



Remarks Prepared for Delivery

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Small Business and Entrepreneurship Workshop**

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## Introduction

Thank you, it is a pleasure to be back in Florida – and to here at the “happiest place on earth.” It is always a treat for me to be with my friend Dr. Pamela Dana – former Secretary of Trade, Tourism, and Economic Development for Governor Jeb Bush and now with an organization that must be the *second* coolest place in the State after the Magic Kingdom. Pam is with the Institute for Human & Machine Cognition in Pensacola. IHMC is where some of the world’s leading “what’s next” technology is being developed – truly cool stuff – and great example of Florida’s continued leadership in innovation and technology.

Florida has a long history leading innovation. From world-class entertainment venues to NASA to IHMC to the invention of air conditioning (my personal favorite), Florida is a State that continually has been on the cutting edge.

Moreover, I see that Fast Company Magazine has named Orlando as one of the best cities in America for innovation. You’re not just about tourism and theme parks. The Orlando area is now a hub for two very different, but nonetheless burgeoning industries: interactive video games and biotech.

On the biotech front, a new medical complex in the Lake Nona area will house a University of Central Florida med school and a branch of the famed Burnham Institute for Medical Research. The \$10 billion video game industry has a major presence here with Electronic Arts, the genius behind Madden NFL. This is my kind of innovation – a product in such demand that grown men will stand in line at Target at 1 AM to be the first to get their hands on it.

I also applaud IT Florida -- an organization that certainly understands what it means to be focused on “what’s next” -- for holding its annual meeting with the Florida Chamber of Commerce. It tells me the business community in the Sunshine State understands how technology, innovation, and entrepreneurship keep this state – and our country – competitive in the flat, global marketplace of the 21st century. Innovation and competitiveness simply does not just happen – you have to work at it, and Florida is a state that gets it.

### *A Crisis Averted*

I’ve been asked to explore the promise of innovation and technology and its role in global competitiveness. Yet given the financial crisis that was impacting not just Wall Street, but also Main Street and all of us, I’d like to preface my

remarks with a few observations about financial rescue plan that President Bush signed into law last Friday.

The run up to this “perfect storm” is a complicated matter. In a nutshell, the loose credit markets of recent years coupled with rapidly rising home values led to overbuilding, lenders who convinced good folks to engage in risky financial behavior, and individuals who simply purchased more house than they could afford. This led to a near crisis in our financial markets, and much like a hurricane, it had the potential to cause greater damage if the President and Congress didn’t take meaningful and quick action.

But I am pleased to report today that the President’s rescue plan – legislatively known as the Emergency Economic Stabilization Act of 2008 -- will go a long way to help the markets return to normalcy. It does this by providing the government with new tools to unclog the pipes of our financial system, allowing credit and capital to flow once again.

Without this legislation, innovators and entrepreneurs might have been cut off from the capital they need to do business. But with the President’s plan now in place, we can build once again on positive elements of our economy such as

strong GDP growth of about 3% in the 2nd quarter, the modest jump in consumer confidence last month, and record exports -- up 19% from last year.

I want to be clear about how the \$700 billion will be used, because this is a whole lot of money, even by Washington standards. First of all, the legislation does not give the Treasury blanket authority to write a \$700 billion check and send it into the ether. In fact, at the end of the day, this plan will likely make money for the taxpayer. Folks and organizations ranging from CNBC's Jim Cramer to Warren Buffett to Jack Welch to the AARP to the U.S. Chamber of Commerce all agreed that this package was needed and was the right thing for our nation and our economy.

Now the securities that the Treasury will buy -- the ones that no one else wants to buy -- are backed by families paying mortgages on the homes in which they live. Moreover, the Treasury should be able to purchase them for less than their book value -- in some cases 20 to 40 cents on the dollar -- and then resell them -- at a profit -- after the housing market revives. Both the Office of Management and Budget and the Congressional Budget Office estimate the ultimate cost will be far less than \$700 billion.

History suggests that the President's plan will work, as did the Federal plan to dispose of failed thrift assets during the savings-and-loan crisis of the 1980s. Other similar Federal interventions were also effective, such as the loan we gave Chrysler in 1980 -- which was paid back ahead of schedule with interest -- and the assistance we provided to the government of Mexico in 1995, which I'm told netted the Treasury about \$500 million.

