to speak directly into your mic.

Ms. SUMPTION. I am Madeleine Sumption from the Migration Policy Institute here in Washington. I look at the economic impact of immigration policies around the world.

I think for the purposes of this conversation there are two immigration policy areas that are worth talking about. The first is the visa status of entrepreneurs themselves.

The current U.S. system provides complicated and relatively limited opportunities for entrepreneurs to have a visa status that give them the independence to set up a business and to stay here and manage it.

The second area is the immigration policy system and how it supports high-growth businesses themselves. The current regime that we have creates an enormous amount of uncertainty for employers who do not necessarily know when and if they will be able to access the talent that they need.

So, those would be the two areas I will highlight and be happy to talk about some of the more specific ideas there.

[The statement of Ms. Sumption follows:]

Statement of

Madeleine Sumption
Policy Analyst
Migration Policy Institute

For the U.S. Senate Committee on Small Business and Entrepreneurship Roundtable, "Developing and Strengthening High-Growth Entrepreneurship"

February 1, 2012

Immigration Policy Options for Strengthening High-Growth Entrepreneurship

This statement outlines a selection of immigration policy ideas designed to support entrepreneurship and high-growth enterprises in the United States. It focuses on legislative proposals on highly skilled immigration that could be introduced even without wholesale reform of the immigration system.

1) Visa Options for Entrepreneurs

The vast majority of immigrants who come to the United States on work visas are sponsored by their employers. In most cases, employer sponsorship is an important screening mechanism that ensures that the United States admits workers whose skills are valued in the labor market. With no employer to sponsor them, however, prospective entrepreneurs are often ineligible.

The conversation about visas for entrepreneurs in the United States has focused on the proposed StartUp visa. This program would give prospective entrepreneurs conditional visa status to set up a business in the United States and would grant them permanent status if they create jobs and raise further investment or revenues within the first few years. Most immigrants under the program would need to have raised funds from a venture capital firm or other qualified investor, making the program quite selective. Moreover, recognized

experts screen prospective entrepreneurs, allowing government to stay out of the complex business of identifying entrepreneurial talent. Investor backing thus acts as a counterpart to employer sponsorship in the work-visa system, providing a market-based assessment of individuals' skills.[1]

Since proposals of this kind are predicated on the creation of a successful business, Congress should also consider providing a route to permanent residence for successful, established entrepreneurs who are already in the country on E-2 "treaty investor" status.[2] These individuals can renew their nonimmigrant visas indefinitely but find it extremely difficult to convert to permanent residence under current rules. This process could be made easier by extending the StartUp proposal to accommodate successful E-2 entrepreneurs,[3] or by creating transparent and explicit eligibility rules for them to receive EB-2 National Interest Waivers.

2) Selective Exemptions from the H-1B Cap

One major impact of an oversubscribed H-1B cap is that employers may be unable to hire even high-caliber applicants if they recruit them after the annual limit is exhausted.[4] *Selective* exemptions from the H-1B cap could introduce more flexibility for businesses bringing in certain high-priority workers. Potential measures could include:

- Cap exemptions for high earners: for example, those making over $100,000 who work in high-level jobs and are extremely unlikely to displace U.S. workers.
- Allowing employers to sponsor workers after the cap is exhausted in return for a significant fee (the payment of which would demonstrate their strong need for the worker in question).
- Cap exemptions for some subset of the most talented U.S.-educated STEM advanced degree holders who have secured a job in the field. (Note that many PhD graduates are already exempt from the H-1B cap since they work for universities and a variety of non-profit research groups;[5] most Master's graduates sponsored by private-sector employers are not.)[6]

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[1] Demetrios G. Papademetriou and Madeleine Sumption, *Rethinking Points Systems and Employer-led Selection* (Washington, DC: Migration Policy Institute, 2011), www.migrationpolicy.org/pubs/rethinkingpointssystem.pdf.
[2] The E-2 visa admits individuals who are making "substantial" investments in a U.S.-based enterprise and who are nationals of certain countries with which the United States has signed an agreement (about 80 countries have an agreement in place but some major sending countries, such as China and India, do not, excluding them from the E-2 visa). In recent years the State Department has issued between 20,000 and 30,000 E-2 visas annually to recipients who include both self-employed entrepreneurs and investors with a less active role in the day-to-day management of the U.S. business.
[3] Under the current version of the StartUp proposal, E-2 visaholders would only be eligible if they had an advanced STEM degree from a U.S. institution of higher education.
[4] Note that a minority of these candidates may qualify under the more demanding criteria for the O-1 visa.
[5] Non-profit and public-sector research organizations are exempt from the numerical limit on H-1B visas.
[6] US-educated Master's graduates receive an allocation of 20,000 H-1B visas in addition to the main 65,000 limit. Both limits are typically exhausted. Special provisions also exist for a limited number of Chilean and Singaporean nationals who can apply for H-1B1 visas, and Australian nationals who can apply for the similar E-3 visa.

3) Selective Exemptions from Green-Card Caps

The vast majority of employment-based immigrants work in the country on temporary visas before applying for permanent residence. However, numerical limits on employment-based green cards have created backlogs for several types of workers, contributing to long waiting times for permanent residence. One result of this system is to tie workers to their employers for several years while they wait for their application to be approved.[7] Two ways to give some of these workers independent visa status more quickly would include:

- Exempting certain immigrants from green-card caps (as described above).
- Allowing a larger subset of immigrants to self-petition for a green card if they have already been sponsored by an employer once and can demonstrate a strong track record of highly skilled employment.[8]

4) Streamlining the Administrative Process

Two policy adjustments that could help to make the immigration system less burdensome for employers who play by the rules include:

- Introducing a registered-employer system to reduce the administrative burden (such as repeated submission of the same paperwork with each application) on employers who are pre-registered and have complied consistently with rules of the immigration system and/or who meet other criteria such as ongoing recruitment and training of U.S. workers, excellent working conditions, and sector-leading wages commensurate with skills and experience.
- Eliminating the permanent labor certification process for people who have already spent several years in the country on employer-sponsored temporary visas and are applying for green cards. By requiring labor certification at this point, the current system essentially requires employers to advertise vacancies that do not exist in order to sponsor longstanding foreign employees for permanent residence.

Madeleine Sumption is a Policy Analyst at the Migration Policy Institute, where her work focuses on labor migration, the role of immigrants in the labor market, and the impact of immigration policies in Europe, North America and other Organization for Economic Cooperation and Development (OECD) countries. The Migration Policy Institute is an independent, non-partisan, non-profit research organization in Washington, D.C. dedicated to analysis of the movement of people worldwide. For more on MPI's mission and research, visit www.migrationpolicy.org.

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[7] Substantial waiting times face workers from India and China, as well as those applying for the EB-3 visa. Data on the 2003 cohort of green-card recipients suggest that employment-based visa holders waited an average of more than four years after first filing their green-card application. In addition to any time eventual green-card recipients work during Optional Practical Training after graduating from a U.S. university, they can spend up to six years in H-1B status, after which they must have a pending green-card application in order to stay in the country. As a result, total waiting times of more than a decade are not unusual.

[8] Current immigration rules allow a very small minority of immigrants to apply for permanent residence without an employer sponsor through the EB-1 "extraordinary ability" category or the EB-2 National Interest Waiver.

Chair LANDRIEU. Thank you. Ridgely.

Mr. EVERS. Ridgely Evers. I do not think I fit into 30 seconds but I will try.

Chair LANDRIEU. Well, try briefly.

Mr. EVERS. I will. Serial entrepreneur. Started eight companies. Those companies have created several hundred jobs. I was the guy who created QuickBooks. That is sort of the foundational——

Mr. ROWE. How many people here use QuickBooks?

[Laughter.]

Mr. EVERS. And I do not do tech support.

[Laughter.]

I have worked as a VC. I worked with arguably the most successful small SBIC in history which was Bill Drapers. I also am a farmer. I have a small farm in Northern California. I am on the board of SCORE, which is a volunteer organization with about 14,000 volunteer executives working with small business owners.

And I am actually here not to represent the high-growth, you know, superstar companies because there is a vast ecosystem that already exists to serve them. There is $82 billion of dry powder sitting in venture funds in the United States aggressively looking for places to put it.

I am interested in what we call the TSBs, the True Small Businesses which are owner managed and started to feed a family. And those really are the backbone of the economy and they need two things. Money and mentoring. I will talk more about that.

Chair LANDRIEU. Thank you so much. Appreciate it. Michael.

Mr. FINNEY. Thank you, Senator. I am Mike Finney. I am the President and CEO of the Michigan Economic Development Corporation. And it is really my pleasure to be here.

As most of you probably know, Michigan has been one of the more challenged States economically over the past several years because of our high dependence on manufacturing and automotive in particular.

Ironically, those companies that allowed Michigan to become one of the greatest States in the nation essentially also allowed us to move away from being entrepreneurial.

And so, talent is the thing that we find most challenging in our environment, finding access to really good talent that can help grow some of the best and brightest potential companies that are out there.

If I mention names of companies like Google and Barracuda Networks and Groupon, most folks know those companies. Would you believe the founders were Michigan natives? But we did not have an ecosystem and they went to Michigan universities, did not have the ecosystem to support them and that mentoring and coaching that was needed. So, talent is a huge thing.

But the number one issue that I have is really about support for second-stage companies and allowing so many of the programs that come through, you know, Federal Government and State government to be accessible by second-stage companies very similar to what Mr. Evans was talking about.

It is those companies between 10 and a couple hundred employees who are trying to grow and continue growing and providing job opportunities. We find that many of the programs have very, very

specific requirements that make it very challenging for companies to get access.

Instead of having outcomes that you expect, in other words, if you want to put money on the table to create jobs make that an outcome that is expected and then allow us at the local level to then define approaches that will allow that money to be invested with companies so they can achieve the outcome.

So, moving more toward an outcome-based approach with the tools that we have as opposed to very prescriptive, you know, requirements as is the case with SBA and some of its programs.

[The statement of Mr. Finney follows:]

Michigan Entrepreneurship & Innovation

Michael Finney, CEO
Michigan Economic Development Corporation

Support to Early Stage
Entrepreneurship & Innovation Eco-System

Michigan does not solely support programs for entrepreneurs it funds an entire eco-system to support every aspect of entrepreneurship. These programs are designed specifically to focus on companies with high potential for exponential growth, from applied research to first significant round of institutional funding.

More than 30 contracts totaling over $25 million each year support funding of Michigan's business incubators and accelerators, university tech transfer programs, and entrepreneurial service providers – such as counseling, grant writing, business plan competitions, loans, and pre-seed equity grants. We leverage our 15 public universities and research institutions to bridge public and private initiatives.

The MEDC's goals are to facilitate faster commercialization, leverage our manufacturing expertise whenever possible, and connect our resources in an unprecedented way. When it comes to new technology, Michigan wants house the resources to conceive it, finance it, develop it, and then manufacture it - putting in place the efficient, effective support mechanisms to make that happen.

Access to Capital

The **Michigan Pre-Seed Fund** and the **Biosciences Research & Commercialization Center Fund** provide early stage convertible debt in amounts up to $250K, and require a 1-to-1 third party match from the recipient. More than 60 companies have received funding today and created over 400 high tech, high paying jobs. The returns from this fund are cycled back into a pool to redistribute to new companies.

To encourage venture investment in the state's tech companies, the MEDC will be introducing this year the **Michigan Venture Matching Program**, which awards up to $500K match to companies receiving venture funding.

The **Michigan Angel Fund** is in its inaugural year, based on national best practices, and uses a group funded model to consolidate investors on the sidelines to put $250K - $500K into early stage tech companies.

The MEDC encourages development of its angel groups through the **Michigan Angel Seed Fund**, which financially rewards angel groups for adding new members and alleviates the groups' administration costs. Angel groups who reach a critical mass in size receive a bonus to cover costs of running the organization.

Each year the state matches SBIR and STTR submissions with a $1.4 Million **Emerging Technology Fund**. This allows early stage companies to have some cash to run their business while conducting their key research. Phase I's are matched up to $25K, and Phase II's are matched up to $125K. The requirements of this program ensure we are funding growth companies only, not ongoing grant "shops." Last year 74 emerging companies took advantage of this program. We partner with the Small Business and Technology Development Center (SBTDC) to administer this program.

The **Michigan University Commercialization Initiative** is a revolving fund that provides up to $50,000 to late stage technology development projects within universities. Screened by the state's private equity investors on a volunteer basis, 52 companies have been funded since its inception, and some have already exited. The program has already received enough returns to fund an additional round and is credited with creating 952 tech jobs to date.

The **Business Accelerator Fund** represents $3.5 Million committed to giving early stage companies the funds to achieve the next demonstrable milestone, such as hiring outside consultants to finalize business plans, marketing plans, or financials, hire an engineer to complete prototype development, or produce tooling to deliver product to a first customer. This program also allows us to connect emerging businesses with talented people who can help them build and grow the company.

Business plan competitions are an important component to Michigan's entrepreneurial ecosystem, from the standpoint of educating and coaching new entrepreneurs. The **Great Lakes Entrepreneur's Quest** has been in existence since 2001. More than 400 companies are assisted each year in a program that involves 180 judges, 300 coaches, and 20 events per month. Student companies are also encouraged to participate. Past winners of the GLEQ read like a who's who in successful tech companies.

The **Accelerate Michigan Innovation Competition** is the largest cash prize competition in the world. Each year 300 companies and 350 student companies compete for $1 Million prizes. Companies are typically more advanced, later stage entities and judges represent private equity firms from around the globe.

Access to Business Support

In 2002 the state expanded the federal SBA partner program of the SBDC, creating ***a Small Business Technology Development Center***. For $1 million, we funded the hiring of 8 seasoned technology business consultants. They provide no-cost counseling on strategic development, facilitate technology roadmapping, review SBIR/STTR submissions, and coach companies on developing business plans and investor pitches. Last year this team assisted more than 300 companies, resulting in capital formation of $64 Million and 231 high end jobs. This group is frequently requested to speak nationally and train other states on best practices management of successful technology programs.

The Michigan Economic Development Corporation provides the most comprehensive support to our early stage tech companies in securing SBIR/STTR funds in three ways:

1) The Emerging Technology Fund mentioned earlier

2) The SBTDC tech team has an SBIR expert who reviews grant documents prior to submission and provides feedback at no cost. This effort helped moved Michigan up 10 places in the ranking for receipt of federal research grants.

3) The MEDC also funds a national company based in Michigan to run training classes on federal SBIR and STTR programs to help companies determine their eligibility and improve the quality of their submissions. They also work hands-on with companies to write competitive grant submissions. This program represents an 11:1 dollar return to the state and increases the likelihood of an SBIR acceptance by four times the national average.

