



The Small Business Administration and the Future of American Manufacturing

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September, 2019 — shammond@niskanencenter.org

Briefing Structure

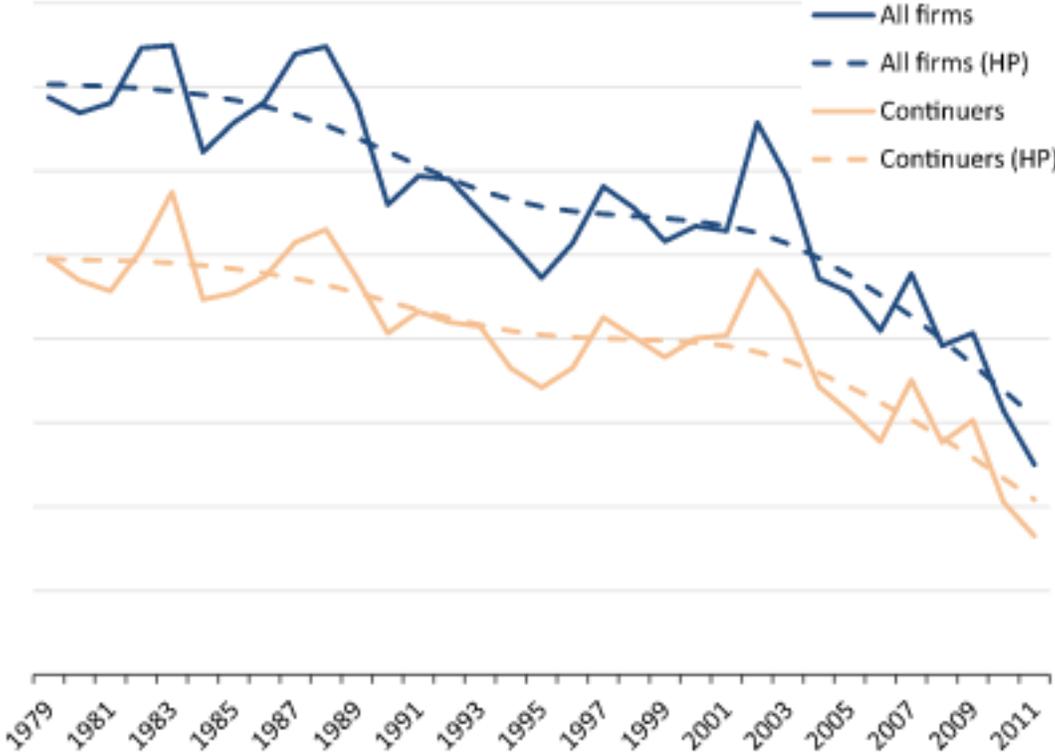
- Economic Context
 - The Sorry State of Business Dynamism
 - Why Dynamism Has Declined
 - Why Manufacturing Matters
- The SBA's Role in American Manufacturing
 - SBA Basics
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 - Recent Legislative Proposals
- Reauthorizing SBA for the 21st Century
 - Innovation
 - Investment
 - Development
 - Exporting
 - Innovation Growth Loans
- Creating a Start-up Nation

Economic Context

- What if I told you...
 - Stagnate median wages and productivity
 - Declining business formation
 - Rising wage inequality, and
 - Falling labor share of income
- ...were all related to underinvestment in U.S. manufacturing?

