SMALL BUSINESS IS BIG BUSINESS IN AMERICA

KENT H. HUGHES

Wilson Center

SMALL BUSINESS IS BIG BUSINESS IN AMERICA

KENT H. HUGHES

Wilson Center

WWW.WILSONCENTER.ORG/PAGE

Wilson Center

Available from :

Program on America and the Global Economy
Woodrow Wilson International Center for Scholars
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
Washington, DC 20004-3027

www.wilsoncenter.org/page

ISBN: 978-1-938027-33-8

THE WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS, established by Congress in 1968 and headquartered in Washington, D.C., is a living national memorial to President Wilson. The Center's mission is to commemorate the ideals and concerns of Woodrow Wilson by providing a link between the worlds of ideas and policy, while fostering research, study, discussion, and collaboration among a broad spectrum of individuals concerned with policy and scholarship in national and international affairs. Supported by public and private funds, the Center is a nonpartisan institution engaged in the study of national and world affairs. It establishes and maintains a neutral forum for free, open, and informed dialogue. Conclusions or opinions expressed in Center publications and programs are those of the authors and speakers and do not necessarily reflect the views of the Center staff, fellows, trustees, advisory groups, or any individuals or organizations that provide financial support to the Center.

The Center is the publisher of *The Wilson Quarterly* and home of Woodrow Wilson Center Press, *Dialogue* radio and television. For more information about the Center's activities and publications, please visit us on the web at www.wilsoncenter.org.

Acknowledgments

We are very appreciative of all the support provided by the Ewing Marion Kauffman Foundation, whose financial grant made the October 30 and November 1 conferences possible. Kauffman foundation support also allowed us to do a number of other conferences that included an overview of the current state of entrepreneurship and a detailed look at the Startup Act and Startup Act 2.0.

We are also grateful for the support of the Wilson Center and its Director, President and CEO, Congresswoman Jane Harman. The Wilson Center's commitment to an open, balanced dialogue on key public policy issues informed and strengthened our programs.

Special thanks go to Elizabeth White, program assistant in the Program on America and the Global Economy (PAGE). Liz was tireless and highly effective in everything from planning the conferences to the related publication. She is a reminder of the long-standing military phrase that 'strategy is for amateurs, logistics is for professionals.' Added thanks to the many interns whose effective research efforts contributed to the conferences as well as to our report, *Small Business is Big Business in America.*

Finally, our grateful thanks to Kathy Butterfield who oversees the Wilson Center's design and publication shop. It is her magic that organized the publications, arranges for printing, and adds that final gloss of elegance. And to Lianne Hepler, design specialist, who created the design for this publication.

Contents

"Baking and Making the Future"

Small Business is Big Business in America

INTRODUCTION AND SUMMARY

Why should we focus on small business? For many Americans, the answer is easy. Starting and owning a small business is part of the American Dream, part of a heritage that dates back to the early immigrants to what became the United States. You see that same entrepreneurial spirit in the pioneers that headed west on the Oregon Trail.

The specialists that measure the American economy tell a parallel story. Roughly half of Americans work or own a small business. According to the Small Business Administration, about two-thirds of the net new jobs in the United States are created by small businesses.[1]

About five percent of small businesses start small but like the proverbial acorn grow into manufacturing, service, or retail giants. Their impact is not measured just by employment or profit but, in many cases, by how they transform the American economy and American society. It was an entrepreneurial spirit that put a Ford in many American garages; it was that same spirit that led Steve Jobs to bring together pieces of technology into the (i) family of products.

That five percent of small businesses is an important part of America's innovation system. The effort to turn ideas into innovations depends on science, technology, trained workforces, many sources of finance, and the entrepreneur that turns the promising clay of the system into a competitive, often world changing product or process.

Over the past years, the Wilson Center's Program on America and the Global Economy has held a series of conferences, meetings, and briefings that have focused on different aspects of the small business economy. In our report, *Small Business is Big Business in America*, we will put small business in the context of the American economy and the American innovation system. Our specific focus will be several Federal initiatives, the sources of finance for small business, and the role of public-private partnerships in supporting small businesses.

A SHORT HISTORY OF THE POST-WORLD WAR II ECONOMY

At the end of World War II, America stood virtually alone as an economic power. The United States accounted for 50 percent of global GDP, held 80 percent of the world's hard currency reserves, and was a net exporter of petroleum products.

During World War II, a private sector welfare system had developed. Under wage and price controls, labor-short companies could not offer higher wages. But they could offer health care and pensions. After the war, the combination of little international competition, rapid productivity growth, and effective bargaining by industrial unions expanded health care and pensions as well as wages.

That world changed in the 1970s: Two oil shocks, an expansive monetary policy, and growing competition as Europe and Japan recovered from the devastation of World War II. By the end of the decade, the country went into what came to be called *stagflation*, a combination of no growth and rising inflation. In effect, the country had the worst of both worlds.

President Carter's appointment of Paul Volcker started the path to change. He restricted the money supply in a way that drove up unemployment but eventually tamed inflation.

The Reagan presidency started with cuts in spending and income taxes in what was called a supply-side experiment. The intent was to stimulate saving, work, and investment. The emphasis that the supply-side approach put on incentives is now a more prominent part of economic thinking, but the experiment itself led to larger fiscal deficits. President Reagan responded by raising income taxes in 1982 and social security taxes in 1983. He also worked closely with the Congress on a major tax reform in 1986, a shift that by eliminating a number of special features in the tax code allowed tax cuts without a loss of revenue.

President Reagan started his presidency in the midst of a recession, but as the economy recovered, he scored a landslide re-election victory in 1984 running on the slogan, "It's Morning in America."

Reagan's successor, President George H.W. Bush, was enormously successful in foreign policy, leading the world to victory in the first Iraq War and helping guide the country and the world through the years that saw the fall of the Berlin Wall and the collapse of the Soviet Union.

The presidency of George of H.W. Bush, however, also faced serious fiscal deficits. In striking a deficit reduction agreement with the Democratic controlled Congress, he violated his earlier pledge to not raise taxes. The political fallout was serious and contributed to his subsequent loss to the governor of Arkansas, William Jefferson Clinton.

After taking office, President Clinton made a serious course correction. Having run on the promise of a middle class tax cut, he expressed surprise at the size of the budget deficit. In place of tax cuts, he proposed and eventually succeeded in cutting spending and raising taxes in an effort to control and reduce the fiscal deficit.

During the period between his election and his inauguration, President-elect Clinton met with a number of leading economic figures, including Alan Greenspan, the Chairman of the Board of Governors of the Federal Reserve System. Greenspan was the most influential monetary figure in the world.

At the end of their meeting, President Clinton emerged from the room saying, "We can do business." At his first address to Congress, Alan Greenspan sat in the balcony between First Lady Hillary Clinton, and Second Lady Tipper Gore, the wife of the Vice President.

In an era of deficit reduction, many Democrats had hoped to combine fiscal austerity with a more expansive monetary policy that would maintain growth and job creation. President Clinton thought his move to tighten fiscal policy would be met by looser monetary policy from the Federal Reserve. At the same time, Clinton's move to be fiscally conservative may have changed the expectations of the business community in a way that was likely to foster private sector investment.

The economy that had already begun to recover under President H.W. Bush continued to recover during the early Clinton years. Other trends favored the President as well. Oil prices were moderate. Global competition and a strong dollar both helped keep inflation in check. Rising productivity growth made a non-inflationary expansion of the money supply possible. Finally, the internet had matured to the point that it triggered a boom in business startups and investment.

Overall growth and a surge in capital gains created a series of budget surpluses, the first in years. By the end of the Clinton presidency, Alan Greenspan was expressing concern that we might completely pay off the publicly held debt. With no federal bonds to buy, noted Greenspan, the Fed would find it difficult to conduct monetary policy.

THE ROOTS OF THE FINANCIAL CRISIS

As President George W. Bush took office, what became known as the "dot-com bubble" burst. The Federal Reserve responded by lowering interest rates and keeping them low. While there was a gradual economic recovery, productivity growth was moderate.

Since the tight-money recession of the early 1980s, the United States had experienced roughly two decades of stable growth and moderate inflation. Even the bursting of the dot-com bubble did little damage to the overall economy.

Long periods of stability can mask risks and make average and even sophisticated investors less cautious. Hyman Mynsky, a professor of economics at Washington University in St. Louis, emphasized the tendency of financial markets to grow in confidence and then experience bubbles that inevitably led to crashes, a period of caution, and then a return to what we now call "irrational exuberance."

Pressures were building throughout the 1980s, 1990s, and the 2000s. There were several elements that contributed to the financial bubble. Low cost, readily available credit made speculation possible and, with low returns on conventional assets, attractive. The gradual erosion and eventual repeal of financial regulations that dated back to the New Deal created added opportunities for speculation. Economic theories that emphasized 'efficient markets' and 'rational expectations' were simplified to the idea that 'the market always gets it right.'

With easy credit, banks adopted very high levels of leverage—having as little as one dollar for every thirty dollars of investment. The development of new forms of derivatives allowed for speculation on assets in which investors had no direct stake. It was a world in which John could bet Jane on whether Bill would actually pay Karen back.

What were called subprime mortgages (mortgages to less qualified borrowers) became widely used. Major companies bundled them together with other mortgages to form securities, sliced them into riskier and safer tranches, and then sold them on to various institutional investors.

Fannie Mae and Freddie Mac, two private companies that were viewed as having a federal guarantee behind their bonds, joined in by financing and, at times, holding mortgage backed securities. One president of Fannie Mae explained his decision to participate in the sub-prime mortgage world as the need to meet the demands of the shareholder and still pursue his public mission of supporting the housing sector.

Gradually, concern about sub-prime mortgages began to appear in the major daily newspapers. For instance, the *Washington Post* started to describe them as Ninja loans—that is "no income, no job, and no assets".

The dominoes started to fall in 2007 as Bear Stearns bailed out two of its independent funds. While not legally responsible, Bear Stearns management feared the damage to its reputation if it did not support these independent entities. Months later they were rescued by the Federal Reserve and eventually sold to J.P. Morgan.

