STRUGGLING TO GROW: ASSESSING THE CHALLENGES FOR SMALL BUSINESSES IN RURAL AMERICA

HEARING

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STRUGGLING TO GROW: ASSESSING THE CHALLENGES FOR SMALL BUSINESSES IN RURAL AMERICA

THURSDAY, SEPTEMBER 8, 2016

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX AND CAPITAL ACCESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building, Hon. Tim Huelskamp [chairman of the Subcommittee] presiding.

Present: Representatives Huelskamp, Brad, Radewagen, Kelly, and Chu.

Chairman HUELSKAMP. It has been about 8 years since the 2008 financial crisis, and yet for many Americans it still feels like the economy has yet to recover. Just last year, 36 percent of counties in the United States had a negative GDP growth rate. Much of this poor economic growth can be traced back to a lack of new business creation in rural America. When businesses cannot create jobs in rural America, economic growth suffers nationwide.

From 2010 to 2014, half of all new businesses were started in just 20 of our nation's counties, all near large metropolitan centers. For these major coastal metro areas, small business growth is fairly strong. Cities like San Francisco and Miami are major hubs for business creation, and the population in these areas has reached record highs.

Meanwhile, from 2010 to 2014, more Americans left nonmetropolitan counties than ever before. Rural counties have also seen a net decrease in business establishment. These two forces have combined to create a lost generation of entrepreneurs in a significant portion of the United States.

If the United States is to remain economically vibrant in the near future, there needs to be economic growth, not in just major coastal cities, but all across America. As we stress time and time again in this Committee, the engine of economic growth and job creation and opportunity in this country comes from small businesses.

While there are several reasons for this decline in entrepreneurship in rural America, many of the initiatives this Committee has focused on this Congress, including reducing regulatory burdens and improving avenues for small businesses to acquire capital, still remain at the forefront. The loss of community banks in this coun-

try due to regulatory challenges like Dodd-Frank have also hurt the rural communities served by these banks very hard.

Today's hearing will be an opportunity for a distinguished panel from across the country to discuss how to promote small business growth in America's heartland. By understanding how small businesses can be successful in rural areas like my district in Kansas, we can not only improve the economic growth of the entire country but create the businesses and the products of the future right at home.

I thank the witnesses for being here this morning and we look forward to your testimony.

I now yield to Ranking Member Chu for opening remarks.

Ms. CHU. Thank you, Mr. Chairman.

Six years ago, the nation was in the early stages of recovery from one of the worst economic downturns in history. We lost 4 million jobs, 7 million people faced foreclosure, and families saw over $16 trillion in wealth disappear as the housing and stock market crashed. Now, as a nation, we have rebounded. Unemployment is below 5 percent, over 10 million new jobs have been created. We have reached record highs in stock market and retirement portfolios. New consumer protection laws have been implemented and consumers are confident that the United States is recovering.

But we must acknowledge that this recovery has not been perfect. In fact, it is unlike any recovery that we have seen before. For example, the smallest rural counties saw more business establishments close than open, resulting in a negative growth rate.

As a result, the U.S. economy is becoming more reliant on a small number of super performing counties for new institutions. As a matter of fact, only 20 counties were responsible for half of the net national increase in business establishments from 2010 to 2014. In contrast, the economic expansion of the 1990s was driven by more rural economic development wherein counties under 100,000 people averaged 16 percent job growth, while counties over 1 million averaged just 7.7 percent.

A look at why rural America is struggling shows a number of causes. Over the last 2 decades, there have been massive manufacturing job loss in areas that were once the epicenter for manufacturing in America. The U.S. lost 5 million manufacturing jobs between January 2000 and December 2014. The North American Free Trade Agreement, or NAFTA, also resulted in a $181 billion trade deficit with Mexico and Canada, and experts estimate it has cost us approximately 1 million American jobs.

Furthermore, studies have shown that the rural population is increasing while jobs are decreasing, forcing, young talented workers to leave for urban areas with better job opportunities. These factors have created an atmosphere that is not attractive to entrepreneurs and one that we in Congress must work to turn around.

While the problem and its many causes are clear, we must assess what solutions are possible. Fortunately, congressional Democrats have taken steps to address these conditions. For instance, Congressman Hoyer's Made in America plan includes enhancing vocational training, expanding entrepreneurship and innovation, and matching worker skills with job opportunities. These ideals are accomplished by investing in education, providing access to capital

for small institutions, as well as alleviating tax and regulatory burdens.

Another area of great importance is access to capital. During the recession, many entrepreneurs have struggled to receive the funding necessary to open a new business or expand an existing one. As shown in research, young firms are where most new jobs are created, and the lack of capital has directly lead to a slower recovery in rural areas.

Congress has put forth solutions to rectify these issues. For example, I spearheaded changes to the SBA's 504 loan program which freed up more capital for small firms. The 504 program is a useful financing tool for economic growth that provides small business with long-term fixed rate loans. By making the 504 refinancing program permanent, more small businesses will be able to reduce debt, increase liquidity, and ultimately create new jobs.

Looking ahead, we need to gain an even better understanding of the extent of the problem and its root causes. Bringing new and innovative ideas to Congress will help us shape public policy to revitalize rural America.

I thank the witnesses for being here today and I look forward to your comments.

I yield back.

Chairman HUELSKAMP. I thank the Ranking Member for her opening comments.

Now I would like to introduce our first witness this morning, John Dearie, author of Where the Jobs Are: Entrepreneurship and the Soul of the American Economy. His book was published in 2013 and focuses on the fact that job creation and economic growth in this country are largely dependent on new business formation. Mr. Dearie is also the acting CEO of the Financial Services Forum in Washington, D.C., and is a member of the Policy Council at the Economic Innovation Group.

Mr. Dearie, you have 5 minutes, and you may begin. Thank you for being here.

STATEMENTS OF JOHN DEARIE, AUTHOR, WHERE THE JOBS ARE: ENTREPRENEURSHIP AND THE SOUL OF THE AMERICAN ECONOMY; ROBERT BOYD, COUNTY COMMISSIONER, RILEY COUNTY; HUGH MIDDLETON, COFOUNDER, KOPIS MOBILE LLC; AND LINSLEY KINKADE, DEPUTY DIRECTOR, U.S. PROGRAMS, WINROCK INTERNATIONAL

STATEMENT OF JOHN DEARIE

Mr. DEARIE. Thank you, Chairman Huelskamp and Ranking Member Chu. The views I will be expressing today are my own, of course.

Since emerging from the Great Recession more than 7 years ago, the U.S. economy has grown at an average annual rate of just 2.2 percent, more than a full percentage point slower than the post-World War II average of 3.4 percent. Indeed, the U.S. economy has not grown at 3 percent or better since 2005.

In an economy the size of the U.S. economy, percentage points matter. Had the U.S. economy grown at 3.5 percent since emerging from the Great Recession in 2009, the GDP last year alone would

have been more than $1 trillion greater. Over a 25-year period, the difference between a U.S. economy growing at 2.2 percent versus 3.5 percent is more than $100 trillion in additional economic output.

Weak economic growth experienced since 2005 is the principal cause, in my view, of America's most serious challenges, including persistently high unemployment and underemployment, high and rising long-term debt, stagnant wages, wide and worsening income wealth and opportunity inequality, the highest poverty rate since the mid-1960s and record numbers of Americans reliant on government programs like food stamps and disability insurance.

To meaningfully address these challenges and the anger, cynicism, and populism they inspire, we must accelerate economic growth back to the historical average of 3.5 percent on a sustained basis.

In 1957, American economist Robert Solow demonstrated that most of economic growth cannot be attributed to increases in capital and labor, as most economists have previously believed, but rather only to gains in productivity driven by innovation. The great significance of Solow's work is that it not only defined the nature of economic growth, it also identified its principal source. That is because economists have long understood that innovation, a particularly major or disruptive innovation comes disproportionately from new businesses or startups.

Unfortunately, us scholars at the Kauffman Foundation, the Brookings Institution and elsewhere have documented, entrepreneurship in America is in trouble. After remaining remarkably consistent for decades, the number of new businesses launched in the United States peaked in 2006 and then began a precipitous decline, a decline accelerated by the Great Recession. Perhaps most alarming, the number of new firms as a percentage of all firms has fallen near a 30-year low and this decline is occurring across a broad range of industry sectors, including high tech and in all 50 States.

Circumstances in rural areas of America, as you alluded to in your opening statements, are particularly worrisome. A recent report by the Economic Innovation Group shows that most of the new business formation that has occurred since the Great Recession has been concentrated in high density urban or suburban areas. Indeed, since 2009, small counties have experienced net negative growth in the number of business establishments in their area. Such circumstances amount to nothing short of a national emergency.

To find out why startup rates are falling, a colleague and I conducted roundtables with entrepreneurs in 12 cities across the United States asking them quite simply, what's in your way? Here is what they told us: We have the jobs and we need to fill them in order to survive and grow. We cannot find enough people that have the skills that we need. Our immigration policies don't effectively attract and retain the world's best and most innovative talent. Access to startup capital is even more tough in the wake of the financial crisis. Overregulation is killing us. Tax complexity and uncertainty is diverting far too much of our time and attention away from our new businesses, our products, and services.

Finally, there is too much economic uncertainty and it is Washington's fault. It is the bickering and partisanship, the fiscal cliff, the debt ceiling, the government shutdowns, the inability to achieve tax reform or immigration reform, or to effectively deal with the national debt. Washington, they told us at roundtable after roundtable, is a generator of problems not solutions and it is killing the economy.

With those insights in mind, my colleague and I developed a 30-point policy plan for unleashing the growth and job-creating capacity of the entrepreneurial economy, based on what American entrepreneurs told us they need. The complete list of those proposals are in the appendix to my written testimony and I am happy to answer any questions about them.

Economic growth is driven by gains in productivity, which are driven by innovation, which comes disproportionately from new businesses. Revitalization of American entrepreneurship, therefore, is the essential pathway to faster economic growth and the Nation's ability to meaningfully address its most serious socioeconomic problems.

Thank you for the invitation to be here.

Chairman HUELSKAMP. Thank you, Mr. Dearie. We appreciate your testimony.