### *The President's Commitment to Innovation*

So I remain bullish about the prospects of the President's plan leading us out the financial storm that was brewing. But there is another side of the economy that we need to pay attention to as well -- the promise of innovation, technology, and entrepreneurship.

The importance of innovation cannot be overstated or applied broadly enough. Given the dynamics of our global economy, we can no longer rely on business models designed for yesterday's environment. If we know anything about the future, it's that being able to adapt is the key to success. It comes down to our ability to innovate.

This is why I suggest that the strategy for the United States in competing in the 21st century is built around the following equation:

*Entrepreneurship drives innovation . . .*

*Innovation drives productivity . . . and*

*Productivity drives higher wages and higher standards of living.*

And you and your companies are the first, critical element of this equation. Our nation cannot achieve prosperity and a higher standard of living without the innovation and entrepreneurship you bring to our economy.

This is why President Bush proposed the American Competitive Initiative in the 2006 State of the Union Address. This \$6 billion measure would strengthen education, encourage entrepreneurship as well as leading-edge technologies, and substantially increase the Federal commitment to basic research. The initiative calls for the doubling of Federal investments in research within ten years – making the Federal commitment to research the same percentage of GDP as during the Apollo Space Program in the 1960s.

Congress passed legislation supporting much of the Initiative in the form of the **America COMPETES Act of 2007**. But when time came to appropriate funds,

Congress fell short. Full funding for the Initiative is what the President and I continue to press for – and hope the new Administration – of either party – will pick-up next January.

The Bush Administration is pushing these things because we are convinced that our ability to innovate is what gives America her competitive advantage in the global marketplace. It's not location. It's not the cost of doing business. It's not the currency rate of the day. These factors will continually shift -- but if a nation, city, or business can remain on the cutting edge of innovation, it will grow and prosper.

In other words, innovation is the foundation of a robust economy. If we want an expanding economy, we need more citizens who take risks, work hard, and start new enterprises. We will need fewer larger corporations and more *local* small innovators and pioneers in Florida and across the country . . . in new industries using new strategies and new inventions.

Likewise, if we want a robust GDP that delivers a rising standard of living – enabling families to move up the economic ladder, to buy homes, and to fund their children's education – we cannot underestimate the dynamic role that small businesses play in driving the innovation needed to reap that level of growth.



As I remind audiences as I travel the country, the nature of competition has changed dramatically. Today, in our “Tom Friedman-the world is flat-global marketplace”, our competition is not from the company, town, or even state next door. Our competition today comes from any person, on any point on this globe with a good idea, a good education, and a good Internet connection.

If I put on my old hat as the head of the Economic Development Administration, allow me to highlight how this new reality of the global marketplace impacts the practice of economic development.

First, we need to adapt our economic development approach away from the old model of chasing the next smokestack. Today, successful regional economic development and job creation is increasingly dependent upon efforts to grow existing local small companies – especially companies like yours that are focused on next generation technology applications.

Second, we must break out of the old mindset that engagement in international trade is only something a company can do once it has mastered their local, regional and national markets. In today’s global marketplace, especially with the free trade agreements put into place under President Bush’s leadership, is ripe

with opportunities for U.S. companies. In today's environment, you can have a minimal presence in your backyard, but be successfully exporting to countries across the globe.

### *The Role of the SBA*

Of course, I'm here as the head of the Small Business Administration – an organization I am proud to lead. The SBA was created in the 1950's with an amazing mission – especially for its time – to focus on supporting small businesses and entrepreneurs. That's a terrific mission and I am grateful that the American people and our leaders over multiple decades recognize the critical role small businesses play in both our cultural fabric and economic well-being.

But perhaps most important given the name and focus of this conference, the SBA works to ensure that small businesses receive a fair share of the government's spending of research dollars.

We are responsible for the federal government's **Small Business Technology Transfer Program** and the **Small Business Innovation Research Program**.

Working in partnership with 11 federal agencies, both programs help innovative

start-up businesses get the money they need to finance research and development, and to take the first steps toward commercialization.

For the Technology Transfer Program, five agencies qualify – which means each has an external research and development budget of more than \$1 billion – and each must reserve 0.3% of that budget for the program. For the Innovation Research program, 11 federal agencies qualify – which means that each agency has an external research and development budget of \$100 million or more – and must reserve 2.5% of those dollars for the program.