Near total collapse came in September 2008 with the bankruptcy of Lehman Brothers. In this case, the Treasury and the Federal Reserve sought a private sector buyer for Lehman. They failed, having failed, they also refused to take action to bail out Lehman Brothers.

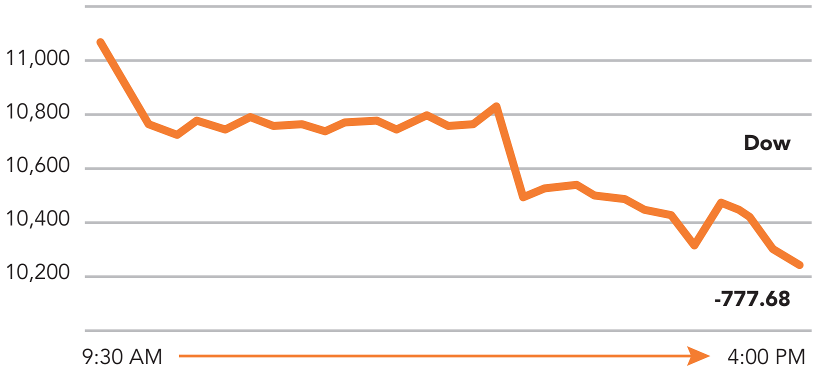
The Lehman collapse triggered a near global financial panic. In Andrew Ross Sorkin's book, *Too Big to Fail*, he quotes key financial leaders as seeing the entire industry heading for total collapse. In Europe, banks were reluctant to lend to each other and LIBOR (the London Interbank Offered Rate), a key short-term interest rate, shot skyward.

Under the leadership of Secretary Henry Paulson, the Treasury sought emergency funds from Congress. Initially, the House of Representatives refused to act. In response, the stock market dropped by hundreds of points.

The message from the markets had a near immediate impact on Congress. Secretary Paulson succeeded in securing 700 billion dollars in what was called TARP, the Troubled Asset Relief Program. At the same time, Fed Chairman Ben Bernanke became creatively active in helping to bail out American International Group Insurance and foster mergers for Merrill-Lynch (Bank of America), Wachovia (Wells Fargo), and Washington Mutual (J.P. Morgan).

While the major banks and other major financial institutions were the focus of national attention, community banks were also affected. Some had

Biggest point-drop ever wipes out $1.2 trillion in market value.



Source: http://money.cnn.com/2008/09/29/markets/markets_newyork/

made significant loans to support commercial real estate that had also fallen in value. The community banks are often particularly important for small business because they are closer to local conditions, often know the borrower, and can more easily monitor the progress of a local business.

The banks were not alone. Industrial firms were also shaken. General Motors and Chrysler were both heading to bankruptcy. Only early intervention by the Bush Administration gave them at least a temporary life line.

2009—THE CRISIS CONTINUES

As President Obama took office, the financial crisis continued to reverberate around America and much of the world. America was still at war in Iraq and Afghanistan. Unlike Roosevelt, Obama entered office months before the economy hit bottom.

General Motors and Chrysler were still on their way to bankruptcy. In addition to the immediate impact of throwing thousands of GM and Chrysler employees onto the unemployment rolls, there was a risk of another serious blow to national confidence.

Just as important, the entire supplier chain was at risk. Ford, having earlier secured private finance, was not seeking federal support. But being dependent on the same supplier chain as General Motors and Chrysler, Ford was an advocate of federal action to save its two rivals. As a result, thousands of small suppliers and small service businesses that depended on them were saved. (Ford did receive help via the Federal Reserve's purchase of loans through the Term Asset Loan Facility, TALF).

The President responded. The federal government helped arrange a structured bankruptcy and ended up investing $50 billion in General Motors stock. A similar approach was taken with Chrysler with the government receiving stock in return.

In addition, the President proposed and the Congress passed the American Recovery and Reinvestment Act of 2009. The Act included tax cuts, some infrastructure spending, funding for much of the Competes Act (research on physical rather than life sciences and support for science, technology, engineering and mathematics education) and the Advanced Research Projects Agency-Energy (ARPA-E). The Act also included some added provisions for the Small Business Administration a $30 billion dollar Small Business Lending Fund (SBLF) to be administered by the U.S. Treasury Department. The focus of the SBLF was to "encourage community banks with less than $10 billion in assets to increase their lending to small business.[2]

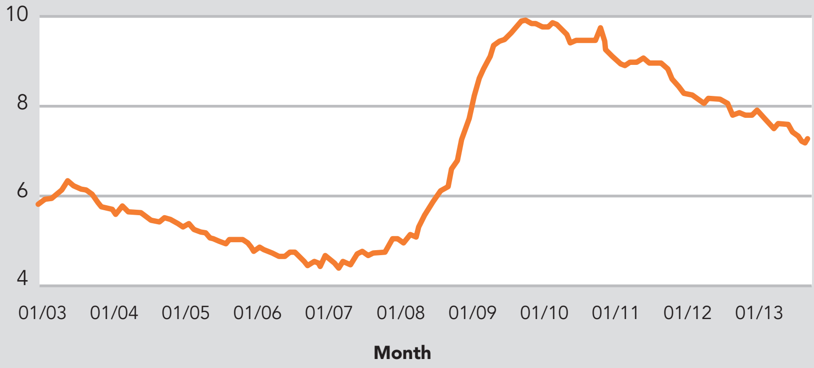
Despite the fiscal and monetary stimulus, the recovery has been slow and not always steady. Growth has varied between anemic to modest. Unemployment (as of December 6, 2013) has fallen to 7.0 percent.

In many ways unemployment understates the weakness of the overall economy. Many working part time are seeking full time work and millions have left the labor force all together. The percentage of working age Americans in the labor force has dropped back to levels not seen since the 1970s.

The recession officially ended in July 2009. But the financial damage continues to hover over the economy. Recent economic research points to financial recessions demanding a longer time to recover. Drawing on their own book, *This Time is Different: Eight Centuries of Financial Folly*, Reinhart and Rogoff predict that full recovery could take a decade.[3]

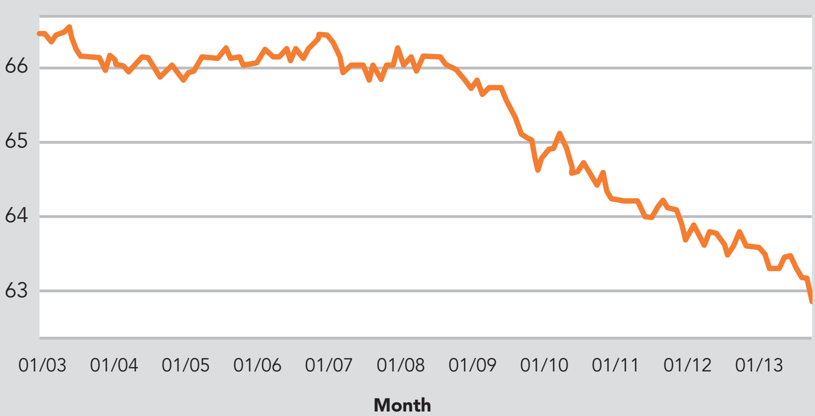
A more typical recession involves a tightening of monetary policy in response to the emergence of inflation. In effect, the Federal Reserve is turning off the flow of water through the financial pipes of the economy.

Unemployment 2003–2013



Source: Bureau of Labor Statistics, http://data.bls.gov/timeseries/LNS14000000

Labor Force Participation 2003–2013



Source: Bureau of Labor Statistics, http://data.bls.gov/timeseries/LNS11300000

In a financial crisis, confidence falls, trust erodes, and entire institutions are weakened or lost altogether. Instead of a slower flow of water, it is as if the pipes themselves were out of kilter or completely broken.

THE STATE OF SMALL BUSINESS

Small businesses come in many sizes. There may be a single consultant registered as a LLC (Limited Liability Company) or a much larger business. In terms of the U.S. Small Business Administration, the official definition of a small business can vary based on the number of employees, profits, assets, or some combination of indicators. When the number of employees is used, 500 is the most frequent standard but for specific industries, the number can range as high as 1,500.[4]

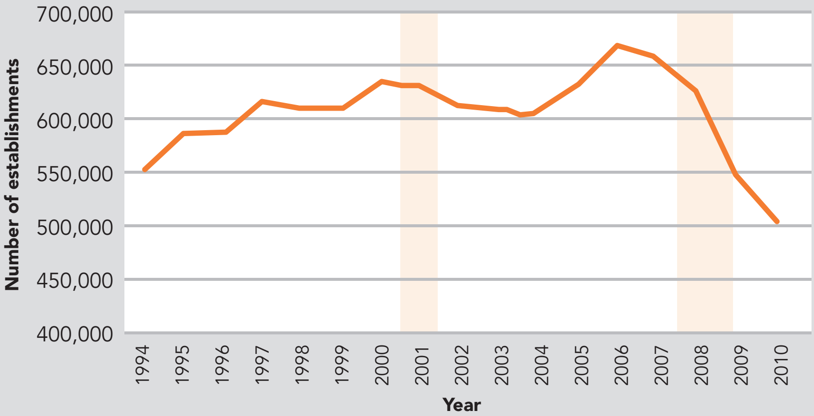
According to the SBA, 4.9 million businesses with one or more employees account for more than 99 percent of all businesses. Depending on the year, roughly half of Americans work for small businesses and there are millions more who are self-employed.

"Led by startups, small employers generated 65 percent of net new jobs" since the mid-1990s, according to the Small Business Administration.[5] More restrictive definitions of small business would modify the results. For instance, the European Union defines small business as having fewer than 50 employees. Applying that definition to American statistics would lower the contribution to new jobs to "32 percent of net new US jobs since September 1992, when collection of such data began."[6] By either measure that makes small business a critical part of the American jobs market.

Virtually the whole economy suffered in the aftermath of the Great Recession and the financial collapse that was at its core. In his assessment of the Great Recession's impact on lending, Rebel A. Cole, Professor of Finance and Real Estate, DePaul University, found that all lending to firms showed a decline. He also found that there was a disproportionate effect on small businesses.