Our next witness is Robert Boyd, a Riley County commissioner from my district in Manhattan, Kansas. This morning he will be testifying on behalf of the National Association of Counties. Mr. Boyd's first term as county commissioner was elected in November of 2012. He also owns a dry cleaning business in the district.

Mr. Boyd, I thank you for being here today, and I also thank you for service as a combat veteran on behalf of our country, and you may begin your testimony.

STATEMENT OF ROBERT BOYD

Mr. BOYD. Mr. Chairman, thank you very much.

Chairman Huelskamp, Ranking Member Chu, and members of the Subcommittee, my name is Robert Boyd, and I serve on the Board of County Commissioners for Riley County, Kansas. I am here today representing the National Association of Counties. As both a county-elected official and small business owner, I am honored to participate in today's hearing.

Located in northeast Kansas, Riley County has a mix of both rural and urban areas. Manhattan is our largest city and county seat. We have over 75,000 residents and are home to Fort Riley and Kansas State University, two major economic engines for our region.

We often hear that the U.S. economy is recovering from the Great Recession, but it is hard to feel this recovery on the ground in our State and counties. National and statewide economic data do not always paint an accurate picture of the local situation, because every county has its own unique challenges and opportunities. To provide a national perspective on the state of county economic conditions, National Association of Counties releases County Economies, an annual report on economic recovery and growth patterns across the nation's 3,069 county economies.

The report looks at annual changes in four economic performance indicators in each county: Economic output or GDP, employment, unemployment rates, and median home prices.

In 2015, counties across the country showed some signs of economic recovery, particularly on unemployment and home prices. For instance, more than 400 county economies closed their unemployment gaps and saw their home prices reach prerecession levels. On the other hand, only 7 percent of county economies have fully recovered to prerecession levels, on all four indicators, and 16 percent have yet to recover on any of the four economic indicators. In other words, many counties are still experiencing the recession.

The outlook for our nation's small and rural counties is even more challenging. 70 percent of counties are considered small with populations of less than 50,000. Of those, only about 300 small county economies closed their unemployment gaps in 2015. Furthermore, almost half small county economies saw a decline in GDP, particularly those in the South and the Midwest.

In Kansas, 100 out of 105 county economies saw job losses or flat employment. Let me repeat that, 100 out of 105 counties saw job losses or flat employment. Only one of the county economies in the State saw higher job growth. Additionally, over 60 percent experienced a decline in GDP. In Riley County, we have only recovered in GDP and home prices but are still struggling with jobs and unemployment rates.

Many of our surrounding counties are experiencing an even slower recovery. None of our six neighboring counties have recovered all four indicators. Most of them saw declines in GDP and jobs, and we are not alone. Many rural counties faced similar headwinds. At the same time, small county governments must provide mandatory service and comply with the same regulations as our suburban and urban counterparts, and we have to do it all with limited ability to generate revenue and without economies to scale.

While we face serious challenges, we are addressing these issues and strengthening our communities. We are supporting small business incubators and training programs, facilitating access to capital, and making major investment in critical local infrastructure. All of our efforts are aimed at fostering conditions for economic growth and improving the quality of life.

In Riley County, we have partnered with Fort Riley, Kansas State University, the Kansas Department of Transportation, the U.S. Department of Transportation, and other local governments in the region to develop the Flint Hills Area Transportation Agency. This collaboration helps to connect our people to jobs, education, and health care. Programs like this help small businesses like mine to tap into regional workforce and positions for future growth.

In conclusion, while some county economies have seen improvements, there is still a long way to go, especially for small rural counties. With improved collaboration and flexibility from our intergovernmental partners at the Federal and State levels, we can continue to provide the public services and basic infrastructure needed for economic growth and prosperity.

Thank you for the opportunity to testify and I look forward to your questions.

Chairman HUELSKAMP. Commissioner Boyd, I appreciate your testimony. Thank you for being with us here today.

I now yield to Congressman Trent Kelly for the introduction of our third witness.

Mr. KELLY. Thank you, Mr. Chairman. Our third witness this morning is Hugh Middleton, cofounder of Kopis Mobile in Flowood, Mississippi. Although Kopis Mobile is located in my colleague Mr. Harper's district, one of the cofounders, Henry Jones, is a fellow graduate of my alma mater Ole Miss, which is in my district also.

Started in 2009, Kopis Mobile designs apps and app-enabled equipment for Department of Defense, law enforcement, and private security markets. They are represented today by cofounder Mr. Hugh Middleton, a former Navy SEAL officer.

Thank you for your service to our country and for being here this morning, Mr. Middleton, and you may begin.

STATEMENT OF HUGH MIDDLETON

Mr. MIDDLETON. Thank you. I appreciate it.

Good morning, Chairman Huelskamp, Ranking Member Chu, and members of the Committee. Thank you for hosting this hearing on the challenges that small businesses face in rural America and for your invitation to provide remarks at this hearing.

My name is Hugh Middleton. I am cofounder of Kopis Mobile, a small startup tech company headquartered in Flowood, Mississippi. Flowood is located just outside of Jackson, Mississippi. Before I get into what Kopis Mobile does, I would like to provide a little background about myself that I feel is pertinent to the work that we do.

I am a former Navy SEAL officer. While on the SEAL teams, I was assigned to SEAL Teams 1, 3, 5, 6, and spent times in various overseas assignments, including Special Operations Joint Staffs. I have also worked in several U.S. embassies and consulates. I separated from the Navy in 2005, taking a management position in a large defense contracting company that supported then ongoing operations in Afghanistan and Iraq. Following that, I moved on to another defense company where I managed a staff of highly skilled intelligence analysts conducting intelligence and data exploitation focused on improvised explosive devices threat characterization.

In January 2013, I cofounded Kopis Mobile with three super smart engineers who all worked at the same company that I did at the time. It may seem like an odd paring of backgrounds, and you are correct it is. We often can't understand what the other is saying, but we have made it work to develop some very leading edge products that didn't exist prior to us starting the company.

Kopis Mobile is in a unique position as a provider of advanced mobile technology and products for the Department of Defense, law enforcement agencies, and the private security industry. We develop mobile technology to minimize the weight and enhance the equipment of soldiers, first responders, and law enforcement officers. This technology saves lives, saves time, and saves money.

What we do is vitally important, especially to me, because I was on the other side of the fence at one time. I witnessed how long it takes to get the right equipment because of the overburdened bureaucracy of the procurement process. For a small company like us

it really is a killer. We have equipment quotes sitting in the hands of military units for over 6 months before they are able to obligate funds for critically needed items. The problem is the same for first responders. The process equates to birthing a baby. It takes 9 months often to get through the grant process for them to obligate funds to buy, again, critically needed items.

As with any startup business, it has been a struggle for us. I will go out on a limb and say it has been harder for us, given the industry that we are in. Not only are we a tech company from rural Mississippi, but we also have been trying to gain access into an industry dominated by the likes of Northrop Grumman, Raytheon, and Lockheed Martin. We have spent over 3 years just trying to educate people on who we are and what we do. We obviously don't have any buildings with Kopis Mobile on the top of them across from the Pentagon.

Most senior leaders think that because of digitization that they are more productive because of less paperwork. Actually, the opposite is happening. They have more paperwork than ever, and this translates to a 3 percent decrease in annual productivity within the military. Bureaucracy is increasing faster than automation, which means that over the past 20 years, nearly half the military's productivity has been sucked dry by the time vampires of administrative tasks.

The Federal Government spends about $20 billion a year on development of later stage technology for commercialization. Majority of this money is spent in large acquisition programs that incorporate technology that is not proven, which means the equipment takes way too long to get to the warfighter. This results in huge cost overruns, frustrated operators, and projects that are way behind schedule.

The reason for this, most new technology dies on the vine because of the bureaucracy of the military. The GAO said technologies do not leave the lab because their potential has not been adequately demonstrated. The DOD is simply unwilling to fund final stages of development of a promising technology, preferring to invest in other aspects of the program that are viewed as more vital to success. The DOD's budgeting process requires investments to be targeted at least 2 years in advance of their activation, which makes it difficult for DOD to seize opportunities to introduce technological advances into acquisition programs.

The problem is that only 5.71 percent of new technology ever gets into the hands of those that really need it. That is 4 out of every 70 projects. When you realize that small business accounts for 99.7 percent of all new technology introduced, it becomes incredibly important for small businesses to be involved in technology development and transfer.

The Under Secretary of Defense for Acquisition, Technology, Logistics reported the Federal Government has missed its small business goals for the last 16 years, despite the fact that buying from small businesses is far less painful. Frankly, buying from small guys like us eliminates red tape, shortens the technology transfer, speeds the time to get the operator equipment they really need, and makes life for the contracting officer easier.

What this really means is that it is vitally important to partner with small businesses who talk directly to operators in order to co-create useful technology. I am sure you are already aware small businesses are the backbone of the country. We create opportunity, generate jobs, invent new technology, and keep the economy going. We do all of this while being overregulated, overtaxed, and under-supported by the Federal Government. Everything from ObamaCare to mountains of paperwork are hindrances to the growth and health of a small business. With lower taxes and healthcare costs, we could hire more people, increase salaries, and bring better talent to Mississippi.

Thank you. I look forward to your questions.

Chairman HUELSKAMP. Thank you, Mr. Middleton. We appreciate your testimony.

I next yield to Ms. Chu for introduction of our next witness.

Ms. CHU. It is my pleasure to introduce Ms. Linsley Kinkade, Deputy Director of U.S. programs at Winrock International. In this role, Ms. Kinkade is responsible for developing and implementing entrepreneurship, community and workforce development projects in underserved areas. These projects work directly with disadvantaged population seeking training and support to enter the workforce and have lead to the employment of more than 200 previously unemployed or underemployed Arkansans to date.

She is a certified professional community and economic developer and also chairs the Central Advisory Board at the Community Development Institute. Prior to joining Winrock, Ms. Kinkade spent a number of years on Capitol Hill working for Representative Vic Snyder and Senator Blanche Lincoln. She has a bachelor's degree in journalism and political science degree from the University of Arkansas.