Access to Talent

Working with the Michigan Venture Capital Association, the MEDC is encouraging attracting and keeping smart people in the state by offering a Venture Fellows Program, to fund annual internships to MBA students in Michigan's venture capital firms.

Companies funded by Michigan's venture capitalists have the ability to access **the Entrepreneur in Residence Program**, which pays seasoned entrepreneurs to guide progress.

Companies funded by Michigan's VCs can also access the **CEO Attraction Program**, which pays recruitment, relocation, and partial salary costs to attract good tech CEOs into the state.

Michigan works with its largest universities to expand best practices in technology talent development and acquisition through the **Tech Transfer Talent Network**. This ground-breaking program matches seasoned entrepreneurs in the community, technology experts, post-docs, and MBA students with fledgling companies inside Michigan's universities.

Access to Technology

Michigan companies are able to easily find and access technologies to increase their competitiveness and increase their product offerings through the **Michigan Corporate Relations Network**, another best practices sharing effort among the universities. When needed, researchers from multiple universities are assembled under this MEDC funded program to solve high-impact technology problems.

The **Technology Assistance Program** bridges the gap between Michigan universities' science and engineering departments and its manufacturers to facilitate commercialization within the state.

Access to Real Estate

Michigan's **Incubators** are an important component in harvesting the regional advantages of our geographic spread. Safe wet-lab practices training comes out of Kalamazoo, Entrepreneur Bootcamp

out of Ann Arbor, and manufacturing advancement technologies out of Houghton are just a few examples of how our incubators are encouraged to accelerate businesses state-wide. Shared resources in counseling, training, and specialty technical knowledge is a hallmark of our reinvigorated incubators.

We're not stopping there. The MEDC has ambitious goals for 2012 that include revolving loan programs to provide non-dilutive capital to early stage tech companies, a First Customer Program to incentive new product trials, and facilitate coordinated marketing, reporting, and success sharing among all of our programs to ensure success well into the next decade.

Chair LANDRIEU. Okay. That is excellent.

Brink.

Mr. LINDSEY. I am Brink Lindsey. I am a Senior Scholar at the Kauffman Foundation. We have lots of ideas, big and small, ranging from incremental to highly ambitious for how to make the policy environment more entrepreneur friendly.

But for now let me just add my voice to that of others and say that the single most straightforward concrete step we can take to promote entrepreneurship in this country is to import more entrepreneurs from abroad or rather stop kicking them out because they chose the wrong country of birth.

Chair LANDRIEU. Well, I am not sure you choose your country. It is maybe by accident but anyway. Go ahead, John.

Mr. ORTMANS. Good morning, Senator. I am Jonathan Ortmans. I am a Senior Fellow with the Kauffman Foundation. I have had two startups and two exits. I am also President of the Public Forum Institute.

I would say we have so much to say on our proposals that we outlined in the startup but let me just perhaps since several of you have already mentioned what I would put at the top two as mine but I think, Senator, if there is a way, perhaps the most important thing that the Senate could do right now is to capitalize on the extraordinary goodwill and bipartisan atmosphere that surrounds this issue of startups.

I think, you know, our work at the Kauffman Foundation is really deep-seated in the broader question around how do you grow an economy. And as we look at this question in economic history, it has been somewhat under addressed.

So, in a way it is one of the first times that we have really looked at this through the lens of new firms rather than exclusively through the notion of small or large firms and it is extraordinary through your leadership, through the leadership of Senator Moran and others and through the leadership of the President that there has been such great attention given to this issue.

So, we applaud you on that and I think probably the most important thing to do is to make sure that we do not allow this issue to slow down our momentum in an election year.

Chair LANDRIEU. Thank you, and that is exactly why I am holding a series of roundtables on entrepreneurship to keep, you know, the accelerator down on this, to keep the attention on this issue, to build support and momentum and I think our Small Business Committee can do that.

There are other important committees on Capitol Hill but they have very broad jurisdictions and they are being pulled in many different directions as you can imagine right now with the issues that are before the Congress.

This Committee is going to be singularly focused on this issue of an entrepreneurial ecosystem, and pushing out everything we can from our Committee in as bipartisan a fashion as we can.

And then also encouraging the other committees, you know, to act as well. So, that is our purpose and I thank you for much or being supportive and a participant in that effort.

Let me recognize Senator Moran, who has introduced one of the major pieces of legislation, for his comments and then we will open it up for some discussion.

OPENING STATEMENT OF HON. JERRY MORAN, A U.S. SENATOR FROM KANSAS

Senator MORAN. Chair Landrieu, thank you very much. Thank you for convening this roundtable. I appreciate those who are participating and I am anxious to hear your comments and suggestions.

I am tardy because I have come from the Brookings Institute with Senator Warner where the topic of the morning was the Startup Act, a piece of legislation that Senator Warner and I introduced as a result of reading the Kauffman Foundation analysis and determining that its research had great validity and discovering, as you say, that this is an opportunity for all of us Republicans, Democrats, those who are interested in the economy to come together on something that is critical and what Mr. Ortmans just said seemed so compelling to me.

I think there is a window of opportunity here the next few months and there is a lot of cynicism out there that, you know, why get involved in an issue. Congress cannot pass anything. It is an election year.

If we take that approach, we will never succeed; and in my view we have no ability to delay in trying to get our economy jumpstarted.

I got interested in this topic as a member of the Senate who strongly believes that the deficit is the huge, compelling issue of my generation's time. I believe that my generation has been irresponsible in setting the stage for the financial condition our country is in and believe that it is very difficult to create a growing economy when the weight of the debt, the uncertainty of whether we are the next country to have a credit crisis is out there.

I have been discouraged by the inability for Congress and the Administration to address this issue in any significant way; and while I am not walking away from that issue, another way that we can approach the growing deficit is to grow the economy and put people to work. Consequently, increased tax revenues will help us meet our country's financial obligations.

And it is an opportunity that we cannot let pass us by for the good of our country. And this concept that because it is an election year you cannot see anything happening in Congress, I can assure you that other countries and their economies, their entrepreneurs, their startup business men and women are not saying, well, we will not do anything this year because it is an election year in the United States.

If we do not address these issues now and create the environment in which entrepreneurship can flourish, surpassed and unfortunately perhaps in more environments that help startups will be created elsewhere rather than in the United States.

The Startup Act is a piece of legislation that is certainly worthy of strong support. I welcome the input that you all provide about ways in which it should be modified or changed.

Senator Warner and I visited yesterday with the desire to look at all the other pieces of legislation that are out there to see if we can find the ones that we think belong in a single bill and then work with the sponsors of those pieces of legislation to put this into one, compelling piece of legislation that has broad support in Congress.

We were seated at the State of the Union address in which the President said, "Introduce a bill." We then corresponded with the White House saying we have introduced a bill; and as we saw this week, the President increased his public support for entrepreneurship and for creating an environment in which startups can succeed.

So, I appreciate your leadership and thank you very much for allowing me the opportunity to hear what folks have to say.

Chair LANDRIEU. Thank you, Senator, and that is exactly what we intend to do on this Committee is to pull the best ideas together and to shape them into a package that has a very strong bipartisan support, and thank you for your leadership.

Let me begin by saying that when you want to speak or have something to say please just put your placards up like this and then I will be happy to call on you. We really want this to be a very free-flowing, hopefully very effective discussion.

Just in your openings I have already written down 10 great ideas and I am sure I missed a few of them but my staff, every time we hear a great idea, we are writing it down. We are going to do a little research about it and some of these are already out in bill form but others have not been.

Please keep your placards up, but I would really like the Kauffman Foundation, who is probably the institute that has done the most work on this subject, to be given the first two minutes to amplify some of the one or two or three really important things that you think should be a part of this discussion.

I know that you went across this briefly but I am going to give you all some time, because you are the major foundation, and then we will take a few questions.

I then want to go to Sean about what the three or four things that the Federal Government is really focused on, and then we are going to really just open it up.

Jonathan, go ahead, and explain the Kauffman Foundation and how you all came about your work.

Mr. ORTMANS. Certainly. People do not normally give you the opportunity to talk your organization but I guess we will.

The Kauffman Foundation is one of these great American institutions, formed by Americans who decide that their wealth can be put to good use. It is like every other American foundation.

We are based in Kansas City, founded by Ewing Marion Kauffman, who was an entrepreneur. The distinctive difference is he left his wealth ostensibly to advance entrepreneurship in education and then I think that is what sometimes makes the work that we do different to other foundations.

But as I said earlier, our work is really seated in a broader discussion of how do you grow economies, and we have taken a very close look over the past five years at trying to improve the quality of research that is being done into understanding the science of

startups, understanding what is often determined in the past as being a unique American characteristic of our pioneering spirit, birthing the new.

I think Brink is going to, in just a minute, follow me and talk about a couple of the things that we might highlight that we have put forward in our Startup Act.

But let me, if I could, also bring in one I think important point at the outset. One of the other hats that I have is I chair a global entrepreneurship effort, and I think we cannot underestimate, in my writings I have called it, I have done some pieces around what I call the race to the top in the startup ecosystem world.

I cannot underscore more the imperative urgency of us dealing with these issues because of the global competitiveness happening. There is, for example, a gathering which I will be a part of in March where there are 3,000 people coming from 120 nations and the topic of the conversation is how to build a stronger startup ecosystem. There are ministers coming. There are entrepreneurs coming.

Chair LANDRIEU. But do they have a Small Business Committee like this with muscle?

Mr. ORTMANS. No, they do not.

Chair LANDRIEU. Do they? That is the question.

Mr. ORTMANS. I think time is of the essence with this just to emphasize Senator Moran's point.

Chair LANDRIEU. Where is that meeting going to be held?

Mr. ORTMANS. It is actually going to be held in Liverpool in the United Kingdom; and it is well represented by the United States. But I view it as an opportunity to keep an eye on what everyone is doing.

And one of the things that Brink will comment on has to do with this issue that we have all brought up in the Startup Act was this notion of high-skilled immigration and the need for a startup VISA.

And one of the things that you will find when you look at the global environment is that most nations are having hearings like this working out how they can increase the funding for their programs to recruit more talent into their country rather than figuring out how do we actually just take away the barriers that stop them staying when they are already here. And so, I think this becomes, you know, an important perspective.

Chair LANDRIEU. And we obviously have a natural advantage that we are not taking advantage of. Let us go to Brink real quick, and then we will open it up.

Mr. LINDSEY. So, I think if there is an area where the Kauffman Foundation has had just overwhelming success it has been in drawing the linkage between new firms and job creation.

Bottom line, between 1977 and 2005 there were seven years in which existing firms created more jobs than they destroyed. So, the take away here is without startups there is no net job creation in this country.

What I would like to do now, though, in terms of setting the broader context for all of these policy ideas that we are going to be talking about is to focus on the relationship between startups and innovation, why that is so important, why innovation is now

so important for economic growth, and why the need for policy reforms to spur innovation is so urgent at this time.

First off, existing firms do innovation all the time but they tend to innovate at the margins. They do incremental stuff. When you are looking at what we call discontinuous or disruptive innovation that creates whole new industries and totally topples the status quo, it is almost always new firms for a very simple reason that no existing firm in its right mind is going to nurture an innovation that totally blows up its existing business model.

Chair LANDRIEU. That would disrupt their business.

Mr. LINDSEY. Right. So, when you think of these real disruptive pioneers, FedEx, Wal-Mart, Microsoft, Google, they are upstarts.

Chair LANDRIEU. Dyson and Hoover.

Mr. LINDSEY. So, when you are thinking about innovation you have to think about startups.

Why is innovation so much more important now than it has been at any time in the past? It is because other sources of growth in this country are running out; and so, we are facing a prospect in the next decade or two of a real slowdown in U.S. long-term potential growth rates that is quite alarming. And it boils down to demographics.

What is the easiest way to pump up GDP per capita? It is to get more and more people, a higher and higher percentage of people in the population making GDP which we did over the whole course of the 20th century with women going into the work force and an overall increase in labor force participation rates.

Women's labor force participation rates peaked in the 1990s. They have started falling since then. Men's labor force participation rates have been falling gently for decades now because of later entry into the workforce and early retirement. So, we have lost that tailwind.

So, if you do not have as many people going into the GDP gain, what is another way to boost things? Develop their skills. Make them smarter. We have run out of gas on that too. Human capital development has stalled in this country.

Our high school graduation rate peaked in the early 1970s. It is lower now than it was then. Our college graduation rate plateaued in 1980. It has not risen since then. Those are incredibly important problems, and we need to address them.

But right now in the current context, the issue is doing that is really hard. And so, if we are going to keep economic growth going, we have to rely more than ever on innovation, on new industries, and new ways of doing things; and that means we have to rely on entrepreneurs.

So, why is helping entrepreneurs more important now than ever? Because the state of entrepreneurship in this country is not in the peak of health, and this started the slump in entrepreneurial job creation and entrepreneurial activity began before the recession of 2008.

The number of new employer businesses created annually began falling after 2006 while the expansion was still going on, dropping 27 percent by 2009. The average number of employees per new form has been trending gradually downward since 1998, and the pace of job growth at new firms during their first five years has

been slowing down since 1994. This is all from Kauffman's research.

Let me mention just in closing other research funded by Kauffman by a University of Maryland economist John Haltiwanger that average annual job creation by startups has been as a percentage of overall or expresses a percentage of overall employment has been falling for quite some time now.

It came to 3.5 percent of total employment in the 1980s, fell to 3 percent in the 1990s, and 2.6 percent since 2000. So, a 25 percent cumulative drop.

It is hard to see in this haystack of new businesses the needles we are looking for, those high-growth firms; but if overall business creation is slowing down, there is reason to be worried that the process of creating the new giants of the future is slowing down too; and so, we need, in the face of this structural problem, not just a cyclical problem but a structural problem, we need structural solutions which means we need to identify barriers to entrepreneurship and systematically dismantle them.

Chair LANDRIEU. Thank you, Brink. That was excellent.

Tim, do you want to comment about that or something else? Go ahead on this and then we will get to Sean in a minute.

Mr. ROWE. First of all, I wanted to say that the Kauffman Foundation is the cat's pajamas. You guys are great. No, I am serious.

Chair LANDRIEU. Thank you. I was looking for a word. I do not know if I would have come up with that but I agree.

Mr. ROWE. Those of us who do not have the luxury to study this stuff all day they are actually working in it.

Chair LANDRIEU. Great to know it.

Mr. ROWE. The material you guys present changes our lives because we go out and talk about this stuff that you have got the hard data. This is where the jobs come from. This kind of stuff so thank you.

Kauffman also has a bias towards action which is really helpful. Kauffman has underwritten probably every major interesting new entrepreneurial activity in Massachusetts, which is not your state, in the last three or four years. Kauffman has been there each time. So, thank you.