The Sorry State of Business Dynamism

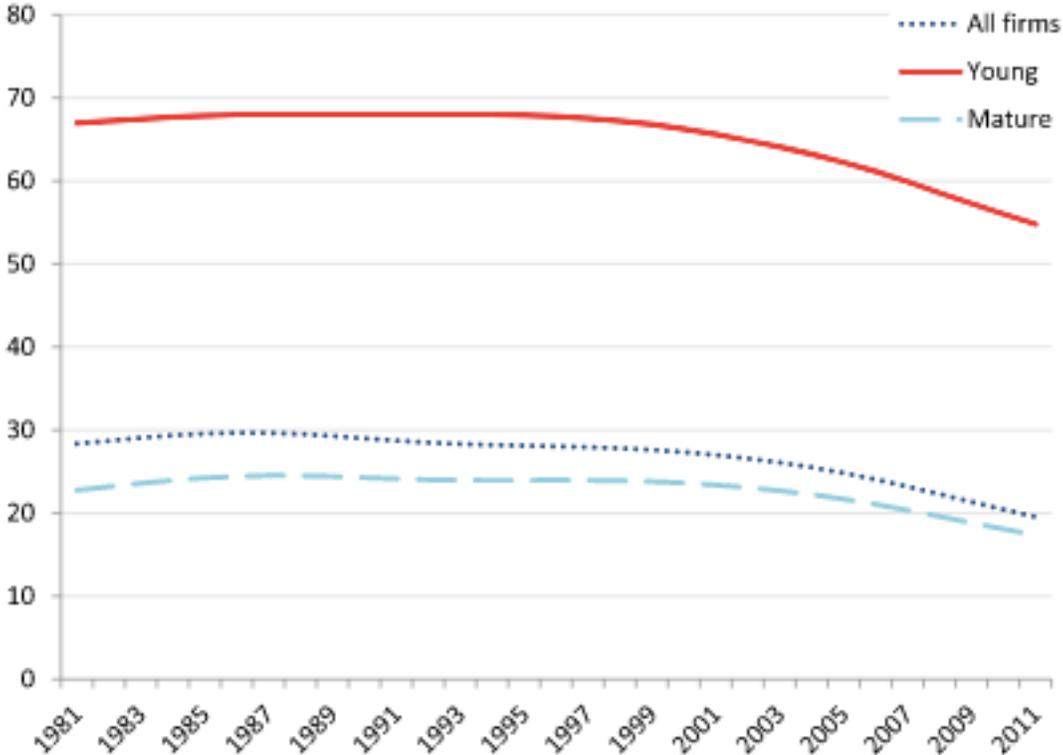
90-10 percentile differential in firm employment growth rates



Source: EER

The Sorry State of Business Dynamism

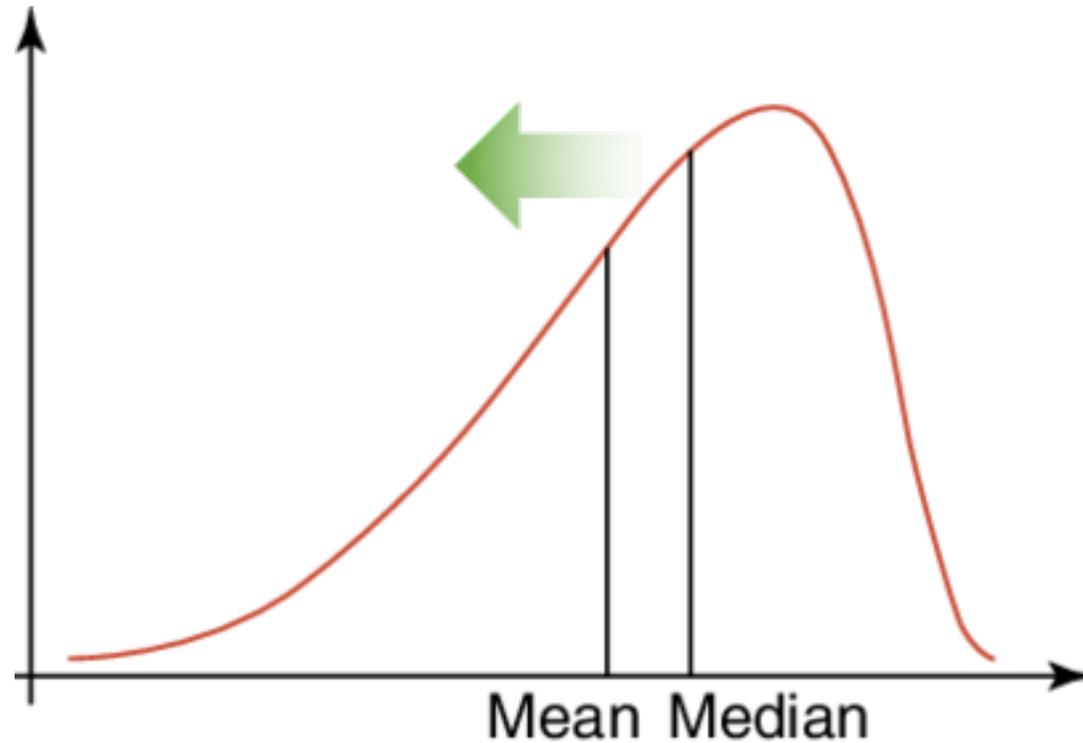
High-growth firms by firm age (90 percentile)



