WHY WASHINGTON HAS IT WRONG

A handful of startups have the biggest impact

Most small companies stay that way

- Just 6.3% of companies in the U.S.—almost all of them small firms—created all net jobs between 1994 and 2010, a study by the Small Business Administration found.
- On average, these firms created a total of about 10.7 million jobs in every four-year period studied from 1994-2008.
- Every one of those firms had their sales double—at least—over four years.
- As a whole, they also delivered more productivity than other companies, as measured by revenue per employee.
- Duke Events "Entrepreneurship and Creativity in America: The Promise of High-Impact Companies," by Spencer L. Bray, A. Corporate Research Institute LLC, for the

BY AARON CHATTERJI

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t's time for the government to get a lot smarter about small-business policy. In an era when political battles are nastier than ever, small business is the American dream we can all agree on. Democrats and Republicans alike line up behind the idea that small firms are job creators—the backbone of the economy—and they reserve a helping hand from the federal government.

Yet we are not doing all we can to support them—because we're treating them all exactly the same.

It's obvious that small businesses are incredibly diverse, with very different needs, aspirations and potential. The government, though, lumped them all into one category, covered by the same rules, policies and federal agency. Generally speaking, if you have fewer than 500 employees, you're a generic "small business"—whether you're the dry cleaner who's been on the same corner for a decade or a tech company that just launched in a dorm room. It's easy to see why we take a cookie-cutter approach. The Small Business Administration opened its doors in 1953, long before the end of the entrepreneurial revolution of the 1990s, and is designed to meet the needs of more-traditional small businesses. Most of the agency's loans go to aspiring restaurant owners and hotel franchisees, not companies that came up with ideas that can reshape the global economy.

Traditional small businesses are important sources of jobs in every community. But startups with big potential need different kinds of assistance to thrive—and we need them to thrive, especially in today's economy. The one-size-fits-all approach just doesn't make sense anymore.

Growth Is Rare

Take this simple fact: Small companies create enormous numbers of jobs, but those gains are driven by a handful of startups that actually grow big. Most small businesses start small and stay that way.

Less than a quarter of American's 27 million small businesses have employees. An even smaller portion grow beyond 20 employees. And many of them don't want to. New research from the University of Chicago finds that 70% of small-business owners aren't aiming for growth at all. They're basically just looking for a steady job as their own boss.

Compare a venture like Facebook to your neighborhood hardware store. Both of them launched with a handful of employees in tight quarters. But while your hardware store offers a useful service and creates jobs—most important, for the owners themselves—it's unlikely to have the same wide-ranging impact that a promising startup could. Think of how many other ventures have come into being because of Facebook, or how it has created whole new markets and changed the way companies large and small do business.

Yet the government has traditionally placed the neighborhood store and the high-potential startup in the same catchall category. It offers them the same loan programs, counseling services and other assistance. And that means lots of small companies, not to mention the economy as a whole, get shortchanged.

Missing the Distinction

For instance, the government might institute a tax credit for hiring new workers. That's of great importance to a local company like a nail salon that might be on the fence about taking on an employee. But high-potential startups often aren't as worried about how to pay for workers; they're concerned with finding high-skilled employees, whatever the cost. So they're more focused on issues like immigration reform and science, technology, engineering and math education.

The trouble is, their designated advocate, the SBA, doesn't have the final say on these matters or other high-priority issues like patent and capital-markets reform. That responsibility for these issues lies instead spread across many government agencies, none of which is thinking of high-potential startups first.

Or take an initiative like the Small Business Innovation Research program, which awards over $2 billion in grants to help businesses commercialize innovative research. For years, the program was closed to startups that receive the majority of their funding from venture capitalists. The idea was that these firms would have an unfair advantage over other small businesses.

But the venture-backed companies are exactly the ones the government should be supporting—they've already been validated by outside investors and have the potential to grow and help the economy.

After an intense lobbying effort in Congress, the program was opened to majority venture-backed firms. But these situations are bound to crop up when two very different interests tangle.
THE READERS WEIGH IN

What's the best thing government can do to help small businesses?

Boosting small companies is one of the few things the two parties can agree on. But plenty of business owners think the government could do even more—whether it's cutting costs, slashing red tape or generally getting out of the way of small companies.

Stop protecting the big companies. If you refuse to let big companies fall, there is that much less room for small businesses to grow. To make it worse, the government is subsidizing failing big companies and giving them even more advantages over the small guys.

A Lighter Touch

Many respondents wanted government to ease the burden on small businesses—everything from cutting red tape to improving access to financing.

"I'm not a teapot," says one, "so why must I fill out a load of forms?" "Don't make our life harder by increasing the reliance on red tape," says another.

Provide government-based single-payer health care.

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The government should do as follows:

1. Shout-up, a large majority of politicians have never started a business.

2. Get out of the way and let them do what they do best—NO-THING.

3. Rather than how to the demands of unions and lobbyists—seek out small business owners regardless of political party—ask, listen, and go to work to help them.

4. Drop partisan interests—bottom line— we are ALL Americans who seek the support of our elected officials to be an alliance for our community, not to turn our fate based on party platforms, favor new, or personal gain.

A major reason why an entrepreneur does not take the leap to start a business is because of existing patents on common sense solutions or processes. Our government needs to find ways to speed up approval process, as it stifles business creation and innovation.

The best they can do is leave small businesses alone.

Continued from the prior page.

"Thanks for the advice," writes a reader who has just started a business.

"It's the fear that gets lost under the current setup that is the biggest challenge," writes another. "The biggest challenge is that the local's share of jobs created by small business activity comes from new start-ups, between one and two-thirds of its loans to existing business owners, not start-ups. This is because SBA loan programs work by older firms taking out from commercial banks, which are often reluctant to lend to unproven startups. Older companies need financing, of course—but they usually don't have the potential for explosive growth that start-ups do."

What's a better approach? Make sure local businesses with more-modern outlaw and out of name startups both get the customized attention that they deserve.

To be fair, Washington has taken some steps lately to target assistance to different types of small businesses—the recent Joint 1-200 Act, said, and the Startup America initiative led by the White House and SBA. All of that is helpful and encouraging, but it doesn't fit the underlying problem: We need a fundamental change in the way we see small businesses, and give them the resources they need to succeed. The SBA should focus its attention on startups instead of "small businesses.

That simple definition change can make all the difference in the world. The SBA would continue to allow its loan programs and other services to small businesses that are likely to remain so. But the high-growth-potential firms identified as startups would get customized attention to translate those dreams from screen to government—just Treasury, Commerce, and other relevant departments, including the SBA.

This structure would ensure startups receive high level attention from the various agencies that impact their fortunes. And having the SBA play a prominent role in this also means that the line between startups and small businesses becomes blurred. The interagency team could, for instance, recommend seminal

Off to a Fast Start

Young entrepreneurs create more jobs than older ones, and also rank up the highest average number of jobs created.

Why Washington Has It Wrong

The Journal Report welcomes your comments—by mail or e-mail. Letters should be addressed to: The Wall Street Journal, The Wall Street Journal, 444 Madison Ave. North, South Brunswick, NJ 08852. The fax number is 212-554-1438 and the e-mail address is newspaper@wsj.com.

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