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ENCOURAGING ENTREPRENEURSHIP: GROWING BUSINESS, NOT BUREAUCRACY

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

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SECOND SESSION

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ENCOURAGING ENTREPRENEURSHIP: GROWING BUSINESS, NOT BUREAUCRACY

TUESDAY, JULY 12, 2016

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to call, 2:01 p.m. in Room 216 of the Hart Senate Office Building, the Honorable Pat Tiberi, Vice Chairman, presiding.

Representatives present: Tiberi, Hanna, Grothman, Maloney, Delaney, and Adams.

Senators present: Klobuchar.

Staff present: Breann Almos, Ted Boll, Doug Branch, Whitney Daffner, Connie Foster, Harry Gural, Colleen Healy, Karin Hope, Matt Kaido, Brooks Keefer, Christina King, Yana Mayayera, and Brian Phillips.

OPENING STATEMENT OF HON. PATRICK J. TIBERI, VICE CHAIRMAN, A U.S. REPRESENTATIVE FROM OHIO

Vice Chairman Tiberi. The hearing today will come to order. Good afternoon. I would first like to thank Chairman Coats for giving me the opportunity to hold this hearing, and along with his staff in helping to prepare for today's hearing on the all-important subject of entrepreneurship and its importance to our economy. He, unfortunately, had another commitment this afternoon but turned the gavel over to me for what I expect to be a very thought-provoking conversation about how we encourage entrepreneurship.

Entrepreneurs put ideas into action, and the businesses they create make up a major component of America's economic job growth engine. Entrepreneurship also contributes to our standard of living. By boosting job creation, entrepreneurship drives economic growth, offers consumers better goods and services, and allows Americans to move up the economic ladder through their own innovations.

America was once considered by far the best place for someone venturing out on their own. It was a place for taking a risk to build something new, to improve the lives of all Americans. And in places across the country, that is still the case, as you will hear from our witnesses today.

However, our current economic recovery has been relatively slow, and certainly geographically uneven. In my home State of Ohio, as Mr. Walker will testify, Columbus has enjoyed great success in attracting new businesses and encouraging innovation.

Other parts of the State, however, including many rural areas, Appalachia, have not recovered from the Recession. Overall, we have seen a decline in the rates of start-up companies and an increase in the average age of companies compared to previous decades.

It is our role as federal policymakers to foster a free market economy in which Americans enjoy ample opportunities for employment, and we must not forget that the private sector is the true driver of economic growth. Government cannot tax and regulate its way to American prosperity.

Every day, entrepreneurs launch new companies and decide where to place their headquarters. Those who incorporate here will face the highest corporate rate in the developed world, while those who structure to pay individual tax rates will grapple with mind-numbing complexity and tax rates that have risen substantially during this Administration.

Our uncompetitive tax code makes America less attractive as a place to do business. As if taking a risk on the success of an idea were not challenging enough, today's entrepreneurs also face a series of government-imposed market barriers. These include banking regulations that make it harder to get financing, and harder for community banks to operate and make loans.

Archaic licensing and permitting rules, and complex labor and health requirements, each of these requires using precious resources often to hire professionals just to help navigate through all of it.

As our witness, Andrew McAfee said in a previous hearing on automation, entrepreneurs are facing an increasingly dense thicket of things that an employer or worker has to confront before they can start something up. And it looks like more and more people are saying I'm just not going to bother with it.

A friend of our family in Columbus, Ohio, an Italian immigrant, started a family-owned business over 40 years ago. He has told me more than once that given the regulatory burden today that he faces he couldn't start a business that he started 40 years ago. The mandates, the regulation, the risk-to-reward, the gap is too high. That is not what you like to hear from a successful entrepreneur today.

We must continue to focus on ways to reduce the barriers to innovation, giving entrepreneurs the tools they need to succeed. That does not come from picking winners and losers with direct subsidies or carved out tax breaks. Instead, that comes from preserving competition, removing restrictions that only serve to protect established companies, and hinder startups with new ideas.

We also need to remove barriers for those who want to invest in entrepreneurs and startups. My bipartisan legislation, the Investing In Opportunity Act, will make it easier to invest in areas that need it most: communities, rural and urban, that need help.

Congress should boost entrepreneurship by reducing the thicket of bureaucracy that is strangling private initiative. It is my hope that here in America we can retain a strong entrepreneurial spirit rather than cause it to wither away.

At this time I would like to recognize Ranking Member Maloney for her opening statement.

[The prepared statement of Vice Chairman Tiberi appears in the Submissions for the Record on page 24.]

OPENING STATEMENT OF HON. CAROLYN B. MALONEY, RANKING MEMBER, A U.S. REPRESENTATIVE FROM NEW YORK

Representative Maloney. Thank you. Thank you so very, very much, Vice Chairman Tiberi, and thank you, too, Chairman Coats for calling today's hearing. And thank you to all of our panelists.

The United States is the most creative, innovative country in the world. We have the world's best research universities, its deepest financial markets, and we remain a magnet for the world's talent.

If we leverage these assets, there is no doubt American innovators and entrepreneurs will continue to lead the world in years to come.

New businesses are the lifeblood of our economy. Some startups go on to become big businesses worth billions of dollars. Others stay small but play a vital role in helping their founders achieve the American Dream while creating jobs in their communities.

However, data show that new business formation in America has been slowly declining for decades. One reason for this is the enormous and growing power of extremely large corporations, many of which have swallowed their competitors. This makes it much harder for new entrepreneurs to break into markets.

Another reason is that the middle class, which has long fueled entrepreneurship in our country, has seen its economic foundation chipped away for decades.

A third reason that entrepreneurs face a difficult environment is the fallout from the catastrophic financial crisis under George W. Bush. The Recession hit aspiring entrepreneurs hard. Bank lending and other sources of financing dried up, and new businesses had an even harder time finding customers.

Fortunately there are signs that these trends have turned around. The U.S. recovery is the envy of the world. Since 2012, more businesses have opened than have closed. Bank lending to small businesses has ticked up, and the Jumpstart our Business Startups Act, signed by President Obama in 2012, is now helping to facilitate crowd funding.

Last year, the Kauffmann Foundation's Index of Growth of Entrepreneurship posted its largest year-over-year increase in a decade. These are all good signs, but it is clear that there is room for improvement.

My Republican colleagues often attribute declining startup rates to the regulatory policies of the Obama Administration. They are misguided. The decline has been going on for decades under both Democratic and Republican presidents. In fact, President Obama has issued fewer regulations than President George W. Bush did through the same point in his presidency.

Moreover, it is unclear whether trends in regulations and in startup formation are related at all. As Dr. Kane writes in his testimony, a study by economists at George Mason University found that industries with more regulations actually have more startup activity.

In addition, a recent report by the Economic Innovation Group found that just 20 counties were responsible for half of the net increase in new business establishments from 2010 to 2014.

Nine of the 20 counties with the strongest new business growth are in the 10 states ranked by the Mercatus Center as having the most burdensome regulations. None of them are in the 10 states ranked as having the least burdensome regulations.

Make no mistake, we should carefully review regulations to make sure that they are serving the best interests of American families. Surely there are regulations that could be streamlined or improved to reduce the impact they have on new businesses.

The private sector, government, and academia can each play a role in laying the groundwork for entrepreneurship and innovation.

In my home District in New York they are working together to help create Cornell Tech on Roosevelt Island. It will be a world-class campus for applied science and engineering, bringing together innovators, entrepreneurs, and investors.

Visionary projects like Cornell Tech can help serve as a catalyst to speed the movement of promising new discoveries from the lab through development and into manufacturing. These partnerships can also help our workforce develop the education and skills needed to innovate and build businesses.

I want to close by highlighting another area of real promise: entrepreneurship among women and in communities of color. Between 2002 and 2012, the number of women-owned businesses grew more than two-and-a-half times faster than the national average.

The number of businesses owned by women of color grew even faster than that. We need to build on this success and break down barriers so even more women can start and grow their own businesses.

Again, I thank Chairman Coats and Vice Chairman Tiberi for holding this hearing, and I look forward to our witnesses' testimony, and I yield back. Thank you.

[The prepared statement of Representative Maloney appears in the Submissions for the Record on page 24.]

Vice Chairman Tiberi. I would like to thank the Ranking Member. And I would like to introduce our panel of witnesses who are here today. We appreciate you being here, all four of you.

Dr. Tim Kane is an economist and research fellow at the Hoover Institution at Stanford University. In addition to his research role, he is at the Kauffman Foundation and the Heritage Foundation. Dr. Kane has served twice as Senior Economist here at the Joint Economic Committee. Dr. Kane co-founded multiple software firms, and his startup enonymous.com was awarded Software Startup of the Year in 1999. Dr. Kane earned a Ph.D. in Economics from UC San Diego, and is also a graduate of the U.S. Air Force Academy.

Welcome back, Dr. Kane.

Mr. Tom Walker is President and CEO of Rev1 Ventures, a Columbus, Ohio, based venture development firm. Mr. Walker previously served as the CEO and President of I2E, Incorporated, an Oklahoma-based not-for-profit that focused on promoting entrepreneurship. He is an advisor to the National Angel Capital Association, an Adjunct Professor of Entrepreneurship at the University of Tulsa, and is a reviewer for the Kauffman Foundation's E–Venturing Initiative. He holds a Bachelor's Degree in Mechanical Engineering from the University of Oklahoma, and an M.B.A. from Oklahoma City University. Welcome, Mr. Walker.

Mr. Jamie Richardson is a Vice President of Government and Shareholder Relations for White Castle, a fourth-generation-run family-owned business. He serves on the Board of Family Enterprise USA, the National Council of Chain Restaurants, and the Ohio Restaurant Association where he now serves as its chairman. He holds an M.B.A. from Ohio Dominican University, and is a graduate of Siena Heights University with a Degree in Business Administration. Welcome, Mr. Richardson.

And our final witness is Ms. Carla Harris. Ms. Harris was appointed by President Obama to chair the National Women's Business Council, and also serves as Vice Chairman of Global Wealth Management, and is a Senior Client Advisor at Morgan Stanley. Ms. Harris also serves as Chair of the Morgan Stanley Foundation and sits on the boards of a number of nonprofits. She holds an M.B.A. and an Undergraduate Degree from Harvard. Thank you for joining us, Ms. Harris.

So I will start from my left. We will turn to Dr. Kane as the first witness, followed by Mr. Walker, Mr. Richardson, and Ms. Harris.

Dr. Kane, you are recognized for five minutes.

Can you turn on your microphone?

STATEMENT OF DR. TIM KANE, ECONOMIST AND RESEARCH FELLOW, HOOVER INSTITUTION, STANFORD, CA

Dr. Kane. How's that? Thank you.

Chair Tiberi, Ranking Minority Member Maloney, and members of the Joint Economic Committee:

Thank you for inviting me to testify. I am Tim Kane, a Research Fellow at the Hoover Institution, a nonpartisan research institute at Stanford University. I represent my own views.

Entrepreneurship remains poorly understood by economic theory, but it is well understood by farmers, struggling small business owners, and idle workers with big dreams. With my time I would like to connect three points of data—I'm sorry, three points using empirical data.

Point number one is that the U.S. economy has been experiencing a great acceleration, along with Mrs. Maloney's point this has extended back half a century. Each period of recovery during these last 50 years has been slower than the past, a trend that transcends political terms of Presidents and partisan majorities here in Congress.

In the first figure I show the average annualized growth rate of GDP and its components, and I am only counting data here for the expansionary periods, leaving out the recessions. This yields five expansions.

Each expansion trough and peak is determined by the Business Cycle Dating Committee at the NBER, and of course those expansions are different lengths of time. For example, the 1980s expansion started in the first quarter of 1983, and lasted until Q–2 of 1990, for a total of 30 quarters. The late 1970s expansion lasted only 19 quarters, whereas the 1990s expansion was 39 quarters long.

Currently the U.S. is in the 27th quarter of expansion, which looks like there is another recession coming soon. Each expansion is slower than the one before. This was a surprise. The growth rate was 4.5 percent during the late 1970s, and the same during the 1980s expansions.

The 1990s expansion saw a slightly slower growth rate, 3.8 percent per year, then 2.8 percent from 2002 to 2007. And in the current era, this expansion has an average GDP growth rate of 2.1 percent per year. These are the good times.

Now Americans can feel the slowdown, and they are looking to us with questions I wish I had easy answers for you. These growth rates count only real GDP, meaning after correcting for price inflation, and these past 50 years have been marked by a technological boom like nothing in human history. Food is cheaper and safer. Mortality is lower. Material quality of life is better in almost every way. Yet growth is slowing.

A common reaction to the current slowdown among my fellow economists is that this is an illusion of demographics. This is incorrect. My second figure merges government data with government population data over the past 50 years. The average yearly growth rate of GDP per capita peaked at 4.15 percent per year. Now, 1.4 percent per year.

If this trend continues—and I am not saying it will—the U.S. economy will stop growing in the year 2030. I believe the trend can be reversed, and a rebirth of the American economy should be the government's top priority.

Point number two is that the dynamism of the U.S. economy has been slowing for decades. Figure 3 shows the percentage of U.S. firms that are startups. During the Carter Administration it was roughly 14 percent of U.S. companies. Today it is 8 percent. And this has not rebounded during the recovery years.