Source: EER

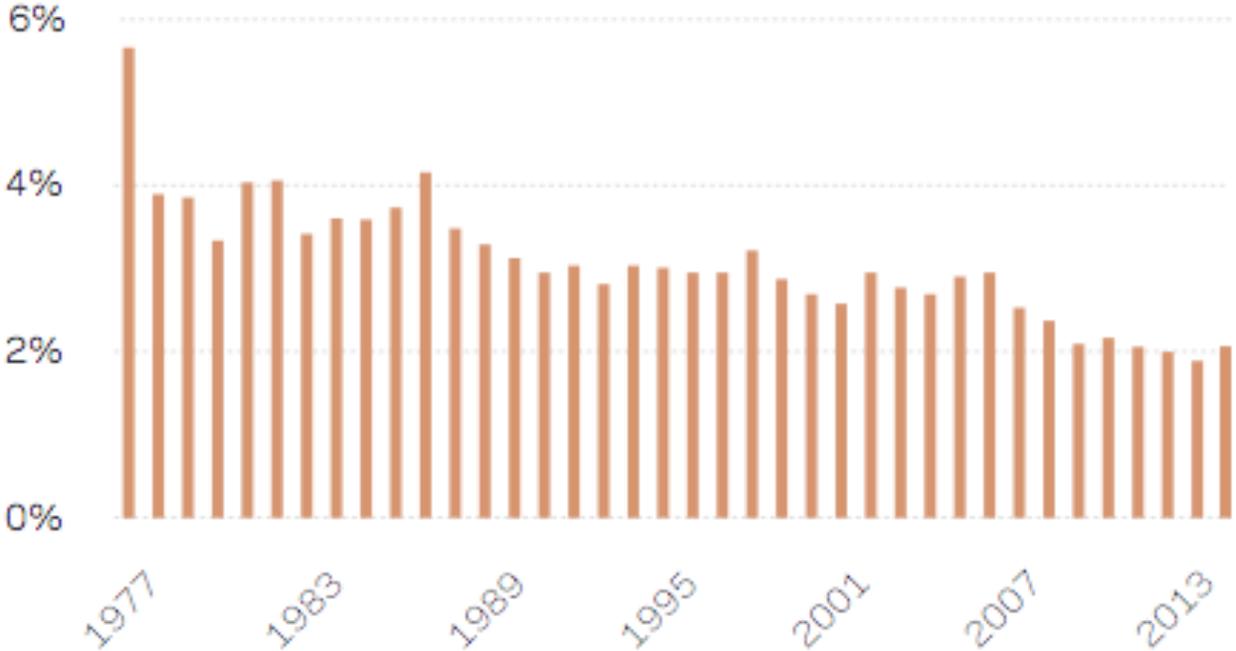
The Sorry State of Business Dynamism

“Where has all the skewness gone?”



The Sorry State of Business Dynamism

Share of Employees in New Companies



Source: Census BDS

The Sorry State of Business Dynamism

U.S. Manufacturing Employment



[Source: Fred](#)

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The Sorry State of Business Dynamism

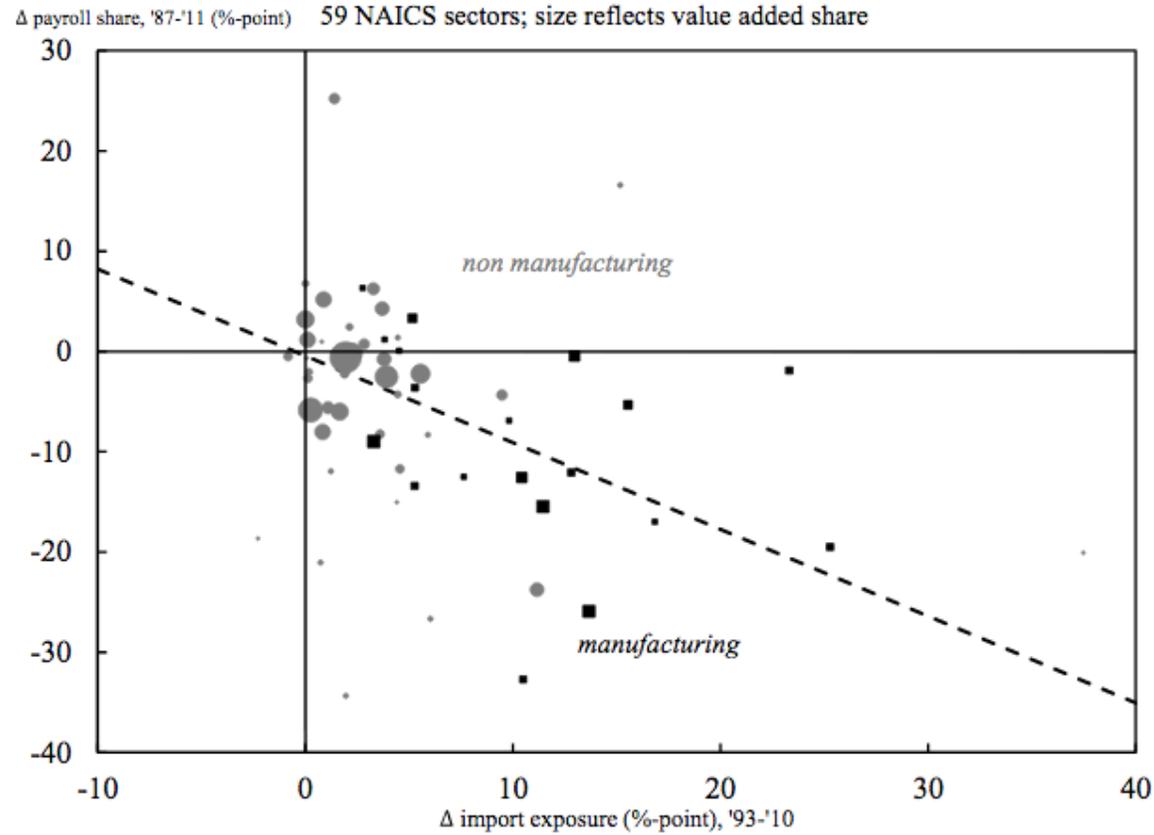
U.S. Nonfarm Business Sector Labor Share, 1947-2017