STATEMENT OF LINSLEY KINKADE

Ms. KINKADE. Chairman Huelskamp, Ranking Member Chu, distinguished members of the Committee, thank you for inviting me here today. My name is Linsley Kinkade, and I am the Deputy Director of U.S. programs at Winrock International. Winrock is a nonprofit organization that works with people in the United States and around the world to empower the disadvantaged, increase economic opportunity, and sustain natural resources.

Winrock is based in Little Rock, Arkansas, the home state of our namesake, former governor, and Arkansas' original economic developer, Winthrop Rockefeller. I am pleased to be here today to discuss innovative and sustainable economic and community development models taking a place across rural America.

Winrock's U.S. Programs is extensively involved in developing solutions for the challenges facing rural communities. Our on-the-ground technical assistance to community leaders, local organizations has been funded by grants and cooperative agreements from agencies and partners such as the United States Department of Agriculture, the Delta Regional Authority, the United States Department of Labor, the State of Arkansas, the Kellogg Foundation, and the Walton Family Foundation.

Winrock is based in Little Rock, Arkansas, the heart of a six-county metropolitan region, which accounts for fewer than 720,000

people. Compared to large counties in Florida, New York, or Texas, our metro area is certainly rural. However, Arkansas is home to more than 500 cities, with only 22 having a population above 20,000 and only 60 cities with a population above 5,000, thereby making the Little Rock metro area one of Arkansas' most urban environments.

Winrock has seen successful economic and community development models blossom in both our urban and rural areas. The Arkansas Women's Business Center based in El Dorado, Arkansas, which is a city of a population of about 18,000, provides technical assistance and training tailored to meet the needs of women business owners across the state. Funded in part through a cooperative agreement with the Small Business Administration, since 2011, the Women's Business Center has provided training to more than 700 clients, helped 35 new businesses start, and assisted companies that have created 65 jobs.

The Innovate Arkansas initiative, funded by the State of Arkansas through its economic development commission, convened startup technology entrepreneurs in Arkansas and works with them as they become mature companies. Since 2008, Innovate Arkansas clients have launched more that 150 startups, created more than 600 jobs, and received more than $295 million in public and private investment.

Entrepreneurs and business owners in these programs are to provide quality training, counseling, access to capital, and other resources needed to empower and equip them to ensure business success, with the ultimate goal of creating a sustainable entrepreneurial ecosystem.

The Innovation Hub at Winrock is a perfect example of an innovative and broad-based approach to talent and enterprise development that can be applied to rural and urban communities alike. The Innovation Hub provides facilities and programs that support education and entrepreneurship for all age groups across a wide range of disciplines.

The Innovation Hub has planned, developed, and administered a broad array of entrepreneurial programs, including HubX-LifeSciences, a privately funded, world-class healthcare accelerator program that recently completed its initial cohort with seven highly accomplished companies from across the world. Those seven companies leveraged approximately $2 million of private capital from Arkansas-based investors.

Economic development occurs in communities where people can live, work, and grow. The revitalization of main streets and courthouse squares across rural America can be the catalyst for new community investment. For example, municipal leaders in Lake Village, Arkansas, a community of about 2,500, recently realized that to compete and grow, the redevelopment of downtown was critical. By combining more than $2 million in funding from various Federal and State agencies and the city's own coffers, the city renovated a dilapidated downtown historic structure on its Main Street into a LEED-certified municipal building housing all city services. The project increased downtown foot traffic and convinced investors to renovate nearby buildings to house new small businesses interested in a downtown location.

Our rural communities remain hopeful for the future. Coupling innovative entrepreneurship programs with quality of life and place-making revitalization efforts can bring increased economic development in urban and rural areas alike.

Chairman Huelskamp, Ranking Member Chu, distinguished members of the Committee, thank you for having me here today. I appreciate the opportunity to speak with you and I am happy to answer any questions you may have.

Chairman HUELSKAMP. Thank you, Ms. Kinkade. I appreciate your testimony.

We will now begin our questioning, and I recognize myself for 5 minutes.

First, Commissioner Boyd, representing a rural county, at least rural by definition nationally, could you provide some insight, particularly from yourself as a small businessman, of the challenges of operating a rural county in light of some of the difficulties we have discussed here today?

Mr. BOYD. Yes, sir. Thank you very much, that is a very good question. We do struggle operating a small county today. We have partnerships, economic partnerships with private enterprises. We do economic development with our Chamber of Commerce, the Manhattan Area Chamber of Commerce. They provide our economic development guidance and activities.

We also struggle with things such as labor. The recent labor legislation that takes effect here in December is going to be a burden on us. It is a burden on the small business. It is going to change how I do business, it is going to change how my people do it. It will change the county's employment.

We also struggle with regulations. In the dry cleaning business, we are seeing huge increases in disposal fees that we are required to maintain. We are seeing things, in the county, such as waters of the U.S. that are impacting us as we go forward. So it is a struggle.

What we need is partnerships, things such as working with us in formulating some of these challenges as you go forward. Each one of these people that have addressed us today are known to their local governments. We can help you partner, as we go forward, creating legislation that helps us to be the economic engines that we are.

Chairman HUELSKAMP. Thank you.

Mr. Dearie, a question. As you point out in your testimony, across America, there are more deaths than births of new businesses. If you had to pick one particular category amongst the litany of complaints, and most of them are centered around our problems in Washington, if you had to pick one, if we could change one, that would have the most impact, what would it be?

Mr. DEARIE. It is a very good question and a very hard one to answer. I would start by answering, it is very important to keep in mind the simple things that startups need to thrive, entrepreneurs need to thrive. They need great new ideas. They need the talent and the capital to pursue those ideas and they need as few distractions, particularly unnecessary distractions, with regard to regulatory and tax burden complexity, uncertainty, et cetera.

Because as new businesses, they simply don't have the resources or the time that existing businesses, even existing small businesses might have. Things my colleague just described, can be significant headaches to existing small businesses, can kill new businesses, even viable new businesses, simply because very often it is three or four folks around a conference room table and they are trying to focus on their new product, their new service and to penetrate the market. Anything that takes their eye off the ball dramatically increases the chances that they can fail.

If there was one thing, if I were forced to mention one thing, which is the nature of your question, and I appreciate that, I would create a dual category, and that is this unnecessary distraction that I was just mentioning, and its regulatory and tax-related burden, uncertainty and complexity.

The other categories of needs in terms of new ideas and the talent and capital to pursue them are incredibly important, of course. But if we had to focus on one thing that I think would provide enormous relief and increase the chances of new business formation, survival, and growth, it would be to pursue the idea that we put forward, my colleague and I, in our list of proposals, and that is to create a preferential, if you will, regulatory and tax framework treatment for new businesses during the critical first 5 years.

Research shows that if new businesses can survive those first 5 years, the chances of them surviving long term go way up. You don't want to kill new businesses in the cradle, as it were, by burdening them with unnecessary regulatory and tax burden complexity, uncertainty. So, we propose a streamline, strip down, an on-ramp to viability. If I were forced to pick one thing, I think that is what it would be.

Chairman HUELSKAMP. Thank you. I appreciate that testimony.

Next, I recognize Ms. Chu for her 5 minutes of questions.

Ms. CHU. Ms. Kinkade, today, the largest counties in the U.S. have produced 58 percent of the country's new businesses. The largest counties also produced more than twice as many jobs during the 2010 recovery as they did in past recoveries. Are there any economic philosophies that you believe can be taken from urban areas and implemented in rural areas to spur growth?

Ms. KINKADE. Yes, absolutely. One thing we have seen quite successful across the State of Arkansas is focusing on industry clusters in regions. Whether that be an urban area or a rural area, working with industry that is already existing in a community and discovering what businesses are needed and suppliers are needed to continue to have that business in your community.

When you look at it that way, you are not only creating new small business opportunities, but you are also providing business retention and expansion programs for industries that already exist by creating a community where that industry can stay and thrive and grow.

Ms. CHU. Access to capital, of course, is extremely important for these small businesses to grow and to be maintained. In your opinion, what can be done to improve rural small businesses' access to capital?

Ms. KINKADE. Access to capital is obviously a critical component of all small business development, and in rural areas it can be a challenge. We have seen microlending programs work in smaller areas where small businesses that don't need large loans or may not yet be bankable are receiving smaller funds from organizations that are able to provide the need for the startup capital to get a business going.

I would also say developing venture capital in rural communities, angel investors, is extremely important as we get out into our rural areas. Arkansas is overall a rural state, so you could have venture capital funds across the state that may also provide funding into more urban and rural areas alike.

Ms. CHU. Now, there are several programs that have been created at the state level that help to finance small businesses. For example, the rural entrepreneurship assistance program, REAP, has provided services to numerous small businesses throughout Nebraska. REAP has placed over $10 million in loans and leveraged over $17 million in additional funds from other sources.

Can you describe this model in more detail? In your opinion, does this program provide a realistic and effective model for other States to emulate?

Ms. KINKADE. Absolutely. Access to capital in any form, whether from the state, federal, or local, or private investors, is critical to small business development. I find those programs to be extremely successful across the state, across the South in particular. I would say yes, that is a model that could very well be addressed in states and across the Federal and State Governments.

Ms. CHU. Mr. Middleton, because of their capital intensive needs and the cost of new technology, small manufacturers frequently encounter what economists call the valley of death, and that is a period in the early stages of development where it becomes difficult to move past initial startup phase and enter into the mass production phase. As a technology company outside of Silicon Valley, what was your experience with growth and expansion?

Mr. MIDDLETON. As I said in my testimony, it has been quite a struggle for us, again, because of the industry that we are in. It is dominated by very, very large companies that have lobby up here in D.C. We don't have any of that. The fact that we are literally inventing new technology for soldiers and first responders, again, we spend a great deal of time just traveling around trying to educate people on who we are and what we do.

The battle of that new technology and trying to introduce it into the DOD and side step the large acquisition programs—because what we do revolves around smartphones and tablets, and you know new phones come out every 6 months. By the time a soldier tells us what a requirement is, one of their pain points, we develop a product that will fix that, make them more efficient, and save them money. By the time it gets to them, it is already out of date and it is useless to them.