With the decline in startups there has been a decline in gross job creation and destruction. A study I published back in 2010 found that in most years startups created 100 percent of all net new jobs. Research by John Holtwanger, Steven Davis, and other economists associate the dynamism slowdown with reductions in productivity, real wages, and employment.

Now I should emphasize, immigrants are a vital source of entrepreneurial talent. Research shows that immigrants to the United States are significantly more likely to create new startups than native-born workers.

Weak startup dynamism highlights a labor market problem. Government is discouraging entrepreneurship. It is passive, maybe unintentional, but the institutional hostility to entrepreneurs is very real.

Again, I do not think this is just because of the Obama Administration; it is a trend that goes back in time. But I do think this is the primary cause. It is government regulation.

Point number three: Taxes are more complex. Regulations are thicker. Employment law is more dangerous. More than one in three workers today needs a government license to work, compared to 1 in 20 in the 1950s. Occupational licensing not only hinders employment levels, but hinders occupational mobility. And has been criticized by liberals and conservatives alike, including the Obama Administration.

The country is hamstrung by laws that are effectively anti-work. The highest marginal tax rates are not faced by CEOs and hedge fund managers, but by single working mothers. It is the entrepreneur, not the corporate executive, who faces real risks. And until workers and entrepreneurs are given an environment that rewards work and smart risk-taking, there can be no solid recovery.

Thank you.

[The prepared statement of Dr. Kane appears in the Submissions for the Record on page 26.]

Vice Chairman Tiberi. Thank you, Dr. Kane. Mr. Walker, you are recognized for five minutes.

STATEMENT OF MR. TOM WALKER, PRESIDENT AND CEO, Rev1 VENTURES, COLUMBUS, OH

Mr. Walker. Chairman Tiberi, Ranking Member Maloney, and members of the Joint Economic Committee:

Thank you for the opportunity to provide testimony today regarding encouraging entrepreneurship growth. My name is Tom Walker and I'm CEO of Rev1 Ventures located in Columbus, Ohio.

Today I would like to visit with you about a very successful approach to creating high-growth startups in the country, and will target specifically Columbus, Ohio.

Rev1 Ventures is a seed-stage investor that combines investment capital and strategic services to help entrepreneurs build great companies. We are a true public/private partnership created as a 501C3, focused solely on that mission: How can we help high-growth entrepreneurs create businesses in our backyard that can thrive for years to come?

We know that connecting and leveraging the assets in our backyard can have a tremendous effect if you connect them to entrepreneurs, and then help them start their companies. And that has been our focus.

In Columbus, we have a strong mix of assets. We have terrific research institutions in the Ohio State University, the nationwide Children's Research Institute, Battelle Memorial Institute, and the Ohio Health Network, as well as a tremendous corporate base: 14 Fortune 1000s, and then a whole host of companies a tier below that are just very significant.

As the 15th largest state, Ohio benefits from a strong and growing economy. Back in 2012, the assets were strong but the startup economy was not. The Columbus region was not on the map for generating new businesses.

If we fast-forward to 2016, in just a few years we have accomplished what some regions have taken decades or more to do, receiving national validation in that time frame. In fact, Columbus is ranked number one region in the country in 2016 for scaling startups on a per capita basis, and the fastest growing city for startup activity in 2015. And Columbus ranked number four in the U.S. for growth entrepreneurship in 2016's overall Kaufman Index.

Rev1 was recently named the most active venture investor in the Great Lakes Region between 2012 and 2015 by Pitchbook, and just a few weeks ago See The Inside ranked Rev1 as the number one investor in Ohio.

We are on pace to generate a $2 billion economic impact to our region just through the startup companies that we are helping to launch.

So how did we do this? Well, the State of Ohio has had a very aggressive and very innovative program called “The Ohio Third Frontier Program.” And that program provides state matching dollars to the private sector for starting new seed funds for the sole purpose of providing services to new high-growth startups in that region.

Rev1 is fortunate to be able to access those state dollars, but it encourages us to bring in private match to accomplish the mission that we work so very hard on. The centerpiece of our strategy is connecting those assets in our backyard that I mentioned previously.

So how can we work to bring the successful corporate and research base to bear to help the entrepreneurs and the startup community?

We then provide startups world-class mentoring, capital, and access to customers. We then invest in the brightest opportunities to attract talent and capital to our region.

As an example, through innovation partnerships like the Ohio State University-Nationwide Children’s Research Institute, and Ohio Health, we are helping spin out more technology opportunities into the marketplace that are based on federal research dollars. So we are really starting to move the needle in commercialization in our region.

So the Federal Government can be a catalyst for momentum in this area. Entrepreneurs need help. The private sector will not bear 100 percent of the cost for a region to scale and be competitive. So public sector has to invest where it can be a catalyst.

There is a dramatic gap in capital and support for startups outside a region such as Silicon Valley, New York, Boston, and Austin. As we have proven in Ohio through the Ohio Third Frontier Program, there are proven ways that government can be a catalyst for new company startups and growth by providing early stage capital and services that attract matching capital from angels, venture capitalists, and corporations.

The Federal Government has done this before. The State Small Business Capital Incentives Program, SSBCI, through the Treasury Department, helped regions raise capital that could not otherwise access. SSBCI no longer exists, but it is something the Federal Government could explore doing again.

If Congress were to pursue this type of program, we would suggest following best practices of states such as Ohio that use a proven stringent metrics that can show a return on investment and access to private sector dollars.

A few final thoughts on areas of federal policy this Committee may wish to consider:

The U.S. should maximize federal investment in research dollars to incentivize development of new businesses. The Committee should explore innovations based on federally funded research to include some portion of the scoring process focused on commercialization of technology. Continue to evaluate and make less bureaucratic the FDA approval process for medical technologies. These companies face a unique set of challenges in garnering federal approval through the FDA before getting their products into clinical trials, and ultimately to the marketplace.

And finally, continue to monitor the recent federal changes to the U.S. patent system. One of the biggest threats to entrepreneurs and those who invest in them is adequately protecting the intellectual property of startup companies, and also continuing to make the process more streamlined.

Chairman Tiberi, and Ranking Member Maloney, and members of the Committee, thank you very much for your time.

Vice Chairman Tiberi. Thank you, Mr. Walker, for your testimony. Mr. Richardson, you are recognized for five minutes.

[The prepared statement of Mr. Walker appears in the Submissions for the Record on page 33.]

STATEMENT OF MR. JAMES RICHARDSON, VICE PRESIDENT, GOVERNMENT AND SHAREHOLDER RELATIONS AT WHITE CASTLE SYSTEMS, INC., AND CHAIRMAN, OHIO RESTAURANT ASSOCIATION, COLUMBUS, OH

Mr. Richardson. Chairman Tiberi, Ranking Member Maloney, distinguished members of the Committee:

Thanks for this chance to testify today on behalf of White Castle and the National Restaurant Association. I am Jamie Richardson, Vice President of White Castle, and also Chairman of the Ohio Restaurant Association.

As a family-owned business celebrating our 95th birthday, I would like to tell you today that White Castle's growth has continued uninterrupted. I would like to tell you that, but I cannot. In fact, White Castle's growth has halted.

In 2012 when I testified before the House Oversight and Government Reform Committee on the Affordable Care Act, we had 408 White Castle Restaurants. Today, we have 390.

While other factors have taken a toll, it is the mounting uncertainty and the collective effect of a legislative and regulatory regime hostile to job creation that is bringing us to a standstill. We are not alone.

More than one in five restaurant operators report government is their number one biggest challenge, a higher proportion than the economy. This doesn't just discourage the risk taking needed for entrepreneurship, it crushes it in the cradle.

Restaurants provide incredible careers, and we are employers-of-choice for people looking for flexible work schedules. Despite our appeal, our industry runs on narrow margins, averaging just 4 to 6 percent before taxes. We are a driving force for entrepreneurship. Where a favorite family recipe that becomes an inspiration for the next successful dining destination, and we are a driving force for innovation, and for preparing today's employees for a changing workplace and the promise of tomorrow.

White Castle's founder, Billy Ingram, had two key entrepreneurial ideas that were pretty radical and risky in 1921. First, happy employees make happy customers. And second, we have no right to expect loyalty except from those to whom we are loyal.

Ninety-five years later, these principles shape all we do, driving incredible employee and guest devotation. In fact, more than one in four of our 10,000 team members has been with us 10 years or more. The average tenure of our restaurant general managers is 21 years. Yet, along with restaurants throughout the country, we face debilitating regulatory barriers and burdens, and unprecedented economic challenges.

I could give you dozens of examples. I'll concentrate on just two.

First, the Affordable Care Act requires offering full-time team members defined in the ACA as employees working 30 hours or more per week, health care coverage or face potential penalties.

The ACA's definition of full-time employment is 30 hours per week and is out of step with the traditional full-time employment standard of 40 hours per week. Many employees in our industry are already losing wages and hours due to the law's perverse incentives, especially part-time employees who until now were those working below the traditional 40 hours per week.

One of the attractive benefits for restaurant employees had been flexible scheduling. Employees can adjust their hours to suit their personal needs, and even pick up additional hours to earn extra income when desired. Part-time jobs with flexible scheduling are appealing and often critical for students, single parents, and those struggling to balance a wide range of commitments.

Harmonizing the ACA definition of full-time employment with the traditional 40-hour-per-week standard would benefit employees through more hours and income.

Secondly, the Department of Labor recently published new overtime regulations in effect this December, adding to the uncertainty, ever-expanding federal regulations have created over the last five years.

When combined with ACA rules and regs, this is a vicious one-two punch for employers. The overtime regulations will have a negative impact on restaurant workers everywhere now benefitting from the advantages of exempt status. Non-exempt employees often have less workplace autonomy and fewer opportunities for flexible work arrangements, career training and advancement than their exempt counterparts.

For restaurants, the proposed minimum salary level represents an out-sized income for entry-level managers. The increase would be too large for many employers to absorb, so some employees would be dragged back to an hourly rate.

This change to non-exempt status can lead to fewer opportunities for career advancement. Changing to non-exempt status requires employers and employees to watch the clock. Employees near 40 hours in the week may need to skip additional training or other career-building opportunities because the employer isn't able to pay overtime rates for that time. This squashes creativity and entrepreneurial spirit.

Finally, the Department has given the impression salaried employees feel taken advantage of by virtue of their exempt status. In reality, where we live and work and raise our families, employees often view reclassification to non-exempt status as a demotion. Exempt status is a symbol of success and hard work.

We are both proud and grateful for the responsibility of serving America's communities, creating jobs, boosting the economy, and satisfying customers. Enterprising restaurants are committed to working with Congress to find solutions fostering job growth and truly benefitting our communities.

Thanks again for the opportunity to testify before you today, and I look forward to your questions.

Vice Chairman Tiberi. Wow, four minutes and fifty-nine seconds. That's pretty good.

[Laughter.]

Thank you, Mr. Richardson. Ms. Harris, you are recognized for five minutes.

[The prepared statement of Mr. Richardson appears in the Submissions for the Record on page 40.]

STATEMENT OF MS. CARLA HARRIS, CHAIR OF THE NATIONAL WOMEN'S BUSINESS COUNCIL, VICE CHAIRMAN OF GLOBAL WEALTH MANAGEMENT AND SENIOR CLIENT ADVISOR AT MORGAN STANLEY, NEW YORK, NY

Ms. Harris. Vice Chair Tiberi, Ranking Member Maloney, and distinguished members of the Committee—oh, sorry. I'll try that again.

Vice Chair Pat Tiberi, Ranking Member Maloney, and distinguished members of the Committee, thank you for inviting me to speak on behalf of the National Women's Business Council before the Joint Economic Committee for today's hearing.

My name is Carla Harris, and I am the Presidentially appointed Chair of the National Women's Business Council. The Council is a nonpartisan federal advisory council created to serve as an independent source of advice and counsel to the U.S. Small Business Administration, Congress, and the White House on issues of impact and importance to women business owners, leaders, and entrepreneurs.

Women-owned firms represent an important segment of the business sector. As of 2012, women-owned businesses comprised 36 percent, or nearly 10 million of the country's privately held businesses.

These firms generate over $1.4 trillion in sales and employ over 8 million people. Between 2002 and 2012, the number of women-owned firms increased at a rate of two-and-a-half times the national average.

Employment in women-owned firms grew at a rate of four-and-a-half times that of all firms, and the growth in revenues generated by women-owned firms paralleled that of all firms.

Some of the most dynamic changes since the 2007 Survey of Business Owners can be witnessed as already referenced for women of color, especially black and Latino women. For example, in 2007 there were about 900,000 black-owned women businesses. Now they stand strong at over 1.5 million, and represent almost 60 percent of all black-owned businesses.

Since 2007, black women-owned firms have added over 71,000 jobs to our economy, while black men-owned firms have added almost 11,000 jobs. Latino-owned businesses increased at even greater numbers. In 2007 there were fewer than 800,000 Latina-owned firms. Now there are nearly 1.5 million.

These numbers demonstrate that women-owned businesses are thriving, thanks to a combination of supportive initiatives and policies, and a strong entrepreneurial spirit.

However, inequities and disparities still exist that inhibit many women-owned firms from reaching their full economic impact or scaling effectively. All of us here today can agree that we want regulations as efficient and effective for our small businesses, including those that are women-owned, to continue to start, sustain, and grow as a strong force in our economy.

