

Testimony of Rep. Joe Walsh,
Committee on Small Business
Before the House Committee on Armed Services
National Defense Priorities from Members for the FY 2013 National Defense Authorization Act
April 17, 2012

Thank you, Chairman McKeon, Ranking Member Smith, and members of the Committee.

The first hearing I chaired, as chairman of the Small Business Committee's Subcommittee on Economic Growth, Tax and Capital Access, examined the Small Business Administration's definitions of small business. What I learned during that hearing and over the past year inspired H.R. 3987, the Small Business Protection Act of 2012, which I introduced with Mr. Connolly and which was marked up last month.

During that same period, your own Panel on Business Challenges in the Defense Industry also explored issues with SBA's size standards. As you know, the Small Business Act defines a small business as one that is independently owned and operated and not dominant in its field of operation. It then allows SBA to implement industry specific size standards accordingly. SBA, however, is currently decreasing the number of size standards it will permit for the 1100 industries in the North American Industrial Classification System from about 40 to 16. At the same time it is combining many of these industries together into new common groups under a single size standard.

While SBA appears to be examining the right factors when establishing size standards, both the Small Business Committee and your panel seem troubled by the way SBA is applying these factors.

Most troubling is this decision of SBA's to combine related industries into common groups with one size standard. While they claim that this simplifies the process, what it really does is hurt legitimate small businesses.

Let's look at architecture and engineering firms. SBA's own metrics show that architecture firms should have a size standard of \$7 million and engineering firms of \$25.5 million. Yet SBA has decided to combine them into a common group with a size standard of \$19 million, which is completely inappropriate for either. In the one instance, it forces legitimate small firms to compete against much larger firms, and in the other it completely excludes legitimate small firms from competing for small business contracts.

Excluding legitimate small businesses limits growth, and harms the defense industrial base. Panel Recommendation 2.2 stated that Congress should amend the Small Business Act to end the practice of combined size standards, stop placing artificial limits on the number of size standards, and better define what factors should be considered when size standards are proposed. In doing so, it referenced my Small Business Protection Act, because this is exactly what my bill does. It requires additional specificity in the rule making process and directs SBA to both stop these unwarranted combined size standards and focus on having the right size standards, rather than a fixed number of size standards. In short, it ensures that we do not abandon legitimate small businesses seeking to compete for federal contracts. Both the Panel and I believe these changes will also benefit the Department of Defense—it will ensure that the right size standards are in place, which will assist the Dept. as it works on the health of the industrial base.

I want to thank you all for working collaboratively with us on the NDAA, and for looking at the many bipartisan measures the Small Business Committee marked up for inclusion in this year's bill. I want to especially thank you for considering including the Small Business Protection Act in the NDAA. With over \$500 billion in federal contracts being awarded each year, and 70 percent of those dollars being awarded by the Department of Defense, it is important for us all to realize that we can better serve the taxpayer and our service members by ensuring that small businesses can compete for these contracts.

I'd be happy to answer any questions.