

May 6, 2020

The Honorable Nancy Pelosi  
Speaker  
U.S. House of Representatives  
H-232, The Capitol  
Washington, DC 20515

The Honorable Mitch McConnell  
Majority Leader  
United States Senate  
S-230, The Capitol  
Washington, DC 20510

The Honorable Kevin McCarthy  
Minority Leader  
U.S. House of Representatives  
H-204, The Capitol  
Washington, DC 20515

The Honorable Charles Schumer  
Minority Leader  
United States Senate  
S-221, The Capitol  
Washington, DC 20510

Dear Speaker Pelosi and Leaders McConnell, Schumer, and McCarthy,

Thank you for your service to our nation during this exceptionally challenging time. In particular, we thank you for the time and energy that you and your Congressional colleagues devoted to crafting the **Coronavirus Aid, Relief, and Economic Security (CARES) Act** and the **Paycheck Protection Program and Health Care Enhancement Act**, historic legislation critical to preserving the nation's millions of small businesses, which employ 60 percent of the American workforce.

We write today to urge the immediate passage of the **New Business Preservation Act**, which we believe is also essential to our nation's ability to weather and recover from the economic damage inflicted by the coronavirus emergency. The Act was introduced in the Senate (S. 3515) on March 18<sup>th</sup> by Senators Amy Klobuchar (D-MN), Chris Coons (D-DE), Tim Kaine (D-VA), and Angus King (I-ME), and was introduced in the House (H.R. 6403) on March 26<sup>th</sup> by Reps. Dean Phillips (D-MN), Terri Sewell (D-AL), Ro Khanna (D-CA), and Tim Ryan (D-OH). The legislation would create a new federal program to incentivize continued venture capital investment in America's most innovative and promising young companies, or "startups."

Repeated research has demonstrated that startups are disproportionately responsible for the innovations that drive economic growth<sup>1</sup> and job creation.<sup>2</sup> Startups, therefore, are crucial to the U.S. economy's capacity to sustain and recover from the coronavirus emergency and the damage it has inflicted on economic growth and the labor market.

Despite their unique economic importance, startups are also extremely fragile because they are new – with half of all startups failing within their first five years. Because of their risk profile, many startups are unable to secure bank financing like existing small businesses and instead rely on venture capital, which has been a major source of financing for young innovative companies since the late 1940s.

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<sup>1</sup> "Innovative Growth Accounting," Peter J. Klenow and Huiyu Li, NBER Working Paper No. 27015, April 2020

<sup>2</sup> "The Role of Entrepreneurship in U.S. Job Creation and Economic Dynamism," Ryan Decker, John Haltiwanger, Ron Jarmin, and Javier Miranda, *Journal of Economic Perspectives*, Volume 28, Number 3, Summer 2014, pp. 3–24

Venture capital firms are long-term investors that provide early-stage capital – raised from institutional investors like pension funds, insurance companies, university endowments, and foundations – to new and rapidly growing companies in exchange for an equity stake in the company. Venture firms also assist in the management and professionalization of the young companies in which they invest, typically taking seats on the board. Venture capital has helped finance thousands of American companies, including Intel, Federal Express, Apple, Microsoft, Google, Cisco, Home Depot, and Starbucks.

The coronavirus crisis poses a major threat to this vital source of startup financing. Indeed, a research note issued on March 31<sup>st</sup> by Pitchbook, the leading source of venture capital data and analysis, predicted “a decline in total venture transaction volume over the next few quarters,” with the greatest impact expected in “ecosystems outside of the major investment hubs” of Silicon Valley, New York City, and Boston.<sup>3</sup>

Meanwhile, thousands of fragile startups have been shut out of the Paycheck Protection Program<sup>4</sup> and the Federal Reserve’s Main Street Lending Program,<sup>5</sup> with many forced to lay-off employees<sup>6</sup> or close their doors permanently.<sup>7</sup>

Simply stated, the coronavirus emergency has imperiled an entire generation of the nation’s most innovative and promising young companies – and, in turn, the demise of thousands of these companies imperils the post-coronavirus economic recovery.

The **New Business Preservation Act** would address this threat to the nation’s startups and economic resilience by establishing a program, administered by the Treasury Department, which would allocate \$2 billion in federal dollars (\$1.5 billion initially, and \$500 million in follow-on investment) to the states on a straightforward population basis to attract private venture capital by offering a 1-to-1 match of federal dollars with venture capital investment in promising startups, particularly in states outside the major venture capital centers.

The legislation is modeled on Israel’s “Yozma” program of the late-1990s, which successfully incentivized U.S. venture capital firms to invest in promising Israeli startups, and builds on other successful federal-state partnerships to support small businesses, such as the State Small Business Credit Initiative (SSBCI).<sup>8</sup>

<sup>3</sup> “COVID-19’s Influence on the US VC Market,” Pitchbook, March 31, 2020.

<https://pitchbook.com/news/reports/q2-2020-pitchbook-analyst-note-covid-19s-influence-on-the-us-vc-market>

<sup>4</sup> “U.S. Seeks to Ease Small Business Loan Process, but Startups Fear Being Shut Out,” Kate Davidson, Rolfe Winkler, and Dave Michaels, *The Wall Street Journal*, April 4, 2020.

<sup>5</sup> “Startups Are Struggling to Get PPP Money – Now a Fed Rule May Freeze Them Out of Loans, Too,” Emily Birnbaum and Biz Carlson, *Protocol*, April 23, 2020.

<sup>6</sup> “Startups Are Pummeled in the ‘Great Unwinding’,” Erin Griffith, *The New York Times*, April 1, 2020.

<sup>7</sup> “The ‘Undertaker of Silicon Valley’ Stays Busy as Startups Lay Off Thousands,” Bobby Allyn, National Public Radio, April 20, 2020.

<sup>8</sup> <https://www.treasury.gov/resource-center/sb-programs/Pages/ssbci.aspx>

Importantly, the legislation is carefully structured so that the federal government will not “pick winners and losers,” but rather will rely on private entities to source and manage investments in promising early-stage companies in every state. All investment decisions will be based entirely on private investor determination of the economic prospects of the new companies receiving equity capital.

Finally, the program authorized by the Act is intended to be “evergreen,” with any gains from investments following exits to be used to incentivize future rounds of private investment in heartland startups.

The survival of America’s most innovative, promising, and fastest growing new businesses is vital to a strong economic recovery following the coronavirus emergency. We respectfully urge that you support the **New Business Preservation Act** and ask that you work with your Congressional colleagues toward its immediate passage.

Thank you again for your tireless work to date to protect the U.S. economy, American workers, and their families.

Sincerely,

Center for American Entrepreneurship  
Economic Innovation Group  
Engine  
International Business Innovation Association  
Information Technology and Innovation Foundation  
Progressive Policy Institute  
Small Business and Entrepreneurship Council  
Small Business Majority  
TechNet  
Third Way

cc: Senator Marco Rubio (R-FL)  
Senator Ben Cardin (D-MD)  
Representative Nydia Velazquez (D-NY)  
Representative Steve Chabot (R-OH)