We often describe our work at the National Women's Business Council as divided among four pillars, which include data collection and analysis, access to capital, access to markets, and job creation and growth.

Commonsense regulation plays a role in each and any of these areas. Today I specifically focus on access to capital and job creation and growth by describing how women and others stand to gain from full transparency in the areas of marketplace lending, as well as minimized or consolidated regulation in the area of occupational licensing.

Most importantly, however, we want to acknowledge the value of early and frequent involvement of women business owners and all stakeholders in developing and refining regulation.

Access to capital continues to be a challenge for too many women. NWBC's work focuses on changing the infrastructure and on increasing and improving resources so more women can access the capital they need to start and grow their businesses.

Per Council research, on average men start their businesses with nearly twice as much capital as women. Babson College has concluded that the lack of sufficient capital funding for women entrepreneurs will cost the economy nearly 6 million jobs over the next five years. So it is in the best interests of the economy and the country to understand any barriers to these firms' success.

Fortunately, the marketplace is responding to the challenges that women have faced in accessing capital in the form of both loans and equity investments. Thanks to great innovation in the capital space with crowd funding, peer-to-peer lending, micro financing, and more, women have greater opportunities to pursue and raise the capital that they need.

Beginning with an examination of debt, it is important to understand that women business owners take traditional business loans far less frequently than the overall population of business owners. Beyond the Community Advantage Program, the SBA Micro Loan Program, which is the largest single source of funding for micro finance institutions in the United States, it provides direct funding to qualified community finance organizations who then issue the loans to borrowers.

Women entrepreneurs have historically been underserved by lending institutions, so these programs, as well as private marketplace lenders, are stepping in with capital and technical assistance, enabling strong performance by these women's businesses by increasing their available capital, included in the lower dollar values commonly sought by women business owners.

With respect to equity, I would be very pleased to take any questions from the Committee on this topic, but I will move on out of respect for time.

With respect to occupational certification, there are important reasons to require licensure. We want to assure consumers protection just as we would like qualified individuals to have a competitive edge. However, as already referenced, the costs associated with obtaining a license may serve as a barrier to women starting businesses in these industries, as well as their ability to hire qualified employees.

Women business owners stand to benefit from reasonable regulation that minimizes financial barriers to launching and growing enterprises.

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

[The prepared statement of Ms. Harris appears in the Submissions for the Record on page 49.]

Vice Chairman Tiberi. Thank you, Ms. Harris.

Mr. Richardson, many adults, including myself, got their start in your industry. My first job was at McDonald's. I did about everything you could imagine there. But it was a great experience because I learned life lessons, starting with showing up on time. The customer is always right. Personal responsibility.

And it seems to me that one of my concerns with respect to your testimony regarding the cumulative regulatory burden, as you put it in your written testimony, is that there are, at least anecdotally, fewer and fewer of these entry-level jobs. When I go into a restaurant, I don't see as many 16-year-olds working those jobs.

And so, you know, people like me who worked when I started at 16 at McDonald's, and then a gas station pumping gasoline, which is not happening anymore either, I could save a little money for college. Without these opportunities, it seems also to me that there are fewer chances that that person might have a career in industry, have an opportunity to manage that restaurant, maybe someday own that restaurant.

So we talk about social regulations that attempt to regulate our quality of life. As someone who has been in this industry for a while, my question to you would be: How do the regulations that you mention in your written testimony—and you specifically mention the Affordable Care Act, you mention the Department of Labor, NLRB—how do they hurt White Castle's specific ability to hire that 16- or 17-year-old, that high school student, vs. 25 or 30 years ago where maybe you hired more of them?

Mr. Richardson. Thank you, Chairman Tiberi. For White Castle, as a family owned business, we have always been the heart and soul of the neighborhoods where we live, work, and raise our families. And so today we are a part of urban neighborhoods around the country. We are in 12 markets. And for us that employment opportunity we are able to provide is a path to prosperity for so many.

I mentioned that more than one in four of our team members have been with us 10 years or more. Sometimes folks come in and want to work for a weekend, or a month or two, and they make it a career.

So I think for us the biggest barrier is especially those regs that interfere with our ability to give people that opportunity. So for instance the Affordable Care Act and the new definition of full time as 30 hours really puts a barrier between us and our employees in terms of not allowing us to give them the hours we would want to be able to give them.

Secondly, with the overtime reg, that is really tough because those people who want to move up—our general managers are very entrepreneurial. They are involved in community. They are volunteering at the local food bank, or the local YMCA, because they want to be part of that fabric of community.

So for us the tough part is to look and see the unintended consequences of regs that prevent us from hiring people in the neighborhoods where we want to provide the most employment.

Vice Chairman Tiberi. And you have had that happen? That exact effect has happened?

Mr. Richardson. We—the day the Affordable Care Act passed, we had 408 restaurants. Today we have 390. The math has changed dramatically in terms of our costs. Restaurants typically run on very narrow margins. White Castle, we put a lot of money back into retirement benefits, and health care benefits we've offered since 1924. We run on narrower margins, candidly.

Our typical profit margin in a good year is 1 to 2 percent. So when you start to elevate costs, there are not too many pennies left over, a half-penny or whatever it may be. So that is the real barrier and pressure we feel.

Vice Chairman Tiberi. Mr. Walker, what do you see as the greatest impediment to starting a new business?

Mr. Walker. Thank you for that question. I see it twofold. It is access to capital and talent. And a lot of times if you have the capital, you can find the talent. And in this country, for the high-growth startup, technology-based companies, it takes risk capital. So these companies are not bankable, so they can't go to a bank and acquire a loan. They take either angel investment, which is investment from high-net-worth individuals, or venture capitalists.

Well the venture capital industry is really concentrated in roughly five markets in the United States, seeing roughly more than 90 percent of the dollars every year. So if you are in a region outside of one of those five cities, it is really very difficult to access the venture capital that is required.

And we are also seeing now there are fewer venture firms today than there were 10 years ago, and there are more going out of business than are being created. So it is getting harder and harder for venture firms to raise the investment dollars to put into these startup companies that create jobs and high-growing companies.

Part of that problem relates back to Sarbanes-Oxley and the constraints placed on the IPO market, because that is where startups get the returns back to the investors. So it is sort of a vicious cycle. But that is why you are seeing now across the country in more and more regions that cities are creating initiatives to create seed capital programs, and public/private partnerships, much like Rev1, so they can start those companies in a home-grown effort.

But we still see a dramatic lack of capital to help grow these companies to scale.

Vice Chairman Tiberi. So related to that, in Ohio, if you take our State of Ohio, Columbus clearly has had more growth in startups than other parts of the State, and there are clearly other parts of the State, Appalachian areas in eastern Ohio, cities that have a rich history have struggled much in recent years like Youngstown. In your opinion, why has that been uneven? Why is it more difficult to start a startup in a City like Youngstown or Appalachia vs. a city like Columbus? What's the differentiating point?

Mr. Walker. Traditionally in the U.S. high growth startups create in and around urban areas. So you're seeing a higher growth rate in those kinds of startup companies in larger cities. There is access to more resources, service providers, talent, those types of things. So that is one impediment.

The other is it is difficult to find access to capital in some of these smaller markets.

Vice Chairman Tiberi. Thank you.

Ms. Maloney, you are recognized for five minutes.

Representative Maloney. First of all I thank all of the panelists. And building on Mr. Walker's statements, also a lot of startups start where there are universities where there are research dollars. And you noted in your testimony the importance of federal dollars for initial research to then start new industries and to move forward.

I do want to note, with all of our difficulties and challenges, all economists have noted that after the Great Recession America bounded back faster than any of our competitors, our allies, or others that were hit by the Great Recession around the world. And part of it was because of our ability to continue to try new approaches to solve problems and move forward.

We have created over 14.7 million new private sector jobs since February 2010 under President Obama. And there was a 74-month stretch of private sector job growth at one point, the longest in the history of our country.

So there is a great deal to be proud of in our country, also. I would say we lead the world in many areas, and one of them is certainly in business leadership and innovation. And we certainly need to continue that.

One of the biggest threats we face in that area is the cutback in federal funding for research. So much of what we have created has come from that initially. Private sector businesses can't afford to invest in that necessary research.

I was struck very much, Ms. Harris, by your statement that—and really some of the research that we've done on this Committee—that so many new businesses are founded by women, and particularly women of color have gone out and started new businesses.

And I would like to ask you why you think that is? Is part of it the glass ceiling, that they reach the glass ceiling and there is no other place to go within the, quote, "establishment," so they move out and start their own business and go forward? But we have done other studies that showed we are still stuck at 79 cents to the dollar, and that unfairness in pay then ends up in having more and more women in poverty in older age as their pensions are lower, their Social Security is lower, their savings are lower?

One area that we worked on with Ms. Adams and Mr. Beyer, we did a study on how many women are on boards and found that just 16 percent of the seats on the boards are women. And this is counter really to research we've seen actually in your firm, Morgan Stanley, Ms. Harris, that showed that when there is a more diverse board, particularly gender diversity, that the bottom line shows more growth and more profits.

Usually when business sees that something helps them grow their bottom line, they jump in there and make it happen. But we are not seeing that with women on boards, or women CEOs. The number of CEOs has stayed primarily the same, but the people change. But the growth of women on boards is nowhere near where it should be. And this of course then, as you said in your testimony, then falls over into other categories of not participating in businesses.

And you said it carries over into investment firms. And what can we do, Ms. Harris, do you think, to increase the number of women who enter the management and are in a position to affect investment decisions?

Ms. Harris. Yes. Thank you very much for the question. I think there are three things that the industry, any industry can do to increase the number of women in positions of leadership.

The first thing is to be really intentional about it, and making sure that you promote those women who are qualified that are coming through the pipeline. And I think you need to be intentional about filling the pipeline from entry level all the way through, and create programs within the organizations that will support the women's development throughout their careers, and more importantly provide them with the sponsors that are needed as one gets more senior.

Because as you know, once you get to a certain level it is not just about the performance. You have proven the performance over a number of years. But it is about having the right sponsorship to actually get to the more senior levels. And I think you need to be intentional about that.

The second thing is I think you need to have a measure of accountability. Because if you are going to have these kinds of programs, it not only flows from the top but it has to happen in the middle. And you need to be able to make sure that management is accountable for having a diverse pipeline. Because once you start losing people through natural reasons, natural attrition, you look up and then you do not have anybody to promote to the senior levels.

And the last thing is that you need to be consistent.

So intentionality, accountability, and consistency is what you need in these firms if you want to make sure that you get senior people to the top. And once you get senior people to the top, you will be able to attract even more talent that is diverse like that top management.

So that is my opinion.

Vice Chairman Tiberi. The gentlelady's time has expired.

Representative Maloney. My time has expired.

Vice Chairman Tiberi. Senator Klobuchar, you are recognized for five minutes.

Senator Klobuchar. Thank you very much. Thank you to all of you on a very important topic today. I think about our small and big businesses. Target actually started out in Minnesota as a dry goods store. Best Buy started out as a startup stereo store called Sound of Music—not the movie. And 3M started out way up in Duluth. So we have a lot of entrepreneurship in our State, as well as small businesses as small businesses.

So I guess the first one of you, Mr. Walker. In your testimony you talked about the Ohio Frontier Program, which is a state bonding program that invests in startups. I think a lot of the good ideas that we have seen in our State and across the country comes from the states.

Could you describe that for us?

Mr. Walker. Yes. Thank you very much for that question. The Ohio Frontier Program is a state program that is voted by the people. It's a bond program, and those dollars are targeted towards the creation of high growth, high-tech startup businesses and creating the seed capital infrastructure.

And the way it works is, nonprofit private companies such as Rev1 throughout the state can compete for those dollars, but you compete on a matching with private-sector dollars one-to-one.

So, for example, in Columbus, we have nearly 50 corporate partners that fund our operation. And for every dollar they provide us, I am able to go to the Third Frontier at the state level and match those dollars. So for a small nonprofit like ourselves who are trying to start as many companies as we can, that provides ample resources for us to provide support services for those startups, as well as seed capital. And in fact we have utilized those dollars to become one of the most active seed investors in the Great Lakes Region.

Senator Klobuchar. Thank you. And along those same lines, Ms. Harris, do you want to talk about the importance of the SBA Intermediate Lending Program, or any other lending program for businesses making less than $200,000?

Ms. Harris. Yes. I think there——

Senator Klobuchar [continuing]. Less, sorry.

Ms. Harris. Yes. There are other programs that I think should be supported, including peer-to-peer lending. Firms like Lending Club, Prosper Funding Circle. Women-focused investment firms, as well as crowd funding. And then lenders with new scoring methodology.

Senator Klobuchar. Thank you. And a little different topic, and that is something we will be, I'm hoping, working on next year again, and that is immigration reform.

People do not always think about it as an economic issue, but it is one in many ways. Seventy of our Fortune 500 companies are headed by immigrants. The figure a few years back is that 200 of these companies were formed by immigrants or kids of immigrants. Twenty-five percent of U.S. Nobel Laureates were born in other countries.

Could—any of you can address this, but the importance of comprehensive immigration reform from a business innovation standpoint. Dr. Kane, you are smiling. I don't know if that's good or bad for me.