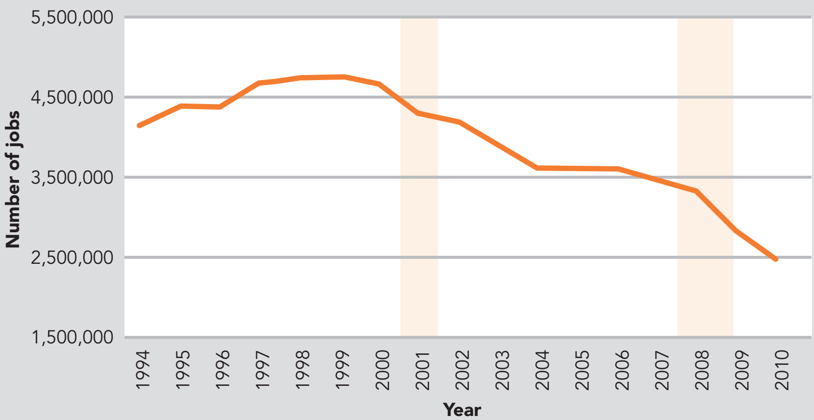
Bank lending to all firms rose from $758 billion in 1994 to $2.14 trillion in June of 2008 and then fell to $1.96 trillion by June of 2011—a decline of roughly 9 percent. Small businesses went through an even more extreme cycle. Small business lending rose from $308 billion in 1994 to $659 billion in June of 2008 and then fell sharply to $543 billion by June of 2011—a drop of about 18 percent, or twice the collapse of overall lending.[7]

Number of establishments less than 1 year old, March 1994–March 2010



Source: U.S. Bureau of Labor Statistics

Jobs created by establishments less than 1 year old, March 1994–March 2010



Source: U.S. Bureau of Labor Statistics

The Great Recession seems to have made worse two trends that started a decade ago. There has been a decline in the number of startups.

At the same time, the number of employees per-startups has dropped from 7.5 percent in the 1990s to an average of 4.9 percent, a decline of roughly 35 percent.[8] Why? In a Wilson Center discussion of Robert Litan's new book, *Better Capitalism* (co-authored with Carl J. Schramm), Litan speculated that technology and outsourcing were complementary causes of the decline.[9]

In "With New Technology, Start-Ups Go Lean," *Wall Street Journal* reporter Angus Loten stresses the impact of technology. He cites Steve King, a partner at Emergent Research, a firm that does research and consulting for small businesses. Instead of doing much of the traditional office work in house, small business are "renting, sharing or outsourcing resources, typically through online services." Loten also cites a poll by Zoomerang, an online polling firm that found a growing trend of relying on cloud computing for a variety of services. Again, according to Loten, the use of the Internet has also reduced the number of workers needed in manufacturing plants as their online orders facilitate just-in-time manufacturing.[10]

The turn to online services is also consistent with drawing on global rather than local or national services. Financial institutions may also account for some slower job growth. In panel discussions, it is not uncommon to hear venture capitalists say that their first question to an aspiring entrepreneur is 'How will you make the best use of China (for manufacturing) and India (for business services).'

The pressure of global competition has spread from manufacturing to a range of sophisticated as well as routine services. There is no reason to suppose that small firms or startups are not subject to the same pressures.

FINANCING SMALL BUSINESS AND STARTUPS

Jesse Unruh, a former speaker of the California House of Representatives was famous for saying that "money is the mother's milk of politics." Most entrepreneurs would put a similar emphasis on money and its central importance to turning ideas into a successful business.

On October 30, 2013, the Program on America and the Global Economy of the Woodrow Wilson Center focused its attention on the financing of small businesses, including the innovative startups that through new technologies often drive future growth and job creation. Kent Hughes, PAGE

Kent Hughes,
Woodrow Wilson Center,
October 30, 2013

Director organized the October 30 and following November 1 conferences on entrepreneurship.

The first conference featured a keynote address by Jeanne Hulit, Acting Administrator, U.S. Small Business Administration (SBA). Her remarks were complemented by a panel of experts including, in alphabetical order:

- **GIOVANNI CORATOLO,** Vice President of Small Business Policy, U.S. Chamber of Commerce;
- **ROBERT DILGER,** Senior Specialist in American National Government, Congressional Research Service;
- **SEAN MALLON,** Senior Investment Director, Center for Innovative Technology; and
- **SHELLY MUI-LIPNIK,** Senior Director of Tax and Financial Services, Biotechnology Industry Organization
- **KENT HUGHES,** Director of the Program on America and the Global Economy and now a Public Policy Scholar at the Wilson Center, acted as host and moderator.

In her keynote remarks, Acting Administrator Hulit stressed the economic importance of small business. She stated that small businesses are the "engine of the American economy" and that they create two out of every three new private sector jobs. She added that half of working Americans either own or work for a small business.

She also emphasized the profound impact of the Great Recession with small businesses accounting for 60 percent of the job loss. The 2009 American Recovery and Reinvestment Act (commonly referred to as the Stimulus Bill) included provisions to support the financing of small business, including some added powers for the SBA.

Hulit summarized the SBA's initiatives as "3 Cs and a D" that included Counseling, Contracting, Capital, and Disaster Assistance.

COUNSELING:

Hulit described the extensive counseling activities of the SBA. The 63 Small Business Development Centers (SBDCs) have 900 outreach locations. In addition, the SBA has more than 100 Women's Business Centers. They also draw on some 12,000 SCORE (formerly Service Corps of Retired

Executives) volunteers to offer advice and guidance to current or aspiring small businesses. Hulit added that each year the SBA network "reaches more than *one million* entrepreneurs and small business owners." And, the counseling services are entirely free.

CONTRACTING:

The second "C" provides extensive business opportunities for small businesses. The federal government is the single largest purchaser of goods and services in the entire world. Federal law set a goal of awarding 23 percent of federal contracts to small businesses. The SBA's role is to connect small businesses with the supply chains that support the federal government, opening up some $90 billion a year in contracting opportunities.

Hulit reported that the federal government is making "real progress" toward meeting the 23 percent goal. In addition, the government "exceeded the three percent statutory goal for Service-Disabled Veteran-Owned Small Business." She added that they had awarded eight percent of the contracts (exceeding a five percent goal) to Small Disadvantaged Businesses (generally companies that are 51 percent owned and controlled by groups that had been subjected to a history of discrimination).

Hulit then jumped to the "D", disaster relief, before turning to the question of access to capital. Hulit noted that SBA staff is in the field responding the floods in Colorado and the tornadoes in Oklahoma. The day before her speech marked the first anniversary of the devastation wrought by Hurricane Sandy. "When Sandy, hit, we were there." emphasized Hulit. Altogether, the SBA has approved $2.4 billion in loans to more than 36,000 businesses and homeowners.

CAPITAL:

Hulit then turned to the third "C" or CAPITAL (her emphasis). After the collapse of Lehman Brothers in September of 2008, credit markets were thrown into turmoil. Business and small businesses in particular could not maintain regular lines of credit.

The impact was severe and still shows in the level and nature of lending to small business. Hulit highlighted a number of statistics: "U.S. commercial banks' small business loan portfolios are down 18 percent," a decline of

Administrator Jeanne Hulit,
Woodrow Wilson Center,
October 30, 2013

$126 billion. At the end of 2012, "loans under $100,000 had declined even more steeply" and "commercial and industrial lending" of less than a million dollars was down 22 percent.

The SBA stepped in and partially filled the breach. As noted above, the American Recovery and Reinvestment Act (ARRA) provided some added support for small business lending. In 2010, Congress followed with the Small Business JOBS Act of 2010.[11] The Act provided some $12 billion in various tax incentives to encourage investment in small businesses.

The authority in the ARRA and the Small Business Act of 2010 allowed the SBA to eliminate fees, speed processing, guarantee loans as large as $5 million, and facilitated the refinancing of commercial real estate and fixed assets. As a result, the "SBA had record years in 2011 and 2012" and its third highest year ever in 2013. Over the three year period, the SBA supported (with loan guarantees) a total of $90 billion in loans to "nearly 170,000" entrepreneurs.

In responding to the 2008 financial crisis, the SBA took a number of positive steps. In addition to streamlining their process, they worked with 13 large banks to increase their lending to small businesses. The major banks have recorded $17 billion in small business loans, well on their way to a $20 billion goal.

Hulit also pointed to how improved processing of lower dollar loans (those under $300,000 dollars) will benefit from streamlined policies beginning on January 1, 2014. Reduced paper work has also facilitated a 300 percent increase in the Small Loan Advantage Program (for disadvantaged communities) and the creation of the Community Advantage Program, which provides up to $250,000 dollars in 7(a) loan guarantees for non-profit "mission-based lenders."

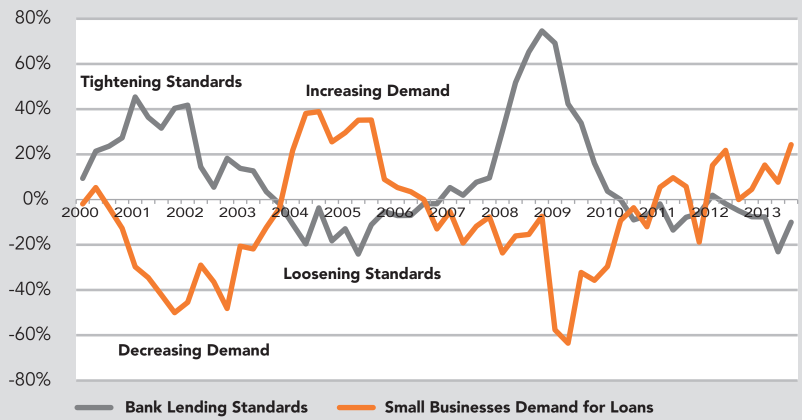
Administrator Hulit ended her speech with a quote from President Obama, "The story of America's success is written by America's entrepreneurs; men and women who took a chance on a dream and they turned that dream into a business, and somehow changed the world." "With the help of SBA," she concluded, "America's small business owners are posed to do just that."

Following Administrator Hulit's remarks, Kent Hughes invited the four panelists to join him on the stage.

Robert Dilger, a Senior Specialist from the Congressional Research Service and a much published author on a variety of small business topics, helped frame the entire discussion with a series of charts.