I want to underscore what Brink and Jonathan are saying. We see where we are today as kind of the calm before the storm in terms of how the United States fits into the global competition in innovation and creating new high-tech companies.

You said earlier, Senator Landrieu, that many of us believe that we are still ahead, and the numbers would say that. I think roughly 80 percent of the world's venture capital is invested in the United States, and that is more than our fair share, and that is great.

But what is happening is on all these growth drivers that the Kauffman Foundation talks about, the other countries have been working hard on this stuff. They are getting their education levels up. They are understanding more about innovation.

I speak all around the world as a number of us in the room probably do on this stuff, and every country I go to we have the country's leaders, the head of state talking about this stuff, focused on

this stuff, creating new foundations, modeling them on Kauffman, trying to figure out how to do this.

So, we are in a point where we are still ahead but we cannot rest on our laurels and I guess that is the main point that I wanted to make.

The second piece that I am just going to ask you for, your staff asked me to bring some kind of circles and arrows and charts and things for your fancy new TV system.

Chair LANDRIEU. Oh, great.

Mr. ROWE. And since my aide spent several days doing that, could I have like a minute just to go through some of this to spark conversation?

Chair LANDRIEU. Absolutely. You can have more than a minute. Go ahead.

Mr. ROWE. None of this is my research. This is highlighting other people's research that I think is helpful.

Chair LANDRIEU. You all in the audience cannot see this.

Voices. Yes, we can.

Chair LANDRIEU. Oh, I am sorry. Great.

Mr. ROWE. They should. So, I think you are kind of in the middle but if you go to the front very briefly, the next page. I will go through this very quickly.

So, note on the pie chart. This is what I was talking about in terms of the percentage of startups that have a non-US-born founder. This is research from Duke School of Engineering and UC Berkeley. AnnaLee Saxenian, who you guys worked with I am sure.

And she did do, just focusing on engineering startups, looking at the whole country, and found that that was about 25 percent non-US-born.

So, as you go into the Silicon Valleys, you go into these hotbeds of entrepreneurship, and anecdotally I would say it is very similar in the Massachusetts area, it gets even higher. So, that is just some concrete data around that. We will share this with the group afterwards.

The next slide. This is where those foreign born startup CEOs are coming from, just to put a point on it. It is what you think: India, China, Japan, Taiwan, Germany, places like that. Surprisingly Iraq is right after that.

They are coming from a small set of countries, and these people tend to poke up against caps, the numbers of people who can come from their countries which is one of our specific issues that I am sure Madeleine knows all about.

Next slide. So, this is a map of where foreign students, all foreign students who come to the United States where they come from in the world. It is the same places largely that the startup CEOs are coming from. So, China, India, South Korea, Germany, and Japan, the biggest sources of foreign students.

Next slide. This is the degrees they have or they are working on when they come to the United States. So, I was saying earlier that it is mostly doctoral students. It is mostly doctoral students. These are the kinds of people that we really want to be starting businesses here. Masters students the next biggest group. The rest is almost noise in comparison.

Next slide. So, next slide. We have been talking about crowdfunding. These are just some estimates. This is from Gartner Research about how this can grow. They think that it is around $1.6 billion now including such quasi crowdfunding mechanisms as kick starter where you do not really invest. You get like a thing. You give some money to the small business and they have to send you a thing and you do not get any stock but it is crowdfunding.

They think it will grow to 6.2 billion which is not the 80 billion that Ridgely mentioned but it is a significant amount of funding. And a lot of this will go to the, what is it, the true small businesses, the TSBs, because if you are a big, hot startup, yes, you can get Kleiner Perkins or somebody to invest.

But if you are starting a small business, you are starting a new winery in, you know, California, this is exactly a great place to get your funding, friends, family, the wider circle.

The next slide please. So, this is that Wefunder website as of this morning. I am sorry. This is when they opened. Two more slides. That was two days ago. This is yesterday and this is today.

So, they are now up to 1299 funders promising to invest $4 million in startups if you pass this legislation.

Chair LANDRIEU. Fabulous.

Mr. ROWE. This is literally just the last two, three days they have been out there and their tag line is it is illegal to invest on your dollars in startup.

What they really mean is that there is no mechanism for an everyday person to put $100 into a startup which a lot of people would like to do.

If you want to invest in a startup, you really have to go through a lot of paperwork. You are never going to invest as little amount of money to make it work. Let us change that. Micro-finance.

The next slide. The next slide. This one did not make it into the President's State of the Union. It is not in anybody else's platform, but we in Massachusetts think this is big.

So, this is the new idea, if you will. It does not come up a lot from the Californians because they ban noncompetes. But in Massachusetts and many states, we have a problem where we have something akin to indentured servitude.

If you are a game developer, let us say a video game developer which is a strong area in Massachusetts, and you go to work for a particular video game development company, you will sign a noncompete. Everyone requires it.

You are not allowed to stay in Massachusetts and work for a game developer ever again. If you leave that company until you are what, one, two, three years runs out, most people cannot afford to not work for a year, and so they have to switch industries.

And in fact, that is just what they do. One third of workers who have signed noncompete agreements, this is according to research at MIT that the Sloan school just published in October 2011, actually drop their industry entirely. They often drop the thing they got their degree in; go to some other industry because when they leave their company, they cannot continue in their industry.

Seventy percent of employees discover they have to sign a noncompete after they have accepted the offer. They cut the offer. They have told everyone. Now they hear, oh, by the way, you cannot ever

work in your industry again or not for years. So, we want to see this changed.

This is typically thought of as a state-level legal issue, and what I am proposing is that it be explored as a federal question. You could argue that this is a restraint of trade, that essentially you are saying, no, these people cannot go and work in some other field. So, that is noncompete.

The next slide please. Next slide. This is just Dice, which is one of many jobs websites that are all over the country, a hiring website. This is just the Boston area.

And what you can see here is that there are 3647 tech jobs that are standing open right now just in Boston. And if you look at the tags, you know, what are these jobs in, .NET which is a Microsoft technology, C sharp, HTML which is a web technology. HTML has 372 open jobs. SQL, which is a database technology, 1115 open jobs just in Boston.

When I was talking about holding back new startups, this is actually one of the things that we see is holding, that we hear from people who want to start new companies. If you are coming out of one of the schools in the area and you are getting a new company started, not being able to find qualified tech people that you can hire is one of the biggest issues.

And interestingly, it is a big issue not just for the small companies but the big companies. If you look at what Google has done, Google has loaded on the benefits for new employees to a wonderful and sometimes absurd degree where you have, if you go into the cafeteria in Cambridge, you will have a full rock band set up so at lunch if you want to jam with your friends, you can.

They have competing chefs who offer the sushi and they offer every kind of imaginable food. It is wonderful. They had an oompa loompa band at lunch recently.

They do this stuff because this is what they have to do to keep hiring. And that is great but the startups cannot compete with that. It is very hard to do that. And so, what we would like to do is see some adjustment in the number of people trained in these areas.

I talked to, I will not name it, the head of the entrepreneurial initiative at a local community college in Massachusetts about this problem in the last few days. And they said do not quote me but there really is not much of a link between what we are teaching and what industry needs. We really need to somehow figure out how to make a link in our educational system.

The next slide, and I think I am just about done. This is across the other metro areas, unfilled tech jobs. It is true all across the country, not just in Boston.

The next slide. These are the states and their unemployment rates, and the colored ones here are the high-tech states that I just mentioned that have the biggest problems with tech jobs.

So that the states that have the highest unemployment are also the states where ironically they are having the hardest time finding people.

Chair LANDRIEU. Because of the mismatch between the population that has not been trained for the skills that their companies are desperate for?

Mr. ROWE. Right. Exactly.
Chair LANDRIEU. It is really quite shocking and shameful.
Mr. ROWE. Next slide.
Chair LANDRIEU. We will do one more slide.
Mr. ROWE. That is it.
Chair LANDRIEU. Thank you.
[The slide presentation follows:]

Developing and Strengthening High-Growth Entrepreneurship

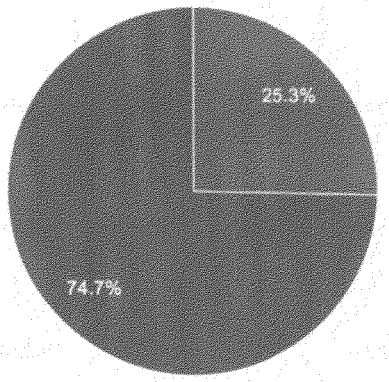
Senate Committee on Small Business and Entrepreneurship
Wednesday, February 1, 2012

Timothy Rowe
Founder and CEO, Cambridge Innovation Center
Cambridge, Massachusetts

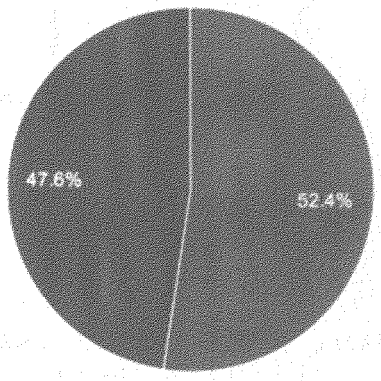
Reform visa laws to retain foreign talent

Immigrants are creating 25% of all US and 52% of all Silicon Valley Tech and Engineering Startups![1]

Founder make-up at Technology and Engineering Startups in the US



Founder make-up at Technology and Engineering Startups in Silicon Valley



- Companies in which at least one founder is an immigrant
- Companies founded by American-born individuals

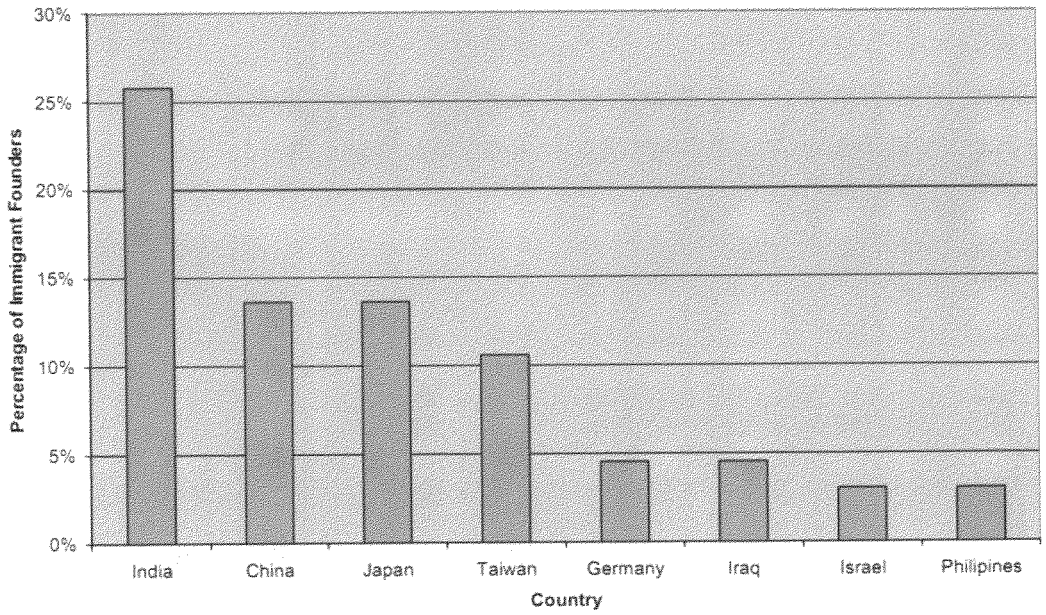
In 2005...

These companies produced **$52 billion** in sales and employed **450,000** workers in the US.

America's New Immigrant Entrepreneurs, Duke School of Engineering and UC Berklee School of Information, V. Wadhwa, A. Saxenian, B. Rissing, G. Gerei. January 4, 2007
[1]Data from 1995 to 2005

More than half of Silicon Valley startup founders come from India, China, and Japan...

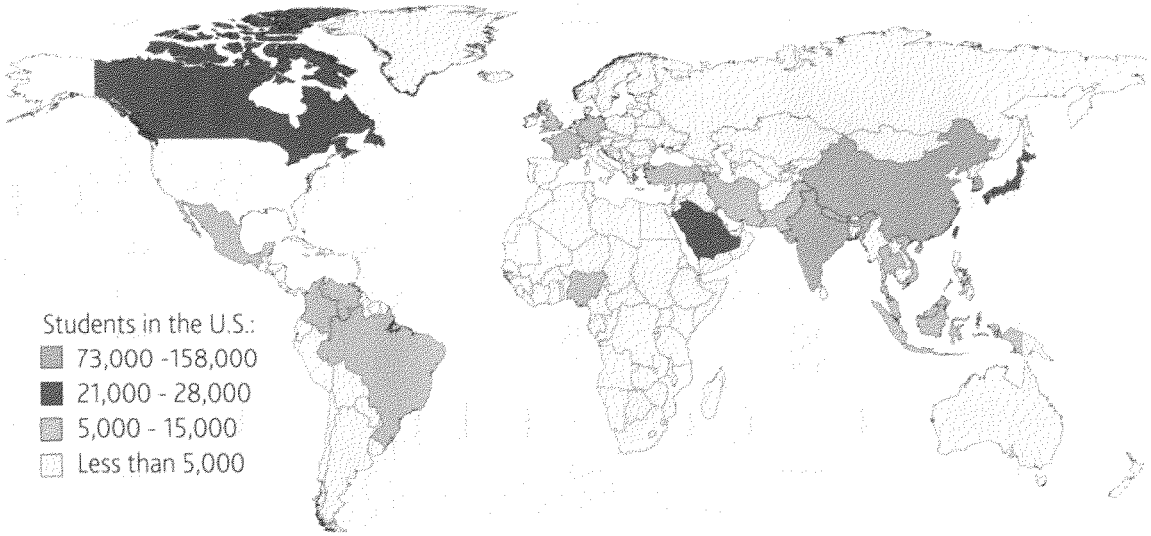
Origins of Engineering and Technology Company Immigrant Founders in Silicon Valley, CA



America's New Immigrant Entrepreneurs, Duke School of Engineering and UC Berklee School of Information, V. Wadhwa, A. Saxenian, B. Rissing, G. Gerei. January 4, 2007
Chart created with data collected from 1995 to 2005

54% of foreign students in the US come from China, India, South Korea, Germany and Japan

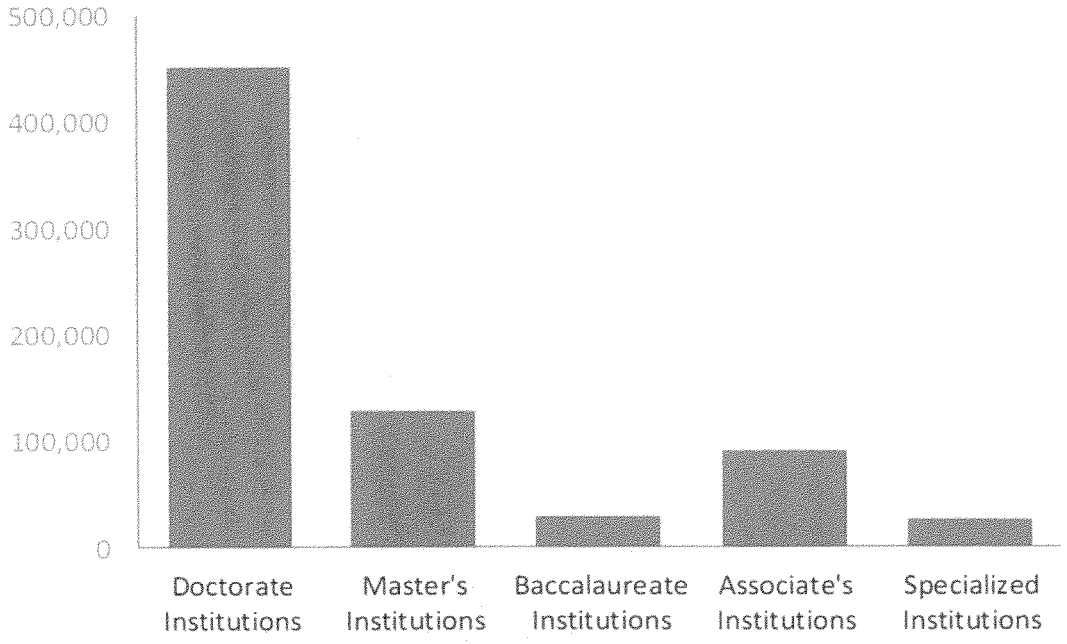
Places of Origin, 2010/11



75% of international scholars specialize in STEM fields.