Notes: Gray bars denote National Bureau of Economic Research (NBER)-defined recessions.
Sources: Bureau of Labor Statistics (BLS) and NBER.

The Sorry State of Business Dynamism

Import Competition and Changes in Payroll Shares by Industry



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, and authors' calculations

Why Has Dynamism Declined?

- Globalization
 - Global, winner-take-all markets are much harder to break into.
- Specialization
 - The U.S. has increasingly specialized into knowledge sectors.
 - “Intangible capital” – branding, intellectual property – restricts entry.
- Lack of Investment
 - Investors find more certain ROI in existing specializations.
 - + Great Recession crunched credit for new business founders.

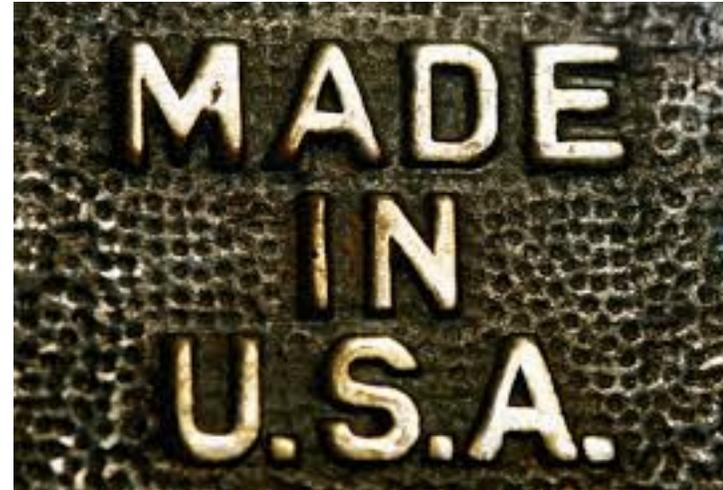
Taking Stock

- Start-up rate in long-term decline.
 - Firm entry has not recovered from the recession.
- Young firms drive most employment growth, but...
 - Difference between the fastest- and slowest-growing firms is shrinking.
 - Driven by a decline in young, high-growth businesses post-2000.
- Mirrors collapse in US manufacturing employment...
 - Reflecting globalization / off-shoring, and winner-take-all dynamics.
 - Manifests in wage inequality and productivity stagnation.

Why Manufacturing Matters

- More innovation.
- Middle class jobs.
- National security.

The clichés are all true.



Why Manufacturing Matters

1. Knowledge processes



What happens when we stop the flow of knowledge up the stack? I think that the weakness of the U.S. industrial robotics sector is instructive. The U.S. has little position in making high-end precision manufacturing equipment. When it comes to factory automation systems, machine tools, robot arms, and other types of production machinery, the most advanced suppliers are in Japan, Germany, and Switzerland. I think the reason that the U.S. has little position can be tied directly to the departure of firms from so many segments of manufacturing. How do engineers work on the design of automation systems if they don't have exposure to industrial processes?

— Dan Wang
How Technology Grows

Why Manufacturing Matters

1. Knowledge processes



The popular conception is that companies come to China because of low labor cost. I'm not sure what part of China they go to, but the truth is China stopped being the low labor cost country many years ago. That is not the reason to come to China from a supply point of view. The reason is because of the skill, and quantity of skill in one location, and the type of skill it is. The products we do require really advanced tooling ... and the tooling skill is very deep here. In the U.S. you could have a meeting of tooling engineers, and I'm not sure we could fill the room. In China you could fill multiple football fields.