So for us, it would be great to eliminate some of the roadblocks to get this new technology to first responders and to DOD members, especially the folks out on the pointy end of the spear that are out there running around in some pretty bad places of the

world. We ought to get them these critically needed technology pieces of gear to them as fast as possible.

Ms. CHU. Thank you. My time is up, I appreciate it.

Chairman HUELSKAMP. Next, I recognize Congressman Trent Kelly for his 5 minutes of questions.

Mr. KELLY. I wanted to first thank you, Mr. Chairman. I want to thank the staff and members of the Small Business Committee for reaching out to rural America and specifically to witnesses like these who represent most of our districts and our small business owners, so I wanted to thank y'all.

We regularly hear from small business that testify before us about how the bureaucracy is such a great impediment to small businesses working with the Federal Government. Mr. Middleton, I will summarize, but you note in your testimony an interesting observation, that in an ever increasing digitized world, there is actually more paperwork than ever before. Your quote, "bureaucracy is increasing faster than automation."

I would imagine that the bureaucracy plays a large part of DOD, as you mention in your testimony, being unwilling to fund final stages of development of a promising technology. What specific improvements would businesses like yours like to see with technology development programs to encourage more small businesses to do business with the Federal Government?

Mr. MIDDLETON. There really has to be an incentive for doing business with the Federal Government. We are in the business that we do because of my background, and our goal is to increase the survivability of soldiers and first responders, again, to make them more efficient and try to make them save more money. There are so many roadblocks that impede a small company like us, that a lot of them, and there has been all kinds of things in the press, small tech companies refuse to do business with the Federal Government because of these hurdles.

It is far easier in the commercial world to develop a product and get it out quickly. There is funding, there is less bureaucracy, less roadblocks, and there is a need there. We know there is a need within the military and first responder environments. The roadblocks that we face, we fortunately have been able to side step somewhat and be able to get around just, frankly, because of the people that I know, and being allowed to get in and talk to folks that I used to serve with, that have helped us out significantly. But if a company the size of ours doesn't have a person like me, their chances of survivability are significantly decreased.

Mr. KELLY. This question is to all of you. If you can just briefly give maybe one or two or three examples very briefly so each of you get to respond. What are some of the largest barriers to entry for new businesses, and are rural businesses more affected by these barriers than urban counterparts? So, just one or two examples from each of you.

We can start with you, Ms. Kinkade.

Ms. KINKADE. One of the largest barriers is one of the things we have already addressed today, which is access to capital. Small businesses are growing. Finding the resources to get that business started, as my colleagues have mentioned today, is one of the most

critical components and one of the hardest things to address in rural America.

Mr. MIDDLETON. We were super fortunate that we had some investors, we raised a little bit of money, and we were able to take advantage of a small loan from the State of Mississippi, again, because of our background and folks willing to take a chance on a small company like us, a tech company. But with a company like ours in Mississippi, it is exceptionally hard to bring talent. There is a preconceived notion about Mississippi, you know, country, back woods, and it is absolutely not the case.

There are exceptionally smart people we hire. We are currently hiring folks out of Ole Miss and Mississippi State that are brilliant young folks, and we are fortunate that we have access to that type of thing. But again, if you don't have that, you are really way behind the power curve.

Mr. KELLY. Mr. Middleton, just to your point, I tell people all the time my area in north Mississippi is one of the fastest growing, industry and tech companies are coming all the time and we can't get people to come. They come down kicking and screaming, and the problem is once they come there, we can't get them to leave, they want to retire there and stay there forever. The press has a tendency to show things that are negative towards Mississippi, but the people who come there love the people, love the place, love the environment, and they stay there. So thank you for that comment.

Mr. Boyd.

Mr. BOYD. Thank you, sir. That is a very good question. I agree with Ms. Kinkade that financing is the number one hurdle that small business has to overcome.

Second is creating a business plan. In our region, what we are seeing is a lack of workforce, and that is where we can come in and help partner developing the workforce people that we need, getting the community that we need to support that kind of business.

Mr. DEARIE. As I said a minute ago, what entrepreneurs—and my focus is on entrepreneurs, not so much on small business, but I think there are overlapping priorities here. What entrepreneurs need to thrive is great new ideas and the talent and capital to pursue them. So echoing what my colleagues have said, it is workforce readiness and it is access to capital. Great new ideas stay in entrepreneurs' heads if they don't have those two resources.

With regard to funding of new businesses, obviously, with regard to small business, community banks and their ability to thrive and do what they do best is incredibly important, and there has been a lot of conversation about the implications of Dodd-Frank on smaller community banks. It is my recollection, off the top of my head, that the launching of new banks has fallen to an 85 year low. There has only been about 3 new banks launched since 2010. It is absolutely unprecedented in this country. The numbers of banks who are either failing or merging, more merging with other banks to achieve some heft, which makes it easier to deal with regulation like Dodd-Frank, means that there are fewer and fewer community banks, and therefore fewer options for small businesses to go to.

In the context of angel investment and venture capital, which are incredibly important for new businesses, it tends to be very lumpy. Venture capital rates, in terms of the amount of capital being

raised and invested in recent years, is at record levels. But something like 80 percent is spent in either Silicon Valley; Cambridge, Massachusetts; or New York City, and everywhere in between it is a desert.

Mr. KELLY. Thank you, Mr. Chairman. I yield back.

Chairman HUELSKAMP. Next, I recognize Representative Radewagen for her 5 minutes of questions.

Mrs. RADEWAGEN. Thank you, Chairman Huelskamp and Ranking Member Chu. I too would like to welcome the panel. Thank you for being here today.

Almost all businesses in my home district in American Samoa are small businesses. Ms. Kinkade mentioned the microlending programs that could work very well, I think, in American Samoa. There are some of them that are starting up.

I have a question for you, Mr. Dearie. Why has there been such a large number of startups in places like California, Florida, New York, and Texas? How can Washington promote similar growth in the rest of the country?

Mr. DEARIE. Again, at the risk of repeating myself, what entrepreneurs and new business formation requires is new ideas and the capital and the talent to pursue those ideas. There are certain parts of the country, and you know what they are, it is Silicon Valley; it is New York City; it is Cambridge, Massachusetts; it is Austin, Texas; Boulder, Colorado. There are certain areas of the city that have extremely effective and efficient ecosystems for entrepreneurship. They tend to be characterized by having one or more top universities that are generators, not only of great new research, but great new talent. Because they are generators of new talent and new, ideas they tend to attract capital, so you have another element of success there.

The question of what constitutes a really effective entrepreneurship ecosystem is one that is the subject of great debate, and what government can do to try to promote those kinds of circumstances elsewhere around the country is a very important one. It can be very tough for government to simply create ecosystems around the country. But I think what they can do, government public policymakers both here in Washington and at the state and local level across the country, they can promote the circumstances by which talent and capital and ideas find each other. If you look at the proposals that I submitted in the appendix to my written testimony, there are 30 specific policy ideas there that I think taken together can go a long way to promote the kind of ecosystems that you are talking about elsewhere outside of these traditional areas of entrepreneurship.

Mrs. RADEWAGEN. Thank you, Mr. Dearie. Nothing wrong with repeating. As you may know, the United States territories, particularly my home district of American Samoa, are both geographically and economically isolated, so thank you.

Mr. Boyd, please describe some of the challenges associated with making infrastructure investments with the limited resources of a smaller county. Do challenges keeping technology infrastructure up to date make it hard to attract businesses in rural areas?

Mr. BOYD. Very good question, ma'am, thank you very much. It is a challenge. We would like to have high-speed Internet for all

our citizens; we can't. We struggle with that. That because of how the State and the Federal Government have regulated the disbursement of those rights and certain entities do not want to participate. The communities aren't populous enough for them to render a profit.

We also work with economic development groups in our county, such as the Manhattan Area Chamber of Commerce, to develop these innovative programs. I myself invest in an angel investment group with the chamber.

Infrastructure. The hard infrastructure, roads and bridges, are always a struggle because it links into the national transportation system. We need help with those things. Counties have 54 percent of all the bridges in the United States and they are in terrible repair. We know that more than half are beyond their useful life. We have to address those. The FAST Act was a great program coming down to us, but it is only one step. We have a lot farther to go. So there are significant challenges.

Mrs. RADEWAGEN. I yield back, Mr. Chairman.

Chairman HUELSKAMP. Thank you for participation and series of questions from my colleagues. I appreciate the opportunity to discuss something very critical to many of our districts and indeed the entire country.

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

Without objection, so ordered.

This hearing is now adjourned.

[Whereupon, at 10:52 a.m., the Subcommittee was adjourned.]

APPENDIX

"Struggling to Grow:
Assessing the Challenges for Small Businesses in Rural America"

Testimony before
The Subcommittee on Economic Growth, Tax, and Capital Access
of the
Committee on Small Business
United States House of Representatives

September 8, 2016

John R. Dearie
Policy Council Member
Economic Innovation Group
and
Co-Author
Where the Jobs Are: Entrepreneurship and the Soul of the American Economy

Chairman Huelskamp, Ranking Member Chu, and members of the Subcommittee, thank you for the invitation to testify today. The views I'll share with you today are my own.

The Subcommittee's focus on economic growth, and, in particular, the obstacles to faster growth in rural areas, is not only timely and important – it is, in my opinion, the most important domestic policy challenge currently confronting the nation.

The Beatles Were Only Half Right – Love is Important, but You Need Growth Too

Since emerging from the Great Recession more than seven years ago, the U.S. economy has grown at an average annual rate of just 2.2 percent – more than a percentage point slower than the post-WWII average of 3.4 percent. Indeed, the U.S. economy has not grown at 3 percent or better, on an annual basis, since 2005.

Alarmingly, the Congressional Budget Office (CBO) has projected that the economy will grow over the medium- to longer-term at a subpar pace of just 2-2.5 percent, "well below the average seen over the past several decades."[1] Recent Obama Administration budget proposals have also forecast growth of just 2.3 percent, "markedly slower than the average growth rate of real GDP since 1947."