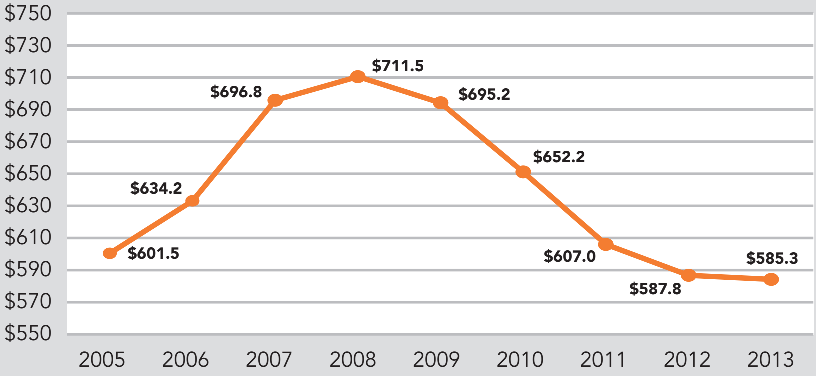
From left to right: Robert Dilger, Giovanni Coratolo, Kent Hughes, Sean Mallon, Shelly Mui-Lipnik, Woodrow Wilson Center, October 30, 2013

Small Business Lending Environment, 2000–2013 (senior loan officers' survey responses)



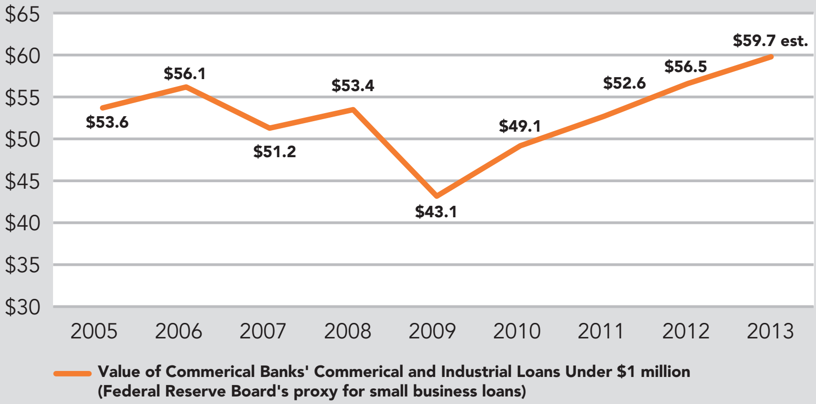
Source: Federal Reserve Board, "Senior Loan Officer Opinion Survey on Bank Lending Practices," at http://www.federalreserve.gov/boarddocs/SnLoanSurvey/; and Brian Headd, "Forum Seeks Solutions To Thaw Frozen Small Business Credit," The Small Business Advocate, *vol. 28, no. 10 (December 2009), p. 3, at http://www.sba.gov/sites/default/files/The%20Small%20Business%20Advocate%20-%20December%202009.pdf*

Outstanding Small Business Loans, Non-Agricultural Purposes, 2005–2013 (billions of $)



Source: Federal Deposit Insurance Corporation, "Statistics on Depository Institutions," at http://www2.fdic.gov/SDI/main.asp.
Notes: Data as of June 30th each year. The FDIC defines a small business loan as a loan of $1 million or less.

Estimated Value of Commercial and Industrial Loans Made By Commercial Banks on an Annual Basis, Loans Under $1 million, 2005–2013 (billions of $)



Source: Board of Governors of the Federal Reserve System, "Survey of Terms of Business Lending - E.2," at http://www.federalreserve.gov/releases/E2/default.htm.

Dilger started with a caveat: There is not currently a set of statistics that can tell exactly how many people are accepted or rejected for a small business loan. Instead, he used his charts to illustrate the overall impact of the Great Recession including a focus on loans under a million dollars.

His first chart demonstrated the early post-2008 environment where the tightening of bank credit standards and a drop in demand for small business loans combined to sharply reduce the flow of capital to small businesses.

As time went on, credit standards loosened and the demand for small business loans began to recover, although it remained well below the 2004–2005 level.

Dilger next traced the level of currently outstanding small business loans (excluding agriculture).

Outstanding small business loans reached a 2008 peak of $711.5 billion and then fell precipitously to $587.8 billion in 2012. At that point, the decline moderated and neared stability at a $585.3 billion level in 2013.

His final chart also traced the impact of the Great Recession but also indicated a recovery consistent with improving fortunes for small business.

Commercial and industrial loans made by commercial banks fell sharply in 2009 but by 2013 the annual figure was $59.7 billion, more than three billion higher than the $56.1 billion recorded in 2006.

In conclusion, Dilger noted that the United States has, in terms of business lending, moved beyond the recession. The economic climate is looking better.

In his presentation, Giovanni Coratolo, Vice President of Small Business Policy at the U.S. Chamber of Commerce, focused on a number of gaps in available financing for entrepreneurs. He first mentioned a gap in terms of a rate of return on an asset and the willingness of financial institutions to lend. He gave the SBA 7(a) and 504 programs credit for having helped close that gap.

Coratolo also highlighted the reluctance of banks to finance small business efforts at international sales. With international markets offering enormous opportunity, financing foreign sales will continue to grow in importance. He also felt that financial institutions held back on lending by failing to adequately assess the real risk involved in lending to a small business.

Despite the growing importance of intellectual property, Coratolo noted that financial institutions had lagged in their willingness to base lending on an intangible asset.

Finally, Coratolo expressed a concern about the declining number of community banks. Community banks are more likely to have their finger on the pulse of a local economy. The local banker will often know the borrower and can add the community standing of an individual to the bare bones financial judgment. Coratolo expressed a concern that we may be entering a world in which "Too big to fail is becoming too small to operate."

Financing small business can involve a series of steps long before an initial public offering grabs a headline in the financial press. One self-identified serial entrepreneur explained that finance starts with the three F's—family, friends, and founders (she stressed that the third F did not stand for fool).

The third panelist to present, Sean Mallon, Senior Investment Director at the Center for Innovative Technology (CIT) and a serial entrepreneur himself, focused on early stage funding. Supported by the State of Virginia, the CIT reviews a large number of proposals—investing in only two to three percent of the companies. There are currently 80 businesses in the CIT portfolio with plans to add about 20 each year.

The CIT loans constitute debt convertible into equity. By having the option of taking an equity stake in supported companies, Mallon pointed to the CIT goal of becoming self-supporting rather than continuing to draw on public funds. Mallon also noted that with the presence of widely available Internet-based tools, the cost for starting businesses had declined substantially.

CIT also acts as something of a matchmaker by introducing promising firms to angel investors and venture capitalists—with angels generally willing to invest at an earlier stage of a company's development.

Virginia is not alone in seeking creative ways to attract, support, and grow high tech. CIT is a creative example of how states and regions around the country are investing in what they hope will be high growth, job-creating, innovative companies.

Shelly Mui-Lipnik, Senior Director of Tax and Financial Services Policy for the Biotechnology Industry Organization (BIO) spoke about an industry where it can take "more than a decade and over a billion dollars to bring one single treatment to market." In that regard, the pharmaceutical industry stands in sharp contrast to software or IT-based businesses.

In recent years, financing has become even harder to secure. No doubt the Great Recession made life hard. But she also identified a longer-term trend in which venture capitalists were investing in later stage start-ups that were close to market as a way of reducing risk and shortening the time between an investment and realizing a return.

To some extent, Mui-Lipnik reported, angel investors had stepped in where venture capitalists had been reluctant to tread. She also pointed to the role established companies played in acquiring small, innovative companies. In listening to venture capitalists and even entrepreneurs themselves, many focused on mergers and acquisitions as an exit strategy rather than counting on an IPO.

Some companies have in-house venture capital funds that will support creative employees ready to try their wings. Intel and Google led the corporate field in 2013 in terms of successful mergers and acquisitions or IPOs.[12] Dozens of corporate venture funds are members of the National Venture Capital Association.[13] Other large companies are establishing outposts in Silicon Valley—hoping to benefit from all the innovative thinking. Others are paying much more attention to startups with an eye to future acquisition that would complement or supplement their own in-house research. For instance, Proctor and Gamble is using its partnership with a crowdfunding site to learn more about startups.[14]

Mui-Lipnik also spoke on behalf of the Coalition of Small Business Innovators, a group that includes small companies and large trade associations. The Coalition's focus is on what they feel are doable changes in the U.S. tax code that will provide support for small, innovative firms that do not yet generate the profits that allow them to take advantage of the current R&D tax credit.

There are already a number of institutions that offer crowdfunding to support new or existing small businesses that hope to expand. Until recently, however, the opportunity to raise funds by selling shares was quite restricted. The Jump Start our Business Startups Act (JOBS Act)[15] contained crowdfunding provisions and was signed into law by the President on April 5, 2012.[16]

PUBLIC PRIVATE PARTNERSHIPS AND ENTREPRENEURIAL AMERICA

Money remains the mothers' milk of small business as well as politics. But, small businesses are also ever more deeply involved in the growing world of public-private partnerships (P3). In some cases, the small business will be a contractor or, more often, a subcontractor for federal, state, or local initiatives.

In other cases, the government will provide financial support for technology-oriented entrepreneurs to work on developing new answers to agency priorities. The national security arena includes its own versions of venture capital funds, an approach that is increasingly attractive to other parts of the government who seek new technologies to pursue their own missions.

On November 1, 2013, the Program on America and the Global Economy of the Woodrow Wilson Center held a conference focused on public-private partnerships. The Honorable Jacques Gansler, Professor and holder of the Roger C. Lipitz Chair in Public Policy and Private Enterprise in the School of Public Policy and Director of the Center for Public Policy and Private Enterprise, University of Maryland, gave the keynote address.