— Tim Cook
CEO of Apple

Why Manufacturing Matters

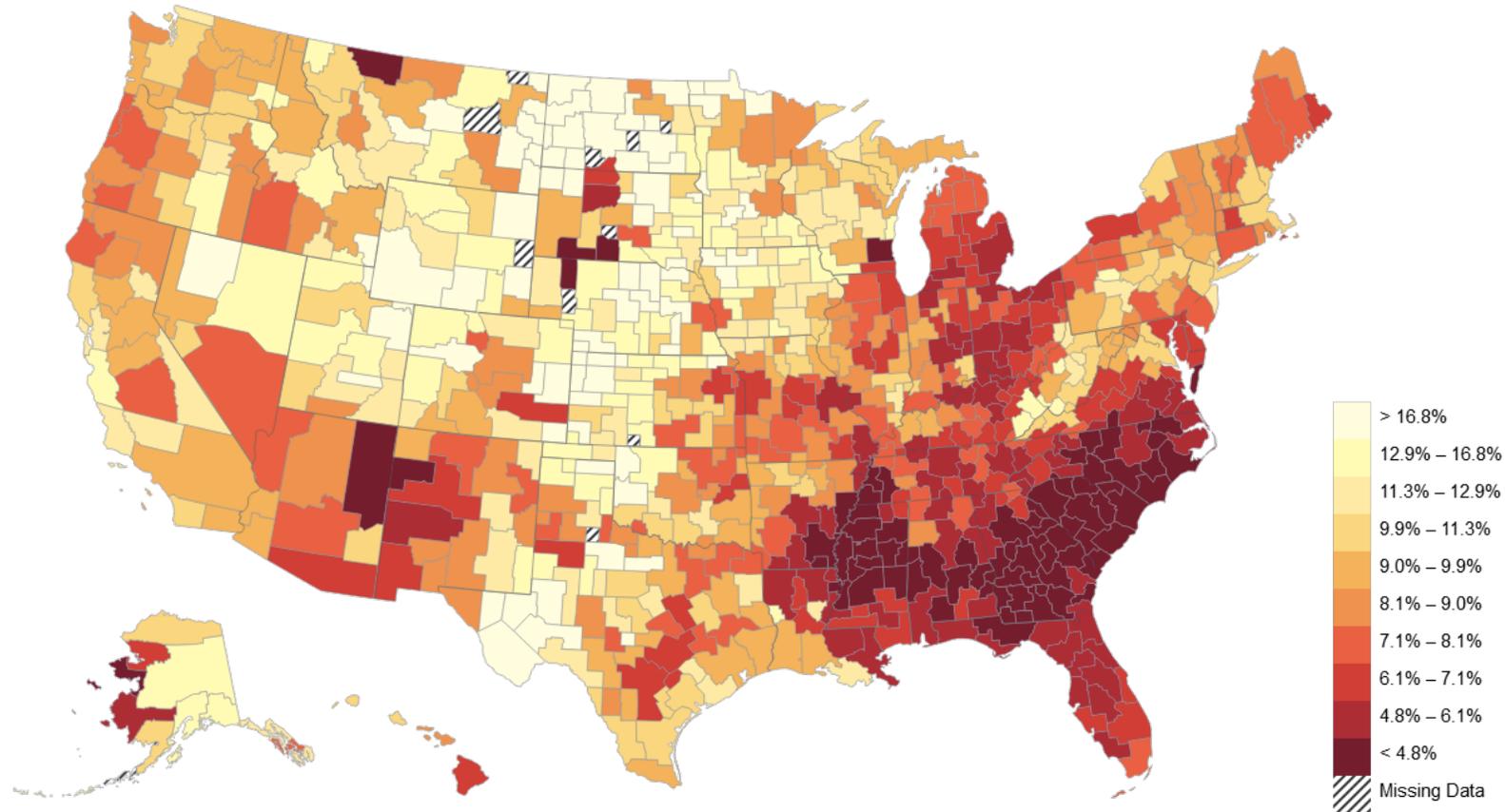
2. Economic mobility



The gains of black men at higher quintiles have been driven primarily by positional gains within education level due to forces like improved access to quality schools and declining occupational exclusion. At the median and below, strong racial convergence in educational attainment has been counteracted by the rising returns to education in the labor market, which have disproportionately disadvantaged the shrinking but still substantial share of blacks with lower education.

