



Remarks Prepared for Delivery by

The Honorable Sandy K. Baruah
Acting Administrator
U.S. Small Business Administration

Delivered at the

**National Association of Small Business Investment Companies
50th Anniversary Annual Meeting**

Palm Beach, Florida

Monday, October 27, 2008
1:30 P.M.

Introduction

Thank you, Steve, for that kind introduction, and thank you for your leadership of NASBIC. It is a pleasure to be with you today in beautiful Florida and to be with my friend and former colleague, Brett Palmer. Brett and I served together at the Department of Commerce where he was considered a “rock star” so I know your organization is in good hands. I also want to acknowledge the service of Lee Mercer who ably led this fine organization for over a dozen years.

I could not be more delighted than to be here today to celebrate an important milestone; 50 years of a strategic partnership between the Small Business Administration and the National Association of Small Business Investment Companies.

President Bush would be very encouraged by what we are all celebrating today, as he strongly believes in free enterprise, innovation, and entrepreneurship. He also sees small business ownership as the gateway to greater opportunity for *all* Americans. As he has said on more than one occasion:

“If you own something, you have a vital stake in the future of our country. The more ownership there is in America, the more vitality there is in America, and the more people have a vital stake in the future of this country.”

Let me add that in our 21st Century – Tom Friedman – the world is flat – competitive global marketplace, *innovation* is our only potential sustainable competitive advantage. It’s not the cost of labor, it’s not location, it’s not the currency rate of the day. *Innovation* is our only sustainable competitive advantage.

I appreciate the opportunity to speak to SBA’s private-sector partners that provide the venture capital that sustains innovation and the small businesses that create it.

The Credit Crisis

As we celebrate your important role in fostering the high-growth entrepreneurs of tomorrow, we do so in unique times for our economy. We all know that 2008 has brought new challenges for our economy and for small businesses in particular.

Many Americans and small business owners – for understandable reasons – are concerned about *their* economic security and *our* economic future. The wild ride on Wall Street and the credit crunch has all of us – even those who always thought that Wall Street was far away and irrelevant to the lives of everyday small businesses and families – paying close attention to the intricate workings of the financial markets. Clearly, the credit situation is a serious one, and a situation that required quick and decisive action.

Quick and decisive action is exactly what the federal government has done.

Working around the clock and working in concert with governments around the world, the federal government led by President Bush and Secretary Paulson have brought an impressive array of tools and actions to bear on the financial crisis that began on Wall Street, but impacts all of us on Main Street.

There have been several announcements regarding the \$700 billion Emergency Economic Stabilization Act, and I want to walk you through the four key elements of this plan – all of which are designed to unfreeze our credit markets and get banks lending again, especially to small businesses and consumers.

- *First, Direct Capital Injection.* \$250 billion of the package will be used to provide direct capital injection into banks. For every dollar the government injects into these banks, banks will be able to make up to \$10 in loans – this is critical at a time when the financial system is short on the liquidity needed to lend. In exchange for this capital injection, the government will acquire non-voting shares in these banks – which the banks will pay a yearly dividend and will buy back in about five years, ensuring the taxpayers get their investment back. This program will provide banks with what they need now – capital to lend to consumers, students, and businesses – with a mechanism that will allow the taxpayers to get repaid.
- *Second, Expanded FDIC Insurance.* The FDIC, in addition to the increased insurance on deposits – now \$250,000 – will expand its insurance in significant ways. The FDIC will now insure many types of bank-to-bank loans. This inter-bank lending, which is central to the functioning of our capital markets, has become frozen. With this new temporary insurance banks will be able to lend to each other with confidence.

Additionally, the FDIC will now temporarily insure non-interest bearing accounts – for an unlimited amount. These accounts, commonly used by businesses of all sizes for meeting payroll and inventory purchase needs, were previously not covered by FDIC insurance. This will give businesses confidence that their business deposits are safe and they will not be inclined to pull these accounts if they believe their financial institution is shaky – thus accelerating the financial challenges of a particular institution.

