



March 17, 2021

The Honorable Nydia Velázquez
Chairwoman, House Committee on Small Business
U.S. House of Representatives
2361 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Ben Cardin
Chairman, Senate Committee on Small Business and
Entrepreneurship
U.S. Senate
428A Russell Senate Office Building
Washington, D.C. 20515

The Honorable Blaine Luetkemeyer
Ranking Member, House Committee on Small
Business
U.S. House of Representatives
2069 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Rand Paul
Ranking Member, Senate Committee on Small
Business and Entrepreneurship
U.S. Senate
428A Russell Senate Office Building
Washington, D.C. 20515

The Honorable Maxine Waters
Chairwoman, House Committee on Financial
Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Sherrod Brown
Chairman, Senate Committee on Banking, Housing
and Urban Affairs
U.S. Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Patrick McHenry
Ranking Member, House Committee on Financial
Services
U.S. House of Representatives
4340 O'Neill House Office Building
Washington, D.C. 20024

The Honorable Patrick J. Toomey
Ranking Member, Senate Committee on Banking,
Housing and Urban Affairs
U.S. Senate
534 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairmen, Chairwomen, and Ranking Members,

Engine is a non-profit technology policy, research, and advocacy organization that works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship. Startups, like most businesses, have struggled to stay afloat—let alone grow their ventures—amidst the COVID-19 pandemic. But startups represent a unique force within the American economy—overall, new businesses create on average three million jobs annually,¹ are largely already adapted to an increasingly digital world, and are responding to challenges presented by the pandemic with

¹ Kauffman Foundation, *The Importance of Startups in Job Creation and Job Destruction* (July 2010), https://www.kauffman.org/wp-content/uploads/2019/12/firm_formation_importance_of_startups.pdf.

innovative solutions (including in the fields of healthcare and contact tracing).² And while nascent startups and extant small businesses often have overlapping concerns, the needs of the startup ecosystem can be very different. In short, startups fill a critical role in today's society and will largely be responsible for driving the country's economic recovery post-pandemic. We urge Congress to schedule hearings to identify the needs of the startup community and pursue legislation to improve the ability of startups to launch and grow, so that they are best situated to further boost economic and job growth.

Engine commends the efforts of congressional leaders to swiftly address the pandemic with much-needed relief for entrepreneurs, expanded unemployment insurance, support for vaccines, and stimulus payments. This work was important and necessary. But many startups were unable to take advantage of, for example, the Paycheck Protection Program (PPP), and due to its payroll threshold, some were only able to derive limited benefits.³ And underrepresented business owners were even more disadvantaged in obtaining relief.⁴

While Congress has held multiple committee hearings on the state of small business amidst the pandemic—including on assessing PPP and examining Main Street small businesses—little attention has been directly paid to the state of the U.S. startup ecosystem over the past year. And while some reports indicate, for example, that venture capital-backed startups have experienced growth during this time period, VC-backed startups represent less than one percent of the startup ecosystem⁵ (and woefully underrepresent diverse founders), and women founders have experienced a decrease in funding.⁶ And for those startups that lack extensive funding networks (including those that are self-funded), the pandemic has been particularly disastrous.

Engine has repeatedly surveyed the startups in our network throughout the past year to assess how they are faring during the economic uncertainty caused by the pandemic. Despite congressional efforts to offer financial assistance, we found that many entrepreneurs are still struggling. Our October survey found that the startup community is looking for Congress to move beyond PPP loans to provide targeted relief to startup founders. Although the recent COVID relief legislation included some measures—such as the Targeted EIDL Advance program—that directed funds to businesses truly in need, we encourage congressional leaders to take a deeper look at proposals to boost startup growth. This should include holding hearings to identify where the

² Joan Verdon, *Tech to Tackle a Pandemic: How Pandemic-Led Innovations Are Changing the Way Businesses Do Business*, U.S. Chamber of Commerce,

<https://www.uschamber.com/co/good-company/launch-pad/pandemic-technology-for-businesses>.

³ Engine, *Startup-Oriented Covid Relief Proposals*

<https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/5f15c9ebd0fec75789cbe677/1595263468537/Engine+Proposals+for+Future+%28Phase+4%29+COVID-Relief+Packages.pdf>.

⁴ Matt O. Dhaiti and Jamie Dohopolski, *Engine's Response to the Call for Comments on Expanding American Innovation*, Engine (Feb. 23, 2021),

<https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60366ecbd288114c62743c45/1614180046522/Engine+USPTO+diversity+comments.pdf>.

⁵ Meredith Wood, *Raising Capital for Startups: 8 Statistics That Will Surprise You*, Fundera (Feb. 3, 2020),

<https://www.fundera.com/resources/startup-funding-statistics#:~:text=4,%20startups%20raise%20venture%20capital>.

⁶ Eliza Haverstock, *Female Founders Face Funding Hurdles Amid the Pandemic*, Pitchbook (May 8, 2020),

<https://pitchbook.com/news/articles/female-founders-face-funding-hurdles-amid-the-pandemic>.

pressure points are, and then determining which proposals would be most beneficial to the startup community.

In our surveys, startups identified a number of steps policymakers could take to ease the economic uncertainty brought on by the pandemic.⁷ For example, legislation like the New Business Preservation Act could help direct venture capital funds to the founders and regions that need them the most. Congress could also explore creating a dedicated startup fund so nascent high-growth ventures would not have to compete with established companies for limited resources. Policymakers could also pursue long-term, low-, or no-interest loan programs that offer startups and small businesses the flexibility needed to direct funds toward their most critical needs. Additionally, Congress could pursue tax incentives as a way to boost startup growth. These options include creating a federal angel investor tax credit (similar to state models) and expanding the R&D tax credit so that more startups are able to benefit. These are merely a few of the opportunities available to Congress to advance the interests of the U.S. startup community, and Engine is happy to work with the relevant committees to provide potential policy priorities.

We encourage Congress to hold hearings on the state of the startup ecosystem amidst the pandemic. It is critical that Congress hear directly from a diverse array of startups—including women founders, founders of color, and rural founders—to understand how startups are struggling, and how they are poised to boost job growth and support the nation’s economic recovery as we emerge from the pandemic. Some industries will take years to recover from the pandemic, and the startup and technology industries at large could stand to be a significant source of jobs for reskilled Americans. Engine is happy to serve as a resource and bridge to the startup community for congressional leaders in pursuing this effort.

Thank you for your considerable efforts to address the challenges faced by our country during this difficult time. We look forward to working with you and hope to be a resource going forward.

Sincerely,

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policy@engine.is

cc: The Honorable Nancy Pelosi, the Honorable Kevin McCarthy, the Honorable Charles E. Schumer, and the Honorable Mitch McConnell

⁷ The Engine Team, *Startups Need Lawmakers to Find a Roadmap for Recovery* (Oct. 14, 2020), <https://www.engine.is/news/startups-need-lawmakers-to-find-a-roadmap-for-recovery>.