Gansler's remarks were followed by a panel that included:

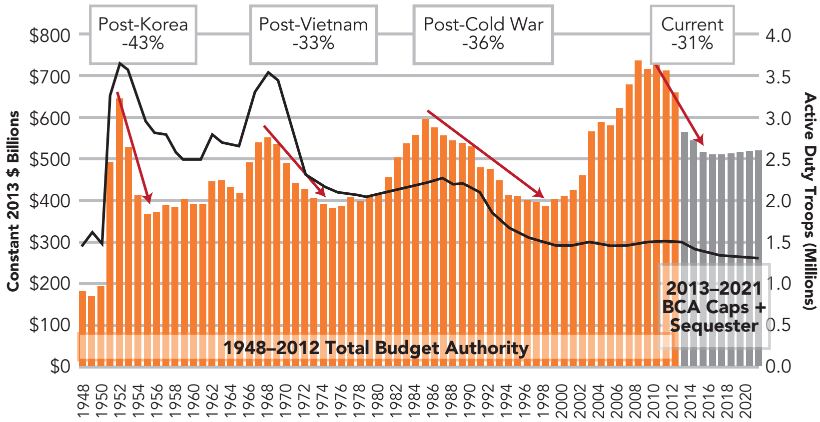
- **STEPHEN CAMPBELL,** economist in the Economic Analysis Office, National Institute of Standards and Technology;
- **SUE GANDER,** Director, Environment, Energy, and Transportation Division, National Governors Association;
- **SUJAI SHIVAKUMAR,** Deputy Director, Board on Science, Technology, and Economic Policy, National Academies.
- **KENT HUGHES,** Director of the Program on America and the Global Economy and now a Public Policy Scholar at the Wilson Center, acted as host and moderator.

In addition to his academic work, Gansler had a distinguished career in government and continues to serve on a number of key advisory bodies. In his more recent public role, he served as the Under Secretary of Defense for Acquisitions where he managed an annual budget of some $180 billion dollars. To add some perspective, in those same years, the entire Department of Commerce had a budget of about $6 billion dollars.

Gansler pointed to the impact of the 2011 Budget Control Act and the reductions in spending required by mandatory cuts contained in what is called the sequester.

At the same time, Gansler emphasized the range of security-related challenges coming from an unstable and insecure world environment including threats of terrorism and cyber-attacks. Gansler saw public-private

The Honorable Jacques Gansler,
Woodrow Wilson Center,
November 1, 2013



Source: Center for Strategic and International Studies (CSIS).

partnerships as one way of combining public dollars with the competitive agility of the private sector.

Gansler stressed that the government is increasingly shifting from being the "doer to the management of doers." Managing doers requires an experienced staff. Here, Gansler expressed concern that over 50 percent of the federal acquisition workforce has less than five years of experience. Gansler also pointed to an aging government workforce and saw the experience problem as being particularly acute in the Department of Defense where the number of Generals and SES officials with acquisition experience has declined significantly.

He highlighted several forms of public-private partnerships that encompass state and local projects as well as federal initiatives.

Several of these partnerships open up opportunities for small businesses to be suppliers or sub-contractors. As government outsourcing proceeds, it will increase the importance of what Acting SBA Administrator Hulit listed as her second "C", contracting and the role SBA plays in linking small businesses to federal contracting opportunities.

As examples of success, Gansler pointed to NASA and the NSA where outsourcing had brought significant performance improvements and cost

From left to right: Stephen Campbell, Sue Gander, Sujai Shivakumar, Woodrow Wilson Center, November 1, 2013

savings. In Gansler's view, the question is not "public versus private; it is competition versus monopoly." In his presentation, Gansler defined an ideal partnership as one that takes advantage of the experience of government and the competitive benefits and skills of industry.

Gansler did not limit his view of public-private partnerships to strictly American businesses. He noted that every current U.S. weapons system included foreign-made parts. He added that BAE Systems, with its headquarters in London, was the sixth largest defense contractor in the United States.

With his eye on new challenges and shrinking defense dollars, Gansler saw public-private partnerships as a way to stretch defense (and other) dollars while holding out the possibility of improved performance as well.

(Gansler's full remarks and set of slides can be found at http://www.wilsoncenter.org/event/public-private-partnerships-powering-entrepreneurs-and-innovators#field_files)

At the conclusion of Gansler's remarks and a set of questions from the audience, Kent Hughes invited the panel to join him on the stage.

Stephen Campbell, an economist with the Economics Analysis Office at the National Institute of Technology, spoke to public-private partnerships with a focus on the Advanced Technology Program (ATP). The ATP was established in the Omnibus Trade and Competitiveness Act of 1988. It was eliminated in 2007 and succeeded by the Technology Innovation Programs, which in turn was left unfunded in the Continuing Resolution signed into law by President Obama on November 18, 2011. While pointing to considerable success, the programs were often attacked as being a form of either industrial policy or corporate welfare or a mix of both.

The ATP was focused on innovations that would directly strengthen the American economy and America's international competitiveness. It had been developed in response to the growing international competition the United States faced throughout the 1980s.

President George H. W. Bush took initial but modest steps to support the ATP program. But, after his election in 1992, President Clinton expressed strong support for the concept and had ambitious plans to increase its funding.

With an eye on economic competitiveness, the ATP was subject to a double peer reviewed process—for technical merit and for the likelihood of successful commercialization.

In his presentation, Campbell nicely summarized the characteristics of ATP that ranged from co-funding by industry to sunset provisions.

Campbell also explored the rationale for government funding that included "market inefficiencies in capital markets for early-stage technologies." In addition to the uncertainty with regard to technical risk and commercial viability, the development of new technologies may be of benefit to unrelated firms or used by competitors, what economists refer to as the appropriability problem.

During its existence, ATP showed considerable success including creating opportunities for small business. In toto, Campbell reported that ATP awarded 824 projects including 227 joint ventures and 597 single companies. Altogether the ATP program involved $4.6 billion of high-risk research funded with the costs roughly equally shared by ATP and industry. He added that 67 percent of the projects were led by small businesses.

Campbell also drew on some lessons from ATP that could be applied to future public-private technology-focused joint ventures.

While increasing the industry's share of funding for a project will reduce government risk, it may reduce the time allocated to research. The other side of the coin is that the greater industry share will result, on average, in faster decisions on when (and whether) to commercialize.

Key Characteristics of ATP

- Co-invested in industry-led projects
- Made investments positioned after basic science and before product development
- Emphasized innovation for broad national economic benefit
- Focused on the civilian sector
- Required projects have well-defined goals/sunset provisions

Lessons from ATP Joint Ventures

- Presence of competitors not correlated with success (or lack of)
- Higher levels of trust and stronger governance structure positively correlated with success ("Trust but Verify")
- Frequency of communication positively correlated with success
- Ambitiousness (technical risk and measures of new R&D direction) positively correlated with success
- "Champions" matter for sustaining collaborations

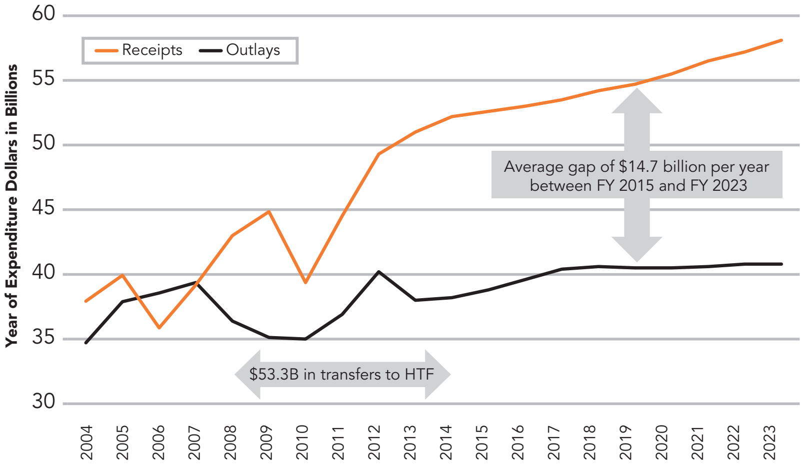
Source: http://www.wilsoncenter.org/sites/default/files/2013_11_01_Campbell.pdf

Finally, Campbell stressed the benefits of being ambitious in a project. As he put it, "If you shoot for Mars, you might get to the moon. If you shoot for the moon, you might get Cleveland." (Which many would view as a considerable success in itself.)

Sue Gander, Director of the Environment, Energy & Transportation Division, National Governors Association Center for Best Practices (NGA), focused on the role of the NGA in advising the states on public-private partnerships. Her division provides training opportunities, direct technical assistance, runs an online clearing house for relevant information, and distributes publications that range from issue briefs to decision trees.

Gander focused her remarks on growing infrastructure needs. She did not use the classic good news/bad news formula. If she had, she would have said that the good news was that the United States had slightly improved its annual infrastructure grade given by the American Society of Civil Engineers. The bad news was that the grade was a D+.

Highway Trust Fund Receipts and Outlays Discrepancy



Excludes $8.017 billion transfer from General Fund to Highway Account of HTF in September 2008; $7 billion transfer from General Fund to Highway Account of HTF in August 2009; $19.5 billion transfer from General Fund to Highway and Mass Transit Accounts of HTF in March 2010; $2.4 billion transfer from Leaking Underground Storage Tank Trust Fund to HTF in July 2012; $6.2 billion transfer from General Fund to Highway Account of HTF in FY 2013; $10.4 billion transfer from General Fund to Highway Account of HTF in FY 2014; $2.2 billion transfer from General Fund to Mass Transit Account of HTF in FY 2014.

Source: Joung, Lee, AASHTO, http://www.wilsoncenter.org/sites/default/files/2013_11_01_Gander.pdf

Caught between needs and tightened budgets, states have turned more frequently to public-private partnerships.

Gander noted that public-private partnerships can range from public procurement to management to design and build but with public ownership or even full privatization.

American states generally focus on transportation needs. Overseas, however, public-private partnerships have been used for a broad range of infrastructure needs.

She pointed to several advantages of the public-private partnership approach. They can include a competitive process that brings "a wider range of expertise and capacity for innovation." In addition to allocating risk "to where it can be best controlled" it also encourages a "life-cycle perspective" that looks at the full range of costs and creates incentives for maintenance.

Gander also noted the challenges. The long-term contracts involved can be expensive and demand time to successfully negotiate. By signing a firm contract, future "flexibility in policy decisions" can be limited. Any need that requires renegotiation may be difficult to explain to public or state officials.