The Innovation Research program provides more than \$2 billion to about 6,000 small businesses every year -- helping to address the gap in early-stage innovation financing, support projects before they receive venture capital financing.

I'm proud that I lead a government agency that takes entrepreneurship and innovation seriously. Last year, the SBA counseled more than 1.4 million entrepreneurs. We guaranteed more than 110,000 small businesses loans totaling more than \$20 billion. And we helped small business to secure almost \$140 billion in Federal Government-related contracting.

## Closing

Let me end where I began this afternoon; with the state of our economy and the Financial Rescue Package signed by the President on Friday.

I remain hopeful regarding our economy. I am hopeful because I have seen this great nation tackle and overcome all sorts of challenges in just the last few years. From the Y-2-K scare, to the bursting of the dot-com bubble, to the 9-11 terror attacks, to corporate scandals, and large natural disasters, we've proven that we can take a hit and keep on growing -- it's one of our unique strengths as Americans.

This crisis has given voice to some of the shrill – but perhaps well-meaning – voices who are advancing the “Chicken Little Theory.” My perspective is that while no one can dispute the sobering nature of the news of recent days, we should not overreact – one way or another.

The economic obit of America has been written before.

- In the oil shock of the early 1970s – many believed that our best days were behind us.

- In the late 1970s – when we experienced stagflation and malaise many believed that we had to lower our standard of living.
- In the early 1980s – the recession of '81 – '82 caused some to lose confidence in both the big government ways of the 1970s and the new direction that Ronald Reagan and George H.W. Bush wanted to take the nation.
- In 1986 – we saw a true stock market crash, a 23% drop in the value of the stock market in just one day.
- In the early 1990s – the rise of Japan's economy caused some to believe that America was incapable of competing against the world and we were headed to be a second-rate economic power.
- In 2001 – the terrorist attack on the Pentagon, the World Trade Center, and in Shanksville, Pa., shook our confidence to the core.

The predictions of doom and gloom for each of these events were no more valid then, than the similar predictions I hear today. Is the challenge we face today different? You bet – just as different as each of these previous challenges were from each other. Yet, for each of these challenges our country not just continued, but experience significant economic growth afterwards.

As we examine the causes of what brought us to this credit crisis, we must take a serious look at things like:

- The appropriate role of regulation in our financial markets.
- The level of complexity of some of the financial instruments that have developed over the years.
- And determine if we have created too many ways to make money – or lose money – by simply shuffling paper and not adding real value.

We have tough questions to ask and there will be plenty of folks asking them.

But as we do this, let's not forget some basic fundamentals relevant to this discussion:

1. Homeownership is a good thing. Long-term, homeownership is the largest wealth creator for most Americans. Homeownership provides stability to our nation, drives economic growth, and builds more livable and vibrant communities. Homeownership is a good thing.
2. Small business is the backbone of our economy. Two-thirds of all private sector jobs are created by American small businesses. Increased burdens and regulations on small businesses will stifle small businesses and thus stifle job creation.

3. Most small businesses are sole-proprietorships – S-corps – that are taxed at the individual rate. So beware of calls for “taxing the rich” because those taxes hit small businesses hard. We must separate the Bentley-driving Wall Street type from the Buick-driving successful small business owner with five employees trying to make payroll and dreams of expansion.
4. Business investment – not government spending – drives our economy and creates job opportunities. Unless the private sector is ready, willing, and able to invest in a community, economic growth simply will not occur – regardless how much government spends.
5. Finally, innovation is our nation’s only potential sustainable competitive advantage in our flat, 21<sup>st</sup>-century global marketplace. So, let’s remember where innovation flourishes. Innovation occurs in open and competitive markets. That’s why you see more innovation in toothpaste than you see at your local DMV. We promote job growth and economic prosperity by creating the conditions for small businesses to flourish and be innovative.

These are interesting times, no doubt. But, as I said, I am hopeful. Just as we addressed and succeeded through previous challenges – we will this time too.

History is a comforting guide. We are not a perfect nation, but we are closer to perfect than any other I know. The American dream lives and it remains strong. Yes, we faced a crisis. But we took action. We are moving forward. Tomorrow is a brighter day.

We have work to do in Washington. That work is geared towards allowing all you, business leaders, employers, and innovators, to do your job answering the “what’s next” question. Thank you for your leadership in our economy, thank you for your leadership here in Florida, and thank you for your kind attention today.