Mr. Donald J. Trump
Office of the Presidential Transition
1800 G Street, N.W.
Washington, DC 20006

December 1, 2016

Dear Mr. President-elect,

Congratulations on your recent election. Your campaign for president reflects the belief among many Americans that too many have been left behind by the modern economy. It is apparent that economic success has passed by large pockets of the country and that more must be done to create economic opportunity for all Americans.

Entrepreneurship is the key to expanded economic opportunity in the United States. From FedEx to Genentech, entrepreneurs have fueled growth and expanded opportunity across the American economy. America's venture capitalists have been hard at work supporting these startups with tremendous growth potential in areas like personalized medicine, next-generation computing, 3D printing, and synthetic biology.

Young companies, many of them venture-backed, create an average of 3 million new jobs a year and have been responsible for almost all net new job creation in the United States in the last forty years. In addition, venture capital has backed nearly half of all companies that have gone public since 1974, which have collectively been responsible for 85 percent of R&D investment during this period. In short, while a small industry by relative standards, venture capital is mighty in its outsized role in supporting economic activity and creating growth and economic opportunity.

27,000 U.S. venture-backed startups have received $290 billion in funding—and 11,000 of those received funding for the first time—since 2012. To put this into perspective, that calculates to about $170 million invested into 15 startups *each day*. An underappreciated truth is that startup activity has proliferated in the middle of the country in recent years. Since 2012, nearly half of all startups receiving venture capital backing have been based *outside* of California, Massachusetts and New York. Specifically, about 12,900 venture-backed companies in the other 47 states have raised $83 billion in funding since 2012. What's more, the collective annual growth rate of companies receiving funding in these states (10.1%) has exceeded that of the top three states. As a result, robust and unique startup ecosystems are now blossoming in states like Missouri, Ohio, and Pennsylvania.

Pittsburgh, Pennsylvania is illustrative of the way venture capitalists have partnered with local entrepreneurs to transform the local economy. From 2012 to 2015, the annual growth rate of the number of Pittsburgh-based startups receiving venture capital investment was 19%. Over that same period of time, Pittsburgh's per capita real GDP increased at an annual rate of 2.5%, the highest among a benchmark of 15 comparable cities. The positive effects of venture capital activity take years to unfold, but Pittsburgh's startup ecosystem, though relatively nascent, is showing encouraging signs.

Success stories like Pittsburgh have captured the attention of other countries that want to build entrepreneurial ecosystems of their own. These countries have seen how entrepreneurship has powered the U.S. economy and have rapidly reformed their policies in an attempt to compete. Decades-old regulations have fallen, smarter pro-growth tax policies have been put in place, and investment in human capital and basic research have increased beyond our borders. For instance, Canada now effectively has a refundable R&D tax credit, Germany has liberalized their loss limitation rules to boost innovative startups, and China has increased basic research by an average of 20 percent a year for the last decade. Collectively, these policies are drawing some of the best and brightest entrepreneurs to other nations.

Unfortunately, while our competitors have upped their game, American policymakers have taken our leadership in entrepreneurship for granted, as we detail below. Consequently, whereas twenty years ago U.S. entrepreneurs received approximately 90 percent of global venture capital investment, that share has fallen over time to only 54 percent in 2015. Further, in three of the last four years, at least half of the top ten largest venture investments in the world have occurred outside the U.S.

Innovation and entrepreneurship is now a global competition. Of course, competition among nations to build innovative startups is not a bad thing. But we must recognize that this competition has already started and we are losing ground. If we fail to engage now, our leadership may soon be in jeopardy. We believe America needs to commit to a strong entrepreneurship agenda as a way to build strong economies in all areas of our country. Specifically, the following policy proposals would facilitate the growth of the entrepreneurial ecosystem.

Support tax policy that encourages new company formation. Since the Reagan Administration, our tax code has been relatively effective at encouraging patient, long-term investment, but on net has been hostile to entrepreneurial companies. For example, punitive loss limitation rules punish startups for hiring or investing in innovation, while benefits such as the R&D credit are inaccessible to startups. Unfortunately, tax reform conversations in Washington have ignored these challenges while at the same time proposing to raise taxes on long-term startup investment to pay for unrelated priorities.

For instance, carried interest has been an important feature of the tax code that has properly aligned the interests of entrepreneurs and venture investors since the creation of the modern venture capital industry. Increasing the tax rate on carried interest capital gains will have an outsized impact on entrepreneurship due to the venture industry's longer holding periods, higher risk, smaller size, and less reliance on fees for compensation. These factors will magnify the negative impact of the tax increase for venture capital fund formation outside of the traditional venture regions on the coasts. In addition, the Qualified Small Business Stock (QSBS) rules currently under threat in tax reform have the potential to be one of the most powerful incentives for investment in non-coastal and early-stage startups, and should instead be reformed to make the rules easier to understand and administer.

We strongly believe that tax reform should protect what has worked successfully and fix the challenges in the code that discourage new company creation. A dedicated chapter in tax reform encouraging entrepreneurship would create a huge benefit for job creation and access to additional economic opportunity at a tiny cost relative to the major issues under discussion.

Make American capital markets work for small capitalization companies. Today's public markets are no longer welcoming to innovative, small-capitalization companies. Since 2000 the U.S. has been averaging a third of the number of IPOs per year compared to what we experienced in the 1990s and half of the number of IPOs per year compared to what occurred in the 1980s. The best year for IPOs since 2000 was 2014 when 207 companies went public, which would have been an average year when compared to the 1980s when we averaged 204 IPOs per year and a mediocre year at best during the 1990s when we averaged 409 IPOs per year. The result is that over the last 20 years, the U.S. has lost half of the total companies listed on its exchanges. This lack of new public companies has been a significant factor in the reduced access to opportunity the country has experienced. In fact, some estimate this lack of IPOs has cost the U.S. anywhere between 2 million and 22 million jobs.