Dr. Kane. Yes, ma'am. Well, Senator, I lead an effort at Stanford under the Hoover Institution, a journal called Peregrine, which promotes immigration reform. We publish five issues. We are working on a book, Assemble People Left, Right, and Center in an expert survey. So I have much more than five minutes to talk, but let me echo your sentiments.

I think high-skill immigrants are just great for the U.S. economy. Research shows that. And, guess what? Low-skill immigrants are great for the economy. I think being a nation with the Statue of Liberty, but the rest of the world sees is as the icon that sort of highlights who we are, for what's made us great, and what's made us grow strong.

So I could get into more details, but I think the consensus is that policymakers should get behind immigration reform. If I can dig in just a little bit, I am not sure that comprehensive is seen as a good idea anymore, but that is seen as a way that this issue gets stuck. And if we could focus on where the American people want Congress to go, it is to stop the talk about deportations and stop the talk about free citizenship, to create a legal status work visa that will bring people out of the shadows, get them to work, allow them to start companies and contribute to the economy.

Senator Klobuchar. Anyone want to add anything?

Mr. Richardson. From a restaurant point of view, we are strong supporters of comprehensive immigration reform. We know that all you need to be successful in our business is a heart for hospitality. So we welcome new arrivals.

Senator Klobuchar. Yes.

Mr. Richardson. And if you ever want to see some fun, go to the National Restaurant Association's Faces of Diversity Awards. It is super cool and it just shows how hard people have worked to our new arrivals, the impact they have on their communities, and we are an industry of opportunity.

Senator Klobuchar. You should know, Mr. Richardson, that my home is four blocks from a White Castle, and that's how I always identify it for people. I go, oh, I'm four blocks up from the White Castle.

Okay, Ms. Harris, on immigration?

Ms. Harris. Nothing to add to what's been said.

Senator Klobuchar. Okay. Well I am just very hopeful that we can take this up again. As you know, the Senate worked hard on this issue. I am on the Judiciary Committee, and we had both the Chamber and the AFL–CIO, and I once did a hearing on this Committee when Representative Brady was here, and I actually called Grover Norquist—you'd like this, Dr. Kane, as my witness——

[Laughter.]

Because he showed how it brought the debt down processing immigration reform. Thank you all.

Vice Chairman Tiberi. The gentlelady's time has expired. Mr. Hanna is recognized for five minutes.

Representative Hanna. Thank you very much. And thank you all for being here.

The underlying theme is that there is too much regulation. I wonder about the law of large numbers with growth, how that plays into your statement, Mr. Kane. But there is a thing in Congress that passed the floor with the Republican majority called the Raines Act, if you're familiar with it, that basically said any—we had to analyze the proposal by the Executive Branch to see that it was cost—if it was $100 million or more, it required further investigation, that kind of thing.

But for me that makes some sense, but not all sense, because in an effort to create a perfect outcome a lot of times we actually undo the very thing that we are trying to protect. And I think that is kind of the theme here among all of you.

And I guess, you are an expert in this, can you give me a sense of how you would see that managed? Anyone?

Dr. Kane. Sure. Just briefly, I think in some of the testimony I heard, and I, like the testimony of all of my fellow members here, testifiers, I think there was just great wisdom here. And I think the continuity of identifying occupational licensing as a barrier is one of the key regulatory barriers.

But as much as I love venture capital, and I have received money from venture capitalists before, and I think banking is great, realize if we just look at historical examples going back to the country's founding, we are an entrepreneurial people long before there was venture capital, or modern banking, and most people were entrepreneurs.

And I think when we look at the difference between urban entrepreneurship and rural entrepreneurship, maybe it has become so formalized, and that you need in all 50 states you need to pay a fee just to exist as a small business, and I think it is just bizarre that not one governor has seized on that and said, you know, in our state, in our high school, every graduate of our high school, or every 11th grader, we are going to encourage them to start a business. And they are not going to have to risk lawsuits. We are going to make it easy for them.

And instead they are sort of treated as the enemy of the working man. You know, you start a company? You must want to oppress people. That is sort of a backwards mindset that I think is, if I can say, anti-American or Un-American.

Representative Hanna. Sure. And a lot of it is designed to protect the existing industry, right——

Dr. Kane. Absolutely. Absolutely.

Representative Hanna [continuing]. Whether it is real estate, or something as simple as fingernails, and home braiding, and things like that.

Dr. Kane. Right.

Representative Hanna. And the caveat emptor, the buyer can manage that much better than the government. The problem is, as you suggest, it is out of control. I am from New York, and we have a declining population, a huge problem with competitiveness and an aging population. And a lot of it I think reverts back to that.

Mr. Walker, I am interested in what you might want to say.

Mr. Walker. Well I think you are spot on. I appreciate the question. I think there are times that we try and correct one problem, but we close the door on things that were working. So we think about the decline in the IPO market over the past 10 years and I think many experts point directly to Sarbanes-Oxley for those kinds of things.

I think you can look at historical economic conditions such as the dot com bust in the early 2000s that at that time the SBA had a venture capital program that would help create venture firms. But because after the crash that program was killed in terms of an equity program.

So there are times when we maybe close the door on things that were working.

Representative Hanna. Mr. Richardson, one quick question. The overtime rule. I think from my memory $23- to $46,000? You're familiar with it, right?

Mr. Richardson. Yes.

Representative Hanna. Would you have been happy with $35,000?

Mr. Richardson. You know, we submitted——

Representative Hanna. Do you know what I mean?

Mr. Richardson. We actually in our written comments proposed $29,500. That would be inflationary.

Representative Hanna. But you are okay with the premise?

Mr. Richardson. We understand the idea there is need for adjustment as time goes on, correct.

Representative Hanna. Thank you. Yield back.

Vice Chairman Tiberi. Alright. Mr. Grothman.

Representative Grothman. Two real quick questions because we're voting. First of all, for any of you, just yes or no, if we went back and put the regulatory situation where it was in the year 2000 after 8 years of Bill Clinton being President, does anyone think there will be any problems going back to the year 2000? Just tear up any new, more onerous regulations since then?

Dr. Kane. Less is more, sir.

Mr. Walker. We concur.

Mr. Richardson. Agree.

Representative Grothman. Okay, good. Well that will hold for the new president. And the next question is for Ms. Harris. I know we can always engage a little bit of the problem here is that, you know, the men have it so easy and the women have it so tough. I sometimes walk back from say something on the Northwest side of Washington—I don't live in Washington, I don't know whether you live in Washington——

Ms. Harris. No.

Representative Grothman. You don't?

Ms. Harris. No.

Representative Grothman. I'm going to ask you to comment, because I think the same thing is probably true in most urban cities. When I walk back from the Northwest side of Washington, I bet, say when I walk back from the White House, I may see 150 homeless people preparing to fall asleep at 10:00 or 11:00 o'clock at night. And I bet out of those 150, 149 are men.

Do you care to comment on, you know, we've got to do more to help—you know, not help the men, but could you comment on why, if there's so many women living in poverty and so few men, why all these homeless people are men?

Ms. Harris. Well I can't comment on why they are men, and that might have to do with where you are walking in the city. There might be other parts of the city where you might find more women. So that would be a hard one for me to comment on.

Representative Grothman. Okay. Thank you.

Vice Chairman Tiberi. So unfortunately we have a vote going on, and that is why everyone has kind of left. I want to thank you all for testifying, and I would like to say we appreciate your time.

And the record will be open for five days for any Member that would like to submit questions for the record to any of the four of you.

With that, this hearing is adjourned. Thanks, so much.

Ms. Harris. Thank you.

(Whereupon, at 3:00 p.m., Tuesday, July 12, 2016, the hearing was adjourned.)

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF HON. PATRICK J. TIBERI, VICE CHAIRMAN, JOINT ECONOMIC COMMITTEE

Good afternoon. I would first like to thank Chairman Coats for giving me the opportunity to hold this hearing and, along with his staff, in helping to prepare for today's hearing on the importance of entrepreneurship to our economy. He unfortunately had another commitment this afternoon but turned the gavel over to me for what I expect will be a thought-provoking conversation about encouraging entrepreneurship.

Entrepreneurs put ideas into action, and the businesses they create make up a major component of America's job growth engine.

Entrepreneurship also contributes to our standard of living. By boosting job creation, entrepreneurs drive economic growth, offer consumers better goods and services, and allow Americans to move up the economic ladder through their innovations.

America was once considered by far the best place for someone venturing out on their own. It was a place for taking a risk to build something new, to improve the lives of all Americans. And in many places across the country, that's still the case, as you'll hear from our witnesses today.

However, our current economic recovery has been relatively slow and geographically uneven. In my home state of Ohio, as Mr. Walker will testify, Columbus has enjoyed great success in attracting new business and encouraging innovation. Other parts of the state, however, including many rural areas, have still not recovered from the recession. Overall, we've seen a decline in the rates of startup companies and an increase in the average age of companies compared to previous decades.

It is our role as federal policymakers to foster a free-market economy in which Americans enjoy ample opportunities for employment, and we must not forget that the private sector is the true driver of economic growth. Government can't tax and regulate its way to American prosperity.

Every day, entrepreneurs launch new companies and decide where to place the headquarters. Those who incorporate here will face the highest corporate rate in the developed world, while those who structure to pay individual tax rates will grapple with mind-numbing complexity and tax rates that have risen substantially under this Administration. Our uncompetitive tax code makes America less attractive as a place to do business.

As if taking a risk on the success of an idea were not challenging enough, today's entrepreneurs also face a series of government-imposed market barriers. These include banking regulations that make it harder to get financing and harder for community banks to operate and make loans, archaic licensing and permitting rules, and complex labor and health care requirements.

Each of these requires using precious resources, often to hire professionals just to help navigate through all of it.

As our witness Andrew McAfee said in a previous hearing on automation, "entrepreneurs are facing an increasingly dense thicket of things that an employer or worker has to confront before they can start something up . . . and it looks like more and more people are saying, 'I'm just not going to bother with it.' "

A friend of mine in Columbus, Ohio, an Italian immigrant, started a family owned business 40 years ago, and he has told me that he wouldn't make the same choice today to start his business. Given all of the government regulations and mandates, the risk to reward gap is too high.

We must continue to focus on ways to reduce the barriers to innovation, giving entrepreneurs the tools they need to succeed. That doesn't come from picking winners and losers with direct subsidies or carved-out tax breaks. Instead, that comes from preserving competition and removing restrictions that only serve to protect established companies and hinder startups with new ideas.

We also need to remove barriers for those who want to invest in entrepreneurs and startups. My legislation, the Investing in Opportunity Act, will make it easier to invest in areas that need it most.

Congress should boost entrepreneurship by reducing the thicket of bureaucracy that is strangling private initiative. It is my hope that here in America we can retain a strong entrepreneurial spirit rather than cause it to wither away.

PREPARED STATEMENT OF CAROLYN B. MALONEY, RANKING DEMOCRAT, JOINT ECONOMIC COMMITTEE

Thank you Vice Chairman Tiberi and thank you to Chairman Coats for calling today's hearing.

The United States is the most creative, innovative country in the world. We have the world's best research universities, its deepest financial markets and we remain a magnet for the world's talent. If we leverage these assets, there is no doubt American innovators and entrepreneurs will continue to lead the world in the years ahead.

New businesses are the lifeblood of our economy. Some startups go on to become big businesses worth billions of dollars. Others stay small, but play a vital role in helping their founders achieve the American Dream while creating jobs in their communities.

However, data show that new business formation in America has been slowly declining for decades.

One reason for this is the enormous and growing power of extremely large corporations, many of which have swallowed their competitors. This makes it much harder for new entrepreneurs to break into markets.

Another reason is that the middle class, which has long fueled entrepreneurship in our country, has seen its economic foundation chipped away for decades.

A third reason that entrepreneurs face a difficult environment is the fallout from the catastrophic financial crisis under President George W. Bush. The recession hit aspiring entrepreneurs hard. Bank lending and other sources of financing dried up. And new businesses had an even harder time finding customers.

Fortunately, there are signs that these trends have turned around. The U.S. recovery is the envy of the world. Since 2012, more businesses have opened than have closed. Bank lending to small businesses has ticked up.

And the Jumpstart Our Business Startups Act signed by President Obama in 2012 is now helping to facilitate crowdfunding.

Last year, the Kauffman Foundation's Index of Growth Entrepreneurship posted its largest year-over-year increase in a decade.

These are all good signs, but it is clear that there is room for improvement.

My Republican colleagues often attribute declining startup rates to the regulatory policies of the Obama Administration. They are misguided. The decline has been going on for decades—under both Republican and Democratic presidents.

In fact, President Obama has issued fewer regulations than President George W. Bush did through the same point in his presidency.

Moreover, it's unclear whether trends in regulation and in startup formation are related at all. As Dr. Kane writes in his testimony, a study by economists at George Mason University found that industries with more regulations actually have more startup activity.

In addition, a recent report by the Economic Innovation Group found that just 20 counties were responsible for half of the net increase in new business establishments from 2010 to 2014.

Nine of the 20 counties with the strongest new business growth are in the 10 states ranked by the Mercatus Center as having the most burdensome regulations. None of them are in the 10 states ranked as having the least burdensome regulations.

Make no mistake—we should carefully review regulations to make sure that they are serving the best interests of American families. Surely there are regulations that could be streamlined or improved to reduce the impact they have on new businesses.