[1] Testimony of Douglas Elmendorf, Director, Congressional Budget Office, before the Senate Budget Committee, February 11, 2014.

Many private sector economists agree. A survey earlier this year by the National Association for Business Economics found that respondents had lowered their growth outlook to just 2.2 percent this year and 2.4 percent next year.[2] That forecast now appears to have been overly optimistic. Growth in the first half of this year was an anemic 1 percent.[3] Former Treasury Secretary Larry Summers has referred to the U.S. economy's sub-par post-recession performance as "secular stagnation."[4]

The rate at which the U.S. economy expands isn't just another dry statistic. It is the best overall gauge of the opportunity our nation provides its citizens. An economy that grows at a healthy pace of 3.5 to 4 percent on a sustained basis provides ample opportunity for the American people to pursue their dreams and achieve their potential. Slower growth, particularly over an extended period, fails our nation's citizens.

Indeed, weak economic growth experienced since 2005 is the principal cause of America's most serious, politically difficult, and, in some ways, mutually reinforcing challenges, including:

- persistently high unemployment and underemployment;[5]
- high and rising long-term debt;
- stagnant middle-class wages;
- wide and worsening income, wealth, and opportunity inequality;
- the highest poverty rates since the mid-1960s; and,
- record numbers of Americans reliant on government programs like food stamps and disability insurance.

To meaningfully address these challenges – and the anger, cynicism, and populism they inspire – we must accelerate economic growth back to the historical average of 3.5 percent *on a sustained basis*.

The difference between 2.3 percent and 3.5 percent growth may not seem significant, but in an economy the size of the U.S. economy percentage points matter. Had the economy grown at 3.5 percent since emerging from recession in 2009, GDP last year would have been more than $1 trillion greater. Over a twenty-five year period, the difference between a U.S. economy growing at 2.2 percent annually versus 3.5 percent is more than *$100 trillion* in additional economic output.

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[2] Kent Hoover, "Business Economists See Slow Growth Ahead," *The Business Journals*, March 28, 2016.

[3] "US Q2 Gross Domestic Product up 1.1% vs. 1.2% Increase Expected," *Reuters*, August 26, 2016.

[4] Josh, Boak, "U.S. Economy May Be Stuck in Slow Lane for Long Run, " *Associated Press*, February 9, 2014.

[5] Nicholas Eberstadt, "The Idle Army: America's Unworking Men," *The Wall Street Journal*, September 1, 2016.

While complete solutions to the challenges listed above require progress on a number of fronts, there is little doubt that our ability to address these and other problems would be greatly enhanced by faster economic growth. Growth at or above the post-WWII rate of 3.4 percent on a sustained basis would produce the jobs necessary to end the current employment crisis, the opportunity necessary to accelerate socio-economic mobility, the rising real wages needed to narrow the income gap and reduce poverty, and the additional tax revenue necessary to narrow budget deficits and substantially reduce the nation's long-term debt.

Where Does Growth Come From?

Over most of economic history, it had been widely assumed that economic growth stems from enhancements to one or both of the two principal components of an economy – capital and labor. For an economy to grow, it was thought, either the labor market had to expand or capital intensity had to somehow increase.

But in 1957, American economist Robert Solow demonstrated that most of economic growth cannot be attributed to increases in capital and labor, but only to gains in productivity – more output per unit of input – driven by innovation. As businesses and workers become more efficient, costs fall, profits and incomes rise, demand expands, and economic growth and job creation accelerate.[6]

Solow's identification of innovation-driven productivity gains as the driver of economic growth has been echoed by economists ever since. As Nobel Laureate economist Paul Krugman has observed: "Productivity isn't everything, but in the long run it's almost everything."

> A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker...Compared with the problem of slow productivity growth, all our other long-term economic concerns – foreign competition, the industrial base, lagging technology, deteriorating infrastructure, and so on – are minor issues.[7]

Solow's growth model is one of the great economic insights of all time – the economic equivalent of E=MC(sq). Solow was awarded the Nobel Prize in economics in 1987, the National Medal of Science in 1999, and the Presidential Medal of Freedom in 2014.

New Businesses As the Engine of Innovation, Productivity Gains, and Growth

The great significance of Solow's work is that it not only defined the *nature* of economic growth, it also identified its principal *source*. That's because economists have long understood that innovation – particularly major or "disruptive" innovation – comes disproportionately from new businesses, or "start-ups."

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[6] Robert M. Solow, "Technical Change and the Aggregate Production Function," *Review of Economics and Statistics* (The MIT Press) 39, no. 3, 1957: 312–320.

[7] Paul Krugman, *The Age of Diminished Expectations*, The Washington Post Company, 1990, pp. 9–13.

Economists Robert Litan and Carl Schramm emphasized this reality in their 2012 book *Better Capitalism*:

> [E]ntrepreneurs throughout modern economic history, in this country and others, have been disproportionately responsible for truly radical innovations — the airplane, the railroad, the automobile, electric service, the telegraph and telephone, the computer, air conditioning, and so on— that not only fundamentally transformed consumers' lives, but also became platforms for many other industries that, in combination, have fundamentally changed entire economies...
>
> Large companies, with their large fixed costs of plant, equipment, and to some extent personnel, have perfected the economic arts of economies of scale production and incremental innovation. But...most large companies are less eager to pursue radical innovations — those that disrupt current business models in which the firms are heavily invested.[8]

In addition to innovation, research conducted in 2009 by John Haltiwanger, Ron Jarmin, and Javier Miranda, followed by further analysis by scholars at the Kauffman Foundation, has shown that start-ups also account for virtually all net new job creation.[9]

From the standpoint of innovation, economic growth, and job creation – arguably the three most important metrics of economic health and vitality – thriving entrepreneurship is the beating heart, the very soul, of any economy.

The Engine of Innovation and Growth is Breaking Down

Unfortunately, as scholars at the Kauffman Foundation, the Brookings Institution, and elsewhere have documented, entrepreneurship in America is in trouble. Not everywhere, of course; in places like Silicon Valley, Austin, TX, Boulder, CO, and Cambridge, MA entrepreneurship is thriving. But in broad terms, entrepreneurship in America is struggling.

After remaining remarkably consistent for decades, the number of new businesses launched in the United States peaked in 2006 and then began a precipitous decline – a decline accelerated by the Great Recession. Research by the Kauffman Foundation indicates a rebound in start-ups in the last two years, but the recovery is from a very low level and the number of new businesses remains well below pre-recession levels.[10]

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[8] Robert E. Litan and Carl J. Schramm, *Better Capitalism: Renewing the Entrepreneurial Strength of the American Economy*, Yale University Press, 2012.

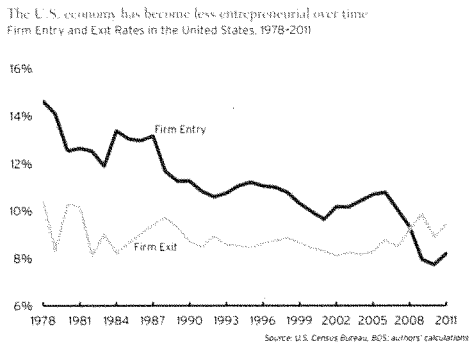
[9] John Haltiwanger, Ron Jarmin, and Javier Miranda, "Business Dynamics Statistics Briefing: Jobs Created from Business Start-Ups in the United States," Ewing Marion Kauffman Foundation, 2009; Dane Stangler and Robert Litan, "Where Will the Jobs Come From?" Ewing Marion Kauffman Foundation, November 2009; Tim Kane, "The Importance of Start-Ups in Job Creation and Job Destruction," Ewing Marion Kauffman Foundation, July 2010.

[10] Index of Start-Up Activity, Ewing Marion Kauffman Foundation, August 2016. Also see testimony by Dane Stangler, Vice President for Research & Policy, Ewing Marion Kauffman Foundation, before the Committee on Small Business and Entrepreneurship, U.S. Senate, June 29, 2016.

A recent report by the Economic Innovation Group (EIG) found that, beginning in 2009, the total number of firms in the U.S. economy actually *declined* for three consecutive years. This decline is without precedent; even during prior recessions, the U.S. economy produced tens of thousands of net new businesses.[11]

When compared to previous post-recession recovery periods, the rate of new business formation since the Great Recession is especially alarming. In the five years following the 1991 and 2001 recessions, over 400,000 net new businesses were launched, according to EIG's research. In stark contrast, between 2010 and 2014, the net increase in American businesses was just 166,500.

Even more alarming, economists Robert Litan and Ian Hathaway have shown that entrepreneurship rates have fallen near a 30-year low, and that this decline is occurring *across a broad range of industry sectors, including high-technology, and in all 50 states.*[12] The chart below, taken from Litan and Hathaway's May 2014 paper, shows that the number of new firms as a percentage of all firms has been in steady decline for more than three decades – and, since 2008, has fallen below the rate of business failure. In other words, in recent years more businesses have been failing in America than launching.



As Solow's growth model would predict, U.S. productivity has fallen along with the decline in rates of new business formation. Annual productivity gains averaged about 2.5 percent from 1948 to 2006, but have fallen to about 1.1 percent since 2011– less than half the historical rate. Growth in output per hour slowed to just 0.5 percent in 2014, and to just 0.3 percent in 2015.

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[11] "A New Map of Economic Growth and Recovery," Economic Innovation Group, May 2016.

[12] "Declining Business Dynamism in the United States: A Look at States and Metros," Robert Litan and Ian Hathaway, The Brooking Institution, May 5, 2014. Also see John Haltiwanger, Ian Hathaway, and Javier Miranda, "Declining Business Dynamism in the U.S. High-Technology Sector," the Ewing Marion Kauffman Foundation, 2014.