It has become harder and more expensive to take a company public. The infrastructure that used to exist to support small cap companies, such as the small cap investment banks known as the "four horsemen," and the incentives for research of small cap stocks are all gone. And the changing market structure which has applied one-size-fits-all rules on all of our companies has left small cap companies behind. The JOBS Act was a great first step to reopening our public capital markets to startups and small cap companies. But many challenges remain, particularly for small and midsize public companies, that must be addressed so that we can grow more companies and create more good jobs here in America.

Encourage talented immigrants to build or work at American startups. Immigrant entrepreneurs have made outsized economic contributions to our country. A 2013 NVCA study found that fully one-third of U.S. venture-backed companies that went public between 2006 and 2012 had at least one immigrant founder. More recently, the National Foundation for American Policy found that immigrants have started more than half of America's startup companies valued at $1 billion or more.

Debate during the election often focused on illegal immigration, but unfortunately not how legal immigration can create jobs for American citizens, including in underemployed areas. This can be accomplished by attracting the world's best entrepreneurs to our country through creation of a Startup Visa and allowing more high-skill immigrants to help build startups.

There is bipartisan support for a Startup Visa because legal immigrant entrepreneurs have made incredible contributions to the American economy. Far from taking a job from an American, the Startup Visa could only be earned after an immigrant entrepreneur created new American jobs and received significant funding from venture investors or others.

Make life-saving medical innovation a reality. The future has never been brighter in terms of scientific and health care discoveries that are on the horizon. Venture capital is investing in revolutionary medical innovation and groundbreaking treatments and cures that are aimed at diagnosing, treating, and curing the deadliest and costly diseases.

Unfortunately, medical innovation is at risk unless policymakers adopt modern approaches to development, regulation, and reimbursement for medicine and medical devices. Progress has been made to streamline the regulatory approval process at the Food and Drug Administration, particularly for novel technologies, but more improvements are needed. In addition, we need to establish pro-innovation approaches to reimbursement at the Centers for Medicare and Medicaid.

Increase basic research investment and encourage technology commercialization. Federal investment in basic research has helped to build some of the basic building blocks on which several waves of American innovation have been based, including the computer revolution, the Internet, and biotechnology, to name just a few. But while other nations have significantly increased their basic research funding levels, the U.S. has allowed our commitment to stagnate. We must make federal basic research investment a priority so we can ensure that the next waves of innovation creating new companies and jobs remain in this country.

In addition to funding basic research, encouraging the commercialization of more technology will lead to increased job creation and economic growth. Many states with economically distressed areas can better utilize research universities to spread startup activity. High-growth startups frequently come out of university-funded research that is commercialized and become private companies. Some universities such as Stanford or the Massachusetts Institute of Technology do this very well, and the region as well as the country benefit significantly as a result. Finding ways to encourage more effective tech transfers—particularly in economically distressed regions—will be a huge boost to economic opportunity and American competitiveness.

Support technology policy to create twenty-first century jobs. The openness of the Internet has allowed entrepreneurs from all pockets of the country to build technology startups in their hometowns and reach customers a world away, whether in cybersecurity, FinTech, the Internet of Things, or many other areas. Your administration should build on this momentum to spread economic prosperity.

The technology economy of tomorrow requires ubiquitous access to broadband access; increased availability of mobile spectrum to power innovative products; net neutrality rules that ensure startups maintain fair and equitable access to customers; global digital trade rules that enable cross-border data flows and ban data localization; and Internet governance that maintains a globally connected Internet that is home to free expression and commerce.

Crack down on abusive patent litigation, but preserve startups. Patent ownership is a needed incentive for innovation and growth for startups, especially for those startups pursuing health enhancing breakthroughs in life science. Unfortunately, bad actors known as "patent trolls" have used patents as a tool to harass businesses by alleging patent infringement and threatening a lawsuit if payment is not made.

In the last few years, the venture community has supported targeted patent reform that will end abusive behavior, but was opposed to legislative proposals that would have eroded patent rights and had unintended consequences. Specifically, we oppose an overly broad "fee shifting" standard that puts startups at a disadvantage against large incumbent companies and even large patent trolls. We also oppose efforts to 'pierce the corporate veil' to put venture investors on the hook for legal fees of a startup if it loses in litigation. Proposals such as this would significantly chill early-stage investment into startups. We are eager to work with your administration to enact common-sense patent reforms that provide incentives for investment in high-growth startups.

Reform the regulatory state to bolster startup activity. When Washington piles on new regulations it is startups who are most adversely affected because these young, high-growth companies do not have the resources to navigate the regulatory state like large companies. At the same time, government red tape is inhibiting government entities from tapping into venture-backed innovation in fields such as cybersecurity due to challenges with the government acquisition process.

Partner with states to spread startups in areas of economic distress. Your administration has an incredible opportunity to bolster public-private partnership economic development efforts to spur entrepreneurship. Ohio is one state that is leading the way to transform their economy and create opportunity. Third Frontier in Columbus is providing access to business expertise, mentorship, capital, and talent to turn great ideas into growing companies, and JumpStart in Cleveland provides equity-based capital to help startups grow, matches talented individuals with growing companies, and provides expertise to startups.

Your administration has a unique opportunity to lead job creation in economically distressed areas. The venture capital community stands ready, willing and eager to help. We are excited to partner with you to bring these jobs to Americans.

Sincerely,

Bobby Franklin

Bobby Franklin
President and CEO