The private sector, government and academia can each play a role in laying the groundwork for entrepreneurship and innovation.

In my home district in New York, they are working together to help create Cornell Tech on Roosevelt Island. It will be a world-class campus for applied science and engineering, bringing together innovators, entrepreneurs and investors.

Visionary projects like Cornell Tech can help serve as a catalyst to speed the movement of promising new discoveries from the lab through development and into manufacturing.

These partnerships can also help our workforce develop the education and skills needed to innovate and build businesses.

I want to close by highlighting another area of real promise—entrepreneurship among women and in communities of color. Between 2002 and 2012, the number of women-owned businesses grew more than two-and-a-half times faster than the national average. The number of businesses owned by women of color grew even faster than that.

We need to build on this success and break down barriers so even more women can start and grow their own businesses.

Again, I want to thank Chairman Coats and Vice Chairman Tiberi for holding this hearing. I look forward to our witnesses' testimony.

Encouraging Entrepreneurship: Growing Business, Not Bureaucracy[1]

Tim Kane

Testimony before the Joint Economic Committee
U.S. House of Representatives
July 12, 2016

Chair Coats, Vice Chair Tiberi, Ranking Minority Member Maloney, and members of the Joint Economic Committee, thank you for inviting me to testify at this hearing on "Encouraging Entrepreneurship: Growing Business, Not Bureaucracy."

I am Tim Kane. I am a Research Fellow of the Hoover Institution, a nonpartisan research institute at Stanford University. I represent my own views only.

The topic you have assembled to consider is the single most important issue that is holding back potential growth in gross domestic product, jobs, and real wages. It is a bipartisan concern, so allow me to express my respect for your joint work on improving the entrepreneurial climate in the U.S., despite the incentives you have in an election year to fight instead.

Entrepreneurship – the birth of new firms – remains poorly understood by economic theory which often oversimplifies it out of existence in macroeconomic models, but it is well understood by farmers, struggling small business owners, and idle workers with big dreams. What I'd like to do with my time is set theory aside, and to connect three points using empirical data.

Point number one is that the U.S. economy has been experiencing what I call a Great Deceleration for half a century. Each period of recovery has been slower than the past – a trend that transcends political terms of Presidents and partisan majorities, not to mention economic fads on campus. In the first figure in my written testimony, I showed the average annualized growth rate of GDP as well as the percentile contribution of its components. I only counted data for expansionary periods, yielding five expansions that include the current expansion, as well as expansionary periods in the late 1970s, the 1980s, the 1990s, and the 2000s.

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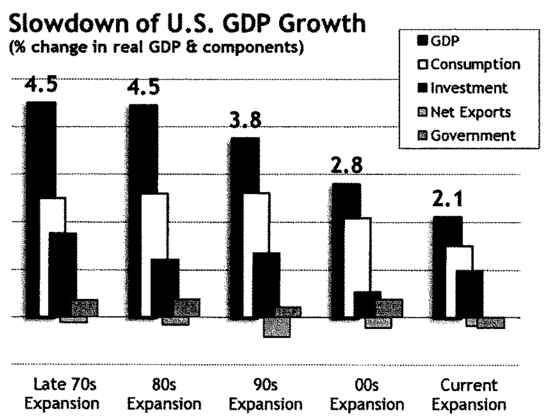
[1] Dr. Kane is an economist and Research Fellow at Stanford's Hoover Institution, a veteran Air Force intelligence officer, and former senior economist at the Joint Economic Committee.

Figure 1



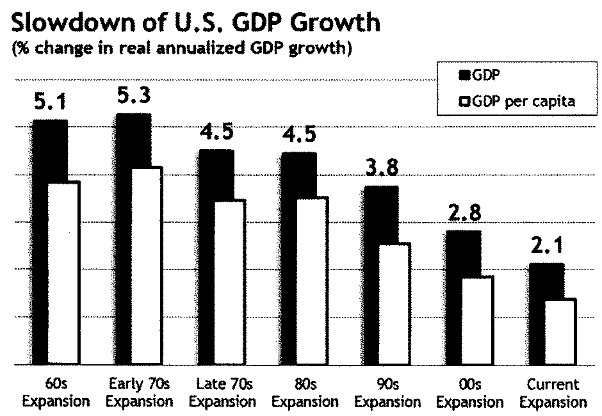
SOURCE: Author calculations, U.S. Bureau of Economic Analysis

Each expansion trough and peak is determined by the business cycle dating committee at the National Bureau of Economic Research, and of course those expansions are different lengths of time. For example, the 80s expansion started in the first quarter (Q1) of 1983 and lasted until Q2 of 1990, for a total of 30 quarters. The Late 1970s expansion lasted only 19 quarters, whereas the 90s expansions was 39 quarters long. Currently, the U.S. is in the 27th quarter of expansion.

What surprised me when I assembled this data is how clear the deceleration in average growth rates has been. Each expansion is slower than the one before, by just under 1 percentage point per period. The growth rate was 4.5 percent during the 1980s expansion (note this is not the same as the 1980s decade, nor the Reagan years). The 1990s expansion saw slightly slower growth at 3.8 percent per year. Then 2.8 percent during the 23 months of expansion from 2002-2007. Which brings us to our current era with an average GDP growth rate of 2.1 percent.

Americans can feel this slowdown and are looking to us with questions, and I wish I had easy answers for you. These growth rates count only real GDP, meaning after correcting for price inflation. These past 50 years have been marked by a technological boom like nothing in human history. International trade has boomed. Patents have boomed. Food is cheaper and safer. Mortality is lower. Material quality of life is better in every – almost every – way. Yet growth is slowing.

Figure 2



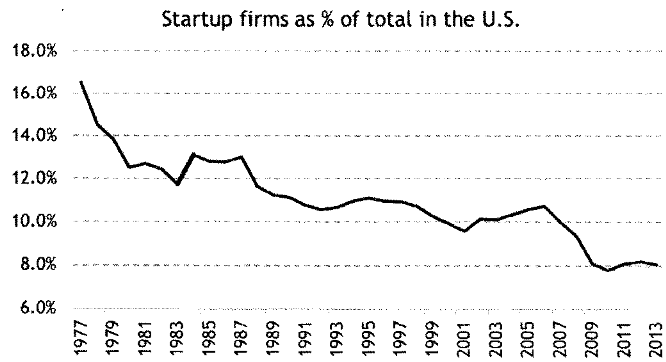
SOURCE: Author calculations, U.S. Bureau of Economic Analysis, U.S. Census

A common reaction among my fellow economists is that the current slowdown is an illusion of demographics. This is incorrect. My second figure merges government GDP data with government population data over the past 50 years. The average yearly growth rate of GDP per capita peaked at 4.15 percent during the Early 1970s expansion. Then the deceleration hit: 3.5 percent in the next two expansions, then 2.5, then 1.9, and for the past 27 quarters the growth of GDP per capita is at a low 1.4 percent per year. If this trend continues, the U.S. economy will stop growing around 2030.

I believe this trend can be reversed. A rebirth of the American economy should be the government's top priority. And I believe that can happen if the government does less regulating rather than more.

Americans can feel this slowdown and are looking to us with questions, and I wish I had easy answers for you. These growth rates count only real GDP, meaning after correcting for price inflation. These past 50 years have been marked by a technological boom like nothing in human history. International trade has boomed. Patents have boomed. Food is cheaper and safer. Mortality is lower. Material quality of life is better in every – almost every – way. Yet growth is slowing.

Figure 3



SOURCE: Author calculations based on Business Dynamics Statistics (firm age)

Point number two is that the dynamism of the U.S. economy has been slowing for decades. Dynamism is a term I learned from Glenn Hubbard, dean of Columbia Business School and co-author of my book, BALANCE. In recent decades, there have been declines in the number of new startups, in gross job creation, and worker mobility. It is a trend appearing in a variety of data sources including the Job Openings and Labor Turnover data, the Bureau of labor Statistics' Business Employment Dynamics data, and business dynamics measures from the Census Bureau's Business Dynamics Statistics.

Figure 3 shows that the percentage of U.S. firms that are startups, a term I use to define a newly founded company in its first year of existence. During the Carter administration, roughly 14 percent of U.S. companies were startups. That rate declined by one percentage point during the Reagan years, two points during the recession of the George H.W. Bush presidency, held steady under Bill Clinton, dropped a percentage point under George W. Bush, and then dropped two full points during the first term of President Obama. The most recent data available are for 2013, yet this startup ratio has held steady at 8.0 percent, down slightly from 2011.

New companies create roughly 3 million jobs every year, while existing companies tend to shed 1 million jobs net. A study I published back in 2010 found that in most years startups create 100 percent of all net new jobs. Older firms create fewer jobs in gross terms, and tend to be net job destroyers. The bottom line is that net job creation is literally nothing without startups. Even in gross terms, start-ups punch above their weight, with 16 percent of all new jobs created by start-ups. And with the decline in startups, there has been a decline in gross job creation and destruction, documented in many papers by many economists. The decline is associated with reductions in productivity, real wages and employment.

I should emphasize that immigrants are a vital source of entrepreneurial talent. Research shows that immigrants to the United States are significantly more likely to create new startups than native-born workers are.

Twenty percent of the workforce was employed by young small and medium enterprises in the early 1980s according to data collected by professor John Haltiwanger, but today fewer than ten percent are. Perhaps the growing concentration of larger firms isn't a threat to GDP growth if it represents a process of merely weeding out unproductive mom and pop shops. Silicon Valley tech firms are booming, no? No. In March of this year, Haltiwanger and three other economists published a report showing the overall decline in entrepreneurial activity since the 1980s has spread to high-growth young firms since 2000, even in technology sectors. This is not a false alarm.

Weak startup dynamism highlights a labor market problem: government is discouraging entrepreneurship. It's passive, maybe even unintentional, but the institutional hostility to entrepreneurs is very real.

This is point number three. Taxes are more complex. Regulations are thicker. Employment law is more dangerous. The instinct for elected leaders to protect voters from the consequences of economic change and economic fluctuations may well be counterproductive. Mandatory benefits cost a typical employer half of total wages and salaries. This burden raises costs and depresses wages. For example, employer-provided health insurance was initially sparked as an optional perk by favorable tax treatment during the 1940s, but is now mandatory under the Affordable Care Act. Today, workers are less willing to leave current jobs for alternatives (including entrepreneurship), known as "job lock."

The negative relationship between regulation and entrepreneurial activity seems obvious, but I must warn you that scholars have not settled the issue. George Mason University economists Alex Tabarrok and Nathan Goldschlag combined data on dynamism with a novel industry-level measure of regulation that combs the Code of Federal Regulations (CFR) for restrictive terms and found, counterintuitively, that more regulated industries had slightly more startup activity. I disagree with their finding, and caution that their regulation variable is new and superficial, but highlight their research to show that root causes remain unresolved.

I would suggest that a better measure of regulatory burden on startups is occupational licensing. When an individual chooses between working for an established firm or as an entrepreneur, they must weight the extra costs and risks of starting their own company. Incorporation is daunting. Even establishing an LLC requires paperwork and a fee. Perhaps the biggest (and growing) burden is occupational licensing. More than one-in-three workers today need a government license to work, compared to one-in-twenty in the 1950s. Occupational licensing not only hinders employment levels, but hinders occupational mobility, and has been criticized by liberals and conservatives alike, including the Obama administration.

It is tempting to believe that regulations are well-intentioned and save lives. Surely some do, but this is a naïve rule of thumb. Adam Smith himself noted the tendency of older firms to conspire for regulatory protections from the government against new competitors. Horse buggy makers were the greatest supporters of car safety regulations. As a general rule, without any government guidance or regulation, the market itself exerts the greatest discipline for safety as one of the many desirable features of a product. I would urge the members to support efforts to trim federal regulations, to put sunset clauses into new regulatory legislation, and to provide more oversight of anti-competitive state and local licensing.

Tim Kane Biography

Dr. Tim Kane is an economist at the Hoover Institution at Stanford University. Kane has served twice as a senior economist on the Joint Economic Committee of the U.S. Congress. Kane has appeared on ABC, CBS, CNN, C-SPAN, FOX, NPR,CNBC, and Bloomberg. He is a veteran US Air Force officer who founded two software companies after serving overseas.

Kane graduated from the United States Air Force Academy with a degree in economics. He earned a Ph.D. in economics from the University of California, San Diego.

Kane's most recent book is *Balance: The Economics of Great Powers from Ancient Rome to Modern America*, coauthored with Glenn Hubbard. In 2012, Kane authored *Bleeding Talent: How the U.S. Military Mismanages Great Leaders and Why It's Time for a Revolution.*

Testimony of Tom Walker, CEO, Rev1 Ventures
Joint Economic Committee
July 12, 2016

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INTRODUCTION

Chairman Coats, Vice Chairman Tiberi, Ranking Member Maloney and members of the Joint Economic Committee, thank you for the opportunity to provide testimony regarding "Encouraging Entrepreneurship" Growing Business, Not Bureaucracy". My name is Tom Walker, CEO of Rev1 Ventures, located in Columbus, Ohio.

Rev1 Ventures is a seed-stage investor that combines investment capital and strategic services to help entrepreneurs build products people want and companies that succeed.

Rev1 Ventures was established to focus solely on identifying, supporting, and funding the most promising high-tech, high-growth businesses in the 15-county central Ohio Region. Rev1 Labs accelerator is home to more than 50 of the region's most promising companies.