Institute of International Education, Inc., Open Doors® 2011, Report on International Educational Exchange, Produced by the Institute of International Education with support from the Bureau of Educational and Cultural Affairs of the U.S. Department of State

Most of these students are studying at a very advanced level



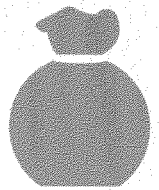
Institute of International Education, Inc., Open Doors® 2011, Report on International Educational Exchange, Produced by the Institute of International Education with support from the Bureau of Educational and Cultural Affairs of the U.S. Department of State. x

Crowdfunding

The Growth of Crowdfunding Platforms

According to Gartner Research:

$1.6 billion
Estimated value of money generated by crowdfunding platforms (2009)



$6.2 billion
Forecasted value of money generated by crowdfunding platforms (2013)

KICKSTARTER.COM

WHY KICKSTARTER IS UNIQUE:
Claims no ownership over the projects and the work produced, but operates on an "all-or-nothing" model where the project's goals must be reached in order to receive full funding.

[1] As of October 2011. Total dollars collected for successful projects.

[2] Only collected if the project is successfully funded.

FirstGiving

WHY FIRSTGIVING IS UNIQUE:
Provides nonprofits and individual supporters with the tools to fundraise for their cause of choice. Fundraisers create their own pages where they can direct donors.

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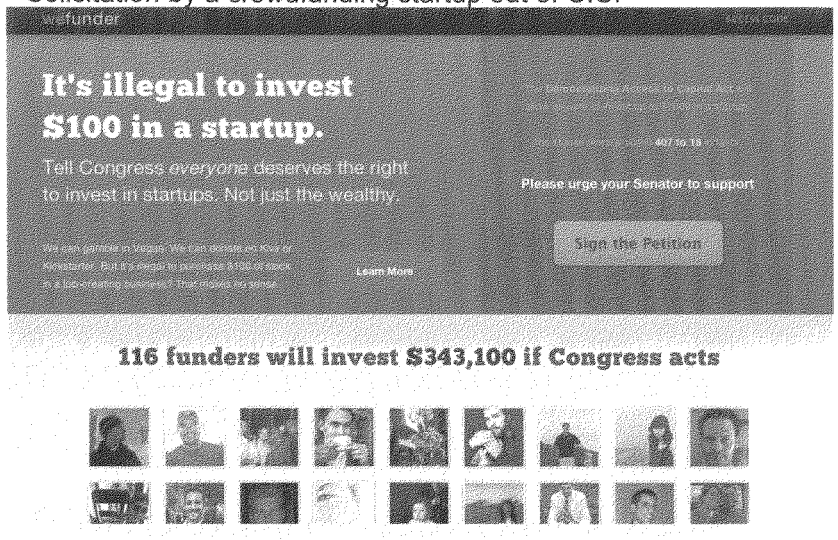
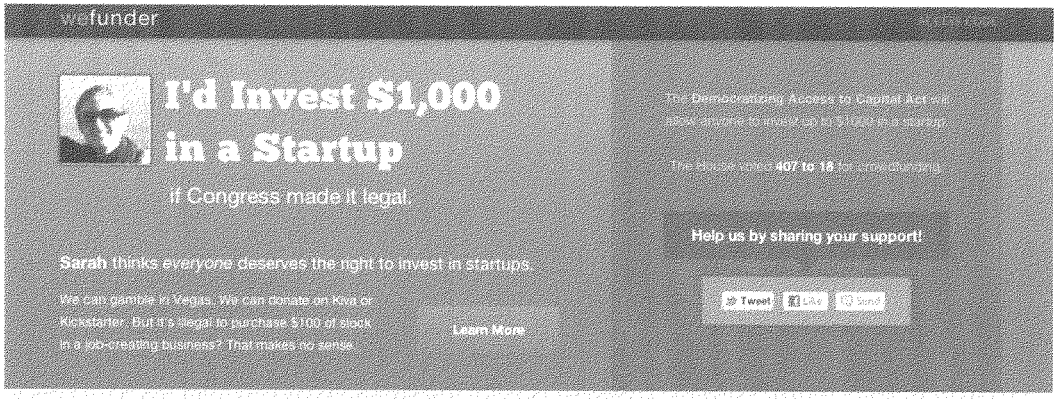
Solicitation by a crowdfunding startup out of CIC:



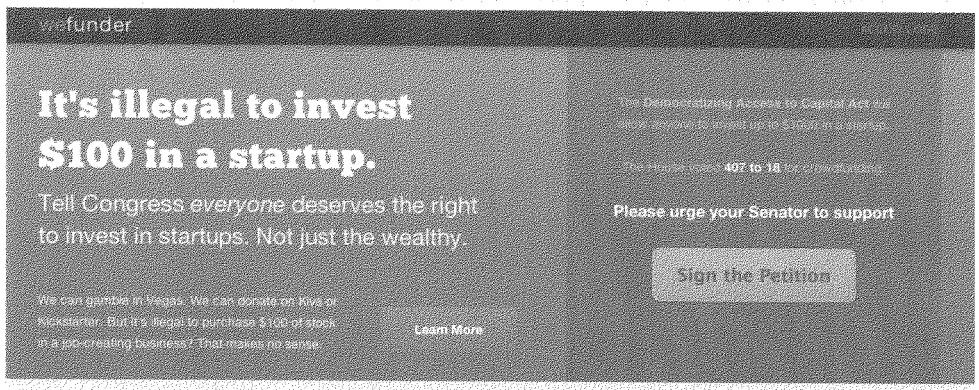
Support as of January 28, 2012, prior to the official launch

Signatures and pledges 24 hours after the official launch yesterday:



1177 funders will invest $3,688,600 if Congress acts

Signatures and pledges as of 9:30am this morning, Feb 1, 2012:



1302 funders will invest $4,081,250 if Congress acts

Crowdfunding proponents estimate crowdfunding will lead to **500,000 new companies** creating **1.5 million new jobs**.

Eliminate non-compete contracts

Non-competes stifle startup creation

- Non-competes prevent employees spinning out to follow a dream (e.g. Google → Twitter)
- Professionals are 2x more likely to try new things when non-competes are banned
- About one-third of workers who have signed non-compete agreements end up leaving their chosen industry altogether when they change jobs
- 70 percent of employees discover they have to sign a non-compete agreement only *after* they have accepted a job

"The Firm Strikes Back: Non-compete Agreements and the Mobility of Technical Professionals," *American Sociological Review*, October 2011, Prof. Matt Marx, MIT Sloan School.

Retrain US workforce

Speed company creation. Create jobs.

Thousands of open tech jobs in Boston alone...

As of January 30, 2012

Dice The career hub for tech MyDice Tech News & Advice Login Sign Up

INNOVATION + IMPACT = VERACODE BE PART OF THE EQUATION. Career Open House—Thurs, Feb 9th

Job Title, Keywords or Company Name

Search job title only (e.g. Senior Java Developer)

Find Jobs

Advanced Job Search

Save This Search

As an RSS feed

Current Search

Country

Undo US

Metro Area

Undo Boston, MA

Refine Results

Area Code

Showing results: 1 - 30 of 3647

Next

.Net (395) ASP (264) Access (354) Analyst (453) Analytical (584) Automation (283) C (646) C# (340) Communication (1691) Consultant (370) Consulting (851) Design (1873) Developer (774) Development (2402) Engineer (790) Engineering (1092) HTML (372) HTTP (613) Implementation (1086) Information technology (331) Integration (863) J2EE (310) Java (827) Javascript (464) Linux (459) Network (573) Oracle (878) Planning (716) Programming (628) Project management (539) Project manager (326) QA (302) Reporting (588) Research (396) SAP (341) SDLC (278) SQL (1115) SQL Server (451) Sales (342) Scripting (334) Security (592) Software development (561) Testing (1172) Training (744) Troubleshooting (517) Unix (407) Web services (350) Windows (583) Word (375) XML (594)

Search By

Company

Metro Area

My Dice

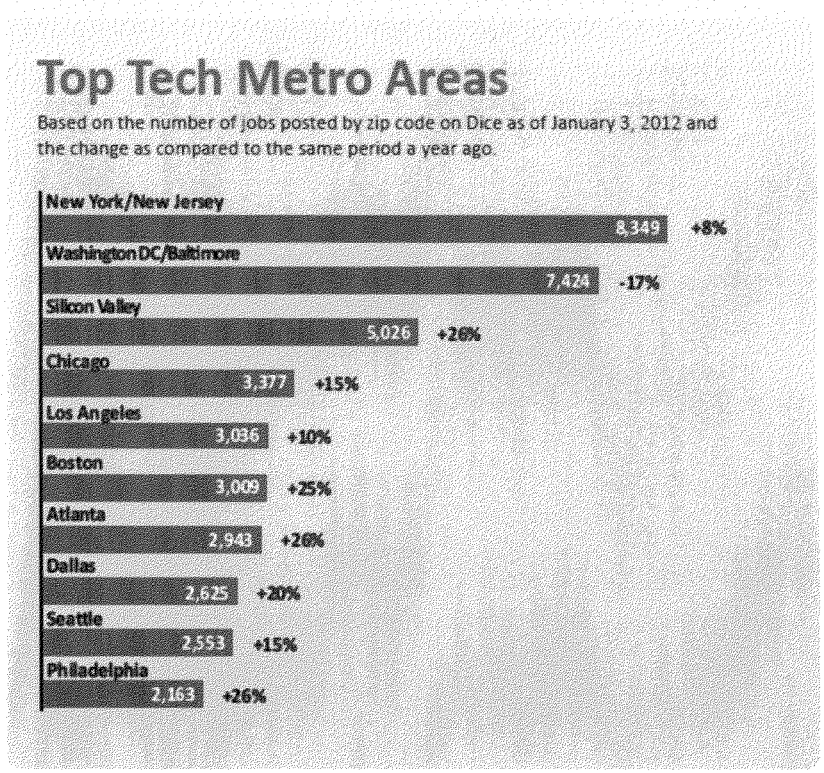
Create/Edit Profile

See Saved Jobs

Upload Your Resume

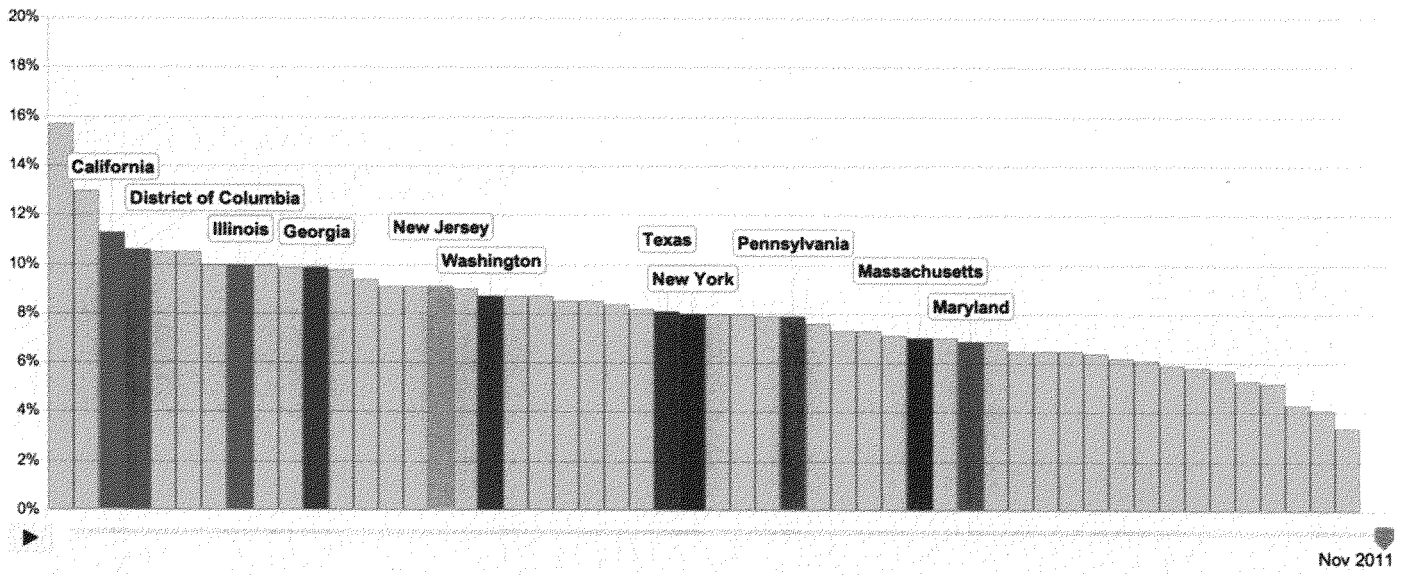
And this is true in all the major urban areas...