- *Third, Commercial Paper Purchases.* The Federal Reserve will now have the authority to be the buyer of last resort for commercial paper, used by businesses for short-term financing. With the FED serving as a possible purchaser of these assets, it will help unfreeze this market and get capital flowing again.
- *Fourth, Mortgage Backed Securities Purchase Plan.* This is the plan we all heard so much about in the early days of the Congressional debate over the Emergency Economic Stabilization Act – the plan to buy up some mortgage-backed securities that are clogging our financial system. These mortgage-backed securities are essentially mortgages held by folks like you and me, living in real homes, with real values. The government will

be able to buy these bundled home mortgages at a steep discount – 20 to 40 cents on the dollar – and resell them later at a profit. This will provide the immediate benefit of getting these unpopular assets off the market, get capital flowing again, and provide a net profit to the taxpayer in the long-run.

This plan can be plainly described as the American people taking a loan from ourselves in order to buy an asset, a mortgage-backed security, which we know is *on sale* today. We'll hold that asset until its value increases, then we'll sell these assets back into the private market at a profit. This plan make even more sense when you realize that even today, about 95% of all Americans are paying their mortgages on time.

All these elements add up to a “*failure is not an option approach*” to the credit crisis and will get capital flowing to Main Street again. While the credit problems will not be solved overnight, we are already seeing that the Treasury plan is working:

- The LIBOR rate continues to fall; and
- Long-term Treasury rates are moving in the right direction.

All these actions taken under the leadership of President Bush and Secretary Paulson are big and bold enough to work over time, to preserve confidence in our free market system. Those of us who work for this President didn't simply wake up one day and say, "*hey, let's give socialism a try.*" We are in extraordinary times and extraordinary action was called for. When government, and only government, has the scope, patience, and resources to act, I believe it has the *obligation* to act – and your government has acted to bolster our free market system.

These efforts, as bold as they are, are also limited in scope and duration. These are temporary measures – and have strong provisions to ensure that the taxpayers' dollars are protected and that the government is not in a position to exercise management over private sector entities.

Role of Innovation and Entrepreneurship

While we are focused on the credit crisis of today, let's not lose sight of the bigger picture. Even in a downturn, innovation is key and small businesses remain the backbone of our economy, providing two-thirds of private sector employment. Small businesses are also drivers of innovation, providing 13-times more patents – on a per capita basis – than larger businesses. This is why

smart large companies cultivate close strategic partnership with emerging small businesses – that’s where a lot of the new ideas come from.

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 – or government approaches – designed for yesterday’s environment. If we know anything about the future, it’s that being able to adapt is the key to success.

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.

You and your investment companies are the first, critical element of this equation. Unless investment companies like yours work to *find and fund* the innovative companies of tomorrow, our nation will lose one of key competitive advantages in the 21st Century global economy. Your efforts to promote

competition and the disruptive technologies that are developed by small businesses are key to maintaining American competitiveness.

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. I find this a simultaneously exciting and sobering thought.

Putting Things in Perspective

And while “sobering” can also be used to describe the state of our financial markets, let’s put today’s challenges in perspective.

The financial crisis has given voice to some of shrill voices who are advancing the *Chicken Little Theory* – the sky is falling. Let’s not forget that the economic obit of this country has been written before – several times just fairly recently.

- 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 1987 – we saw a true stock market crash on “Black Monday,” when the value of the stock market dropped 23% 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.

The predictions of doom and gloom for each of these events were no more valid than than the similar predictions I hear today. Do we face tough challenges today? You bet – just of these challenges differed from the previous. Yet, with each of these challenges, we not only survived, but we would go on to experience significant economic growth afterwards.

As we deal with these challenges, I want to assure you that the government is taking serious and intelligent action – and we are doing so in close coordination with leading economies across the globe. My former colleagues at Department of Commerce recently launched website, *EconomicRecovery.gov* that will help consumers, businesses, homeowners, and anyone interested learn all the actions – macro and micro – that government is taking to address this crisis. Federal agencies ranging from Treasury, FDIC, Housing and Urban Development, Commerce, and of course SBA, are all contributing content to this site – and I encourage you to check the site periodically to understand the resources that are available to you.

These are challenging times, no doubt. But I remain optimistic about the promise of America, and the promise of our free-market economy, and the promise of small business. Just as we addressed and succeeded through previous challenges – we will this time too.

Thank you again for your role in advancing the mission of SBA. Thank you for leadership, thank you for your kind attention today, and on behalf of President George W. Bush, congratulations on 50 years of partnership with SBA and success in supporting small businesses in America.