As a public-private partnership, Rev1 is a dedicated vehicle for accelerating startups and high growth businesses in the region.

CONNECTED ASSETS PRODUCE RESULTS

The Columbus region has had a strong mix of assets with a rich corporate base, major universities, led by powerhouse The Ohio State University, and large research institutions such as Nationwide Children's Hospital and Battelle.

As the fifteenth largest state, Ohio benefits from a strong and growing economy. Back in 2012, these assets were strong, but the startup economy rev1 ventures for COLUMBUS

was not. In 2011, the Columbus region was not on the map for generating new businesses based on research by the Kauffman Foundation.

Fast forward to 2016. In a just a few years, we've accomplished what some regions have taken decades or more to do.

The Columbus region is now seen as a case study for how to connect the assets in a region to generate the capital and support startups need to prove their idea, build the product and grow market share.

In just three short years, Rev1 Ventures has received national validation, including:

- Columbus is the #1 region in the country in 2016 for scaling startups on a per capita basis and the fastest-growing city for startup activity in the US in 2015 by the Kauffman Foundation.

- Columbus ranked #4 in the U.S. for Growth Entrepreneurship in 2016 in the overall Kauffman Index

- Rev1 named the most active venture investor in the Great Lakes Region between 2012-2015 by Pitchbook.

- Rev1 named the #1 investor in Ohio in 2016 by CB Insights.

- Ohio was in the Top 10 States in the 2015 Inc. 5000. Three of the 175 firms on the Inc. 5000 ranking leveraged Rev1's services: Capture Education (#295/1552% growth); Plug Smart (#339/1391% growth), and Updox (#254/886% growth)

- Central Ohio is home to the only JPMorgan Chase and UP Global Startup Week in Ohio. Launched in 2015 Start-Up Week has grown to over 2300 attendees. A huge success for the region, the Rev1 social campaign alone netted over 240,000 impressions.

This has put Rev1 and the Columbus region on target to generate $2B in economic impact through the combined revenues generated and capital attract to the companies we assist.

rev1 ventures for COLUMBUS

HOW DID WE DO IT?

The Ohio Third Frontier Bond Renewal Amendment (also known as Amendment 1) was approved on May 4, 2010 and authorized the state to spend $700 MM in bonds over five years on the Ohio Third Frontier program. Rev1 Ventures is part of the Ohio Third Frontier statewide network of resources providing access to business expertise, mentorship, capital, and talent.

All entrepreneurs need help, even the entrepreneurs with the best ideas and the most potential to scale. They don't have enough hours in the day to do everything that it takes to start a business. They have gaps in their experience. They need capital and mentoring and professional services.

Rev1's seasoned, data-driven team delivers a one-two punch of advanced venture advisory services and access to a continuum of investment capital managed by Rev1.

- Connected the region's corporate and research base to launch more than $60MM of new capital (a 400% increase over the previous 3 years)

- Funded more than 47 companies, which is more Columbus startups funded than the previous 6 years combined.

- Served a portfolio that is both high-growth and filled with diverse leaders: 29% of the investments made in 2015 were to women or minority-led companies

- Created or retained more than 1096 jobs that pay an average annual salary of $74,000.

OUR STRATEGY

1. The centerpiece of our strategy is our Backyard Effect to accelerate deal flow and deliver a continuum of early stage, seed, and seed+ capital.

Rev 1 is the catalyst for bringing together the assets (mentoring, advising, capital, and first customers) in the region to benefit entrepreneurs and startup companies. We have built true collaborations with groups like Columbus 2020 (regional economic development organization) and The Columbus

Partnership (Group of the top 50 regional CEOs), as well as innovation partnerships.

- Through innovation partnerships with the Ohio State University, Nationwide Children's, and OhioHealth, we have launched dedicated early stage investment funds with each entity, the most recent being Nationwide Children's.

In 2014, Rev1 made three investments in spinouts from these innovation partners. In 2015, we made thirteen - this equates to 46 percent of our engagements, 28 percent of our investments, and a 9X leverage on private investment.

- Seed Angels: Ohio TechAngels Funds is one of the largest angel funds in the US. We just launched the group's fifth fund, OTAF V at $5MM. Angel investors provide more than money. The serve as mentors, advisors, and board members to our portfolio companies.

- Seed Plus: Corporate Sector: Columbus has more than 14 Fortune 1000 companies. Rev1 developed an outreach strategy to land corporate investors into the Rev1 Fund, announced at $22MM. This fund allows us to increase the average size of our investment in Seed Stage Plus companies to $1,000,000.

- Opening doors to big corporations: Corporate partners want more than just to provide money. They want access to the innovation economy—from seeing disruptive technologies before they disrupt to providing their team new ways to get involved in the community. Some of these companies are also in the process of locating their innovation arms in our Rev1 Labs space.

2. We deliver comprehensive venture advisory services.

- Through our Concept Academy, we help entrepreneurs validate the market and their value proposition, making sure their ideas are sound. This helps create a firmer foundation for each new company and it is a way to identify early those concepts that do not demonstrate the potential to scale.

- The Ohio State University and Nationwide Children's Hospital access federal grants, through sources such as the National Institutes of Health, to create new technologies. Turning more federally funded research into commercially viable products doesn't happen on its own. It takes a dedicated support program to help a promising startup achieve the milestones it takes to get the business on a growth trajectory.

- We bring together mentors, experts, and advisors. Columbus is the most connected city in the Midwest. Our unique connections and collaborations giving startups direction and advise from those who have been there, leveraging the top minds in legal, accounting, HR, and more.

Experts (90+) have delivered more than $2MM in discounted services. Advisors (120+) have donated more than 1500 hours of mentoring.

- Rev1 Labs is the place in Columbus for entrepreneurs to work. Currently, more than 50 portfolio companies are headquartered there, including nine OSU spinouts. Rev1 Labs companies leverage 12X more funding and 7X more expert services than comparable portfolio firms.

3. We help companies access talent.

From customer service rep to CEO, help our portfolio companies find the specific talent they need to start successful companies.

- The Rev1 Jobs Board is specifically for startups to post open positions and for individuals who are seeking jobs in startups to post resumes or apply. We've helped companies fill more than 210 new jobs through 2015.

- Through our targeted senior leadership and succession plan, we have matched seven CEOs with seven portfolio companies.

4. We help companies access customers.

Through our innovative First Connect program, we tie in our corporate base to provide feedback on products, serve as first beta customers and, ultimately, serve as first customers.

We have connected more than 80 qualified opportunities and are on target to helping our portfolio close more than $1M in contracts through corporate partners.

THE FEDERAL GOVERNMENT CAN CREATE MOMENTUM.

Entrepreneurs need a lot of help. The private sector won't bear 100 percent of the cost; so public sector has to invest. There is a dramatic gap in capital for startups outside of Silicone Valley, New York, Boston and Austin.

As we've proven in Ohio through the Ohio Third Frontier Program (a state bond financed program that invests in start-up activities), there are proven ways that government can be a catalyst for new company start-ups and growth, by providing early stage capital that attracts matching capital from angels, VCs, and private corporations.

The Federal Government has done this before with State Small Business Capital Incentives (SSBCI). That program helped regions raise capital they couldn't otherwise get. SSBCI no long exists, but it's something the federal government could explore doing again. And recognizing the need for fiscal constraint, the Committee may be able to identify other underutilized resources within the Small Business Administration.

If Congress were to pursue this type of program, Rev1 would suggest following best practices of states like Ohio, that include stringent metrics to ensure positive return on investment. We might also suggest that rather than having the Small Business Administration run another program; it might be more effective to create a competitive grant process directed towards the states, which would encourage public-private collaboration and require private sector and local government matching funds to spur innovation.

Previously I mentioned innovation in our region that is being derived through work partially funded through federal entities, such as the National Institutes of Health. One consideration might be to explore encouraging federal agencies, when appropriate, to include some portion of their scoring process focused on commercialization of technology. The idea being that we should maximize existing federal investments in research to incent development of new businesses.

A few final thought on areas of federal policy this committee may wish to consider:

• Continue to evaluate and make less bureaucratic the FDA approval process for medical technologies. An increasing number of our portfolio companies at Rev1 are start-ups from the biomedical sector. These companies face a unique set of challenges in garnering federal approval through the FDA before getting their products into clinical trials, and ultimately to the marketplace.

• Continue to monitor recent federal changes to the US Patent system. One of the biggest threats to entrepreneurs and those that invest in them is adequately protecting the intellectual property of start-up companies, and also continuing to make the process more streamlined.

Chairman Coats, Vice Chairman Tiberi, Ranking Member Maloney and members of the Committee, thank you again for the opportunity to testify before you today. I would happy to answer any questions you might have.

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Statement
On behalf of the
National Restaurant Association
&
White Castle System, Inc.

ON: ENCOURAGING ENTREPRENEURSHIP: GROWING BUSINESS, NOT BUREAUCRACY

TO: JOINT ECONOMIC COMMITTEE

BY: JAMIE RICHARDSON, VICE PRESIDENT OF GOVERNMENT, SHAREHOLDER AND COMMUNITY RELATIONS, WHITE CASTLE SYSTEM, INC.

DATE: JULY 12, 2016

Statement on: "Encouraging Entrepreneurship: Growing Business, Not Bureaucracy"

By: Jamie Richardson

On Behalf of the National Restaurant Association &
White Castle System, Inc.

Joint Economic Committee
216 Hart Senate Office Building.
Tuesday, July 12, 2016, at 2:00pm

Good afternoon Chairman Coats, Chairman Tiberi, and distinguished members of the Committee. Thank you for the opportunity to testify before you today on behalf of White Castle and the National Restaurant Association.

My name is Jamie Richardson and I serve as Vice President of Government, Shareholder and Community Relations for White Castle System Incorporated.

It is an honor to be able to share with you the impact the growing legal and regulatory framework is having on businesses like White Castle and the restaurant and foodservice industry in general, particularly on our ability to create jobs. I am also Chairman of the Ohio Restaurant Association. It is an honor to be here to share our perspectives on behalf of our family owned business, my fellow restauranteurs from the State of Ohio, and the National Restaurant Association.

As a family owned business celebrating our 95th birthday, I would like to tell you today that White Castle's growth has continued uninterrupted. I would like to tell you that we have continued to open more restaurants in more neighborhoods, providing more jobs, and serving more customers.

I would like to tell you that, but I cannot. In fact, White Castle's growth has halted. In 2012, when I testified before the House Oversight & Government Reform Committee on the Affordable Care Act, we had 408 White Castle restaurants. Today, we have 390.

I would like to highlight today the impact the Affordable Care Act (ACA) is having on our business as well as the impact of the more recent Overtime Regulations. While other factors have slowed our growth, it is the mounting uncertainty and the collective effect of a legislative and regulatory regime that is hostile to job creation that has brought us to a standstill. We are not alone. According to results from the May 2016 National Restaurant Association Industry Tracking Survey, over one out of five restaurant operators report government as their current top challenge—a higher proportion than the economy or building/maintaining sales volume.

The Restaurant and Foodservice Industry

The National Restaurant Association is the leading trade association for the restaurant and foodservice industry. Its mission is to help members like White Castle establish customer loyalty, build rewarding careers and achieve financial success. The industry is comprised of more than 1 million restaurant and foodservice outlets and employs 14.4 million people. The majority of restaurants in America qualify as small businesses yet our industry is the nation's second-largest private-sector employer. Restaurants are job creators and we currently employ approximately 10 percent of the U.S. workforce.

Restaurants can provide great careers but we are also the employers of choice for people looking for flexible work schedules. We employ a high proportion of the population looking for part- time and/or seasonal work. As an industry of small businesses, more than seven in 10 eating and drinking establishments are single-unit operators. As popular as it is to be in the restaurant business today, our industry has relatively low profit margins, averaging about 4 to 6 percent before taxes. Labor costs are one of the most significant line items for a restaurant.

For generations of American employees and citizens, we are a driving force for entrepreneurship—a place where a favorite family recipe becomes the inspiration for the next successful dining destination. Our nourishing food unites neighborhoods. We are the driving force that prepares today's employees for the challenges of a changing workplace and the promise of tomorrow. We do this by teaching life skills in problem-solving, responsiveness, customer focus and risk-taking. The skills we teach are the life blood of entrepreneurship.

<u>White Castle</u>

White Castle is the Taste America Craves. We believe good business, great food, and responsible citizenship should all go together. As a family company, we are part of the neighborhoods we serve. We live here, work here, and raise our families here—that is why we are committed to having a positive impact on the families and communities around us. Our dedication to serving our community is not just a company priority—it is a personal commitment.

Based in Columbus, Ohio, White Castle first opened its doors in 1921 in Wichita, Kansas. Like the entrepreneurs of today, we started with an idea, lots of hope, some borrowed funds, and a commitment to make a difference in our community by serving up hot and tasty, affordable food. We paid back our original loan of $700 in less than 90 days, and have continued to reinvest our earnings in our people and our business ever since. To this day, we are a family-owned, privately held company. The majority of our 10,000 team members work in our 390 restaurant locations across 12 states. We have built several locally-based divisions to supply each restaurant, including bakeries, meat processing plants, and frozen food plants. Together, these businesses produce the famous menu items we offer to White Castle customers.