— Patrick Bayer and Kerwin Kofi Charles
The Earnings Gap between Black and White Men

Why Manufacturing Matters



[Source: Chetty et al.](#)

The Small Business Administration and the Future of American Manufacturing

The SBA's Role in American Manufacturing

SBA Basics:

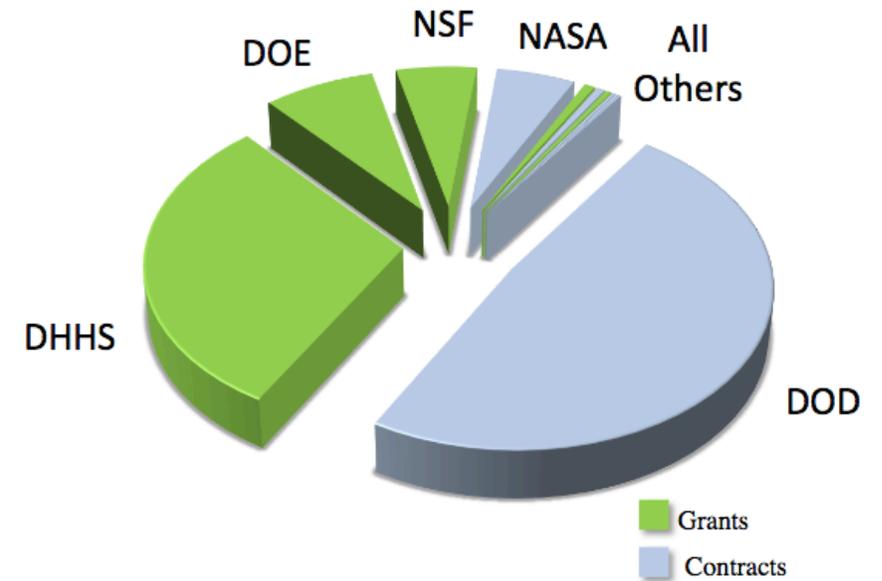


- The Small Business Administration is a US government agency formed in 1953 to support entrepreneurs and small businesses.
- The 3 Cs – Capital, Contracts, Counselling:
 - Guaranteeing loans by banks, credit unions and other private lenders.
 - Encouraging federal procurement from small businesses.
 - Grants to partners who provide business development support.
- FY 2018 program portfolio = \$148 billion USD

The SBA's Role in American Manufacturing

- Loan guarantees
 - ~\$16 billion in 7a loan guarantees, 2010-present
- Venture capital
 - 20-25% of Small Business Investment Company portfolios
- Research and Development
 - SBIR/STTR programs

SBIR/STTR Budgets by Agency



~ \$3.6B in FY 2018 across all agencies

Current Shortcomings

- Poor measures of performance
 - eg. “Job creation” numbers are self-reported on loan applications.
- Disincentives to growth
 - eg. Growing beyond the size standard and losing program eligibility.
- Poorly targeted
 - Not all small businesses are created equally.
 - “Subsistence” vs. “Transformative” entrepreneurship.

7a Loans by Industry, 2010-Present

Ranking	Industry	# of SBA 7a Loans	Volume of 7a Loans (billions)	Average Loan
1	Full-service Restaurants	25,738	\$7.0	\$270,148
2	Limited-service Restaurants	17,303	\$4.4	\$251,449
3	Offices of Dentists	10,058	\$4.2	\$413,592
4	General Freight Trucking, Long Distance, Truckload	7,839	\$0.7	\$87,876
5	Hotels (except Casino Hotels) and Motels	7,727	\$10.8	\$1,400,732
6	Offices of Physicians (except Mental Health Specialists)	7,603	\$2.3	\$305,766
7	Fitness and Recreational Sports Centers	7,062	\$1.9	\$268,596
8	General Automotive Repair	6,959	\$1.4	\$197,195
9	Beauty Salons	6,958	\$0.7	\$105,754
10	Landscaping Services	6,956	\$0.8	\$111,695

Reauthorizing SBA for the 21st Century

- The Senate Small Business committee has put forward the first comprehensive reauthorization of the SBA in 20 years.
- Overdue modernizations of existing programs.
 - Central office for contract certification, electronic submissions
 - Enhancing small biz cybersecurity
 - Streamlining application and decision processes

+

Strong focus on scaling high-tech manufacturers.

Small Business Innovation



- Modernizing SBIR/STTR and contracting
 - Made permanent
 - Double agency's extramural research budget by FY 2024
 - 3.2% to 6.4% for SBIR; .45% to 1% for STTR
- Accelerates award timelines
 - Requires 90 days between final submission and decision
- Doubles contract caps
 - \$4m \$8m, \$7m \$10m for manufacturing
- Size assessed by 5 year year average

Small Business Investment

- New SBIC program for advanced manufacturing
 - Up to \$50m in additional leverage
 - Defines advanced manufacturing by R&D-intensive NAICS
 - Engaged in R&D; veteran or minority owned; in distressed area
 - Automatic inclusion for SBIR/STTR awardees, Manufacturing USA partners, and businesses with investment blocked by CFIUS
- Revenue based repayment:
 - 5 year deferral on repayments
 - 5 percent royalty fee on revenues totaling 150% of leverage
 - 600% repayment if companies move offshore