The Conference Board has predicted that U.S. productivity growth will actually *decline* in 2016, for the first time in three decades.[13]

2004 Nobel Prize recipient Edward Prescott and his colleague Lee Ohanian from Stanford University have argued that the economy's anemic performance in recent years is due largely to the plunge in productivity growth – caused by the dramatic decline in start-ups:

> The remarkable productivity growth that has enabled the U.S. to become the wealthiest country on earth has slowed considerably in recent years.
>
> The most recent period of rapid productivity growth in the U.S. – and rapid economic growth – was in the 1980s and '90s and reflected the remarkable success of new businesses in information and communications technologies, including Microsoft, Apple, Amazon, Intel, and Google. These new companies not only created millions of jobs but transformed modern society, changing how much of the world produces, distributes and markets goods and services.
>
> Sadly, the annual rate of new business creation is about 28 percent lower today than it was in the 1980s, according to our analysis of the U.S. Census Bureau's Business Dynamics Statistics annual data series. Getting the U.S. economy back on track will require a much higher annual rate of new business start-ups.[14]

Circumstances in rural areas of America are particularly acute. The recent EIG report shows that most of the new business formation that has occurred since the Great Recession has been highly concentrated, clustered mostly in high-density urban or suburban areas. Fully half of the net increase in U.S. business establishments between 2010 and 2014 occurred in just 20 counties, and 17 of those 20 counties are in just four states – California, Florida, New York, and Texas. This pattern of concentration stands in stark contrast to previous recoveries. From 1992 to 1996, for example, 125 counties generated the same 50 percent of new businesses.

Perhaps most alarming, rural areas have not participated in even the scant amount of new business formation that has occurred since the Great Recession. In the five years following the 1991 recession, small counties – those with less than 100,000 residents – generated the highest rates of new business formation, and nearly a third of the net increase in total U.S. businesses over the period. Since 2009, small counties have experienced net negative growth in the number of business establishments.

Given the critical role start-ups play as the principal source of disruptive innovation, productivity growth, economic growth, and job creation, such circumstances amount to nothing short of a national emergency.

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[13] Sam Fleming and Chris Giles, "US Productivity Slips for First Time in Three Decades," *The Financial Times*, May 25, 2016.

[14] Edward C. Prescott and Lee E. Ohanian, "U.S. Productivity Growth Has Taken a Dive," *The Wall Street Journal*, February 3, 2014.

7

Why are Start-up Rates Declining?

Rates of new business formation have fallen near multi-decade lows, both in terms of the number of new businesses being launched and the share of all U.S. businesses that are new.

But why?

To find out, a colleague and I decided to put the question directly to America's entrepreneurs. Over the summer of 2011, we conducted roundtables with entrepreneurs in 12 cities across the United States, asking them, quite simply: "What's in your way?"

More than 200 entrepreneurs participated – from a web-based software company in Seattle to an industrial construction firm in Orlando, from a developer of bioscience technologies in Boston to a distributor of glow-in-the-dark fluorescent fish in Austin – all explaining in specific and vividly personal terms the issues, frustrations, and obstacles that are undermining their efforts to launch new businesses, expand existing young firms, and create jobs.

An astonishing take-away from our roundtables – and enormously significant from the standpoint of potential policy solutions – is that the problems and obstacles encountered by entrepreneurs across the country are remarkably consistent. Entrepreneurs from Austin to Boston and from Seattle to Orlando reported the same burdens, frustrations, and difficulties:

- "We have the jobs, and we need to fill them to survive, but we can't find enough people with the skills we need."
- "Our immigration policies don't effectively attract and retain the world's best and most innovative talent."
- "Access to start-up capital is even more difficult in the wake of the financial crisis."
- "Over-regulation is killing us."
- "Tax complexity and uncertainty is diverting too much of our time and attention away from our new businesses."
- "There's too much economic uncertainty – and it's Washington's fault. It's the endless bickering and partisanship. The fiscal cliff, the debt ceiling, the government shut-downs. The inability to achieve tax reform, immigration reform, or effectively deal with the national debt. Washington is a generator of problems not solutions, a source of anxiety and uncertainty for businesses – and it's killing the economy."

Our summer on the road revealed a number of critical insights central to any discussion about accelerating economic growth.

First, new businesses are extremely fragile – a third fail by their second year, half by their fifth. And yet, those new businesses that survive tend to grow, innovate, and create jobs at very rapid rates.

Second, the policy needs and priorities of new businesses are unique. Start-ups are different from existing businesses. The challenges they confront are different and their ability to successfully navigate those challenges is more limited.

Third, policymakers in Washington do not sufficiently understand or appreciate the unique nature, importance, vulnerability, and needs of start-ups. Focused on the priorities of either large corporations or the small business community, policymakers too often overlook the economy's true engine of growth and job creation.

Finally, policy help for America's job creators is urgently needed. Given the critical role they play in our nation's economy as the principal source of innovation, growth, and job creation, America's young businesses need and deserve a comprehensive and *preferential* policy framework designed to cultivate and nurture start-ups – an on-ramp to viability.

Fortunately, we now know what needs to be done. Our remarkable summer on the road meeting and listening to America's entrepreneurs revealed with unprecedented clarity the major obstacles undermining their ability to launch new businesses, grow those businesses, and create jobs. With those obstacles in mind, my colleague and I developed a 30-point policy plan for unleashing the growth- and job-creating capacity of the entrepreneurial economy – based on what American entrepreneurs told us they need.

See the attached Appendix for the complete list of our policy proposals.

Conclusion

Economic growth is driven by productivity gains, which are driven by innovation – which comes disproportionately from new businesses. Revitalizing American entrepreneurship, therefore, is the *essential pathway* to faster economic growth and the nation's ability to meaningfully address its most serious socio-economic challenges.

But that necessary revitalization requires changes in public policy. Fortunately, we have a good sense of what needs to be done. Research conducted in recent years, together with input from entrepreneurs by way of the roundtables mentioned above and other forums, has produced a uniquely credible pro-entrepreneurship growth agenda that, if enacted, would dramatically enhance the circumstances for new business formation, survival, and growth and, in doing so, accelerate economic growth, in aggregate and across America's many communities, to the rate necessary to generate the opportunity the American people deserve.

The only remaining question is: Do America's policymakers have the will to act?

Thank you for organizing this important hearing and for inviting me to participate.

Written Statement for the Record

The Honorable Robert Boyd
Commissioner, Riley County, Kansas

On Behalf of the National Association of Counties

for the hearing

"Struggling to Grow: Assessing the Challenges for Small Businesses in Rural America"

before the

Committee on Small Business
Subcommittee on Economic Growth, Tax and Capital Access
United States House of Representatives

September 8, 2016
Washington, D.C.

Introduction

Chairman Huelskamp, Ranking Member Chu and Members of the Subcommittee, thank you for the opportunity to testify today on both the challenges and opportunities that small and rural economies and small businesses are facing in our current economic climate.

My name is Robert Boyd and I serve on the board of county commissioners for Riley County, Kansas. I am also here today representing the National Association of Counties (NACo).

In addition to serving as a county commissioner, I am a military veteran and small business owner. I hail from a military family and served in the U.S. Army from 1968 to 1988. After retiring as an Army Aviator, I worked for Northwest Airlines as a commercial pilot. Prior to retiring as a commercial pilot in 2008, I started a local dry-cleaning business, which I still own and operate today. Our small company has grown into partnerships of dry cleaners and laundromats in our area, along with business consulting services, aviation management services and franchise restaurants in the Midwest.

In 2012, my desire to help others thrive in the local marketplace led me to run for office and I was elected to serve on the Riley County Board of Commissioners. As a county commissioner, I carry with me that same commitment to developing entrepreneurs and small businesses in an effort to strengthen our local economy which is why I am honored to participate in this hearing today.

Stronger Counties, Stronger America

Founded in 1935, NACo is the only national organization that represents our nation's 3,069 counties and brings together county officials from across the country to advocate with a collective voice on national policy, exchange ideas and build new leadership skills, pursue transformational county solutions, enrich the public's understanding of county government and exercise exemplary leadership in public service.

As key intergovernmental partners with the states and federal government, counties are responsible for delivering a broad array of programs and services that provide a foundation for prosperous communities with strong and stable economies. To achieve this foundation, counties make significant investments in our nation's essential infrastructure; maintain our nation's justice and public safety system; and invest in public health, including hospitals, nursing homes and mental health programs. And in an election year such as this, counties are responsible for administering fair and transparent federal, state and local elections.

County government provides these vital services to more than 308 million residents, collectively investing over $554.5 billion annually and employing over 3.6 million people to serve the public.

Specifically, as it relates to this hearing, counties also make significant contributions to economic development at the regional and local levels and take a leadership role in coordinating local work-

force development and job training programs. Nationally, counties invest close to $11 billion in housing and community development annually.

Although we have various governmental structures, authorities and responsibilities under state law, all county governments are on the front lines working to build healthy, vibrant and safe communities across America.

About Riley County, Kansas

Counties are highly diverse, not only in my home state of Kansas, but across the nation, and vary immensely in size, natural resources, social and political systems, and cultural, economic, public health and environmental responsibilities.

My county, Riley County, Kansas, is a small to mid-sized county with a mix of both rural and urban components. We currently have 75,247 residents across 622 square miles and are blessed to be the home of the Fort Riley military base and Kansas State University which are major economic engines for our local economy and our surrounding communities.

Located right in the middle of the country, Kansas has long been known for our agriculture, transportation and energy industries. Since much of the state is rural, small businesses are also a critical component of our local economy. In fact, in the state of Kansas, there are over 246,000 small businesses that employ almost 600,000 workers.[1]

While we hear on the news almost daily that the national economy has recovered after the Great Recession, it has been more challenging to see those positive effects in our state and county—and in rural counties across America. National or state economic data do not tell what is happening on the ground, where every county and local communities also has its own unique set of circumstances and its own challenges and opportunities.

Although the national economy has recovered, many county economies are still struggling

To help provide a national perspective on how county economies are faring from year to year, NACo releases *County Economies*, an annual report examining economic recovery and growth patterns across the nation's 3,069 county economies. The report is developed from an analysis of data from Moody's Analytics and focuses on the annual changes in four economic performance indicators in each county: economic output (GDP), employment, unemployment rates and median home prices. For the 2015 edition, the report also has an analysis of wage growth for county economies, based on U.S. Bureau of Labor Statistics (BLS) data.