Our founder Billy Ingram had two key governing principles in growing the business:

1) Happy employees make happy customers; and,
2) We have no right to expect loyalty except from those to whom we are loyal.

These principles shape all we do to this day. They drive the employee and guest loyalty that continues even as the world changes around us. More than one in four of our 10,000 team members has been with us 10 years or more. The average tenure of our restaurant general managers is 21 years—and turnover for this key group last year was less than 10 percent. White Castle is also committed to diversity. A third of our restaurant general managers are African American, and 77 percent are female.

Like our brothers and sisters in the world of foodservice, we represent the essence of the American Dream. We believe that a good idea, hard work and taking reasonable risks results in real rewards, such as job creation, innovative products, and services that empower everyday citizens with happier and more prosperous lives.

Still, White Castle, along with restaurants throughout the country, continues to encounter the unchecked growth of regulatory barriers and burdens while facing unprecedented economic challenges. These challenges must be addressed in order for restaurants to grow. We are committed to addressing those challenges in a way that enables us to continue serving our customers with excellence. But to do that effectively, we need Congress to address our nation's growing bureaucracy.

Implementation of the Affordable Care Act

Under the law, White Castle is subject to the Shared Responsibility provision of the Affordable Care Act (ACA). The employer mandate, as it is commonly known, requires employers like White Castle to offer their full-time team members, defined in the ACA as those employees working 30 hours or more per week, health care coverage that is affordable and of minimum value, or face potential penalties.

The ACA's definition of full-time employment as 30 hours per week is not in line with the traditional full-time employment standard of 40 hours per week. Many employees in our industry are already losing wages and hours, due to the law's perverse incentives. This is particularly true for part-time employees who, until now, were those working below the traditional 40 hours per week.

Data is already available to demonstrate that the ACA is incentivizing some employers to limit the hours part-time employees can work. Beyond private-sector employers, even some states, cities, counties, public schools and community colleges around the country are being forced to limit or reduce the hours part-time employees can work. These decisions are necessitated by an economic reality—that for many employers and employees, it is not feasible to bear either the cost of health care coverage or the penalties for failing to do so.

The law is also incentivizing many employees to continue to work part-time. That's due in part to what's known in the insurance industry as the "spousal exclusion"—meaning that a person who gets offered coverage through his or her employer will automatically be kicked off their spouse's health insurance coverage. This spousal exclusion makes it very difficult for a family to be covered under one plan and benefit from the lower family coverage cost. Many employees have raised this issue with their employers and have requested to remain as part-time employees.

The ACA is leading to significant workforce restructuring. In the past three years, the proportion of part-time employees working just below 30 hours a week has been rising. At the same time, the proportion of those working just over 30 hours a week has been declining. The reason is simple: The ACA's 30-hour, full-time definition is now forcing employers and employees alike to make different choices to comply with this new standard.

Employers face tremendous potential financial liabilities under the ACA's employer penalties. As a result, employers with variable-hour workforces and flexible scheduling must be increasingly deliberate about the hours our employees work. That's having a negative impact on our ability to give employees the hours and schedules they seek.

One of the attractive benefits for employees in our industry had been flexible scheduling. Employees can change their hours to suit their personal needs and even pick up additional hours to earn extra income when needed. Part-time jobs with flexible scheduling are not only appealing, but often critical for students, single parents, and other individuals struggling to balance various obligations and commitments.

Harmonizing the definition of full-time employment in the ACA with the traditional 40-hour-per-week definition would benefit employees, through more hours and income. It would also let employers focus on growing their business and creating jobs, rather than on taking on new administrative burdens and finding ways to restructure their workforce. Aligning the ACA's definition of full-time employment with the traditional 40-hour standard would help avoid further disruptions to employees' wages and hours, and provide financial stability and significant relief.

For White Castle, the uncertainty of the last several years associated with the health care law in particular has impacted our ability to create jobs by forcing us to postpone expansion plans into new markets. The growth that drives job creation in our industry is put on hold, and so are the jobs.

The Overtime Regulations

While businesses are still working to manage the ACA and its regulations, the Department of Labor just published new final Fair Labor Standards Act (FLSA) "overtime regulations" that become effective before the end of the year. These overtime regulatory burdens only add to the tremendous amount of uncertainty that new and expanding federal regulations have created over the last five years.

At the same time, the overtime regulations will have a negative impact on many employees that now benefit from the many advantages of exempt status. Nonexempt employees often have less workplace autonomy and fewer opportunities for flexible work arrangements, career training and advancement than their exempt counterparts. In addition, the FLSA's rigid rules with respect to overtime pay also make it complicated for employers to provide hourly employees with certain incentive pay and bonuses. Thus, in many cases employees, who are reclassified or classified as hourly due to this rule, may lose important benefits and opportunities.

Yet despite the broad impact, the time period allowed for comments was inadequate for a proper economic analysis. It would have been helpful for the regulated community to have had more time to review and comment on the proposed rules. In denying thousands of requests for an extension—from the U.S. Small Business Administration Office of Advocacy as well as thousands of employers—the Labor Department said it had held enough "listening sessions" with stakeholders prior to publishing the proposed regulations. The proposed changes were lengthy and complicated and an insufficient time was allowed for the data to be gathered and analyzed.

More importantly, the Department's new minimum salary level is inappropriate for our industry and makes the overtime exemption inoperative in many parts of the country. The Department claims the new salary level threshold will not exclude from exemption a high number of employees who meet the required duties tests. When applied to my industry, the contrary is true. The proposed rules are a radical departure from the traditional formula used to set the minimum salary. They not only double the current salary target but also serve to eliminate the consideration of regional economies.

Most managers and crew supervisors in our industry would not meet the new salary level of $47,476 a year. Historically, a key purpose of a set salary level has been to provide a method for screening out obviously nonexempt employees. In other words, the salary threshold should be set at a level at which the employees below it would clearly not meet a duties test. With these changes, the Department is upending this historic rationale and setting the salary level at a point at which all employees above the line would be exempt. This will greatly limit the number of employers in the restaurant industry who are able to use the exemption.

For example, the median annual base salary paid to crew and shift supervisors in our industry is $38,000. Even those in the upper quartile at $47,000 would be right at the threshold for exempt status under the Department's new salary level. Likewise, the median base salary for restaurant managers is $47,000, while the lower quartile stands at $39,000.

These employees meet the duties tests but will become non-exempt under the new salary level. It is clear that, at least in reference to the restaurant industry (the nation's second-largest private-sector employer), the new salary level will exclude from exemption an unacceptably high number of employees who meet the duties tests. The impact would be magnified in many regions of the country.

For the employee, a change to nonexempt status can lead to fewer opportunities for career advancement. Again, changing to nonexempt status requires employers—and employees—to watch the clock. For example, employees who have reached or are near 40 hours of work in a week may need to skip additional training or other career-enhancing opportunities, because the employer is not able to pay overtime rates for that time.

In our industry, the proposed minimum salary level would represent an outsized income for mid-level managers. These include assistant managers, sous chefs and other employees learning the position and moving up. The increase would be too large for many employers to absorb, so those positions would end up being moved back to an hourly rate—a rate that would net them the equivalent of what they earn today with overtime accounted for. This may be an easy transition to make from a management and bookkeeping standpoint, but it removes a key part of the reason that exempt status was originally created—to encourage above-average fringe benefits, greater job security and better opportunities for advancement.

The Department estimated that 75 percent of newly overtime-protected employees will see no change in compensation and no change in hours worked based on the new regulations. However, in the restaurant industry salaried employees enjoy a number of benefits not available to hourly employees. Thus, in addition to getting paid a salary regardless of the fact that they may not be working over 40 hours a week, these newly overtime-protected employees could lose flexibility as well as benefits, including substantive bonuses, paid vacation, flex time, paid holidays, and health insurance.

With regard to bonuses, under the existing rules, employers that provide incentive payments to hourly employees must include those payments in the employees' "regular pay rate" for purposes of calculating overtime pay rates, even if the bonus is provided months after the overtime takes place. Faced with the difficult recalculation of overtime rates—sometimes for every pay period in a year—employers often simply forgo these incentive payments to nonexempt employees rather than attempt to perform the required calculations.

Finally, throughout its overtime regulations, the Department created the impression that salaried employees feel they are being taken advantage of by virtue of their exempt status. That is far from the truth. In reality, employees often view reclassifications to non-exempt status as demotions, particularly where other employees within the same restaurant continue to be exempt. Most employees view their exempt status as a symbol of their success within our industry.

When employees have been reclassified from exempt to nonexempt, there is very often a decline in employee morale, as this change is generally seen as a loss of "workplace status." Employees often believe they are being punished or demoted, and some even lose trust that their employer sees them as professionals. In an industry survey, forty five percent of retail and restaurant managers believe a change in employment status from salaried to hourly would make them feel they are working a job rather than pursuing a career; 86% believe their perceptions of themselves as managers would deteriorate in some way.

To make matters worse, in the final regulation the Department for the first time announced its plan to automatically increase the salary level by publishing a new threshold in the Federal Register—without a notice-and-comment period, without a Regulatory Flexibility Act analysis, and without any of the other regulatory requirements established by various Executive Orders. We believe these automatic salary level increases are not only illegal but will perpetuate bad policy.

In short, hourly pay and nonexempt status is appropriate for certain jobs, but it is not appropriate for all jobs; otherwise, there would be no exemptions to the overtime pay requirements.

The Cumulative Cost of the Regulatory Burdens

Above, I present merely two examples on the wide range of federal laws and regulations that hinder business growth. A recent study for the Mercatus Center at George Mason University by Duke University economics professors Bentley Coffey and Pietro Peretto found that the cumulative effects of federal regulations between 1977 and 2012 created a considerable drag on the economy. They found that if regulations had been held constant at levels observed in 1980, the US economy would have been about 25 percent larger than it actually was as of 2012. This means that in 2012, the economy was $4 trillion smaller than it would have been in the absence of regulatory growth since 1980.

Thus, there are plenty of additional examples outside of the major hurdles created by some of the requirements of the ACA and the new overtime regulations. For example:

1) The American with Disabilities Act (ADA) has no allowance for a violation to be resolved before it literally becomes a "federal case." As the ADA is currently structured, a person who alleges an ADA violation can immediately file a complaint in Federal Court without prior notice to the business owner. Even a minor violation—one that a business would have gladly addressed—can now require a business to pay attorney's fees and compensation to the plaintiff.
2) The new Occupational Safety and Health Administration (OSHA) recordkeeping rule limits an employer's ability to conduct a drug test post-accident. Testing is allowed, but managers will first need to "determine" if they believed the accident was caused by the presence of drugs. The main reason for across-the-board testing was to eliminate subjectivity.
3) The Environmental Protection Agency's (EPA) refrigerant bans are costing businesses in both equipment and maintenance by pushing new refrigerants when the technology is not readily and economically available. The EPA changed refrigerants in the 1990s, again in the 2000s, and again in the 2010s. Each time, the regulations have driven up the cost of doing business, instead of waiting for the right technology to be ready and then making the changes—saving everyone money. The "We do not care what it costs" attitude is also hindering business growth.

Conclusion

As stated, restaurants run on narrow margins, and White Castle is no exception. In an environment where hard-working Americans are still struggling to make ends meet, we are facing record costs for labor and food—our two biggest investments—and now we are staring down the barrel of a wide range of regulatory costs. Beyond the direct costs, there is an equally daunting barrier of deciphering bureaucratic language written in a hieroglyphic text not even the most advanced "Google Translator" can interpret.

We are a nation of entrepreneurs—a nation of citizens seeking life, liberty and the pursuit of happiness who for generations have been the greatest problem solvers and entrepreneurs the world has ever witnessed. Today, this nation of would-be problem-solvers is being stalked by the silent killer of a regulatory regime that strangles creativity in the crib.

In closing, I would like to state that we are not against increasing the overtime salary threshold, or against the ADA, OSHA, EPA, or regulations in general. We understand that individual regulations sometimes have a beneficial impact. However, regulations should make sense and encourage entrepreneurship, not just grow the bureaucracy. Policymakers should always consider the cumulative impact of new regulations and the potential detrimental effect on business growth, which, ultimately, would have an impact on American families and employees.

We are both proud of and grateful for the responsibility of serving America's communities—creating jobs, boosting the economy, and serving our customers. My industry is committed to working with Congress to find solutions that foster job growth and truly benefit our communities.

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

NATIONAL WOMEN'S BUSINESS COUNCIL

ADVISORS TO THE PRESIDENT, CONGRESS, AND THE SBA

TESTIMONY of

Carla Harris

Chair of the National Women's Business Council
and
Vice Chairman of Wealth Management and Senior Client Advisor at Morgan Stanley

Joint Economic Committee

Encouraging Entrepreneurship: Growing Business, Not Bureaucracy

Tuesday, June 12, 2016

Chairman Dan Coats, Ranking Member Carolyn Maloney, Vice Chair Pat Tiberi and distinguished members of the Committee, thank you for inviting me to speak on behalf of the National Women's Business Council before the Joint Economic Committee for today's hearing titled *Encouraging Entrepreneurship: Growing Business, Not Bureaucracy.*

My name is Carla Harris and I am the Presidentially-appointed Chair of the National Women's Business Council (NWBC). The Council is a non-partisan federal advisory council created to serve as an independent source of advice and counsel to the U.S. Small Business Administration, Congress, and the White House on issues of impact and importance to women business owners, leaders, and entrepreneurs. The NWBC was established via the Women's Business Ownership Act of 1988 (HR. 5050), a landmark piece of legislation that most notably eliminated individual state laws that required women to have a male relative cosign a business loan. We act as convener, collaborator, and councilor; it is our mission to be a resource, to put forth actionable policy recommendations, and then to engage and support influencers, stakeholders, and decision makers in the implementation.