As of January 30, 2012



Despite high unemployment in these same places...

Seasonaly Adjusted



Data from U.S. Bureau of Labor Statistics
Last updated: Jan 17, 2012

Dr. Holtz-Eakin.

Mr. HOLTZ-EAKIN. Let me just make three brief points. First, Brink is right. Listen to Brink. He is all right.

Chair LANDRIEU. I am so glad that you all agree that Kauffman is putting out some good data. I think it is extraordinary myself.

Mr. HOLTZ-EAKIN. I am a big fan and have been for decades. Second is that Senator Moran is right that the debt is an important part of this conversation. It does not make sense for an entrepreneur to bring his or her skills to the U.S. and scarce financial capital when its current plan is to have a sovereign debt crisis, and that needs to get fixed.

The important part for this Committee is that how you fix it matters; and there is, in fact, research that suggests the right fix is keep taxes low and reform them to be more pro-growth, encourage the entrepreneurs, and cut spending but not all spending is created equal.

You want to preserve core functions of government, basic research which will feed into innovation, infrastructure which will permit entrepreneurs to compete successfully. Those kinds of things, and cut transfer programs and government employment. The latter is not a big deal in the U.S.

We are currently on a course to do exactly the wrong thing. Sequesters gut the discretionary spending which is the core functions of the government and we are not touching the transfer programs. The small business and entrepreneurial community has to care about this because we are getting it all wrong

Chair LANDRIEU. I am sorry. And I would like my staff to provide to the whole Committee the actual data on reductions in spending. If you take the core of government which would be described as everything besides defense, Social Security, Medicare, Medicaid, the core discretionary spending has literally been flat.

It has not been the driver of spending. It has been flat over the last 10 years. The spending has been in defense, in Medicaid, Medicare, and Social Security.

And part of that is driven by the changing demographics. So, we have got to be very, very careful moving toward a balanced budget what we are cutting and how we are cutting because it gets exactly to your point.

You do not want to cut research and development. You do not want to cut education if it is having outcomes that you want. You want to cut it if it is wasteful and not meeting the outcomes; but you want to invest in some of these, you know, opportunities I think to, you know, to enhance or modify some of the spending to enhance the development of the right kind of training we need to fill the jobs that are right now available. But thank you.

Mr. HOLTZ-EAKIN. The discretionary programs are our future. The entitlement programs are legacies of our past and federal dollars to the past. We are letting our past crush our future, and it has got to be fixed right.

My last point is the openness issue goes more broadly than just capital and entrepreneurs. It is in competition as well. The places we have seen great innovation, semiconductors and others, those where we have been open to international competition, the entre-

preneurs will rise to that competition and succeed. We have to keep an eye on that.

Chair LANDRIEU. Jim.

Mr. KESSLER. Thank you, Senator. I am going to pounce a little bit also on that last point about our budget. If you look at 1990, $0.44 of every dollar that the Federal Government spent was Medicare, Medicaid, Social Security and interest on the debt.

In 2030, it will be $0.68 of every dollar. And there is a reason for it. I mean, it is the demographics that were talked about. Over the next several decades the number of elderly people in this country will double, and their average lifetime benefit for both Medicare and Social Security in real dollars will also double and the number of working age people in this country will increase by one third.

So, you have got double, double, and one third and the numbers do not add up. We have to figure out a way to—the past is crushing us but we have to, you know, we have to take care of people at the same time but we have to have a much stronger investment budget.

And the way to think of an investment budget is, what are the things that we are spending on that creates a future revenue stream, and a lot of those things they have really just—it has declined.

And in past American budgets, we were doing a lot of things, whether it was on the research end, on the infrastructure end, it was creating future revenue for this country.

Chair LANDRIEU. Very excellent question. Excellent.

Michael.

Mr. FINNEY. Thank you, Senator. I just wanted to endorse some of the points that Tim made, in particular around crowdfunding. I am actually a member of an organization known as Kiva, and Kiva is probably as close as it gets to an actual crowdfunding tool that is out there.

One day I decided to put 100 bucks into it and make a few investments because Kiva came to Detroit. So, I have invested 100 bucks in $25 increments. I view it a little bit as philanthropy but also as a way to help entrepreneurs get to where they go, and there are some pretty interesting startups that have come out of that.

So, it is out there and it is one of the things that we can touch in the crowdfunding space as a tool to help us better understand how to get the legislation right so that it will work.

Chair LANDRIEU. And describe a little bit more about Kiva. Those of you who are familiar with it, I would like you to describe it because it is operating in New Orleans right now as well.

Mr. FINNEY. Yes, I was going to say Kiva-Detroit and Kiva-New Orleans are the two locations that are set up in the United States. We are actually in discussions right now to create a Kiva-Michigan because we see an opportunity to extend it across the entire state, not just the city of Detroit.

Essentially it allows the average individual who has a limited amount of resources but wants to assist entrepreneurs to make very small investments, as little as $25.

And you simply set up an account and you review the business plans that are on that Kiva website both in the U.S. as well as throughout the world.

It started as a Third World resource, funding small startups that wanted to make bread or buy an animal so they could have a dairy or produce milk and so on. And literally, it is microlending at its finest.

Chair LANDRIEU. Using the Internet to connect the investors with the projects worth investing in.

Mr. FINNEY. That is correct. I mean, the challenge of it was the back end, and there is an organization out of New York City, I think, called ACCION that really manages the back end of it; and essentially they are the lender but Kiva is the face of it.

So, it is a wonderful tool. Detroit and New Orleans are the two locations in the states that have managed to get under the umbrella right now, and it appears to be having some early impact.

The point of bringing up Kiva is that this is a wonderful opportunity for, I think, information exchange; and it is probably one of the things that does not happen as effectively as it could; and maybe there are some ways that we could develop better opportunities for information exchange.

The last point that I want to make is that somehow we have got to figure out how to get some of the great ideas that are actually working in some of our states to become models for how to do things on a national basis.

What Tim is doing we all know about. If you are at all involved in what is happening in the entrepreneurial world you know what he is doing. You have some good ideas and you are snooping around trying to get a better understanding.

How do we create that with some of the other programs? The State of Michigan, through my organization, we set up a small business collateral support initiative and loan participation initiative with support from the Department of Treasury.

It is called the SSBCI, the State Small Business Collateral Support Initiative. It allows us small and medium-size companies, for the most part, to get access to capital in situations where they would otherwise never get it. I mean we have done 138 deals in Michigan in the last 9 plus months.

Chair LANDRIEU. Are you using state general funds or a combination of state and federal?

Mr. FINNEY. It started off with about $5 million of state funds. We pitched the program to U.S. Treasury. They liked it so much they created a federal program with one and a half billion dollars of funding. It is available to all 50 States and, I think, three U.S. territories.

And so, Michigan was the first state to actually draw down the funds, about $80 million. That was intended to be a two-year commitment. We will have all of it invested in less than 11 months. So, that is how robust a program it is.

Chair LANDRIEU. We did that in our bill, in our last small business bill; and you can thank you Senator Carl Levin, who promoted that idea; and we wrapped that up in our last small business bill.

So, there is a billion, and that is an excellent model and we used Michigan as the model for the nation. If some of you are not familiar with what some of the states are doing that is an excellent and we are very happy that it is working.

Mr. FINNEY. It is a great example of how some initiatives that start relatively small at the state level are really scalable at the federal level with quick action. In this case Treasury acted very quick, launched the program. It is now available to all 50 States.

We are actually providing consultancy to seven different States on how to get the program up and running. It is really working great to help small businesses get access to debt capital because the other thing in the startup world, access to debt capital is almost non-existent because there is typically not assets that would support debt. This program actually allows for that through some of the approaches that we use.

Senator MORAN. Michael, what is the Treasury program called?

Mr. FINNEY. The State Small Business Collateral Support Initiative. SSBCI.

Senator MORAN. And on Kiva, are those such small amounts of investments that there is no securities law issues?

Mr. ROWE. It is loans not invested.

Senator MORAN. It is loans not investments.

Mr. FINNEY. It is loans. That is correct. It is loans.

Senator MORAN. And therefore, you do not have to worry about being sued for fraud——

Mr. FINNEY. That is correct.

Senator MORAN [continuing]. The statutory or common law kind of fraud.

Mr. FINNEY. That is correct. In fact, the investors actually do not receive any kind of a return other than return of capital. So, they do not gain a return on the dollar. It is social entrepreneurship at its best, in my opinion.

Chair LANDRIEU. Ridgely.

Mr. EVERS. That is actually a great hand off. Thank you. I think that one of the biggest issues we face is return on investment. And the reason that there is—and by the way, Tim, I just looked at the PQUA numbers. The amount of dry powder off shore is now equal to the amount of dry powder on shore.

Mr. ROWE. Really?

Mr. EVERS. Yeah. So there is about 60 billion——

Chair LANDRIEU. What does dry powder mean?

Mr. EVERS. It is on invested venture capital.

Mr. ROWE. That is growing faster than we thought.

Mr. EVERS. Yeah. It is the amount of money that venture capital funds have raised but not invested.

Chair LANDRIEU. You are saying it is equal now in the United States and offshore.

Mr. EVERS. It is maybe 80 and 70. 80 here and 70 offshore. But it, I mean, that is clearly diverging.

Senator MORAN. But what is the significance of that point?

Mr. ROWE. Eighty percent of the investments, what has been invested last I checked was in the United States, and you guys probably have better data than I do. But what this means is that what is being prepared to invest, what has not been invested yet, what is being amassed in funds is rapidly growing overseas.

Mr. EVERS. Yeah.

Mr. ROWE. And we would expect that, as that money gets invested, then it would get closer to 50–50, what is invested in the United States and what is invested overseas.

Mr. EVERS. That is sort of a side point. But what that underscores is that capital is mobile and labor and small business is not. And so, the question is, we have an extraordinarily entrepreneurial country unlike any other in the world although that may change over time.

But at the moment we clearly are hands-down the most entrepreneurial. There are 10,000 Americans who start their own business every day, weekends and holidays included. It is an extraordinary number, and it varies a little bit with the economy, and it varies a little bit with the availability of equity in your home and that kind of thing.

But it is just day in and day out, and 40 percent of them end up creating jobs, a third of them fail within the first six quarters, mostly because they should have kept their day job but oftentimes because they make preventable mistakes.

What is interesting is not that number, and we cannot make more entrepreneurs. We can do great things to help people who have entrepreneurial drive be more successful, whether that is incubators or the kind of mentoring that SCORE does.

What is interesting to me is not the failure rate which is fairly easy to measure, binary, are you alive or dead but rather did you meet your potential.

And I think that the story that is missing at this table is the underperformance of the smaller small businesses, the true small businesses who cannot grow to the size that they have the potential to become because they cannot get capital; and the reason that they cannot get capital is they cannot secure it. They do not have the assets to borrow against, and there is no return for their investors because these are not companies that are designed to be sold.

So, capital gains treatment does not help those entrepreneurs. There are other ways that we can go about it and we have talked about some of these in the past. There are other things that we can do.

Tax policy is a very powerful tool here. But if you only approach it from the perspective of capital gain, then you are only going to be solving one particular kind of problem and that is not the problem that the investor in a relatively stable "designed to be to feed a family" business is going to be attracted to because they cannot get their money out.

Huge opportunity. And unambiguously, you know, the Joint Committee on Taxation aside, Congressional Budget Office aside, moneymakers for the Federal Government. And yet we cannot do it and it is incredibly frustrating to me.

The last point that I want to make is, is a cautionary one. Be aware of the bright shiny object. You know, Facebook is going to file sometime in the next, I think they may have announced that they were going to file yesterday or today or tomorrow.

They are going to go public at a valuation of about $100 billion. They are going to raise $10 billion. They have 3,000 employees. The average American business has revenues—I think it is about

$135,000 per employee. Facebook which is hiring like a drunken sailor has revenues of about $500,000 per employee.

They are massively profitable because they just do not have that much to spend money on. They cannot create that many jobs. They are not the answer to the job problem. You know, bringing manufacturing back on-shore, doing a whole lot of things like that which are not sexy businesses.

They are three yards and a cloud of dust businesses. That is incredibly important for us to pay attention to and not get distracted by things that are, you know, they are big successes but they do not actually necessarily create a lot of jobs.

So, I encourage you as you look at ways to approach the problems here and figure out how do we really create jobs and how do we create a systemic environment that grows jobs, recognize that what entrepreneurs need is not entrepreneurial spirit. They cannot help themselves. What they need is money and mentoring.

Chair LANDRIEU. Excellent comments. Excellent. Excellent.

Wayne. And if you want to comment on what Ridgely said or take us in a different direction that is fine. I would really like some comments from some of you about this difference between an ecosystem that supports an entrepreneurship for entrepreneurs that just want to feed their family and a few more. It is a very good thing.

Mr. CREWS. Yes.

Chair LANDRIEU. We should not underestimate the importance of that or the significance of that. Not everybody wants to be the head of Facebook. They just want to run their farm, hire 12 or 15 people, feed their family, turn their business over to their son or their daughter and feel like they lived an extraordinarily successful life, and they did, or whatever business.

So, I do not want to under estimate that power and that dream or dishonor it in any way. But go ahead.

Mr. CREWS. Just quickly. It seems like the moral of the dry powder story is that there is always going to be an America, just if we are not careful it is going to be somewhere else because there is a lot of money to invest, there is a lot of hunger to create in the U.S. and around this room there is tremendous agreement on the tech immigration issues, the skilled immigration issues, on the access to capital like crowdfunding. It is the easy stuff that is agreed on that we can do.

Spending issues that got mentioned are much more difficult and this is not the forum to address it. I would certainly love to, after the CBO report of yesterday of 1.1 trillion deficit. But it is the case that it is only 2012 and America has a long way to go and the economy is dynamic and we can grow much more.

There was just a Wall Street Journal piece two days ago saying if the Internet was the last era or the beginnings of the Internet was the last era, next it is big data, customized manufacturing, big manufacturing, and Mr. Evers just mentioned bringing manufacturing back into the U.S., and the wireless revolution that have changed things.

So, if we cannot cut spending right now, we can rely on that dynamism and I would suggest and recommend that—think about the things that can be done with respect to regulation. If we cannot

manage the budget too well just yet, think about kind of the regulatory budget that affects small business, the ones that may stay small, they may be handed over to a family heir and that type of thing.

I would consider just a couple of things quickly.

Chair LANDRIEU. Real quick.

Mr. CREWS. The Reg Flex Act that has been talked about, the good bits, I would suggest looking at that notion and the impact of new rules that are coming along on small businesses.

