

STATEMENT FOR THE RECORD
BEFORE THE SENATE COMMITTEE ON
SMALL BUSINESS & ENTREPRENEURSHIP
HEARING TITLED:
America Without Entrepreneurs:
The Consequences of Dwindling Startup Activity
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Chairman Vitter, Ranking Member Shaheen, and members of the Committee thank you for inviting me to testify today.

There are few topics more *critical to our nation's future than entrepreneurship*, so I thank you for your interest and concern for America's startup activity.

In the past five years, I've had a front row seat to global entrepreneurship. First, through serving as Managing Director of Startup America, then through the Board of Directors of Global Entrepreneurship Network, and over the past three years through my role as Co-CEO of 1776 investing in startups worldwide.

Every day I see startups across the world bringing an array of incredible technologies into new parts of the economy. Smart objects, drones, artificial intelligence, robotics, virtual reality, biosecurity, *and the list goes on*. We've only barely begun to scratch the surface of how these and other technologies will impact us -- *how we live, how we work, how we learn, how we eat, and how we get our healthcare, our money, and our transportation*.

This shift to the digital era is the largest technology transition in history, and it may quite possibly be the biggest economic transition our world has ever seen. The wake this will leave behind has the potential to be either disastrous or game-changing to our cities and our nation.

Let's be clear. **While the U.S. is revered for its entrepreneurial legacy, we do not have a leadership lock on the next digital era.** Every country is waking up to the imperative to innovate. 160 countries currently participate in the Global Entrepreneurship Network, sharing policy frameworks, research, ideas and networks for advancing entrepreneurship.

I've seen evidence of it everywhere through 1776's global Challenge Cup competition. This year, we visited nearly 60 cities worldwide, including 14 in the U.S., to judge world-changing startups competing for investment. The global winners included companies from Brazil, Dubai and even Pakistan. Also in the winner's circle were

companies from Boulder and Boise, showing that high potential startups are in fact, emerging in every corner of the country.

Our Startup Federation, a global network of innovation hubs on almost every continent, is yet more evidence of the global race to innovate. Cities large and small across the globe have launched startup campuses -- we call them “super-hubs” -- to become the center of gravity for growing their local startup activity. Whether you are in Austin, Cairo, Nairobi or Bratislava, there is a place to help startups launch and scale their companies today.

This increasing globalization of entrepreneurship, and the creation of a massive distributed infrastructure of startup hubs to help entrepreneurs only amplifies the need for the United States to step up its startup game.

Last month, 1776 released the results of a six-month study called Innovation That Matters. Together with the U.S. Chamber of Commerce Foundation, we examined 25 U.S. cities to determine how ready they are to survive and capitalize on this inevitable transition to a global, digital era.

In it were a number of fascinating findings. While the top five cities included New York and San Francisco, it also included unexpected cities, such as Denver, Raleigh-Durham and San Diego. Further, most optimistically, economically challenged cities, such as Baltimore and Pittsburgh, fared better than expected, demonstrating that cities big and small can turn to entrepreneurship to ignite the city’s economic growth.

The study also highlighted some troubling trends.

First, one of the most concerning findings is that our cities are not producing enough new digital companies in the sectors that they traditionally specialized in to maintain their competitive advantage. Whether in healthcare, construction, energy or another arena, very few cities are leveraging their existing assets and proactively working to transition them to the digital era. Rather, labor and capital are remaining locked in aging companies. This is not only slowing job growth, it’s also stagnating the innovation our nation needs to continue its global dominance into the next era.

Second, we found that leaders nationwide wrongly treat “startup ecosystems” as something entirely separate from the rest of the city’s economic infrastructure. Just 32% of these young companies feel connected to their local corporations, and only 33% feel connected to other local institutions, like foundations and city government. Vice versa, corporate and government leaders nationally weren’t sure whether or how they should be at the startup table. This is a massive missed opportunity for everyone:

- Since 2000, 52% of the names on the Fortune 500 list have fallen off as a result of mergers, acquisitions or bankruptcies. R&D spending remains low and every CEO cites technological disruption and globalization as their top concerns. Engaging with startups can and should be a key strategy.

- Over 10 million people need jobs in the US, which should spur every single city to look to startups for job creation.

At the same time, entrepreneurs across the country are bombarded with media messages equating startups with Silicon Valley, unicorns, and venture funding rounds for the latest on-demand consumer convenience. This narrative creates damaging misconceptions and keeps many people out of the startup game (especially women and minorities who don't see themselves represented there).

- Despite the fact that fewer than 1% of all U.S. companies have raised capital from VCs (and only 7% of the Inc. 500 is venture capital backed) many would-be entrepreneurs have a hard time seeing themselves in the commonly accepted startup narrative. As a result, many high potential ideas, and the jobs they might have created, get left behind.
- Those who do start businesses are often left wondering if they shouldn't be moving away from their home cities and states and whether they can actually succeed in creating the kind of companies that can ensure our nation's dominance in the industries that make up the lion's share of the GDP.

Entrepreneurship is not about unicorns. It's about jobs. When we use the words "Silicon Valley" to describe startups the same way we use the word "Kleenex" to mean tissues, we are hurting our nation's economy.

Entrepreneurs face enormous obstacles, and yes capital is one of the major barriers. But mentoring and sponsorship may in fact be the bigger challenge.

Entrepreneurship is experiential. If you don't see people doing it and have role models to emulate, you don't know you too can do it. And, if you get started, you don't know what you don't know. Every day presents make-or-break challenges for founders who often don't have the experience and networks needed to take their ideas from seed to scale.

Sadly, location still matters far too much. Communities are not evenly equipped to maximize the potential for their local ideas to scale. Entrepreneurial communities are operating in silos when they ought to be collaborating.

This is all solvable. Rather than telling founders to move or leaving them to flounder while we hope for the best, we must enable them to scale in place. That's why last week at the Global Entrepreneurship Summit we announced that we are opening our global network of mentors, experts and educational content to entrepreneurs in any city. Local startup hubs, such as Austin's Capital Factory, have agreed to join us. Together this network will operate as a single team, sharing the resources needed to help any startup, anywhere.

Beyond mentoring and access to capital, there is so much more we can do to reignite the entrepreneurial fire that powered our nation to its current leadership role -- everything from education reform, STEM education, and student financial aid incentives to

immigration reform and a wholesale review of our nation's regulatory fabric through the lens of technological possibility.

We cannot leave it to chance as to whether our citizens will start new companies or succeed in them. We must be bold, try new things and do more of what is working. We must do everything in our power to make it possible for anyone, anywhere to have an idea, start a company, and get the help they need to take it from seed to scale.

Yes, it's about jobs. But it's also about our nation's role as the global leader. In 1962, we chose to go to the moon. Today, we must choose to lead the world into this new digital frontier. In doing so, we can create the future we want for ourselves and for our children and assure the United States remains the world's leading nation.