

Why Investing in America's Infrastructure Will Help Our Small Businesses Grow Right Now and Keep Them Competitive for the Future

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I spent the last five years working in Washington as a member of the President's Cabinet and as the SBA Administrator. Every week I travelled across the U.S. visiting small businesses—businesses that made everything, from high-end jeans to high-tech medical devices to tomato sauce.

And wherever I went, I encountered an economic anxiety. First, because of the recession, small businesses were just wondering, "Am I going to survive?" And today, despite all the progress we've made in the recovery, the anxiety continues. People are asking, "Will that core component of prosperity, a well-paying job, be there for me and my kids?" This anxiety is not just idle fear. It is real, and economists know it. That is why some economic commentators have called this a jobless recovery and worry that we are entering a period of "secular stagnation".

So, what is Washington doing? On Wednesday, President Obama called for a "grand bargain on jobs" to pair major new investments in our infrastructure with corporate tax reform. There is a lot of merit to that proposal, and I know that we will be discussing it more over the next few days at this summit and in the weeks to come as we gear up for a national debate on the transportation reauthorization bill. But, for the past few years, Washington has been consumed by a rancorous debate about debt and deficits. It is an important debate, and we are making progress. The federal deficit in this last fiscal year was down by more than half — 4.1 percent of GDP, down from 9.8 percent in 2009. This is the most rapid deficit reduction since World War II.

But, we cannot just cut our way to growth. Harvard's very own Larry Summers recently noted that even a 0.2 percentage point increase in the Congressional Budget Office's annual expected GDP growth rate would eliminate the long-run budget gap.

So, we have got to think about growth. That is the only way we are going to address people's economic anxiety. And that means game-changing investments for our nation's future, including helping small businesses and entrepreneurs, improving skills and education, and — yes, what we are here to talk about today — improving our nation's infrastructure.

Small Businesses Are America's Job Creators

First let me say that small businesses have to be at the center of our competitiveness strategy because they are America's job creators. The facts are that America's 28 million small businesses create two out of every three net new jobs. Half of the people who work in this country own or work for a small business.

Not all small businesses are created equal. Some are start-ups that revolutionize their industries. Others are suppliers that make large corporations like GE more productive. Then there are Main Street businesses that are critical to our communities.

Small businesses were hit hard during the financial crisis with a perfect storm of declining sales and frozen credit markets. That's why small businesses lost 40 percent more jobs and took longer to recover than larger businesses. This is consistent with economic literature that tell us small businesses are always hit harder during financial crises because they are more dependent on bank capital to fund their growth.

Over the past few years, we have turned a corner. Small businesses have created jobs in every quarter since 2010, and are back to creating two out of every three net new jobs. But, we are still about a million jobs short of the overall pre-recession peak, and that does not even include the jobs we need to create to keep up with population growth as well.

So, we have to ask ourselves: Are we doing everything we can to put the wind at the backs of our job creators and make them more competitive? I think we can do more.

Infrastructure Investment Is Key to Helping Small Businesses Grow and Create Jobs

We all know that the financial crisis came on top of a set of economic challenges that had been bubbling up for years. As a nation, we have been underinvesting in infrastructure for the last two decades. Public investment in the U.S. has hit its lowest levels since demobilization after the Second World War, as gross capital investment by the public sector has dropped to just 3.6 percent of U.S. output compared with a postwar average of 5 percent. And, as a result of historic underinvestment in U.S. infrastructure, the U.S. has tens of thousands of "structurally deficient" bridges in the country today.

Helping Small Construction Companies Recover from a Devastating Recession

Let me make two quick points about the importance of infrastructure investment to small businesses because I think that often times the needs of our small business owners have not been front and center in this discussion.

First, when we think about infrastructure spending, we think about its near instant effect on aggregate demand and that multiplier across our economy. So, if we repair a bridge or build a port or an airport, we

are immediately employing people. Those people are immediately earning income. And, they are immediately spending that income across our economy, including at our small businesses on Main Street.

Nowhere is this more evident than in the construction sector. About 80 percent of jobs in construction are at small businesses. That is the largest small business concentration of any industry. There is no doubt that investment in infrastructure would be an immediate stimulus to small construction companies—and at a time when they desperately need it. The President’s Council of Economic Advisers has shown that 61 percent of the jobs directly created by investing in infrastructure would be in construction. And, McKinsey recently estimated that if we close the infrastructure gap, and increase spending by 1 percentage point of GDP in the coming years, we can create 1.8 million jobs—including 1.3 million jobs in construction alone. That is important because construction companies lost 2 million jobs during the recession. And, while we have made some progress, the sector has not fully recovered, with an unemployment rate that’s over 12%. In fact, Goldman Sachs has estimated that all of America’s missing small business jobs are because of weakness in construction.

That is the short-term effect, and it is pretty powerful.

Investing in the Long-Term Competitiveness of Our Small Businesses

There is also a longer-term effect: small suppliers and exporters are key end-users of our infrastructure, so when we invest in our infrastructure, we are investing in them too. So, the consequences of underinvestment — congested roads, crumbling bridges, delays at airports and even slow broadband speeds and spotty wireless connections — are more than just a test of endurance for commuters and consumers. Small businesses need infrastructure to facilitate the free flow of their goods. Without modern infrastructure, products cannot move quickly. Supply chains are at risk. And businesses are more reluctant to invest.