What is the potential role for existing small businesses and aspiring entrepreneurs? Gander cautioned that infrastructure projects can be large (she used a figure of 100 million dollars or more) and complicated, limiting opportunities for small businesses. But she mentioned several potential opportunities:

PPPs and Small Businesses

OPPORTUNITIES…

» PPPs can involve smaller contracts
Smaller transportation/transit upgrades, social infrastructure (schools, hospitals, public centers, water/wastewater)

» PPP primes need local presence and workers
Small businesses can join partnerships and/or provide construction or O&M support, help meet SBE goals

» PPPs increase overall activity
Small businesses can benefit from unsticking projects

Source: http://www.wilsoncenter.org/sites/default/files/2013_11_01_Gander.pdf

Gander's picture again points to the importance of the role of contracting that Acting Administrator Hulit mentioned in her remarks about the SBA. In Gander's concluding remarks, she pointed to the potential for small businesses to be involved in and benefit from larger projects. Gander also noted that public-private partnerships can be a catalyst for innovation. She specifically pointed to a Port of Miami tunnel boring machine that was "the largest in the U.S." and was "specially designed for" the project.

In sum, she saw major opportunities in terms of cost, quality, innovation, and life-cycle thinking through public-private partnerships. While limited, she did see the potential for small business participation in the partnership world of infrastructure.

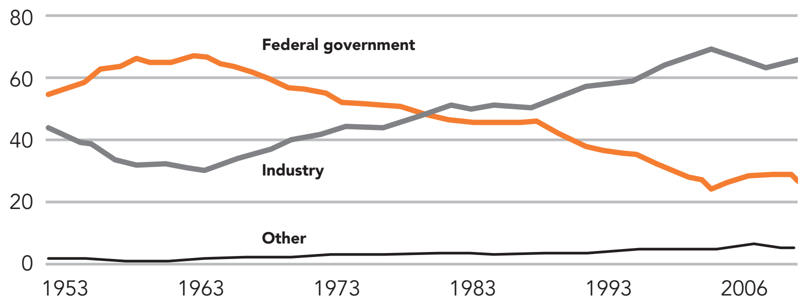
Sujai Shivakumar, Deputy Director of the Board on Science, Technology, and Economic Policy (STEP) at the National Academies spoke about STEP's work on public-private partnerships and innovation. He pointed to three prominent studies that dealt with partnerships:

- Government-Industry Partnerships for the Development of New Technologies, Chaired by Gordon Moore, Chairman Emeritus, Intel. Moore is well-known for his creation of Moore's Law that states that "The number of transistors incorporated in a chip will approximately double every 24 months."
- An Assessment of the SBIR Program, Chaired by Jacques Gansler, University of Maryland (and the November 1, 2013 keynote speaker)
- 21st Century Manufacturing: The Role of the Manufacturing Extensions Partnership, Chaired by Philip Shapira, Georgia Tech and the University of Manchester

He focused his remarks on public-private partnerships for innovation with particular attention to the Small Business Innovation Research (SBIR) program.

Shivakumar started by highlighting four mechanisms of partnerships that worked in the innovation space: innovation awards, industry-university cooperation, science and technology parks, and research consortia. The SBIR program fits solidly in the category of innovation awards.

The attraction of having partnerships with entrepreneurs with an eye to commercialization makes added sense in a world where the balance of



Source: David Mowery "Military R&D and Innovation" (University of California Press, 2007)

research spending has shifted from the federal government to private industry. Gansler made much the same point in his presentation.

The growing importance of private sector research and development, however, is not a substitute for the basic research that takes place in a university or leading national laboratory. Nor is industry generally able to take on the risk of the new ideas that are bubbling in the 'Silicon Valleys' that are increasingly found in several parts of the country.

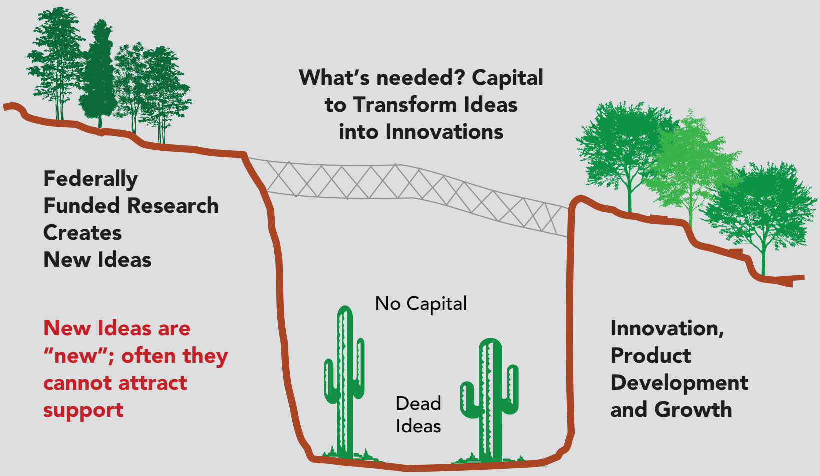
Shivakumar was at pains to dispel the myth that "If it is a good idea, the market will fund it." He pointed to a recent Nobel Prize winning work that emphasized what economists call "information asymmetries." Many enterprises will not be aware of nor can they easily evaluate risky ventures that may have a major payoff.

Nor can the would-be inventor/entrepreneur count on the availability of Venture Capitalists. Shivakumar noted that they often have somewhat limited information on new firms, are prone to herding tendencies and have shifted their focus from early-stage seed money toward "later, less risky stages of technology development."

Shivakumar pointed to the challenge many small firms have in moving from an invention to a business and used the now familiar phrase of the "Valley of Death."

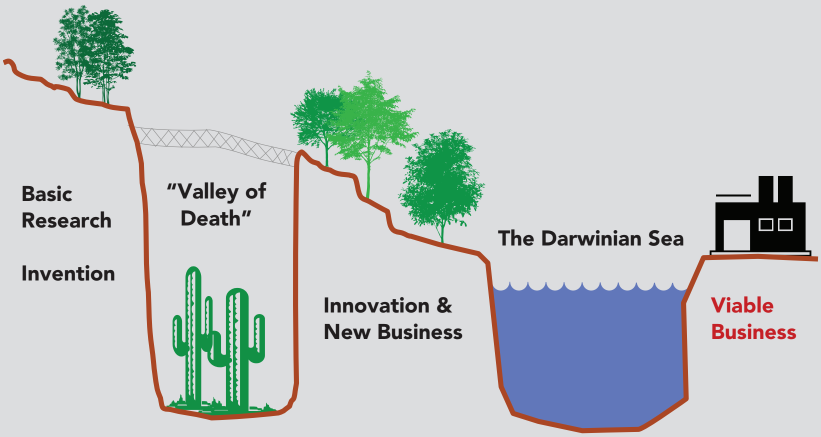
The SBIR program is one successful answer to how small businesses can avoid being the proverbial dead idea surrounded by cactuses in the Valley of Death. Even after crossing the Valley, business owners may face what is now

A Major Hurdle for Innovators
The Valley of Death



Source: http://www.wilsoncenter.org/sites/default/files/2013_11_01_Shivakumar.pdf

Crossing the Valley of Death only to Arrive in the Waters of the Darwinian Sea



Source: U.S. National Academy of Sciences, Public/Private Partnerships for Innovation: Experience and Perspectives from the U.S., Charles Wessner.

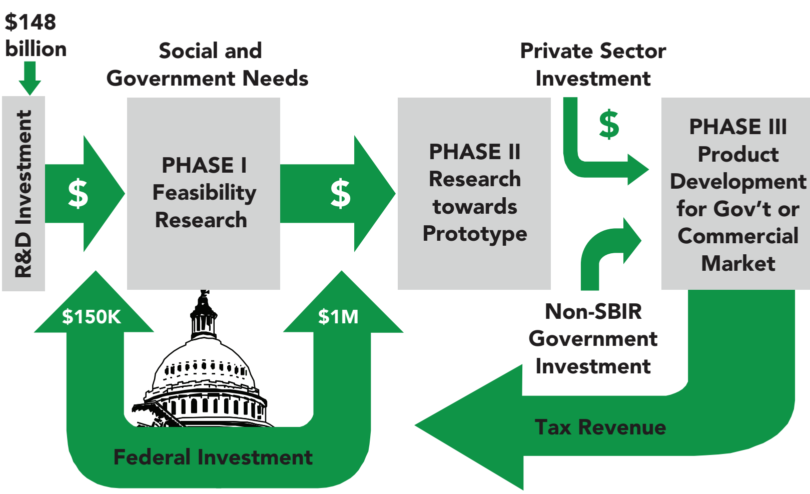
referred to as the "Darwinian Sea"—the still perilous journey from a new business to a viable, sustainable business.

In the SBIR program, entrepreneurs compete for what is called a Phase I feasibility award. If the research advances, the entrepreneur can compete for a Phase II award, which supports the move from research to a prototype. The next step requires the entrepreneur to secure private investment—perhaps angels, venture capitalists, or, perhaps, an interested, established enterprise.

The SBIR program was established in 1982 by the Small Business Development Act of 1982.[17] It was one of a number of initiatives prompted by the challenge of Japan where global innovations were much more quickly translated into competitive commercial products. Like the ATP and a number of other initiatives, the intent of the SBIR programs was to bring the market closer to the laboratory. The SBIR has been extended several times and currently is authorized through 2017.

Under the current law, agencies that do more than $100 million dollars of research must set aside 2.5 percent of their research dollars for the SBIR program. The agency awards are meant to support innovative entrepreneurs that will help support agency goals.

The SBIR "Open Innovation" Model



Source: http://www.wilsoncenter.org/sites/default/files/2013_11_01_Shivakumar.pdf

In 1992, the Congress established a similar program, the Small Business Technology Transfer program,[18] which, like the SBIR program, has now been extended to 2017. Under current law, agencies that do more than $1 billion dollars in research must set aside 0.3 percent of their research dollars to support innovative entrepreneurs. While the SBIR encourages collaboration with a research institute, that collaboration is required under the Small Business Technology Transfer (STTR) program.