And then finally I would suggest that in the same way that we look at the federal budget once a year do the same thing with regulations. It used to be the case that when the federal budget came out, there was an accompanying document called the Regulatory Program of the U.S. Government, and it examined Executive Order 12.291 and all the rules that are coming out from the various departments, agencies, and commissions.

And if you could do that but then tweak it so that you do the small business focus, look at startup rates and things like that, but also look at how regulations stack up as a small business grows. That sort of thing. So kind of a regulatory report card to accompany the federal budget and enhancements to regulatory flexibility.

There are a lot of other things like that that you can do like you were talking about a meeting this morning with Senator Warner. He had a proposal for one in one out with respect to new regulations that come down the pipeline.

So think about things like that that are low hanging fruit that bipartisan agreement can be had on not the difficult stuff like cost benefit analysis and things like that. Do the report cards. Do a one in one out if you can enhance Reg Flex.

Chair LANDRIEU. Well, one of the things the Roundtable is hoping to do is not only get some of the best and most exciting ideas on the table that can be fashioned into legislation but also to rank them as the most important, you know, in terms of the urgency of meeting some of the goals that I think we all share and ranking them, what is the most important thing the Federal Government can do.

Some of this we can do all right away. Some of it will take some phase-in. So, I would like to throw out at some point whether it is regulations or capital or technical assistance or crowdfunding or the immigration piece, how do you all, what are you hearing from your networks of entrepreneurs if they had to rank what is the most important thing for them to get first, second, third, fourth, et cetera?

But let me get Diane and then Barry. Go ahead, and then I will come back to Madeleine and I will get you, Sean.

Ms. TOMB. Thank you, Senator. I wanted to echo Ridgely's comments that, you know, for our membership, women business owners, it really is the true small businesses, and many of them are feeding their families as well, most of them are.

And I think in this effort to raise this issue, all of these issues are really important, not forgetting those as we look at these public policies, making sure that those businesses are taken into account because often, again, I come back to our primary issue, the access

to capital, and think about the barriers for them to access it, the money that is there is——

Chair LANDRIEU. How many women businesses do we have, 7 million? Approximately. Or what do you think?

Ms. TOMB. I actually do not have that with me.

Chair LANDRIEU. Somebody has it.

Ms. TOMB. I know. I have it right here.

Chair LANDRIEU. We are going to get the number but my point is, and the staff will get it in one second. But the point is that whatever it is, and I think it is seven to eight million, if half of those businesses hired one more employee, I mean, let us just say it is 3.5 million, if they added one more employee, I mean, we would have almost solved the job issue in America.

So, I think this is an important understanding that while the Kauffman Foundation is really giving us great data to help us understand what are the companies that are really creating the most number of jobs, we cannot lose sight of what makes America, I think, essentially a really extraordinary country which are these entrepreneur, small businesses.

Like I said, they do not want to have 100, they do not want to have 1,000 employees. That is not why they started their business. They want to feed a family, support a community, and that is what they do.

How many? 7.8 million. I thought that that was what it was. So, you know, this is an interesting point that I do not want us to lose sight of and I would like the Kauffman's to comment. But before you do, Diane, did you finish?

Ms. TOMB. The second point that I think both Ridge and Tim were talking about earlier about the private equity piece of it, you now, to me that is astounding that there is not much money out there. You know, women owned businesses have zero access to that. It is astounding.

So, I just throw that out there. I know there are a lot of smart people in this room. Maybe we could figure out how to change that.

Chair LANDRIEU. I think it gets back to what Ridgely said. These investors, you know, I mean, we might, some of us might be more philanthropic in our giving. But investors do not want to make a 2 percent return on their money or 3 percent return on their money.

And people have gotten kind of crazy about this idea; but if they cannot make 15 percent in a year, they are not interested because, in their mind, they are being driven not what is in the benefit of the whole country but what is in their own personal economic interest.

If they can invest and make a gazillion dollars in one year, that is what they want to do. It does not matter if they just enrage 10 people and leave a gazillion people impoverished.

Now, I am exaggerating, not to say it, but it is not a, the person investing it is not their job to worry about the whole world. They are worried about their bottom line.

So, it is a disconnect and some countries do not spend enough time figuring this out. But for me who believes in capitalism and believes in democracy, this is a very important issue to me as a policy maker.

I am not a venture capitalist but I am a policymaker and what I want is a country that is exceedingly wealthy but that everyone shares in it according to their merit and their ability.

That is not what was happening today. There is a very big disconnect.

Mr. EVERS. Just one thing I want to add.

Chair LANDRIEU. Go ahead, Ridgely.

Mr. EVERS. And that is I think it is really important to understand that almost all of the capital that is in venture capital is tax exempt.

Chair LANDRIEU. But capital that would go to other people is not tax exempt.

Mr. EVERS. Right.

Chair LANDRIEU. And how is that venture capital tax-exempt?

Mr. EVERS. Pension funds, endowments, and so forth. They are actually not concerned with tax policy as much.

Chair LANDRIEU. Okay. Go ahead.

Ms. TOMB. I was just going to say one more thing, Senator. Perhaps incentives for them to invest in the types of businesses we are talking about may be some policies we can look at.

Chair LANDRIEU. Okay. Let me get Sean. I am sorry. Sean, go ahead.

Mr. GREENE. Thank you, Senator, and I know the point is to look forward, but I want to look back for one second which is to thank you for your efforts to get the SBRI re-authorization done.

I mean, when we are talking about programs that impact the innovative technology companies in this country, two and a half billion dollars, that matters.

And so you know, you have given us an aggressive set of deadlines to implement in terms of the reg changes and the policy directive. The last re-authorization took two years in terms of the implementation. That is unacceptable. We will hit the aggressive deadlines that you have given us.

Chair LANDRIEU. Tell everybody real quickly what the SBIR is in case you all do not know.

Mr. GREENE. The SBIR is a set aside from federal R&D funding to go to innovative technology companies across 11 different federal agencies, again two and a half billion dollars went out last year. The entire venture industry only at $1.6 billion into seed stage technology companies. So, this program matters.

I just want to step back for a second. The Administration launched last year the Startup America effort, literally a year ago yesterday. And the explicit objective of Startup America was now more than ever we need to be doing everything that we can to help entrepreneurs and particularly the ones with high growth potential.

We need to mobilize the public sector. We need to mobilize the private sector. And one of the first things we did in that effort was to get out and listen to our customers, the small businesses.

So, we had roundtable conversations around the country. We built online platforms to ask those entrepreneurs what barriers they are facing and what concrete ideas could move the needle.

What we heard are the kinds of ideas that you are hearing about today and the approach we took was to say, some of those are best

done by the private sector. So, the Startup America Partnership will meet efforts there.

Some of them require legislative change and so the recommendations that the President put out yesterday are focused on the kinds of legislative change.

Importantly there are a lot of things we can do administratively as well. And to your earlier definition of a entrepreneur, the best definition I have ever heard is someone who does more than anyone thought possible with less than everyone thought was necessary.

[Laughter.]

Chair LANDRIEU. That is the best definition of the day.

Mr. GREENE. And so, we have said that we need to be more entrepreneurial in the Federal Government to say how do we do everything that we can.

But what we have heard, and if I had to synthesize many of the great ideas of today is, we need an "all of the above" approach. We are hearing tremendous needs on access to capital but it is not just about bank lending. It is at that seed stage crowdfunding. They are accessing the public markets.

Mobilizing private equity, you know, whether it is venture or growth capital like in the SBIC program because not only is there not enough of it but it is disproportionally concentrated in small pockets around the country.

But all the data shows that these entrepreneurs are all across the country and not just in the technology industry. So, we need to do more there.

We feel good that we have, in things like the SBIC program, got more capital out in that program than at any point in the 50-year history of the program. There is more we need to do.

We have heard over and over again the importance of the human capital piece of it and that includes the immigration issues but also issues like mentoring. So, how can we do more?

And what we have also heard, while there has been a lot of talk about regulations and clearly regulations are important, what we heard from entrepreneurs, it is also how the government does business, how can we streamline things, how can we make things simpler, how can we make the Federal Government easier to navigate.

And so, as the example of the kind of thing we have done in response, again picking on SBIR, was until a year ago entrepreneurs would have to go to 11 different agency websites to see what solicitations were relevant for them.

So, we built a platform with simple search technology to say go to one place and let an entrepreneur who has sensor technology understand that NIH cares about that technology for breast cancer detection while DOD cares about it for landmine detection.

So, there are many things that we can do but we need to be attacking this on all fronts. We need to do our part, the legislative part, and then the private sector as well.

Chair LANDRIEU. Thank you so much.

Barry.

Mr. EVANS. The STEM talent immigration reforms have to comprehend Masters, not just PhDs, especially for engineering and

computer science. That is what we need and that is what we are hiring.

And as we grow and create jobs, we have to hire where the talent pools are and would like to do that in Austin and then in the U.S. and lastly open up centers overseas to tap those areas.

More concerning to me is, as we keep the talent overseas and create talent pools in other countries, you see capital flow to those talent pools.

So, you are talking about U.S. dry powder (liquid assets) flowing overseas. Anecdotally, I know of VCs from Silicon Valley that are opening offices in China, and so, you are seeing some of that capital be directed to create companies and train talent that I will have to compete with rather than having an opportunity to have that talent be in the U.S. and be hired and funded here. So, when hiring overseas, it is to the benefit of foreign economies and not ours.

And just in terms of capital, I see declining capital going into launching companies because of the risk return equation and the return potential that you were talking about. So in our space with an IPO being out of reach for most companies, that just turns off the capital spigot for capital going in to launch those companies because the return potential is just down.

Chair LANDRIEU. And I want to talk about this issue because it is right before the Congress now about how to reduce the regulations for a company to take itself public, et cetera, et cetera. I want to come back to that.

But, Madeleine, you had something I think on the immigration piece that you wanted to add.

Ms. SUMPTION. Yes. Thank you. Two points, if I may. The first, since you brought up the question of smaller scale entrepreneurship is an issue that I think might be interesting to raise when thinking about how small-scale entrepreneurship would relate to something like the startup or the entrepreneur visa proposals.

The startup entrepreneur visa is a very interesting idea because it uses venture capital or other funders as a kind of screening mechanism to decide who the most likely successful entrepreneurs are.

That is an extremely important principle. It mirrors in some ways the idea in the rest of the employment-based immigration system of using employers to screen people and decide who has the talent and the most potential.

The reason that we do this is in part because we need someone to tell us who the potentially successful entrepreneurs are going to be. So, once you know, at least with some probability who the potential entrepreneurs are, we wait and we see if they successfully create a business and then at a certain point we know whether that has happened and so they are granted a longer-term visa.

Now, there is another population of people in the United States, mainly smaller scale entrepreneurs who are here on E–2 visas which allow people to come in to start a business. It is called a treaty investor visa. It is not open to nationals of all countries and in particular China and India are excluded.

But there are a number of people who have been on these visas which are renewable indefinitely but make it very difficult to get to permanent residence.

So, I wonder whether, in the interest of fairness, it would make sense to provide a mechanism for some of the smaller scale entrepreneurs who have already demonstrated their ability to set up and run a successful company and who in many cases have been here for years and have become part of their communities, also to have access to an entrepreneur visa.

Chair LANDRIEU. Do we know how many people this is approximately?

Ms. SUMPTION. There is no data on the number of people who are in the country now but there are between 20- and 30,000 people who are granted visas under this category every year and that includes both entrepreneurs and small-scale investors.

Chair LANDRIEU. Kauffman do you have any data on that?

Mr. ORTMANS. On the visas?

Ms. SUMPTION. On the E–2.

Mr. ORTMANS. On E–2, no.

Chair LANDRIEU. No. But go ahead. You wanted to say?

Mr. ORTMANS. Yes. I think the important thing about a lot of these ideas is the reason when we put out this Startup Act document last fall that we called it that, and that is, I think we have got to be quite precise in our thinking.

You do put to gather a slightly different set of prescriptions as government being the institution that sets the rules and the incentives if you are looking to foster what I might describe the path of potential new entrepreneurs and those early one to five-year entrepreneurs. You do look at a different set up prescriptions if your focus is on high-growth entrepreneurship.

And Sean and I have discussed this in the past. But one of the things that we think is really important that this community says do is that we do not think that that puts necessarily a dispute between whether we should be supporting small businesses that, as you indicated, are not necessarily there to grow but are there to make a living and high-growth firms.

I just think there is a different set of prescriptions that should be focused on; and, of course, our data, as you indicated, brings us to conclude that if you are really looking at growing the economy or rapid expansion of job growth, the high-growth firms are obviously there to focus.

And one piece of data that has not come up that I want to make sure that we have all looked at is that one of the studies done by our chief economist Bob Lighton showed that if the number of billion-dollar companies rose from the current 15 or so average today to between 40 and 70, we would be able to increase GDP by a full percentage point.

So, that looks at, for example, growth and why we focus on creating those next big iconic brands. And as we have talked about, and you mentioned in your opening remarks, if our focus is on job creation, yes, there is no incentive for large companies not to have pressure from their boards to do it with less employees. Their job is to maximize profits.

So once again, if the focus is on job creation, the emphasis comes down to those early years. But I think the critical thing here is that we can have a different conversation, Senator, if it is around nascent entrepreneurs and new firms rather than if we are around how do I take a 5- to 10-year-old firm and make it easier for it to be able to scale to growth, and I think it is important that we understand that we are quite precise in that thinking because it is a different set of ideas that need to be addressed.

Chair LANDRIEU. No. I think you have hit the nail on the head but it is good to get this out right away. It is important to think carefully through what the goals are.

If it is just GDP or GPA growth is one thing. If it is growth and job creation, if it is growth, job creation, and expanding the middle class and opening up opportunities, it is something even broader.

And that is what Senators have to decide, and that is why we are having this discussion because we have to decide whether our bill is going to be focused on just growth so that a small number of people just continue to get wealthier or if it is going to be growth and other things so that we strengthen the middle class.

If we put our emphasis and efforts and treasure on one or equally, et cetera, I mean, this is the discussion of the moment and this is what this debate is going to boil down to and that is why we are having these discussions.

Steve, I want to get to you.

Mr. EZELL. So, we absolutely agree about making it easier for entrepreneurs around the world to enter the United States but we also can do a better job in our educational system to spur more entrepreneurship at home.

In particular, we really need to transform our colleges into entrepreneurial factories. There is a great university called the Olin College of Engineering in Massachusetts, started 10 years ago. Completely re-thinks the education curriculum around engineering. Their graduates produce more startups businesses than MIT, just after 10 years of being in existence.

Chair LANDRIEU. Tell me the name of this university because I am searching for them now. What is the name of it?

Mr. EZELL. The Olin College of Engineering.

Chair LANDRIEU. The Olin College of Engineering in Massachusetts.