State of Women's Entrepreneurship

According to the most recent US Census Bureau's Survey of Business Owners (SBO) there are over 27 million privately-held businesses in the United States. These firms generate $12 trillion in annual receipts and employ 56 million people.

Women-owned firms represent an important segment of the business sector. As of 2012, women-owned businesses comprised 36%, or nearly 10 million, of the country's privately-held businesses. These firms generate over $1.4 trillion in sales and employ over eight million people. Between 2002 and 2012, the number of women-owned firms increased at a rate 2-1/2 times the national average (52% vs. 20%), employment in women-owned firms grew at a rate 4-1/2 times that of all firms (18% vs. just 4%), and the growth in revenues generated by women-owned firms paralleled that of all firms (up 51% compared to 48%).[i]

Some of the most dynamic changes since the 2007 SBO can be witnessed for women of color, specifically Black and Latina women. For example, in 2007 there were about 900 thousand Black women-owned businesses; now they stand strong at over 1.5 million and represent almost 60 percent of all Black owned businesses. Since 2007, Black women-owned firms have added over 71 thousand jobs to our economy while Black men-owned firms have added almost 11 thousand jobs to the economy. Latina-owned businesses increased at even greater numbers. In 2007, there were fewer than 800 thousand Latina-owned firms; now there are nearly 1.5 million.

These numbers demonstrate that women-owned businesses are thriving, thanks to a combination of supportive initiatives and policies and a strong entrepreneurial spirit. However, inequities and disparities still exist that inhibit many women-owned businesses from reaching their full economic impact or scaling effectively. Women are behind, in earnings and receipts, and in the amount of venture capital and other forms of equity investment they receive. Women continue to lack access to some of the most crucial assets, capital and markets, necessary to launch and grow their businesses. All of us here today can agree that we want regulations as efficient and effective for our small businesses, including those that are women-owned, to continue to start, sustain and grow as a strong force in our economy.

We often describe our work at the National Women's Business Council as divided among four pillars, which include: data collection and analysis; access to capital; access to markets; and job creation and growth. Commonsense regulation plays a role in each and any of these areas; today, I specifically focus on access to capital and job creation and growth, by describing how women—and others—stand to gain from full transparency in the area of marketplace lending, as well as minimized or consolidated regulation in the area of occupational licensing. Most importantly, however, we want to acknowledge the value of early and frequent involvement of women business owners, and all stakeholders, in developing and refining regulation.

Women's Access to Capital

Access to capital continues to be a challenge for too many women. NWBC's work focuses on changing the infrastructure, and on increasing and improving resources, so more women can access the capital they need to start and grow their businesses. Per Council research, on average, men start their businesses with nearly twice as much capital as women - $135,000 vs. $75,000. This disparity is slightly larger among firms with high-growth potential - $320,000 vs. $150,000; and it is much larger in the Top 25 firms - $1.3 million vs $210,000. Babson College has concluded the lack of sufficient capital funding for women entrepreneurs will cost the economy nearly six million jobs over the next five years, so it is in the best interest of the economy to understand any barriers to these firms' success.[ii]

Fortunately, the marketplace is responding to the challenges that women have faced in accessing capital, in the forms of both loans and equity investment. Thanks to great innovation in the capital space, with crowdfunding, peer-to-peer lending, microfinancing, and more, women have greater opportunities to pursue and raise the capital they need.

Debt

Beginning with an examination of debt, it is important to understand that women business owners take traditional business loans far less frequently than the overall population of business owners. Council research has found that women were more likely to be discouraged from applying for loans due to fear of denial, particularly during the financial crisis of 2008 to 2010. This research has also demonstrated that women are more likely to go to their community banks for assistance.[iii] Unfortunately, the growth of federal regulation presents challenges to community banks, threatening lending to small businesses. As a result, the U.S. Small Business Administration has introduced a pilot program, Community Advantage (CA), to meet the credit, management, and technical assistance needs of small businesses in underserved markets. The pilot program is scheduled to last until 2020 unless extended or made a permanent part of the SBA's financial assistance programs. We believe that the Community Advantage program brings great value to women entrepreneurs.

Beyond the Community Advantage Program, the SBA Microloan Program, which is the single largest source of funding for microfinance institutions in the U.S., provides direct funding to qualified community finance organizations, who then issue the loans to borrowers. Recall that one component of the Women's Small Business Ownership Act of 2014 was to expand and improve the SBA Microloan Program to reach more women borrowers who need business loans of up to $50, 000. It would have also reauthorized the SBA Intermediary Lending program to provide more women access to loans between $50,000 and $200,000, helping to fill this gap that is currently unmet by traditional private lending.

Women entrepreneurs have historically been underserved by lending institutions, so these programs, as well as private marketplace lenders, are stepping in with capital and technical assistance, enabling stronger performance by these women's businesses by increasing their available capital, including in the lower dollar values commonly sought by women business owners. According to a study done by ACCION, one of the largest microfinance institutions in the U.S., there are an estimated 13.1 million micro-entrepreneurs in the U.S., including 2.4 million African-Americans and Hispanics.

Women business owners—and all borrowers—must be able to meaningfully assess the risks and benefits associated with various loan options. Many private microfinance and marketplace lending programs already do an excellent job with transparency of loan terms; it is important that *all* marketplace lending institutions, across the board, make the terms transparent and accessible.

Equity

Women-owned businesses also continue to lag behind those owned by men in terms of equity investment. Research conducted by Babson College has found that of the nearly 7000 companies funded by venture capital between 2011 and 2013, only 2.7% of the companies had a woman as the CEO. When more than a third of all business is women-owned or women-led, and they receive less than three percent of the available venture capital, the flag is raised. Women stand to benefit greatly from a more balanced venture capital landscape.

One hypothesis for the disparity in available equity is that the number of women in the upper echelons of investment firms is down – in 1999 it was at 10%; and as of 2014 only 6% of top management and investment firm partners are women.[iv] Venture capital firms with female partners are reportedly two and one half times more likely to invest in companies with women on the management team (34% vs. 13%).[v] Based on the argument that women investors would be more likely to invest in women entrepreneurs, an argument that merits further investigation, the declining number of women investors is a concern.

We are pleased to see that women are establishing funds for women. Examples include: Golden Seeds– a woman-focused early investment fund; Astia – a nonprofit dedicated to identifying and supporting high-growth women entrepreneurs; and Texas Women Ventures – an investment firm giving millions to women entrepreneurs in Texas. Golden Seeds has invested over $70 million in more than 65 women-led businesses since 2005.[vi] And I am sure that you are all familiar with the Small Business Investment Company (SBIC) Program, a public-private partnership that helps meet the needs of small businesses administered by the U.S. Small Business Administration. The SBIC Program harnesses the talent of professional investment fund managers to identify and finance promising small businesses. From 2011 through 2015, 7% of the small businesses financed through SBIC were women-, minority- or veteran- owned. [vii] We know there is a focus to increase that percentage within these underserved populations and the Council is assisting to make sure women entrepreneurs are aware and leveraging this additional program.

The Council is committed to improving women business owners' capital access through a multifaceted approach, involving all components of the entrepreneurship ecosystem, and recognizes the value of government involvement as stakeholders develop innovative solutions to address this gap.

Occupational Certification

One additional area of concern for the growth of small business—and, in particular, the growth of women-owned small businesses—is the constraint that occupational licensing often imposes on entrepreneurs seeking to launch their enterprises. Recently, the United States Bureau of Labor Statistics released figures on occupational licensing in the US, which revealed that over one in five American workers hold a government-issued occupational license. As identified by the White House in a recently released statement, while licensing is commonplace in high-earning fields, such as medicine or law, licensing is also "prevalent in services such as healthcare support, protective services, and personal care.[viii]"

Women's business ownership is strongest in the industries that comprise both personal care and healthcare support services. In other words, the industries in which women most frequently own businesses are also those areas strongly subjected to occupational licensing. There are, of course, important reasons to require licensure—we want to ensure consumers' protection, just as we would like for qualified individuals to have a competitive edge. However, the cost associated with obtaining a license may serve as a barrier to women starting businesses in these industries, as well as their ability to hire qualified employees. Women business owners stand to benefit from responsible regulation that minimizes financial barriers to launching and growing enterprises.

We encourage commonsense licensing requirements, echoing the Licensing Best Practices outlined by the White House in their report, "Occupational Licensing: A Framework for Policymakers," including the charge to "[m]inimize procedural burdens of acquiring a license, in terms of fees, complexity of requirements, processing time, and paperwork.[ix]"

Further, we applaud the Department of Labor's recently announced intent to award up to $7.5 million to "one or a few national or regional organizations that will establish consortia of states to design and implement strategies that enhance the portability of occupational licenses and to otherwise reduce overly burdensome restrictions.[x]"

Conclusion

As the government's only independent voice for women entrepreneurs, the Council's mission is two-fold: to 1) support and conduct groundbreaking research that provides insight into women business enterprises from startup to success, and to 2) share the findings to ultimately incite constructive action and policies. The numbers confirm that the full economic participation of women and their success in business is critical to the continued economic recovery and job growth in this country, and we are committed to sustaining the potential that women entrepreneurs present. We believe that early and frequent involvement of women business owners in the development of business regulation is critical to developing strong and commonsense rules to promote and protect business ownership across our nation.

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

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Joint Economic Committee Hearing

"Encouraging Entrepreneurship: Growing Business, Not Bureaucracy"

Questions for the Record

Congresswoman Carolyn B. Maloney, Ranking Member

July 12, 2016

Questions for Ms. Carla Harris

Q. While women have made great strides in the business world, we still have a long way to go. A study I requested from the GAO found that women are severely underrepresented on corporate boards, holding just 16 percent of seats in the boardroom.

Ms. Harris, your testimony describes how this disparity carries over to investment firms, and the impact that it may have on access to capital for women-owned businesses.

- What can we do to increase the number of women who enter into management and are in a position to affect investment decisions?

There are three things the industry can do to increase the number of women in positions of leadership: intentional, measure of accountability, and consistent. Firms must be intentional about filling the pipeline from entry level all the way through to senior management, and creating programs within the organizations that will support women's development throughout their careers, and more importantly, providing them with the sponsors that are critical to promotions and opportunities for advancement to senior levels. A measure of accountability has to also be in place to make sure that management delivers a diverse pipeline. Once the industry gets senior people to the top, they will be able to attract even more diverse talent into the organization.

We must also strengthen the pipeline of women into careers in finance – specifically increasing the number of women on the financing and investment side, as angel investors, members of venture capital pitch committees, investment bankers and more – to diversify the perspectives and authority in the decision-making process.

The National Women's Business Council has funded a variety of research projects with FY2016 funds, including a study of Millennial Women Entrepreneurs. This group is poised to take leadership and management roles across the nation, and the study is intended to reveal the challenges and opportunities they face. Findings from this research may reveal additional strategies to encourage this generation of women to enter management or affect investment decisions.

- Based on your organization's research and your conversations with female entrepreneurs, what are the biggest challenges they face?

The Council's four-pillar strategy includes access to capital, access to markets, data expansion and job creation and growth. The biggest challenges female entrepreneurs face is within two of these pillars: access to capital and access to markets.

Access to capital continues to be a challenge for too many women. Per Council research, on average, men start their businesses with nearly twice as much capital as women - $135,000 vs. $75,000. This disparity is slightly larger among firms with high-growth potential - $320,000 vs. $150,000; and it is much larger in the Top 25 firms - $1.3 million vs $210,000. Further, Census research indicates that fewer than two percent of women-owned firms generate revenues of $1 million or more.

Understanding these challenges, in June 2016, the National Women's Business Council launched a website, Grow Her Business, specifically intended to assist women business owners in identifying high quality resources geared toward growth and scale-up.

Access to markets is an integral component of business success. Two of the key areas of interest include *government* and *corporate* procurement. Firms involved in these transactions develop solid reputations, and the inherent increase in volume generally allows firms to benefit from economies of scale.

This fall, the National Women's Business Council will be releasing the outcomes and recommendations stemming from research on women's participation in corporate supplier diversity programs; preliminary results may be found here.

- How can government play a positive role in fostering entrepreneurship?

The Federal government has in place such programs as InnovateHer, Patents View, SBIR/STTR, and SBIC and such resources as Women's Business Centers, SCORE, and SBDCs that are fostering entrepreneurship. Further, it is encouraging that the Federal government—the world's largest buyer—met its government-wide goal of 5 percent spend with certified women-owned businesses in fiscal year 2015. Moving forward, this goal should continue to be *met* or *exceeded*, not only across the government, but within individual agencies, and again there should be some intentionality and accountability around attaining this goal.

Finally, one of the most valuable things the government can do specially to foster entrepreneurship amongst women is to ensure *early* and *frequent* involvement of women business owners in the development of business regulation. Such consultation of stakeholders is critical to developing strong and common sense rules to promote and protect business ownership across our nation.