Shivakumar proceeded to give an overview of the impact of the SBIR program, including patents awarded. A survey by the National Research Council of the National Academies found that about 30 percent of the survey respondents had secured patents. He also noted the low risks involved in seeking an SBIR grant—for instance, faculty would not need to give up their posts and potential researchers do not even need to be a company to apply.

He went on to point out the impact of SBIR in terms of innovations, serving government missions, adding employment, and finding IPO success. While his chart above stresses that Phase III funding must be private rather than government, agencies can turn to private or non-profit networkers or matchmakers. For instance, Larta, a not-for-profit firm, works with the National Institutes of Health, the National Science Foundation and the U.S. Department of Agriculture (USDA) to help Phase II SBIR awardees take the step toward private funding. At a recent conference held at the USDA, Phase II awardees made a five-minute "pitch" for funds that were then evaluated by a number of venture capitalists.

IS WASHINGTON NOW BI-PARTISAN IN SUPPORTING ENTREPRENEURS?

At this writing (December 2013), weather in the nation's capital is turning decidedly chilly. Now struggling with the rollout of the Affordable Care Act, the City is still under the cloud of recent partisan battles over the budget and debt ceiling with possible battles to come.

But neither the chill in the weather nor the much reported partisan divides in the Congress extend to entrepreneurship. It is an area in which Congress and the President agree—the President having announced his own Startup America Initiative.

The Kauffman Foundation's work on entrepreneurship has found surprisingly fertile ground in Congress. In addition to research, Kauffman assembled a series of initiatives that they believed would be positive for entrepreneurs and at the same time targeted enough that had a chance to become public policy.

In fact, the Kauffman ideas took legislative form in the Startup Act, which is now in its third version. Variants of immigration-related provisions in the Startup Act have been included in the comprehensive immigration bill that has passed the Senate.

Another proposal would expand the opportunities for small businesses to sell stock to a much broader number of potential investors. There are already a number of platforms that allow individuals to invest in companies but not to actually acquire stock. The JOBS Act of April 5, 2012 would allow actual sales of stock.

Over the past two years, the Program on America and the Global Economy held a number of conferences at the Wilson Center and on Capitol Hill that focused on the Startup Act and Startup Act 2.0. The conferences featured Congressman Polis and Senators Moran, Warner, and Coons as well as a number of experts.

The recent post-Lehman Brothers financial calamity pointed to the need for effective enforcement of existing regulations and the need to improve the regulatory structure for America's and the world's financial institutions. Regulations can also be added over time in a way that can impede growth and create added burdens for entrepreneurs.

One response has been to propose much greater use of sunset legislation—simply requiring legislation and the regulations that follow to be rethought and possibly readopted. However, given the current partisan divide in the Senate, a number of people, including the author of this report, expressed a concern that needed regulations could be stalled as Senators sought leverage on possibly unrelated matters.

Instead, others suggested an approach modeled on the Base Realignment and Closure Commission (BRAC). The Commission will select a number of military bases that they feel no longer serve defense needs. The bases proposed for closing are bundled together and presented to the Congress for an up or down vote.

Recently, the Progressive Policy Institute, a Washington-based think tank has formally proposed the formation of a "Regulatory Improvement Commission" that would play a role similar to the BRAC commissions.[19]

There are further signs of a bi-partisan approach to creating a climate that favors entrepreneurship. Senators Robert Menendez (D-NJ) and Pat

Toomey (R-PA) introduced on November 6, 2013 the Startup Jobs and Innovation Act (S2658) which includes tax changes that will helps support new firms. The changes include an R&D Partnership Structure Proposal and a modified capital gains rate on small business stock. Interestingly, both of the tax provisions were proposed by the Coalition of Small Business Innovators that was represented by Shelly Mui-Lipnik at PAGE's October 30, 2013 conference on financing small business.

SOCIAL ENTREPRENEURSHIP: THE EDUCATION DIMENSION

Much of the focus on entrepreneurship centers on those that are seeking to do well by doing good. Developing an innovative solution or simply succeeding in the dream of owning a business is often the main goal. But there has to be a serious business dimension.

In the late twentieth century and into the twenty first century, there is also a growing awareness of how an entrepreneurial approach to problems can transform governments, not-for-profits, and any number of institutions.[20]

There is now a growing appreciation of how entrepreneurial approaches can strengthen American schools. The Gates Foundation, Broad Foundation, and others have made a series of experiments in education reform. Wendy Kopp had an idea that young, idealistic students could help transform struggling schools. She raised funds, recruited young teachers, and sent them to schools starting in 1990. Kopp's Teach for America organization continues to thrive.

In 1994, Mike Feinberg and Dave Levin founded the Knowledge Is Power Program that now operates some 141 charters schools in 20 states. KIPP academies combine high expectations, longer school days, some Saturday classes and study in the summer to avoid the loss of learning that often takes place in the three months between one school year and the next.[21]

New Orleans has been a major laboratory for implementing new approaches to school reform. Hurricane Katrina not only destroyed many school buildings but left much of the Orleans Parish (that is New Orleans) with a troubled school leadership, few pupils, and no contract with Orleans Parish teachers. Even before Katrina, the State of Louisiana had created the Recovery School District to take over schools that did not meet state standards.

After Katrina, Paul Vallas, former school superintendent in Chicago and Philadelphia, was recruited to run the Recovery School District that included an overwhelming number of schools in New Orleans as well a few elsewhere in the state. Vallas welcomed charter schools and made major changes in the hours and curriculum in standard public schools.[22]

One institution that contributed and continues to contribute a great deal to education reform is the Cowen Institute. Founded by Tulane University President, Scott Cowen, the Institute tracks the results of a series of policy reforms introduced in New Orleans public schools.

Thanks to Shannon Jones, then the director of the Cowen Institute, I was able to interview the leaders of several charter schools that had been singled out as being particularly successful. What I found were individuals with a decidedly entrepreneurial cast of mind. They had financial and data managers, plans for expansion, and an ability to experiment within the bounds set by the Recovery School District.

As charter schools spread in urban and even suburban areas and as traditional public schools adapt to new challenges and new technologies, the preparation of school teachers and aspiring school leaders will need to change. Running a modern public school or publicly funded charter school will bring/promote a new set of management skills and exposure to the entrepreneurial approach.

As the premier student of—and advocate for—entrepreneurship, the Kauffman Foundation has taken a major step toward thinking about education reform by founding their own charter academy. A possible next step would be to develop entrepreneurial curricula that could be introduced into schools of education—still the training ground of most K-12 teachers.

SMALL BUSINESS IS VERY BIG BUSINESS IN AMERICA

In terms of innovation, problem solving, economic growth, and job creation, small businesses are very big business in America. Going forward, America needs to celebrate its entrepreneurs and adopt policies or reforms that will facilitate the entrepreneurial risk taking that has served America so well.

It is important to remember that entrepreneurs and small businesses do not live in worlds by themselves. The Great Recession triggered by the worst financial crisis since the Great Depression had a devastating effect on small business and entrepreneurs. Bad times and bankruptcies can, somewhat paradoxically, free up human resources that can trigger new, dynamic businesses.

But financing and public-private partnerships remain important pillars of entrepreneurial opportunity. The reported decline in the number of community banks will create added hurdles for businesses seeking to start or grow. The structure of taxes can support or burden a small business. Regulations can facilitate or hurt entrepreneurial activity—policy makers need to be aware of both possibilities.

It is important to remember that we do not live in a world in which it is either small business or big business. In many cases, innovators and established small businesses can find opportunities in the supply chains of large, well-established companies. Exports matter. A small firm that is not focused on global markets may be a critical parts supplier to an American or foreign company that is a major exporter. Mergers and acquisitions—where large companies acquire small startups—can be an effective path to success for the innovator who lacks the experience or funds to bring his or her product to scale.

December 2013 finds the country focused on the complexities and the flawed website of the Affordable Care Act. One element that is popular, the need for insurance companies to accept individuals with pre-existing conditions, is celebrated as simply a humane step; the right, fair thing to do. And it is. What is ignored, however, is how the provision governing pre-existing conditions can play to America's entrepreneurial strengths. Innovators and potential entrepreneurs may be deterred by the fear of losing current insurance coverage and being unable to find or afford coverage for a family member with a pre-existing condition. In this case, a step taken for largely social reasons may have a long-term positive effect on the economy.

Many of the opportunities for smaller businesses—SBIR, STTR, the former ATP, and TIP programs were all part of America's response to the challenge of global competition. As America recovers from the Great Recession and begins to develop a strategy to meet growing competition not only from advanced economies but from a growing number of emerging market economies as well, they will need to keep the entrepreneur very much in mind.

Notes

1 "Small Business is Big Business in America" Keynote, Woodrow Wilson Center, Washington, D.C., October 30, 2013.

2 "The Small Business Lending Fund," by Robert Jay Dilger, Congressional Research Service, Washington, D.C., January 27, 2012. The Government Accountability Office (GAO) also commented on the program. See "Small Business Lending: Opportunities Exist to Improve Performance Reporting of Treasury's Programs, GAO, Washington, D.C., December 2012.

3 *This Time is Different: Eight Centuries of Financial Folly* by Carmen M. Reinhart and Kenneth Rogoff, Princeton University Press, Princeton, NJ, 2009.

4 See Robert Jay Dilger, *Small Business Size Standards: A Historical Analysis of Contemporary Issues*, Congressional Research Service RF0860, June 20, 2013, Washington D.C. For a quick summary of size measures and other statistics see, N. Eric Weiss, *selected Small Business Statistics*,RS22688, Congressional Research Service, July 3, 2007, Washington, D.C.

5 See "With New Technology, Start-Ups Go Lean" by Angus Loten, *The Wall Street Journal*, September 15, 2011

6 "Sizing Up the Small-Business Jobs Machine", by Carl Bialik, *The Wall Street Journal*, October 15, 2011.

7 Rebel A. Cole, *How Did the Financial Crisis Affect Small Business Lending in the United States?* Prepared by the SBA Office of Advocacy, Washington, DC, November 2012.

8 See "Starting Smaller; Staying Smaller: America's Slow Leak in Job Creation" E.J. Reedy and Robert E. Litan, Kauffman Foundation Research Series, Ewing Marion Kauffman Foundation, Kansas City, MO., July 2011.