Mr. EZELL. Just outside of Boston.

So we need more Olins around the country. One thing Congress can do is use the power of information to spur competition among universities around entrepreneurship.

So, one thing you can do is direct the National Science Foundation to collect data on university business startups and spinoffs and put out university entrepreneurship and commercialization rankings to inculcate competition and to show budding entrepreneurs——

Chair LANDRIEU. That is a great idea. Please write that down twice because we really do need that—I want to get back to what Ridgely said is that you cannot maybe make an entrepreneur but you can mentor them.

And if we identify the colleges that are best at mentoring our entrepreneurs, they will naturally, without us telling them to go, they

will naturally go to those places where the kids have an idea that they really want to be an entrepreneur and they might be encouraged, they will naturally go to these colleges that are really doing a good job, just not living off of old reputations, but are really, you know, living up to that and getting some kind of ranking.

Does anybody know anybody that is doing those rankings right now, either government or private sector rankings like U.S. News and World Report I think does the rankings of the top colleges and then they do the most affordable colleges and then they do this. But does anybody, of colleges that are good at entrepreneurship, training?

Go ahead, Tim.

Mr. ROWE. There is one. I will try to look it up on the telephone since we cannot get WiFi in here.

Chair LANDRIEU. Oh, I cannot get WiFi in here. Where is my clerk? Thank you, sir.

Mr. FINNEY. Senator, if you are trying to tie in the federal funding that comes through NIH, NSF, et cetera, the Association of University Technology Transfer Managers or UTTM actually has some pretty good data about research universities but that does not include institutions like the one that Stephen just mentioned that would not likely be a research institution.

Chair LANDRIEU. I will tell you. I am learning a lot about this since I am funding it, is there a lot of universities that get a lot of research money but that research, and maybe I am being a little bit critical here, I am really trying to understand of the federal money that gets invested in these universities for research how much of it is actually coming out the other end creating the kind of jobs we need or how much of that research is sitting on shelves?

I am having a hard time really understanding the measures of where these federal research dollars are going, and people say, oh, it is important for the Federal Government to invest and for universities to do research. Yes.

And some research is not meant to be going immediately into commercialization of ideas and creating jobs, some of it is just the basic research that is important for the advancement of a society or civilization. But I do think having better measures on that would be helpful.

And I am going to get to you, Jim, in a minute. But, Brink, do you want to say something about the idea that we were talking about about the kinds of businesses that grow the jobs the fastest? Is that what you wanted to say?

Mr. LINDSEY. Actually that was not what I was going to talk about.

Chair LANDRIEU. Okay. Go ahead.

Mr. LINDSEY. I wanted to weigh in with Wayne on the issue of regulatory reform because I think that is a hugely important issue.

Chair LANDRIEU. Go ahead.

Mr. LINDSEY. It is so hard to get a grasp of because there are so many different dimensions of it, there are so many different kinds of policies, and it is not that any one regulatory rule makes the difference.

Mike Mandel at the Progressive Policy Institute has a nice metaphor that each regulation is like a pebble in the stream. One is fine

but when they just start adding up they can block the stream and it is a curative difference between cost and benefits that makes the difference.

What I wanted to highlight because it is something that is in the Startup Act that complements what Wayne was talking about. Wayne was talking about federal regulations which are very important but from an entrepreneurial perspective it is State and local rules that often are really——

Chair LANDRIEU. Are the barriers.

Mr. LINDSEY [continuing]. Causing people to pull their hair out or causing them to never even think about opening a new business because things like restrictive land-use regulations jack up rents and keep people out of our most dynamic and productive cities in the first place.

We have had just a huge explosion in occupational licensing restrictions. About 10 percent of jobs in the United States were subject to occupational licensing in 1970. It is about 30 percent today. And that price is a lot of people out of entering, particularly smaller scale enterprises.

Now, these are state and local regulations so what can federal legislation do about it, harkening back to Wayne's regulatory report card idea, one of the proposals in our Startup Act is that we create either through the government or the government working together with private institutions create a kind of regulatory report card for states and localities along the lines of what the World Bank does internationally with the Doing Business Reports.

Chair LANDRIEU. An excellent idea. So where are the cities and counties that are most friendly to entrepreneurs and startups?

Mr. LINDSEY. A catalog of the kind of regulations that matter the entry restrictions, the restrictions on competition that can gum up the works of entrepreneurial dynamism and rate States and localities by how well they are doing and start pitting them against each other and start shaming them for having lousy record that nobody knows about.

Chair LANDRIEU. Shame works sometimes as a motivator.

Jim, you have something.

Mr. KESSLER. They love it from a competitive event too. To some degree, you know, the Doing Business Study is a fabulous analogy because it has been a major factor in getting nations to focus their attention on this.

Chair LANDRIEU. Right. And it is not mandating. It is just disclosing what your situation is and then the entrepreneurs will be driven to those areas or will be enticed to those areas. Jim.

Mr. KESSLER. A couple of ideas and thoughts. Some may be relevant to the true small businesses that you talked about. You know, 401(k) or Roth IRA-type thing for startups in which you can put money aside and earn it tax free and use it for a start up, a way to raise small amounts of capital.

Standard home office deduction. One third of businesses that are eligible for the home office deduction use it. It is too complicated. You have to answer a dozen questions. It is like an interrogation and often you get audited when you use it.

The R&D tax credit for when you get to a larger size company. We have an idea that make it tradable. If you are eligible, if you

are doing research in development but you do not have a positive revenue stream at that point, you know, make this a liquid asset that you are able to sell to another company. And that is another way in which you can raise some capital.

Have a better R&D tax credit if you both do research in the country and you manufacture in the country because a lot of startups occur when you are going through, this is one of Andy Grove's big arguments at Intel, you go through the supply chain. You do the manufacturing, a whole series of startups occur because you have to solve problems as you are going from prototype to actual production.

And the last thing I want to say is, that we have not touched on, is of all these successful nations in the world America is last in the amount of our economy that is derived by exports.

It is only 13 percent of our economy and a lot of other successful countries it is a higher amount. And Brookings did a study. Only 1 percent of U.S. companies export, half of those only export to one country.

And if you look at some other countries, they have been very successful not only at exporting but getting their small businesses and medium businesses that export too.

So, it is not just breaking down barriers but, you know, Mr. Evers talked about the mentoring side. Part of the mentoring is how do you navigate the maze and sell your product in another place, in another country and, you know, Germany has done a magnificent job on that. They really are trying to get, you know, their small businesses to sell in other places and it is a huge part of their economy.

Chair LANDRIEU. And, Jim, thank you for raising that. We just passed a very significant export bill for small business. It was part of our really extraordinary small business bill we passed last year.

Amy Klobuchar, and who were the other Senators that focused on that? Senator Shaheen and Senator Klobuchar and Senator Snowe really focused on that and helped us to draft that.

I would really like you to review what we did and give me some other ideas about, you know, how we could strengthen that because we recognize this. I mean, think about it.

As the world starts creating a broader middle class, I mean, America can, small businesses, begin selling our products; and with the ability of the Internet, it really makes it possible.

You know, 50 years ago this just was not possible really. I mean, you had to have a big ship or had to, you know. But with the Internet you can make a product in any small place in America and, with the Internet, connect to a supplier or a buyer and trade back and forth; and with UPS and FedEx and many of these companies that can deliver a package from doorstep to door step, and the U.S. Post Office at least in the near future, can do some of that delivery.

I guess they do not deliver, well, they deliver overseas, U.S. Post Office, you know. So, it is very interesting that this could happen. So, will you look at that and let us know.

Mr. KESSLER. Certainly.

Chair LANDRIEU. We have got so many. Ridgely, you had and then Michael and then we are going to go around because we have to finish up in the next 10 minutes.

Mr. EVERS. You asked a question a while ago and I want to touch on three areas. One of the things when you talk to small businesses that they cite as being the issues, and to the extent that they cite regulation, it is state and local.

And regulation, in general none of us likes to be regulated. We are Americans. We like to do our own thing. So, that is true; but if I had to allocate 100 points across the problem, I would not put any substantive number of them at that level relative to the others.

Number one, with a bullet, when you talk to, you know at SCORE we deal with hundreds and hundreds of thousands of small businesses every year and we have increasingly good data about what matters and we have postmortem data and we have lots of good stuff.

Money. Money. They have a capital problem and figuring out how do you make investing in small business, true small businesses, how do you make that attractive to capital is really important.

And the kind of capital to which small businesses are interesting is not big capital. It is small capital. You are paring small capital was small businesses. There are ways to do that and I think it is really, really, really essential to tackle that. Number one.

Number two, mentoring. It is great to have schools that teach people how to do stuff. My alma mater, Stanford Business School, every single student in Stanford Business School is paired with someone from the law school, someone from the engineering school, and someone from the medical school and they create a startup as part of getting their MBA.

That is important. But what you have to recognize is that almost every person who is an entrepreneur running a business in America grabbed a hold of a silk worm and jumped out the door of an airplane. The stuff that they are going to encounter, they are going to encounter for the first time and you do not teach that.

That is where you need people around you as advisors, as helpers; and that is where, I think, the entrepreneurial development programs to the SBA are so incredibly important because they deliver——

Chair LANDRIEU. Strengthen the mentorship network.

Mr. EVERS. But they deliver just-in-time mentoring. The idea that for example at SCORE that we cannot get an increase in budget out of the SBA or not out of the SBA but out of the Federal Government for a program that actually demonstrably makes money for the Federal Government is just astounding to me.

Two other things. At the regulatory level something the Federal Government can do. Does anybody here know how many sales tax jurisdictions there are in the United States? Over 10,000.

If you are going to do business, I happened to run a winery, I happen to write software that helps other wineries sell online, you have to track your sales in 10,000 jurisdictions and report out on it. Boy, is that a bad idea.

So, nobody does it, by the way. So, you have non-compliance. By the way, the number one reaction to regulation is I do not worry about it.

Finally, and I recognize there is a sacred cow here that I am just going to stick a blade in, and I apologize in advance, Senator. Ex-

ports are important. You know what a small business should be focusing on? So, first of all, if you are in business and you want to try to expand your business, you go to the easiest next place. You do not say well, Gee, we did this in San Francisco that——

Chair LANDRIEU. San Francisco.

Mr. EVERS [continuing]. Now let us go do it in Mumbai.

Chair LANDRIEU. Right.

Mr. EVERS. You say, well, maybe we can should go to San Jose.

The place that we should be focusing on helping small businesses is on import displacement. How can we work with companies in Detroit to get them to start buying from American manufacturers, small businesses, rather than from suppliers in other countries? How do we teach the entrepreneurs in America how to sell to the enterprise?

These are huge, low-hanging fruit areas where the Federal Government actually can have a role. How can we give American businesses, large businesses, incentives for buying from American small businesses? There are all kinds of interesting things like that. Asking a small business person to take on currency risk, language risk, time zone risk, and a metric because we still measure in inches risk in order to do business off shore is imposing an awful, a huge risk tax on their growth which they do not need to take.

Chair LANDRIEU. Interesting observation.

Michael, and then we are going to go down this row from Tim backwards. Go ahead.

Mr. FINNEY. Ridgely set up my comments.

Mr. EVERS. We worked together.

Mr. FINNEY. This is amazing.

So, we have set up a program we call Pure Michigan Business Connect, and the idea behind Pure Michigan Business Connect is that we have some hundred thousand plus, you know, small businesses in our State who no longer pay a business tax, by the way.

We had tax relief to the tune of about $1.8 billion for small businesses. So essentially, if you are not a C Corp., you do not pay a business tax in the State of Michigan. It is a pretty cool idea.

But behind that idea is that if these hundred thousand businesses could create one job, we cut our unemployment rate by 2 percentage points or some number relatively close to that. But more than just cutting taxes, you had to do other things. And so, we have started that process of connecting the small companies with large established companies. One example and then I will move on.

One of our major utility companies in the State, Consumers Energy, has committed to spend at least $250 million more with small and medium-sized Michigan-based businesses.

So, they are keeping us up-to-date on how they are doing. They have already crossed the $70 million mark in terms of new spin. But the beauty of it is is they are contracting with small companies.

One example, a small company that makes a variety of different products was able to bring back five workers that they had laid off and then they hired another 35 as a result of this new business they received from this large company.

Well, that is still not enough either. We need to identify new markets. So if you are a company that makes injection molded parts for the auto industry, could you make those for the medical device industry, the aerospace industry, and so on?

And we are finding that there are numerous opportunities for that kind of business connectedness as well. And it is a pretty comprehensive program. It includes exports. It includes a variety of different pieces including business services.

But finding ways for those small and medium-sized companies to grow by one job is a big part of what we decided to do with Pure Michigan Business Connect, and that really is doing precisely what Ridgely just described.

I will close with really the thought that I wanted to touch on. More important than anything else in my opinion is get the outcomes right. If, through this process, we get the outcomes right, we have a chance to be wildly successful in this entrepreneurial space.

Is it about creating jobs? Is it about creating wealth? Is it about immigration? I mean, all these things are really important; but if we get the outcomes right, we have got a chance to be wildly successful with this.

Chair LANDRIEU. Excellent. Okay Tim, and then Mike, Sean and then we will wrap up.

Mr. ROWE. First of all, I just wanted to thank the Committee. This has been great to have this conversation and it is very timely. I want to convey a sense of urgency that we really do need to get going on this stuff but also underscore, I mean, we are very fortunate here. We have probably the best schools in the world. I do not think anyone disagrees with that.

We have tremendously creative people. We are creating many of the world's coolest, most interesting businesses when you look at the Apples and the Googles and the companies we have been producing.

So, let us not lose sight of the fact it is awesome. We have got some things we need to work on and let us work on it. But it is awesome.

As we look at what we are all talking about doing, let us take crowdfunding as an example. It is a little bit risky. It is a little scary. Right. Well, what if people, you know, use this to defraud investors or something like that? But we have the creativity to solve that too.

If you look at eBay, for instance. You know, I spent $1000 to buy some piece of art on eBay from somebody across the country I have never met and I probably never will meet, and I trust them because——

Chair LANDRIEU. And it worked.

Mr. ROWE. And it works and I trust them because they built a system that tracks our reputations. We can bring these kinds of ideas, these creative American ideas to these problems and we can make this work, and so let us get to gather, experiment a bit, and make it work.

Chair LANDRIEU. Thank you, Tim. Mike.

Mr. FARMER. Yes. I just wanted to say two quick things. First of all, I introduced what we had done on the Emerging Industry Investment Fund that we created in the State. And I was sitting here

listening to all of this thinking to myself, you know the order of the day today is everybody is asking how do we pull those Apple manufacturing jobs to the United States.