Nationally, counties across the country showed signs of economic recovery in 2015, particularly on unemployment rates and home prices. For instance, 462 county economies closed their unemploy-

[1] U.S. Small Business Administration, 2016 Small Business Profiles for the States and Territories. Available at https://www.sba.gov/sites/default/files/advocacy/Kansas.pdf

ment gaps and 448 counties saw their median home prices reach pre-recession peaks.

But the outlook specifically for our nation's rural and small counties is more challenging. Only 306 small county economies closed their unemployment gap in 2015—up from 150 in 2014—and just over 100 small county economies closed their economic output (GDP) gap in 2015. Further, almost half of our nation's small counties saw a decline in economic output (GDP) for 2015—particularly rural and small counties in Southern and Midwestern states such as Georgia, Illinois, Kansas, Kentucky, Mississippi, Missouri, Nebraska and Texas.

In total, only 214 county economies have fully recovered to their pre-recession levels by 2015 and 16 percent, or 478 counties, have yet to recover on any of the four economic indicators. Many counties are still experiencing the severe impacts of the latest recession.[2]

My home state of Kansas has also struggled to recover. Prior to the Great Recession, Kansas' economic output was actually growing at a must faster rate than the rest of the country. However, when the recession hit in 2008, our statewide economic output (GDP) fell further and continues to grow slower than the rest of the nation, particularly slower since 2011.[3]

The overwhelming majority of Kansas county economies (100 of 105) have seen job losses or flat employment levels. Sixty-four of the 105 Kansas counties have seen declines in their economic output.

Further, only one of the 105 county economies in the state has seen higher job growth in 2015 relative to the previous year.

Riley County has only recovered to pre-recession levels in two of the four economic indicators NACo examines. While we have seen progress in economic output (GDP) and home prices, we are still struggling with jobs and unemployment rates which have not returned to pre-recession levels. As a result, we observe that young people graduating from Kansas State University do not seem as inclined to stay here to establish new businesses as they once were. Today's graduates are largely moving to other states and communities with greater employment opportunities.

Many of the surrounding rural counties in my area are experiencing an even slower economic recovery than ours. None of the six counties around Riley County have recovered on all four economic indicators. While some have recovered on economic output (GDP), four of the six surrounding counties saw a fall in their GDP within the last year. In addition, five of the six neighboring counties saw job losses in 2015.

Wabaunsee County, Kansas has experienced the hardest time recovering to levels seen before the recession. This a small county

[2] Istrate, Emilia, Brian Knudsen, County Economies 2015: Opportunities and Challenges, Washington, D.C.: National Association of Counties. Available at http://www.naco.org/sites/default/files/documents/2016%2OCET-report_01.08.pdf

[3] Menzie Chinn, Kansas in (Technical) Recession. Available at http://econbrowser.com/archives/2016/06/kansas-in-technical-recession

with about 7,000 residents. The county economy has not closed its recession gaps on any of the four indicators analyzed. For example, for five consecutive years, the economy lost jobs between 2004 and 2009. This is much longer than the national rate, as the job gap for an average county economy lasted only three years (between 2007 and 2010). Its unemployment rate almost doubled between 2006 and 2009, soaring from 3.7 percent to 7.2 percent.

Our nation's small and rural counties face unique challenges

Unfortunately, many rural counties across the country face similar headwinds. Small counties have to provide the same mandatory services and comply with the same regulations as our suburban and urban counterparts do. And we must do so with limited ability to raise revenue.

Local property taxes remain the major source of revenue for small counties like Riley County—accounting for 56 percent of total revenue for Kansas counties in 2014. Thus, trends in property values can significantly impact county revenues and expenditures. Declining property values push tax rates up and force counties to either find alternate revenue sources or cut spending. In addition, 43 states impose some type of limitation on counties' ability to increase property taxes, further limiting our options.

Moreover, we also confront complex and costly regulatory mandates that can limit local recovery and economic growth. Federal agencies have issued an increasing number of regulations in recent years. In 2015, only 114 laws were enacted by Congress, compared to the 3,140 rules issued by federal agencies.[4] According to the White House Office of Management and Budget (OMB), unfunded mandates from federal rules and regulations cost local governments, our citizens and businesses between $57 billion and $85 billion a year.[5]

In fulfilling our mission to deliver public services to our residents, we are not only subject to state and federal regulations, but also help to implement them at the local level. Therefore, as both regulated entities and regulators, it is critical that counties are fully engaged as intergovernmental partners throughout the entire federal regulatory process.

This growing number of regulations comes at a time when counties—regardless of size—are experiencing significant fiscal constraints and our capacity to fund compliance activities is often limited.

We thank this Committee for its ongoing work to examine the impacts of proposed federal regulations on small jurisdictions and small businesses, and we will continue to work with our federal partners to ensure that the challenges facing small jurisdictions are fully considered.

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[4] Competitive Enterprise Institute, Ten Thousand Commandments: An Annual Snapshot of the Federal Regulatory State (2016 Edition)

[5] Office of Management and Budget, Office of Information and Regulatory Affairs, Executive Office of the White House, 2015 Draft Report to Congress on the Benefits and Costs of Federal Regulations and Agency Compliance with the Unfunded Mandates Reform Act, (2015)

Despite these challenges, small and rural counties play an important role in strengthening our local communities and economic opportunity

The vitality of rural county economies can be as unique as the county itself. While small and rural economies face distinctive challenges, we also possess unique opportunities. Today, rural counties must work together to leverage our assets to ensure the stability and strength of our local and regulation economies.

Together with partners, we find solutions to the most pressing economic development problems facing our communities. Each initiative is unique, aimed at solving an economic problem within the framework of specific local resources and constraints. State authority, county capacity and resources, and the convening power of counties, all shape our response to local challenges.

Counties work to strengthen their local economies in several ways.

First, we are increasingly collaborating regionally. We work with our neighboring counties to look at not only our individual assets, but our combined assets and market this greater regional economy. Effective marketing for economic development involves not only identifying a region's unique competitive advantage, but also communicating the value of that advantage to companies both inside and outside the region. The marketing effort must rely on tangible assets that create comparative advantages for the region.

Second, counties are also engaging in a range of entrepreneurship and small business development programs from financing to training in order to help businesses create jobs in the community.

Business accelerators exchange small amounts of equity for capital and mentorship, while business incubators support start-up companies through subsidized or free office space or an ongoing mentorship program with established businesses. This support system may take a variety of organizational formats, including county economic development programs or initiatives delivered through non-profit organizations or universities.

Counties also participate in developing training programs for entrepreneurs and small-business owners to help them grow their businesses and in the process generate more jobs, greater revenues for the business and increased tax revenues for the county. Training programs can take many different forms, but most emphasize the importance of equipping trainees with skills in creative thinking, best business practices and problem-solving.

We also provide financing to small businesses by facilitating their access to federal or state loan programs or by leveraging private lenders through matching funds for capital access programs. Some counties have their own loan programs, such as revolving loan funds, to target business owners who might not otherwise qualify for a traditional bank loans. These programs can be capitalized by a county's own revenue, bonds and state appropriations.

For example, Renville County, Minn. operates a revolving loan fund to help local businesses create and retain jobs, with a goal of

securing one job for each $10,000 of loans. NACo's 2014 report *Cultivating a Competitive Advantage*, highlights how Yellowstone County, Montana is using a multi-pronged approach to economic development. Through the Big Sky Economic Development organization (BSED), the Billings-Yellowstone County Metropolitan Planning Organization (MPO) and the City College at Montana State University Billings (MSU Billings), Yellowstone County is able to leverage regional assets to attract businesses and pursue various economic development goals. This public private partnership has highlighted the region's high quality of life and economic opportunities to attract existing and expanding businesses while creating hundreds of new jobs in Yellowstone County alone.

Fourth, we make substantial investments in infrastructure. Investments in infrastructure systems—roadways, bridges, transit, railroads, water, sewer, intermodal connectors and telecommunications systems—result in higher property values and quality-of-life improvements, affect business decisions and connect communities into thriving regional economies. Telecommunication infrastructure is especially helpful in rural or technologically underserved counties. Specifically, investment in broadband access helps counties to attract a skilled workforce or overcome issues of geographic isolation. Due to high capital costs associated with public infrastructure, counties frequently collaborate with regional public or private partners to finance, build and maintain infrastructure projects of all sizes and levels of complexity.

Many counties also engage in long-term planning for disaster preparedness and industry diversification to stay resilient in the face of disruptive events. Such events can range from immediate-impact incidents including natural disasters, closings of a main plant in a county to more long-term processes—the decline of a major industry and slowing demand in internal markets. Some federal policy decisions such as the U.S. Department of Defense or U.S. Department of Energy facilities realignment or specific environmental regulations can also have a disruptive effect on some counties. Diverse local economies, with employment, sales and tax revenue distributed broadly across a number of sectors, are more resilient to economic shocks. This leads to more certainly in county budgeting and planning and better quality of life for residents.

These examples are just a snapshot of the ways that counties are working to help our local economies. Regardless of the economic uncertainty faced by many counties throughout the country, we must continue to deliver critical services to our residents in order to provide the basic building blocks for future growth.

Conclusion

In conclusion, Chairman Huelskamp, Ranking Member Chu and members of the committee, while some county economies have seen improvement, there is still a long way to go, especially in rural America. With improved collaboration and flexibility from our intergovernmental partners at the federal and state levels, counties can provide the public services and basic infrastructure needed for economic growth and opportunity.

NACo will continue to monitor the progress of our national economy through the lens of our nation's counties. Small businesses are a critical to the local economy and even drive some of our nation's largest corporations. As intergovernmental partners, it is our shared responsibility to ensure the strength and stability at all levels of our economic portfolio. It is imperative that we move forward together for our families and children, businesses, large and small and all our communities. Stronger counties mean a stronger America.

We thank you once again for holding this important hearing and I look forward to your questions.

"Struggling to Grow: Assessing the Challenges for Small Businesses in Rural America."