9 Robert E. Litan and Carl J. Schramm, *Better Capitalism: Renewing the Entrepreneurial Strength of the American Economy*, Yale University Press, New Haven, Connecticut, 2012.

10 Loten et al.

11 15 USC 631. For a description of the Small Business Jobs Acts see sba.gov/about-sba/sba_initiatives/small_business_jobs_act_of_2010#

12 CB Insights, 2013.

13 See NVCA.org

14 "Giants Crowd Into Startups: P&G, General Mills Ally With Crowdfunding Site to Get a New Look at Trends," By Lora Kolodny, *The Wall Street Journal*, February 14, 2013.

15 15USC77b(a)

16 For a discussion of crowdfunding see *The Jobs Act: Crodfunding for Small Businesses and Startups*, by William Michael Cunningham.

17 P.L. 97–219.

18 Small Business Technology Transfer Act of 1992, PL 102–564, Title III.

19 See the Progressive Policy Institute at www.progressivepolicy.org and click on regulatory reform.

20 See for instance, *Social Entrepreneurship for the 21st Century: Innovation Across the Nonprofit, Private, and Public Sectors*, by Georgia Levenson Keohane, McGraw Hill, New York, 2013.

21 See for instance, "Stakeholders in Student Success: Public-Private Partnerships Strengthening K-12 Education, a PAGE report by Jacqueline Nader, edited by Kent Hughes. See also, *Excellence for All: How a New Breed of Reformers is Transforming America's Public Schools*, by Jack Schneider, Vanderbilt University Press, Nashville, 2011.

22 For Vallas' own approach to education reform whether in regular public schools or charters see "Making A Success of Every School: Meeting the Challenges of the 21st Century" by Paul Vallas with Tressa Parkovits, edited and with an introduction by Kent Hughes. Vallas also discussed New Orleans reform in describing his work in Haiti in "Education in the Wake of Natural Disaster," by Paul Vallas with Tressa Pankovits, edited and with an introduction by Elizabeth White. Vallas also focused on education in a Wilson Center National Conversation captured in "Can American Regain Its Competitive Edge," edited and with an introduction by Kent Hughes.

Contributors

HON. JACQUES GANSLER

Roger C. Lipitz Chair in Public Policy and Private Enterprise, University of Maryland

The Honorable Jacques S. Gansler is a Professor and holds the Roger C. Lipitz Chair in Public Policy and Private Enterprise in the School of Public Policy, and is the Director of the Center for Public Policy and Private Enterprise. Additionally, he is the Glenn L. Martin Institute Fellow of Engineering at the A. James Clarke School of Engineering, and an Affiliate Faculty member at the Robert H. Smith School of Business (all at the University of Maryland). He also served as Interim Dean of the School of Public Policy from 2003 to 2004, and as the Vice President for Research for the University of Maryland from 2004–2006.

He is a member of the National Academy of Engineering, and a Fellow of the National Academy of Public Administration.

Previously, Dr. Gansler served as the Under Secretary of Defense for Acquisition, Technology and Logistics from November 1997 until January 2001. In this position, he was responsible for all matters relating to Department of Defense acquisition, research and development, logistics, acquisition reform, advanced technology, international programs, environmental security, nuclear, chemical, and biological programs, and the defense technology and industrial base. (He had an annual budget of over $180 Billion, and a workforce of over 300,000.)

Prior to this appointment, Dr. Gansler was Senior Vice President and Corporate Director for TASC, Incorporated, an applied information technology company, in Arlington, Virginia (from 1977 to 1997). From 1972 to 1977, he served in the government as Deputy Assistant Secretary of Defense (Materiel Acquisition), responsible for all defense procurements and the defense industry; and as Assistant Director of Defense Research and Engineering (Electronics) responsible for all defense electronics Research and Development.

His prior industrial experience included: Vice President (Business Development), I.T.T. (1970–1972); Program Management, Director of Advanced Programs, and Director of International Marketing, Singer Corporation (1962–1970); and Engineering Management, Raytheon Corporation (1956–1962).

Dr. Gansler serves (and has served) on numerous Corporation Boards of Directors, and governmental special committees and advisory boards (e.g., the FAA Blue Ribbon Panel on Acquisition Reform; member of the Federal Emergency Management Agency (FEMA) Advisory Board (10 years); senior consultant to the "Packard Commission" on Defense Acquisition Reform; member of Secretary of Defense's "Task Force on DoD Nuclear Weapons Management"; and as Chairman of the "Commission on Army Acquisition and Program Management in Expeditionary Operations"). And currently, he is a member of the Defense Science Board, and of the Comptroller Generals' (GAO) Advisory Board.

He has Chaired numerous Defense Science Board Task Forces (on topics such as "Fulfillment of Urgent Operational Needs"; "Creating an Effective National Security Industrial Base for the 21st Century"; etc.); and he currently Chairs two National Academy Committees (on "Small Business Innovative Research" and on "Human, Machine, Network Integration: Enhanced Data-to-Decisions").

Additionally, from 1984 to 1997, Dr. Gansler was a Visiting Scholar at the Kennedy School of Government, Harvard University. He is the author of 5 books ("The Defense Industry" (1980); "Affording Defense" (1989); "Defense Conversion" (1995); "Democracy's Arsenal" (2011) [all MIT Press]; and "Ballistic Missile Defense" (2010) [NDU Press]; a contributing author of 25 other books; author of over 100 papers; and a frequent speaker and Congressional witness (particularly on government acquisition, innovation and commercialization).

Dr. Gansler holds a BE in Electrical Engineering from Yale University, a MS in Electrical Engineering from Northeastern University, a MA in Political Economy from The New School for Social Research, and a Ph.D. in Economics from American University.

JEANNE HULIT

Acting Administrator, U.S. Small Business Administration

Jeanne A. Hulit assumed the role of Acting Administrator of the U.S. Small Business Administration in September 2013. As Acting Administrator, Hulit leads a team of more than 3,000 employees and manages the agency's portfolio—including more than $90 billion in loan guarantees. In addition, the agency helps small businesses access nearly $100 billion in federal contracts each year and supports counseling and technical assistance to more than one million entrepreneurs. SBA also provides disaster assistance to small businesses and homeowners.

Prior to assuming the role of Acting Administrator, Hulit served as Associate Administrator for SBA's Office of Capital Access since February 2012, where she was responsible for advising SBA Administrator Karen Mills and overseeing the agency's loan programs. During Hulit's tenure, the agency saw two record years of delivering more capital into the hands of small business owners and entrepreneurs than ever before. Hulit also worked to streamline and simplify SBA's loan programs and expand access to the agency's lending programs. Her responsibilities included the agency's loan, microloan and surety bond programs, credit risk management, secondary market activity and managing financial operations centers.

Prior to her Washington assignment, Hulit was appointed to serve as SBA's New England Regional Administrator in August 2009. As regional administrator, Hulit was responsible for the delivery of the agency's financial assistance, technical assistance and government contracting activities throughout the six New England states.

Prior to joining SBA, Hulit spent 18 years in banking, serving as senior vice president for commercial lending at Citizens Bank, vice president and middle market lender at KeyBank, N.A., and manager of Key's International Banking Division. Previously, she served as deputy director of the International Division at the Maine Department of Economic and Community Development. Hulit has also held a number of civic and economic leadership roles, including her tenure as a founder and chair of the Maine International Trade Center, and her service as chair for the University of Southern Maine Board of Visitors.

KENT H. HUGHES

Public Policy Scholar and Former Director, Program on America and the Global Economy, Woodrow Wilson International Center for Scholars

Kent H. Hughes is currently a Public Policy Scholar and the former Director of the Program on America and the Global Economy (PAGE) at the Woodrow Wilson International Center for Scholars. As part of the PAGE agenda, he published a book, Building the Next American Century: The Past and Future of American Economic Competitiveness (Wilson Center Press 2005), which emphasizes the importance of innovation and education to America's future.

Prior to joining the Center, Dr. Hughes served as Associate Deputy Secretary at the U.S. Department of Commerce, president of the private sector Council on Competitiveness, and in a number of senior positions with the U.S. Congress. Prior to his congressional service, Dr. Hughes served as a staff attorney for the Urban Law Institute. He was also an International Legal Center Fellow and Latin American Teaching Fellow in Brazil where he worked on a reform of Brazilian legal education.

Dr. Hughes holds a Ph.D. in economics from Washington University, a LL.B. from Harvard Law School and a B.A in Political and Economic Institutions from Yale University. He serves on the Executive Advisory Board of FIRST Robotics and is a member of the D.C. Bar, American Bar Association, the American Economic Association, and the Industry Studies Association.

The Program on America and the Global Economy

The Program on America and the Global Economy (PAGE) focused on key questions in globalization and innovation between its founding in 2001 and its closing in 2013. For over a decade, PAGE studied the evolving global economy and and key trends in innovation and innovation systems. Drawing on its work on globalization, PAGE also explored the long-term future of the American economy.

PAGE's interest in the long-run future of the United States led PAGE to conduct research, produce publications, and hold conferences on subjects ranging from strengthening the U.S. innovation system to renewing America's manufacturing base to fostering a dramatic improvement in America's education system.

With America's economic future deeply tied to developments around the world, PAGE also focused on the development of an American foreign economic policy for the 21st century. As part of this effort, PAGE examined the policies that contribute to a competitive economy and the international economic policies that will create competitive opportunities for the United States.

After the closure of the PAGE program, PAGE director Kent Hughes has become a public policy scholar at the Wilson Center. As a public policy scholar, he plans to build on his work with PAGE and develop two complementary projects. The first explores the potential for a revival of the American economy and American politics. The second will develop a global economic strategy for an age where economic, political, and even, to some extent, military power is much more widely dispersed.

Elizabeth White, who has contributed so much to PAGE, it's research, conferences, and publications, has become a program assistant with the Wilson Center's Global Women's Leadership Initiative.

PROGRAM ON AMERICA AND THE GLOBAL ECONOMY
Woodrow Wilson International Center for Scholars
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue NW
Washington, DC 20004-3027

WWW.WILSONCENTER.ORG/PAGE