



**TESTIMONY OF SCOTT HAUGE,
FIRST VICE CHAIR**

NATIONAL SMALL BUSINESS ASSOCIATION

“The Job Creation Through Entrepreneurship Act of 2009”

Before the U.S. House Committee on Small Business

May 6, 2009

Chairwoman Velázquez, Ranking Member Graves, and members of the committee, thank you for inviting me here today to testify on the importance of the entrepreneurial development programs of the U.S. Small Business Administration (SBA).

I am Scott Hauge, owner and president of CAL Insurance and Associates, which specializes in providing insurance for small to medium-sized businesses. Founded in 1927, the firm currently has 32 employees in San Francisco. I also serve as president of Small Business California, a nonpartisan, grassroots, small-business advocacy organization, and first vice chair for the National Small Business Association (NSBA).

NSBA is the oldest small-business advocacy organization in the United States. It reaches more than 150,000 small-business owners across the nation and has a proud history of working in a nonpartisan manner to promote pro-small-business policies.

The Committee certainly is focusing on job creation through entrepreneurship at an unfortunately opportune time. The U.S. is in the midst of the worst financial crisis since the Great Depression. Historically, small businesses have led America's resurgence out of periods of economic distress and uncertainty. As *The Economist* recently pointed out, "Microsoft, Genentech, Gap, and The Limited were all founded during recessions. Hewlett-Packard, Geophysical Service (now Texas Instruments), United Technologies, Polaroid and Revlon started in the Depression."

Previous small-business led economic recoveries were based less on the sudden expansion of existing small businesses than they were on the creation of millions of new, small firms. Suddenly out-of-work employees—many of them laid-off from big businesses—identified a niche they thought they could fill, a product they thought they could improve, or a service they thought they could enhance and decided to start their own firms. During these troubled economic times, millions of other small businesses failed. In the aggregate, however, there were many more small businesses in existence after the recessions and Depression than there were before it.

If today's aspiring entrepreneurs are to succeed, they are going to need support and guidance on an array of issues and the "*Job Creation Through Entrepreneurship Act of 2009*" seeks to improve the counseling, technical assistance, education and mentoring, outreach, and networking opportunities offered by the federal government through the SBA. NSBA applauds this effort.

SMALL BUSINESS CHALLENGES IN FINANCING

Starting a new small business has never been easy, but the task is even more formidable in the current economic environment. This makes the entrepreneurial-development programs the “*Job Creation Through Entrepreneurship Act of 2009*” would reauthorize and modernize all the more important. With America’s entrepreneurs—existent and aspiring—suffering through a crippling credit crunch, programs that provide information and technical assistance on the acquisition of capital have never been more critical.

Even in the best of times, accessing capital is one of the most persistent obstacles facing America’s small-business owners. In fact, the small-business members of NSBA consistently have identified access to capital as one of the top-10 issues impacting their firms—as they did again this February, during NSBA’s biennial Small Business Congress.

This perennial problem is greatly exacerbated during troubled economic periods. According to a nationwide survey of small- and mid- sized business owners, commissioned in 2008 by the NSBA (henceforth: NSBA Survey), 55 percent of small- and mid- sized business owners had difficulty securing credit in the previous six months—and this finding was consistent across firm size and revenue. It stands to reason that credit is even more elusive today. This is true globally as well as locally. In a November 2008 survey of eight emerging markets carried out for Endeavor, 85 percent of entrepreneurs reported having already felt the impact of the credit crisis and 88 percent thought the worst was yet to come.

In the past, aspiring small-business owners chiefly would obtain capital through three avenues, which at the moment are mostly impassable: (1) Borrowing from themselves; (2) Borrowing from friends and family; or (3) Borrowing from a bank.

Aspiring business owners would be hard pressed in the current environment to self-finance their entrepreneurial dreams. With the S&P/Case-Shiller U.S. National Home Price Index reporting the largest drop in its 21-year history, it is unlikely many aspiring small-business owners are in a position to take a second mortgage on their homes. And with the stock market flirting with lows not seen in over a decade, it also is unlikely that aspiring entrepreneurs will turn to their retirement savings. The aforementioned circumstances also make it improbable that many aspiring small-business owners will seek loans from their friends and family, who have suffered just as acutely from plummeting stock and home values. And banks simply are not lending right now.