Testimony of:

Hugh Middleton

Co-Founder

Kopis Mobile

Flowood, MS

Before the

Committee on Small Business

United States House of Representatives

September 08, 2016

The Honorable Tim Huelskamp (R-KS), Chairman

The Honorable Judy Chu, (D-CA), Ranking Member

Good morning Chairman Huelskamp, Ranking Member Chu, and members of the Committee. Thank you for hosting this hearing on the challenges small businesses face in rural America and for your invitation to provide remarks at this hearing. My name is Hugh Middleton and I am the Co-Founder of Kopis Mobile, a small start up, Tech Company headquartered in Flowood, MS. Flowood is located just outside of Jackson, MS.

Before I get into what we do at Kopis Mobile, I would like to provide a little background about myself that I feel is pertinent to the work we do. I am former Navy SEAL Officer. While in the SEAL Teams, I was assigned to SEAL Teams One, Three, Five, Six and spent time in various overseas assignments including a Special Operations Joint Staff. I have also worked in several U.S. Embassies and Consulates. I separated from the Navy in 2005, taking a management position with a large defense contracting company that supported then ongoing operations in Afghanistan and Iraq. Following that, I then moved on to another defense company where I managed a staff of highly skilled intelligence analysts conducting intelligence and data exploitation focused on Improvised Explosive Device threat characterization.

In January 2013, I Co-Founded Kopis Mobile with three super smart engineers, who all worked at the same company I did at the time. It may seem like an odd pairing of backgrounds and you are correct, it is. We often can't understand what the other is saying, but we have made it work to develop some very leading edge products that didn't exist prior to us starting the business. Kopis Mobile is in the unique position as a provider of advanced mobile technology and products for the Department of Defense, Law Enforcement Agencies, and the Private Security industry. We develop mobile technology to minimize the weight and enhance the equipment of soldiers, first responders, and law enforcement officers. This technology saves lives, saves time, and saves money. It also improves training and reduces SWaP (size weight and power). Just about everything we do revolves something you use everyday, smartphones and tablets. We get every ounce of computing power out of these wonders of technology. We actually refer to some of our products as time machines. Our customers typically have plenty of equipment, food, weapons and ammunition. What they don't have enough of is time. We try to give them some of that time back.

What we do is vitally important especially to me since I was on the other side of the fence at one time. I witnessed how long it takes to get the right equipment because of the over burdened bureaucracy of the procurement process. For a small company like us, it is a killer. We have equipment quotes sitting in the hands of military units for over 6 months before they are able to obligate the funds for critically needed items. The problem is the same for first responders. The process is like birthing a baby. It often takes 9 months to go through the grant process. Internally, we joke about it, but it isn't funny.

As with any start up business, it has been a struggle for us. I will go out on a limb and say it has been harder for us given the industry we are in. Not only are we a tech company from rural

Mississippi, but also we have been trying to gain access into an industry dominated by the likes of Northrup Grumman, Raytheon, and Lockheed Martin.

We have spent over three years just trying to educate people on who we are and what we do. We obviously don't have any buildings with Kopis Mobile on the top of them across from the Pentagon.

General Officers and senior level decision makers of all ranks that are in today's military are without doubt some of the best leaders this country have ever seen. Several years of fighting wars on two fronts have positively molded the lives of many in uniform and shaped them into formidable leaders.

Those at that level are super educated, motivated, and strive to do the best they can to improve the lives of those under their command. However, those at the top of the leadership pyramid are often bogged down by administrative tasks, countless meetings and unending travel. They have little time to really dig into alternative ways to simplify entrenched, long standing ways of doing business. Many rely on, "This is the way we are doing it because this is how it's always been done." In many ways, tried and true methods work just fine. It is easier to do "what we have been doing" rather to look for ways to do things better.

Most senior leaders think that because of digitization, they are more productive because of less paperwork. Actually, the opposite is happening. Despite all of this digitization, you have more paperwork than ever. This translates to a **3% decrease in annual productivity.**

Bureaucracy is increasing faster than automation. Which means that over the past 20 years, nearly half of the military's productivity has been sucked dry by the time vampires of administrative tasks.

The federal government spends about $20B per year on development of later stage technology for commercialization. Majority of this money is spent in the large acquisition programs that incorporate technology that is not proven which means the equipment takes way too long to get the warfighter. This results in huge cost overruns, frustrated operators, and projects that are way behind schedule.

The reason for this, most new technology dies on the vine because the bureaucracy of the military. The GAO said "technologies don't leave the lab because their potential has not been adequately demonstrated" and "the DoD is simply unwilling to fund final stages of development of a promising technology, preferring to invest in other aspects of the program that are viewed as more vital to success."

And "DoD's budgeting process, which requires investments to be targeted at least two years in advance of their activation, makes it difficult for DoD to seize opportunities to introduce technological advances into acquisition programs."

The problem is only 5.71% of new technology ever gets into the hands of those that really need it. That is 4 out of every 70 projects!

When you realize that small business accounts for 99.7% of all new technology introduced, it becomes incredibly important for small businesses to be involved in technology development and transfer.

The Undersecretary of Defense, Acquisition, Technology and Logistics reported the Federal Government has missed its small business goals for the last 16 years despite the fact that buying from small businesses is far less painful. Frankly, buying from small guys like us eliminates red tape, shortens the technology transfer, speeds the time to get the operator the equipment they really need, and makes life for a contracting officer easier.

There are really only two types of new technology product development, that being "Top Down" and "Bottom Up". In "Top Down" tech development, academics invent something big and hopes it gets good in DoD. In "Bottom Up" tech development, small business invents something good and hopes it big in DoD. The big problem is 95% of it is "Top Down" and rarely includes the folks at the pointy end of the spear in the development process.

As stated in the GAO Report to Congress (GAO-05-480), the best approach to new technology is a, "least structured process and criteria, believing that a high degree on flexibility is needed in order to get technology prototypes quickly out to the field, where they can immediately impact military operations."

What this really means is it is vitally important to partner with small businesses who talk directly to the operators in order to co-create useful technology. This is the holy grail of warfighter improvement.

As I am sure you are already aware, small businesses are the backbone of America. We create opportunity, generate jobs, invent new technology and keep the economy going. We do all of this while being over regulated, over taxed and under supported by the Federal Government. Everything from Obama Care to mountains of paperwork are hindrances to the growth and health of a small business. With lower taxes and healthcare costs, we could hire more people, increase salaries and bring better talent to Mississippi.

Thank you and I look forward to your questions.

Submitted testimony of Linsley Matteson Kinkade
Deputy Director, U.S. Programs, Winrock International
House of Representatives Subcommittee on Economic Growth, Tax and Capital Access
September 8, 2016

Chairman Huelskamp, Ranking Member Chu, distinguished members of the committee, thank you for inviting me here today. My name is Linsley Kinkade. I am the Deputy Director of U.S. Programs at Winrock International.

Winrock International is a nonprofit organization that works with people in the United States and around the world to empower the disadvantaged, increase economic opportunity, and sustain natural resources. Winrock is based in Little Rock, Arkansas, the

home state of our namesake, former Governor and Arkansas's original economic developer, Winthrop Rockefeller.

I am pleased to be here today to discuss innovative and sustainable economic and community development models taking place across rural America.

Winrock's U.S. Programs is extensively involved in developing solutions for the challenges facing rural communities. Our on-the-ground technical assistance to community leaders and local organizations has been funded by grants and cooperative agreements from agencies and partners such as the United States Department of Agriculture, the Delta Regional Authority, the United states Department of Labor, the State of Arkansas, Kellogg Foundation and the Walton Family Foundation.

Winrock is based in Little Rock, the heart of a six-county metropolitan region which accounts for fewer than 720,000 people. Compared to large counties in California, Florida, New York or Texas, our metro area is certainly rural. However, Arkansas is home to more than 500 cities, with only 22 having a population more than 20,000 and only 60 cities with a population above 5,000; thereby making the Little Rock metro area one of Arkansas's most urban environments. Winrock has seen successful economic and community development models blossom in both our urban and rural areas.

The Arkansas Women's Business Center located in El Dorado, Arkansas, a city with a population of 18,000, provides technical assistance and training tailored to meet the needs of women business owners across the state of Arkansas. Funded in part through a cooperative agreement with the U.S. Small Business Administration, since 2011 the Women's Business Center has provided training to more than 700 clients, counseled more than 350 clients, helped 35 new businesses start, and assisted companies that have created 65 jobs.

The Innovate Arkansas initiative, funded by the State of Arkansas through its Economic Development Commission, convenes startup technology entrepreneurs in Arkansas and works with them as they become mature companies. Since 2008, Innovate Arkansas clients have launched more than 150 startups, created more than 600 jobs, and received more than $295 million from public and private sources.

Entrepreneurs and business owners in these programs are provided quality training, counseling, talent, access to capital, and other resources to empower and equip them to ensure business success with the ultimate goal of creating a sustainable entrepreneurial ecosystem.

The Innovation Hub at Winrock is a perfect example of an innovative and broad-based approach to talent and enterprise development that can be applied to rural and urban communities of any size. The Innovation Hub provides facilities and programs that support education and entrepreneurship for all age groups across a wide range of disciplines.

The Innovation Hub has planned, developed, and administered a broad array of entrepreneurial programs, including HubX-LifeSciences, a privately-funded world-class healthcare accelerator program that recently completed its initial cohort with seven highly accomplished companies from across the world. Those seven companies leveraged approximately $2 million of private capital from Arkansas-based investors.

Economic development occurs in communities where people can live, work, and grow. The revitalization of Main Streets and courthouse squares across rural America can be the catalyst for new community investment.

For example, municipal leaders in Lake Village, Arkansas, a community of approximately 2,500 realized that to compete and grow the redevelopment of downtown was critical. By combining more than $2 million in funding from various federal and state agencies and the city's own coffers, the city renovated a dilapidated historic structure on its Main Street into a LEED-certified municipal building housing all city services. The project increased downtown foot traffic and convinced investors to renovate nearby buildings to house new small businesses interested in a downtown location.

Our rural communities remain hopeful for the future. Coupling innovative entrepreneurship programs with quality of life and place-making revitalization efforts can bring increased economic development in urban and rural areas alike.

Chairman Huelskamp, Ranking Member Chu, distinguished members of the committee, thank you for inviting me here today. I appreciate the opportunity to speak with you, and am happy to answer any questions you may have.

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