Small Business Development

- Entrepreneurial Development Network
 - Single window for Small Business Development Centers, Women's Business Centers, and Veteran's Business Outreach Centers
 - Requires cross partner coordination and referrals
- Inclusion and Diversity
 - Establishes a women's mentorship pilot program
 - Expands outreach to HBCUs
 - Expands funding for Veterans programs
- Underserved Areas
 - Prioritizes underperforming states in Federal And State Technology (FAST)

Small Business Exporting

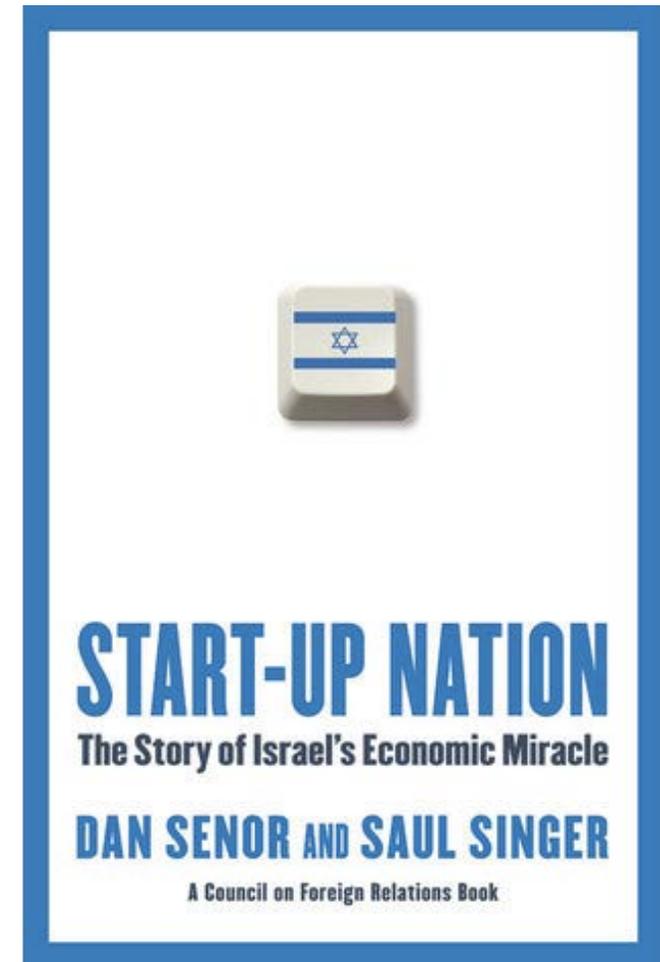
- State Trade Expansion Program (STEP):
 - Streamlined applications
 - Consistent timelines, transparent funding formula
- Flexible Export Finance:
 - Consolidates three underused programs into one
 - Max loan of \$10m with variable maturity
 - 40% allowance for domestic usage
- Why exports matter:
 - “Export Discipline” from international competitions
 - “Learning by Exporting”