In its April 2009 Senior Loan Officer Opinion Survey, the Federal Reserve reported that the number of respondents who reported having tightened their business lending policies over the previous three months remained “very elevated.” The April survey also marked the tenth consecutive quarterly survey that domestic banks reported tightening their credit standards on commercial and industrial loans to small firms.

In addition to tightening their lending standards, hundreds of banks have dropped out of the lending programs offered by the SBA or have simply stopped making—at least as many—SBA loans. Between 2001 and 2007, there was a 47-percent decrease in the number of banks making at least one 7(a) loan. There were 57 percent fewer 7(a) loans in the first quarter of 2009 than during the same period in 2008 and 62 percent fewer than 2007. The number of loans made through the 504 program (which finance real estate and other fixed assets) was down 46 percent from 2008. Total dollars loaned through the 7(a) program also fell—by 40 percent, to almost \$2 billion.

NSBA commends the inclusion in the bill of the many sections focused on providing aspiring and existing small-business owners with information on how and where to seek capital, improve their financial presentations for lenders—both traditional and non-traditional.

NSBA particularly supports the provisions in the bill aimed at coordinating and aligning the various entrepreneurial development programs within SBA. It is vital that the SBA programs aimed at discreet constituencies complement each other and work in unison.

Establishing a portal, through which small-business owners will be able to access on the main website comprehensive information on all of the SBA’s entrepreneurial development programs, is an extremely welcome initiative. The easier it is for small-business owners to access the multitude of information available to them, the better.

SMALL BUSINESS CONTRACTING

NSBA welcomes the legislation’s provisions pertaining to contracting. Federal procurement is not just of singular importance to many small businesses—small-business participation is crucial to a healthy and

competitive federal procurement process. Small businesses provide high-quality goods and services to federal-contracting agencies and infuse the federal procurement system with much-needed competition. In turn, the federal government invests in the most-dynamic and innovative sector of the U.S. economy.

America's small businesses annually have created 93.5 percent of all net new jobs since 1989. Small businesses also "produce 13 to 14 times more patents per employee than their larger counterparts, and... these patents are more likely to be cited in other patenting applications," according to a recent SBA Office of Advocacy working paper.

This unrivaled success has been achieved with less than adequate governmental support, however. In FY 2007, for instance, small companies received 22 percent of federal contracting dollars, according to the SBA. While this is shy of the small-business contracting goal the U.S. Congress set for the federal government a decade ago, it actually represents something of an improvement, as small businesses received a mere 17 percent of federal contracting dollars in 2005, according to Eagle Eye Publishers.

It especially is crucial that America's small businesses have improved access to federal contracting opportunities, as the government disperses an unprecedented amount of stimulus dollars into the U.S. economy. It is clear that the "*Job Creation Through Entrepreneurship Act*" seeks to achieve this overdue goal.

GREEN ENTREPRENEURS TRAINING PROGRAM

Finally, I would like to touch on a provision in the bill that is close to my heart, specifically the creation of a green entrepreneurs training program. Through this critical provision, participating Small Business Development Centers (SBDCs) will provide education classes and one-on-one instruction in starting a business in the fields of energy efficiency, green technology, or clean technology. This is an overdue but extremely welcome development.

As Congress and the administration seek to invest billions of dollars into various green job initiatives, it is imperative that they remember the source of most new innovation and jobs in America: small business. With small businesses creating over 90 percent of net new jobs in the last two decades, it stands to reason that if America is to forge a new economy—complete with millions of new "green" jobs—the source of this transformation (and these jobs) will be "green" small businesses.

In my opinion, mobilizing America's small businesses in the effort to confront the specter of global climate change, the deficiencies of its national energy policy, and the environmental, economic, and security threats posed by the country's oil dependence is of singular importance. While the Green Entrepreneurs Training Program the bill would create cannot be the culmination of governmental support for these nimble and innovative small firms, it is an extremely welcome development.

CONCLUSION

NSBA thanks the Committee for its introduction of the "*The Job Creation Through Entrepreneurship Act of 2009*" and its efforts to help America's small businesses lead the nation out of this economic crisis. With a national unemployment rate of 9 percent, there are literally millions of potential small-business owners across the country, who with just a little guidance and support, might start the next big thing...or simply a thriving small business that employs a dozen of their out-of-work neighbors, supports those employees' families, and contributes to the communities in which they live. Either way, America wins.

I thank you for your time and welcome any questions.