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Chair, Senate Committee on Small Business and Entrepreneurship
“Strengthening Participation of Small Businesses in Federal
Contracting and Innovation Research Programs”
July 12, 2006

Opening Statement

Good morning, and welcome to today’s hearing on strengthening the participation of small businesses in Federal contracting and Innovation Research programs. I want to thank all of the small business representatives for being here today as we examine small businesses’ ability to succeed in the federal procurement arena and the small businesses role in innovation through the SBIR program. I particularly want to thank Inspector General Thorson for his appearance today. It is his first appearance before this Committee since his confirmation.

According to the Small Business Administration, small businesses received a record-breaking amount of Federal prime contracts – \$79.6 billion – in Fiscal Year 2005, a \$10 billion increase from the previous year. Moreover, the SBA reports that these contracts represented 25.4 percent of federal prime contracting dollars in 2005, surpassing the overall government statutory goal of 23 percent for the third consecutive year. This is welcome news. The oversight I have conducted in this Committee, however, strongly suggests that caution and corrective legislation is necessary before these numbers may be accepted at face value.

It has been the President’s goal that all agencies are fair in their procurement policies and un-bundle those contracts that make it more difficult for small businesses to compete. Because small businesses drive our

nation's economic growth and job creation, it is critical that these policies are upheld so small businesses have a fair and equal opportunity to do business with the government.

Small businesses propel our economy by creating jobs, strengthening communities, empowering entrepreneurs, and assuring economic revitalization in America. With the help of Federal contracts, small firms created or retained almost half a million jobs in Fiscal Year 2004. And taxpayers have enjoyed a staggering \$2.52 billion in savings since 1985 through the SBA's program to break out large contracts for competition among small firms.

The Federal government's record of meeting its promises to America's small contractors is decidedly mixed. On the positive side, some agencies have exceeded the statutory small business goal and the government has surpassed the 5 percent goal of contracts for small disadvantaged businesses and the goals for 8(a) small disadvantaged businesses.

At the same time, government data shows that small companies owned by women, service-disabled veterans, and those located in the Historically Underutilized Business Zones (HUBZones) have not been given fair access to Federal contracts. Regrettably, these programs have not received the support they deserve. I am particularly troubled by the SBA's decision earlier this year to close the Office of Federal Contract Assistance for Veteran Business Owners.

Many in Washington assume that large firms turn out all the new ideas because they have more people or money. The truth is – small businesses are our nation's most innovative sector! The numbers are indisputable – America's small businesses hold 40 percent of our national patents, they

obtain 13 times more patents per employee than large firms, and their patents are twice as technologically significant as large firm patents.

Government agencies must be diligent about meeting their contracting goals and ensuring that these contracts go to small business – not large corporations. It alarms me to hear recent claims that the government has included in these small business statistics billions of dollars in awards to some of the nation's largest corporations.

Documents released by the SBA Office of Advocacy and the Office of Inspector General has confirmed that the government has reported billions of dollars in contracts to large corporations such as Insight, Northrop Grumman, Raytheon, and Titan, as small business awards. This type of misleading reporting must come to an end. Large firms posing as small must be aggressively prosecuted and debarred from Federal contracts, and the government must uphold its obligation to small businesses.

We would be remiss if we simply accepted the status quo of the current contracting environment for small businesses. Our economy flourishes when small businesses partner with the Federal government.

Today, we will also address issues surrounding the vitality of the Small Business Innovation Research Program and its companion, the Small Business Technology Transfer Program. Small businesses face barriers to commercializing their new technologies through Federal contracts and subcontracts, especially at the Defense Department. In particular, there is concern about the proper level of involvement for venture capital investment. I hope this hearing will enable all sides in this debate to achieve a reasonable compromise on this issue.

As an original co-sponsor of the SBIR Program legislation, which was adopted in 1982, I am proud of the program's record of directing over \$21 billion in Federal research and development funding to America's small innovative firms. Unfortunately, the small business share of Federal research and development dollars has historically amounted to less than 3 percent. Practices that exclude small firms from Federal R&D lack foresight and hinder our competitiveness.

The SBA proposes for a third year to eliminate two grant programs, Rural Outreach and the Federal and State Partnership, which assist states in preparing their local small innovators for SBIR competitions. These programs leverage the infrastructure of state technology agencies and non-profit research incubators to increase the geographic diversity and competitiveness of small hi-tech firms for states such as Maine, which have comparatively lower participation in federal R&D efforts. Clearly this is a step in the wrong direction, especially at a time when our key competitors, such as China, are aggressively expanding their technological base by copying the very programs the SBA is seeking to abolish.

The President's Contract Bundling Initiative is also presently "on life support." According to reports prepared by the Government Accountability Office and the SBA's Inspector General last year, most agencies claim confusion about what constitutes contract bundling. And the confusion is only compounded by the fact that the SBA failed to review over 80 percent of contracts identified as bundled.

The future economic success of our nation requires an environment that encourages risk taking and competition, and the programs we will discuss today are an integral part of that effort.

I now recognize the ranking member, Senator Kerry.