Innovation Growth Loans

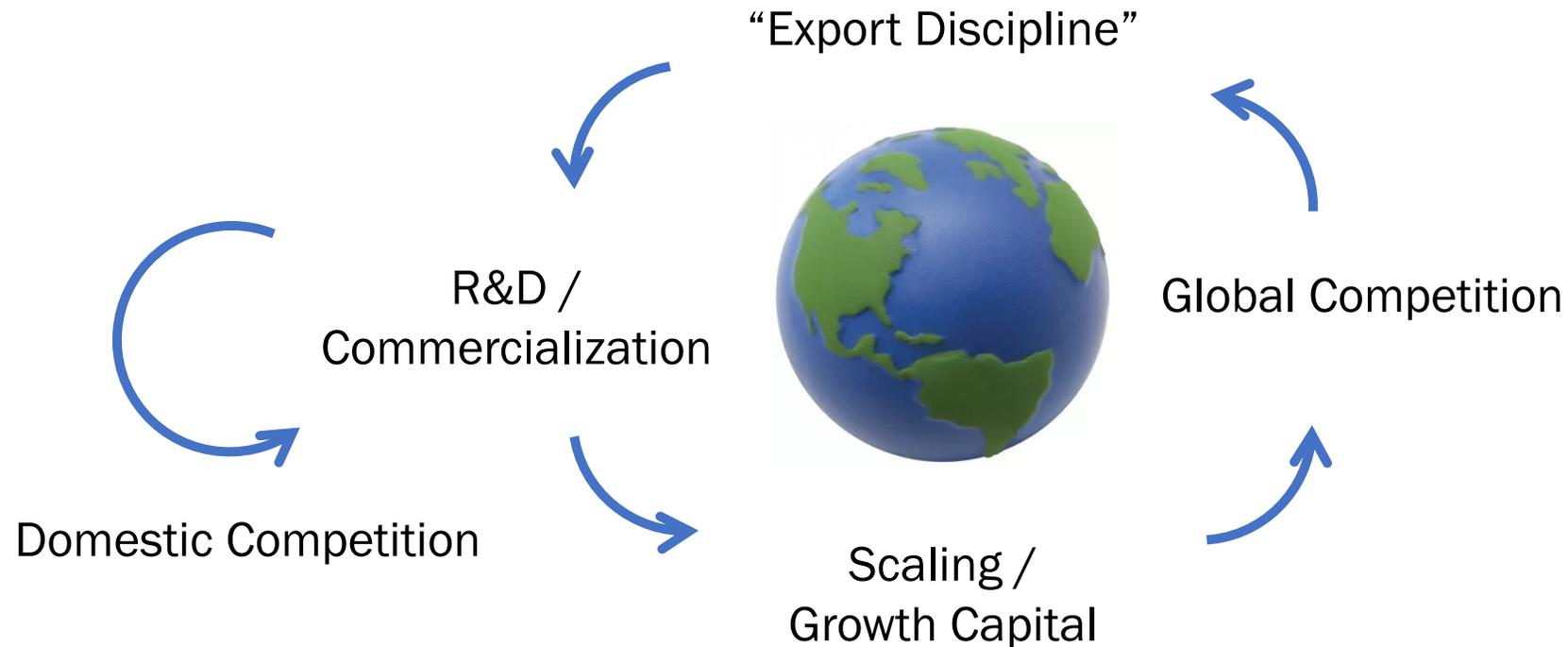
- High-powered loan product for scaling manufacturers
 - Maximum loan of \$50 million
 - 50% of loan must go to productive capital assets
 - 3x size standard
- Strong Performance and Accountability
 - Released in tranches, conditional on hitting growth benchmarks
 - Must grow average revenue by at least 15% of loan amount
 - Export sales counted as 1.5x a domestic sale
 - Performance Fee of 1% assessed if business misses benchmark
- Excess SBA revenues enter a Loss Reserve Fund

Creating a Start-up Nation

- Israel pioneered Innovation Growth Loans to successfully grow their high-tech sector.
- Key insight:
 - Private finance is oriented to existing economic competencies.
 - This creates a gap in patient capital for growth stage manufacturers, particularly in emerging industries.



Recipe for Jumpstarting US Manufacturing



Principles for Success

- Measure and reward performance
- Target new and high-productivity activities
 - Particular firms = picking winners
- Reduce barriers to firm growth
 - The “small business” trap
- Encourage competition
- Coordinate across programs



Related Legislative Proposals

- Strengthening Investment to Grow Manufacturing in America (SIGMA) Act of 2019
 - Expands 7a guarantee rate to 90%; raises 504 loan limit to \$10m
 - Reduces or eliminates fees on small manufacturers
 - Discount debentures for SBICs in target areas
- Scale-Up Investments for Small Advanced Manufacturing Businesses (SUMIC) Act of 2015
 - Creates a new investment program for advanced manufacturers wanting to scale-up, modeled on SBICs

Related Legislative Proposals

- FAST Fix Act of 2019
 - Sen. Risch (R-ID), Sen. Crapo (R-ID), Sen. Hoeven (R-ND), Sen. Kennedy (R-LA), Sen. Rosen (D-NV)
- SBIR and STTR Permanency and Improvement Act of 2019
 - Sen. Shaheen (D-NH), Chairman Rubio (R-FL), Ranking Member Cardin (D-MD)
- NEW START Act
 - Ranking Member Cardin (D-MD), Sen. Klobuchar (D-MN), Sen. Blumenthal (D-CT), Sen. Kaine (D-VA)
- The Small Business Investment Improvement Act of 2019
 - Sen. Risch (R-ID), Sen. Crapo (R-ID), Sen. Capito (R-WV), Sen. Young (R-IN), Sen. Scott (R-SC), Sen. Booker (D-NJ), Sen. Duckworth (D-IL)
- The Small Business Cybersecurity Assistance Act of 2019
 - Sen. Peters (D-MI), Chairman Rubio (R-FL)
- The Expanding Contacting Opportunities for Small Business Act
 - Sen. Duckworth (D-IL), Sen. Ernst (R-IA)
- SMART Act
 - Sen. Sinema (D-AZ), Sen. Lankford (R-OK)



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Thank You!

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