I think this Small Business Committee and I think this looking at the emerging sectors of industries such as manufacturing, I will bet you 15 years ago there was an emerging small business that could have been serving that today had we had the right ecosystem, the right people around to look at that.

I agree with Ridgely. You know, you cannot focus on the Facebooks of the world, the big shiny things. We have to look at the emerging segments of all parts of our economy. In the State of Kansas, for example, we found some growth segments in animal health, for example.

I want to make one final comment. In my current company, it is a true startup, Leap2, we have one employee but we also have 15 contractors.

This talent issue is definitely a big issue, and I am wondering, these 15 people believe so much, I call them the believers, in what we are doing they leave their day job and then at eight o'clock they login and they start working until about three o'clock in the morning.

Well, some of them are actually doing it for equity, and what you are doing with the Startup Act on the capital gains portion, you know, you should change the language. It is not just about investors because there are a lot of people who believe in things who are, you know, in this case my contractors that actually have an upside with that as well.

Chair LANDRIEU. Stephen and then, Sean, you are going to be the wrap up Stephen, Barry.

Mr. EZELL. I just wanted to reaffirm the role of the manufacturing extension partnership in the U.S. small business entrepreneurship innovation ecosystem.

We fund the MEP 25 percent less than we do as a shared GDP when we initially started in 1998. Other countries like Japan fund their similar MEP-like agency 40 times more than we do as a share of GDP.

This is a key part of our innovation ecosystem and it is just important that Congress recognizes that and helps its as it moves into supporting small businesses as they move into innovative and new kinds of all activities.

Chair LANDRIEU. Thank you so much.

Barry.

Mr. EVANS. Just a quick comment on ecosystem. I would encourage your staff to explore some of the public-private partnership work that is happening in Austin.

For instance, there is a capital-intensive wet lab that is being put in with some subsidy from the government side to foster small business and startups in the life sciences area.

There is some partnership with some of the federal agencies and some large companies and university and small companies as well in the Pecan Street project that is looking at how to deliver energy. There are other examples like that that I would be happy to go into detail with your staff and explain how we do that.

Chair LANDRIEU. Wonderful.

Mr. ORTMANS. Senator, I am just going to add to Sean's definition of the entrepreneur. You know, one of the things in the global context as people are viewing it is is a little more profound one which says that it is really about the possibility of human endeavor for the benefit of all.

And I think we should not under estimate what is going on here. It is these young startups that are breathing the dynamism into our existing industries, and that most of these people that get involved in this, to come back to your point, you know, you have to get in and see the culture of these startup communities, the cacophony of the networks of people who are just in this organic, exciting, fun process of creating new firms.

And that is why we have to remove the barriers to allow them, and almost all of them are in it not to make money. They are in it because they want to do good and do well at the same time.

So, I also want to end on an optimistic note because I think it is an enormously exciting time——

Chair LANDRIEU. Let me be clear. I agree with you about the people creating businesses. I mean, even the guy who started Facebook said he never did it to make money. It is not the entrepreneurs that their goal is making money. It is the investors who have stood back who do not create a thing, who want to use the benefit of this extraordinary capital to enrich. And that is fine. I mean, that is the American way. We have got to make sure that we are starting out getting to the end. It is not just making a few investors wealthy. That is not the goal of this Committee.

It is trying to honor that spirit that you just described in the best way possible, expanding the middle class which is being horribly hollowed out in the United States and giving the talent that is in the United States the opportunity to participate in some way and doing it in a way like Ridgely said where you are matching the capital to big ideas, small capital to smaller ideas but not disrespecting just that entrepreneur that just wants to feed his family and the family next door or run his farm or her farm and give it to their grandchildren.

You know, I mean.

Mr. ORTMANS. Right.

Chair LANDRIEU. So, I do not disagree with you about entrepreneurs but I do think that there is if we are not careful, and do not make these rules right that what you end up doing is giving the entrepreneurs a great opportunity to create businesses and the only thing that happens is a few people in the world get wealthy. And that is not my goal.

Mr. ORTMANS. I think Brink and I would probably be remiss if we did not mention that on this question of capital we agree that we have got to be cautious about the attention that is given to venture capital, for example.

I mean, more than half of businesses in the United States start without any debt or any equity and less than 20 percent of high-growth businesses ever take any venture capital.

So, this is why we think it is really important that we remember if your interest here is enabling the entrepreneurs to create new firms, you have got to do that.

I just want to answer two quick questions and then I will wrap up. One was you asked about measures for performances on campus. We did a more than $100 million investment into Kauffman campuses at the Kauffman Foundation.

It is not a ranking, but we have lots of lessons learned from that. I mean we can tell you why we would send you to go visit ASU University, for example, over some others.

And then also in the research space you will notice that in the Startup Act similar to almost, actually 80 percent of the proposals in there are budget neutral but there are also ideas in there as to how you can easily accelerate the movement of those innovations into the marketplace, the R&D, to use your words, sitting on the shelf.

The last thing I would mention just on the state part of this is that at the Kauffman Foundation we are actually having a State of Entrepreneurship address. We do it every year. We are doing it next week and we are focusing on state policies around this.

Everybody is welcome to come. It is next week but we will be delivering our new address on this with new research and thoughts on it.

Chair LANDRIEU. And again, thank the Kauffman Foundation for getting the data that helps us to try to make the best decisions that we can, and we really thank you.

And Jonathan, if it is public record, how much do you all invest in your foundation every year on research? What are you all doing? What is your rough budget for research?

Mr. LINDSEY. We may be the largest private foundation funder of economics research in the country, and it is millions of dollars a year.

Chair LANDRIEU. Millions, okay. Sean.

Mr. GREENE. Thank you again, Senator, for organizing this and inviting everyone here on my birthday, I may add.

Chair LANDRIEU. Great.

Mr. GREENE. So, two final points. One is to tie together the mentoring piece which again we think it hugely important and the commercialization piece, the universities.

What we have seen, I have cited Idea Village but in Cambridge many other places there are great models of organizations on the ground mobilizing mentors.

In our view, every university in the country should be organizing a single kind of thing and how can we mobilize that is a big opportunity.

But secondly, and where I would like to conclude is on this issue we have been talking about of the high-growth businesses versus the mom and pop, sort of the main street, and obviously at SBA this is something that we evaluate and look at all the time.

And I would encourage you and your staff to think that this does not have to be an either/or. It can be a both/and. And I am going to pick on the Facebook example because it shows how it can be a both/and.

Facebook has less than 3,000 employees. But studies have shown that jobs that Facebook has helped created as a result of its app developers is close to 200,000. And if you look at something like

eBay or a Etsy, what those companies, yes, those are big technology companies but——

Chair LANDRIEU. They have created many opportunities.

Mr. GREENE. For businesses large, medium, and small to distribute and reach new customers. So, I think that is where the opportunities are is to say how can we foster disruptive innovation that will serve consumers directly but also help mobilize other businesses as well.

Chair LANDRIEU. Excellent point.

Listen, this has been terrific. Thank you all. The record will stay open until February 15. So, any reports, summaries, additional thoughts or comments, you can e-mail them in, you know send them in.

And we really are going to try to gather all of the very best ideas through these three roundtables. We are not going to wait to put a perfect bill together. There have been some very good bills dropped. We have not figured out all of the politics of all of that yet but we are not going to wait until there is the perfect bill.

We will try to pass as quickly as we can some things that have received broad enough bipartisan support and clarity. Then we will work on.

So, it is going to be a series of things but let us go ahead and get started, you know, as soon as we can.

I think the President did a very good job of focusing our attention at the State of the Union. I think some of the members have already stepped up and introduced different pieces. So that is the intention.

It would not surprise me at all if we had 12 different pieces of legislation, you know, the Startup Act, and then this and then this then that pass over the next year or two.

I mean, I think this is going to be going on hopefully after the next election as well regardless of who wins, you know, the election. I think our country is very focused broadly on this and they understand the potential that is out there if we get some of this stuff right. Okay.

Thank you so much. Meeting adjourned.

[Whereupon, at 12:10 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

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Computer & Communications Industry Association

December 15, 2011

The Honorable Jerry Moran
United States Senate
354 Russell Senate Office Building
Washington, DC 20510

The Honorable Mark Warner
United States Senate
475 Russell Senate Office Building
Washington, DC 20510

Dear Senator Moran and Senator Warner:

On behalf of the Computer & Communications Industry Association (CCIA), I write to express our appreciation to you for introducing S. 1965, the Startup Act of 2011. CCIA believes the bill to be a farsighted proposal to unleash the power of U.S. entrepreneurs and harness it for the creation of jobs.

In particular, we applaud the bill's focus on the principle of attracting and retaining entrepreneurial talent, and the inclusion of provisions on conditional visas for advanced STEM degree holders and immigrant entrepreneurs. CCIA has long advocated for the need to promote entrepreneurship and innovation. Ideas and research are the raw materials with which the technology industry is built, and we cannot afford to squander resources such as the foreign students and entrepreneurs who choose to legally come to the U.S. to put their talents to use here. The visas in this bill would give them the opportunity to prove their value and to make long-term contributions to the U.S. economy - contributions they would otherwise be making in other countries in competition with the U.S. The Startup Act is an important step in enabling U.S. companies and the U.S. economy to actively engage in the global competition for talent.

By facilitating entrepreneurship and innovation (two of the things Americans do best), your bill can help enable the U.S. economy to build on its strengths, and catapult it, not only out of its current slump, but also up to new heights. Thank you for your leadership on this very important issue.

Sincerely,

Edward J. Black
President & CEO
Computer & Communications Industry Association

itif.org

December 20, 2011

The Honorable Jerry Moran
United States Senator
475 Russell Senate Office Building
Washington, D.C. 20510

The Honorable Mark Warner
United States Senator
354 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Moran and Senator Warner:

On behalf of the Information Technology and Innovation Foundation (ITIF), I am pleased to offer my support for S. 1965, the Startup Act of 2011. Your bipartisan effort to facilitate the success of American entrepreneurs is needed now more than ever.

ITIF is one of the nation's leading economic and technology policy think tanks. We are dedicated to putting innovation at the center of economic growth and competitiveness strategies. The Startup Act embodies the broad policy goals and specific steps ITIF advocates for. The legislation would help marshal the country's private sector resources and entrepreneurial spirit to help the United States regain its leadership in the innovation-based global economy. It recognizes that we must better develop and utilize the talent of scientists and researchers and more efficiently channel their curiosity into new products, services and economic opportunities.

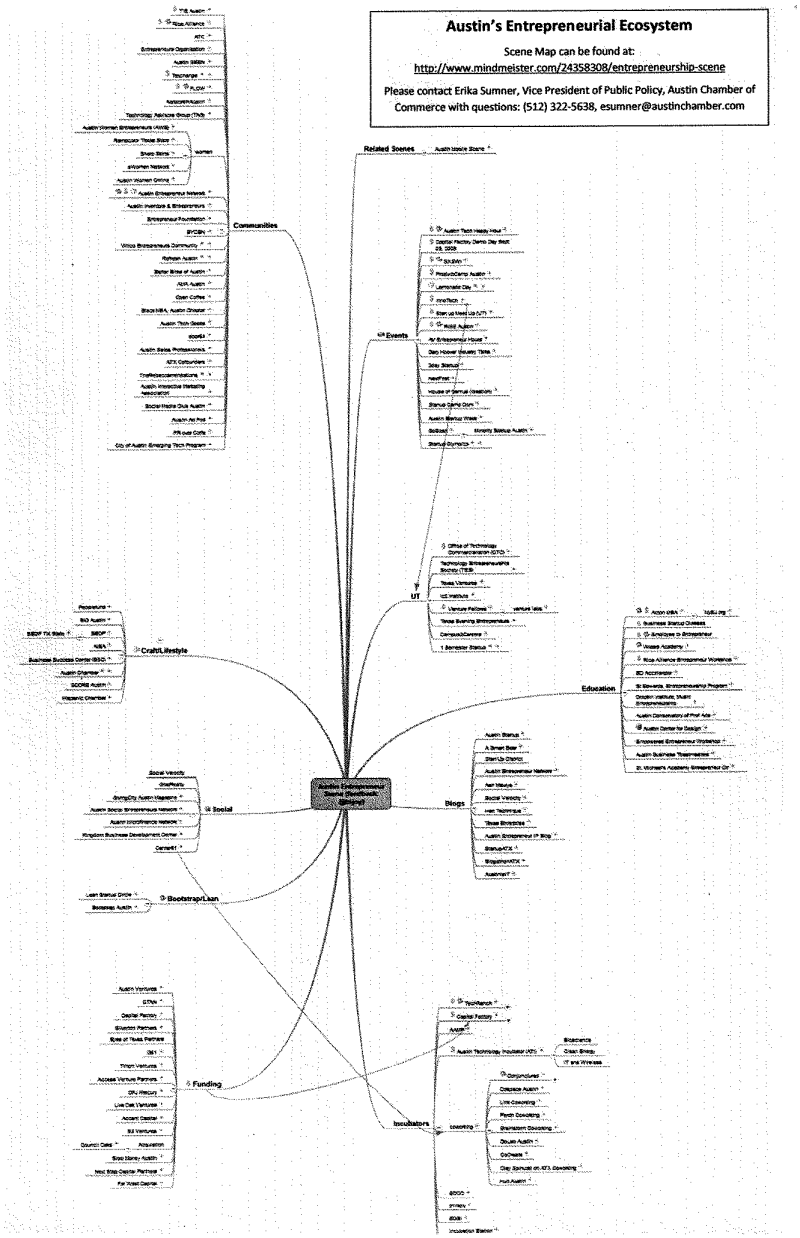
In particular, I emphasize the common sense of the proposal to use federal funding to better support innovative R&D in American universities, and to facilitate the commercialization of promising technologies that emerge from faculty research. This would address a weakness in the American innovation ecosystem. I also applaud the provisions to help the United States attract and retain creative and talented people from around the world. The establishment of a STEM Visa for up to 50,000 immigrants per year who graduate with a Masters or PhD in science, technology, engineering or mathematics as well as an Entrepreneur's Visa for up to 75,000 immigrants who register a business or employ at least two non-family members would help bring U.S. immigration policies in line with the realities of a mobile and globalized workforce.

The United States is at risk of losing its economic leadership and vitality and it is essential for policymakers to unite in practical ways to reverse this trend. The Startup Act is a commendable example of what is needed to restore U.S. innovation-based competitiveness. Thank you for your leadership on this very important issue.

Sincerely,

Robert D. Atkinson

Dr. Robert D. Atkinson
President and Founder
The Information Technology and Innovation Foundation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Please contact Erika Sumner, Vice President of Public Policy, Austin Chamber of Commerce with questions: (512) 322-5638, esumner@austinchamber.com
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