Just look at broadband. Now, we have actually made major strides with increasing access to broadband and wireless. In 2000, just 4 percent of American households had a home connection to broadband — now it’s 70 percent. Average speeds have doubled in the past five years.

Let me give you a few examples of why broadband matters for small businesses, and how investments in our infrastructure have fueled their competitiveness.

High speed broadband is enabling the rise of cloud computing, which is helping small businesses forego the costs of installing and managing hardware and software by buying only what they need from the cloud. That can be a game-changing equalizer for small businesses because it gives them access to the same technologies as big companies without requiring additional hardware or hiring new staff with technical expertise. The cloud services industry grew to \$45 billion worldwide last year, and a big part of that growth came from six million small businesses purchasing their first service through the cloud.

And, in under five years the burgeoning app economy has created almost 800,000 jobs. Many of these app entrepreneurs are transforming how we use our infrastructure. Apps like Uber are changing how we use

taxis. There is even an app that the Mayor of Chicago is using to track potholes and repairs across the city's roads. None of that would have been possible without significant investment in our broadband and wireless access. Annual investment in U.S. wireless networks grew more than 40 percent between 2009 and 2012, at time when investment in Europe remained flat.

But, gaps in our broadband and wireless access remain. For example, we need to do more to ensure affordable, reliable and fast connections across our country, and especially to rural areas and minority communities. When I started working with the Maine boat builders in 2005, one of their big issues was the lack of broadband access in the rural coastline because they needed to transmit large blueprint files back to the navy or private owners.

Recovery Act as the Largest Public Works Investment Since the New Deal

It is clear that investments in infrastructure are critical to small businesses. But, the price tags are too big for them to contemplate alone. So, who will do it?

I want to say a bit about the potential for public-private partnerships in spurring greater investment in our infrastructure. But, before I do I just want to note that there is still a need for well-executed public investment.

Last week marked the five year anniversary of the Recovery Act, and I think there are some powerful lessons there. The Recovery Act was the largest single investment in public works since the New Deal. \$48 billion were invested in 15,000 infrastructure projects across the country, including roads and bridges and over 110,000 miles of broadband.

After I was confirmed, one of my first meetings was with the Vice President. He was in charge of the Recovery Act, and brought together the Cabinet every two weeks for months. I remember sitting in the room as he went around the table challenging each agency to get money out into the economy in strong projects. And he took to heart the goal of making sure small businesses got more than their share of the contracts. In the end that meant billions of dollars went to small businesses. And overall, the Recovery Act is credited with helping to avert a second Great Depression and save or create an average of 1.6 million jobs a year for four years through 2012.

My point is that public spending on infrastructure works. The growth multiplier is real. And today, we can borrow money in the 3 percent range for 30 years. So, why not invest in our bridges and our ports and our airports right now? As has been said many times today, there is nothing fiscally responsible about deferred maintenance.

Importance of Public-Private Partnerships and My Experience at the US. Small Business Administration

Public investment is key. But today we need to add another approach to the mix—public private partnerships. The good news is that if we get private dollars to invest in financeable projects then we can free up taxpayer dollars for other critical projects. The bad news is that the U.S. lags other nations in public-private partnerships which invest in infrastructure. Brookings found that between 1990 and 2006, public-private partnerships in the US only funded \$10 billion in transportation investments compared to \$50 billion in the UK. And during the same time period public-private partnerships in the rest of Europe increased six-fold. And, worse yet, today the U.S. captures only 9 percent of global private infrastructure investment versus 46 percent in Europe; yet we are home to more than 50 percent of the global institutional capital.

I am going to leave it to the experts — and perhaps all of you during this summit — to debate the merits of which particular policy is best to spur private investment, But, I just want to say from my own experience as SBA administrator: public-private partnerships can be pretty powerful.

SBA has a loan guarantee portfolio of over \$100 billion. It operates as a public-private partnership with 5,000 lenders across the U.S. And because we were not making the loans, just guaranteeing them and taking some of the risk off the table for banks, we were able to deploy a record \$30 billion dollars in capital a year, for less than a billion dollars. And all this money helped small business that the market was not reaching access the capital they needed to grow.

A second model is the Small Business Investment Company or SBIC partnerships with which some of you may be familiar. We used this to get equity capital into small businesses that venture capital was not reaching. But it may be a useful model for infrastructure investments that have some cash flow. In this structure private investors make the decisions on which projects or companies will get the investments, which helps ensure that the projects have a good economic rationale. And the SBIC model last year deployed over \$3 billion to America's most promising entrepreneurs, at zero cost to taxpayers.

Both of these programs have an important lesson: the federal government does not have to go it alone—a little government money can go a long way as a multiplier for private capital by incentivizing private capital where the risk may otherwise be too great to justify the return.

Now is the time to act. As we move beyond economic recovery we must invest to grow our economy and keep it competitive. We must innovate in how we get money to critical infrastructure projects, and business has an important partnership role to play. And in setting our priorities, we must focus on those policies that help small businesses and entrepreneurs grow and create jobs. Because when they succeed, our country and all our citizens will find a more prosperous future.