

OCTOBER 2019

ANSWERING AMERICA

QUESTION 8: WHAT'S HOLDING BACK
OUR SMALL BUSINESSES?

**THE BUSINESS CASE
AGAINST TRUMP'S AGENDA**



BUSINESSFORWARD
FOUNDATION

QUESTION 8:

WHAT'S HOLDING BACK OUR SMALL BUSINESSES?

ANSWER:

FINDING A FAIR LOAN AND MANAGING COLLEGE DEBT.



Q8
SMALL BUSINESS

THE
ARGUMENT

BUSINESS
FORMATION

MIDWESTERN
BUSINESS GROWTH

SIZE OF SMALL
BUSINESSES

PERSONAL
FINANCING

PREDATORY
LENDERS

CONSUMER
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THE ARGUMENT

1 Small businesses employ about half of America's workers. They generate most of our new jobs and train most of our first-time workers.

2 But the U.S. is creating fewer new small businesses than we used to, particularly in rural areas. This hurts competition, wage growth, and economic mobility.

3 To encourage small business creation, we need to help them raise capital and manage their debt. Twenty-three million small businesses run on the owner's credit card and savings, which means they operate more like consumers than big businesses.

4 Big banks are getting out of the small business market, and "fintech" lenders are stepping in.

5 We need to protect small businesses from predatory lenders.

“

I will be the greatest job producer God has ever created.¹

”

- PRESIDENT DONALD TRUMP



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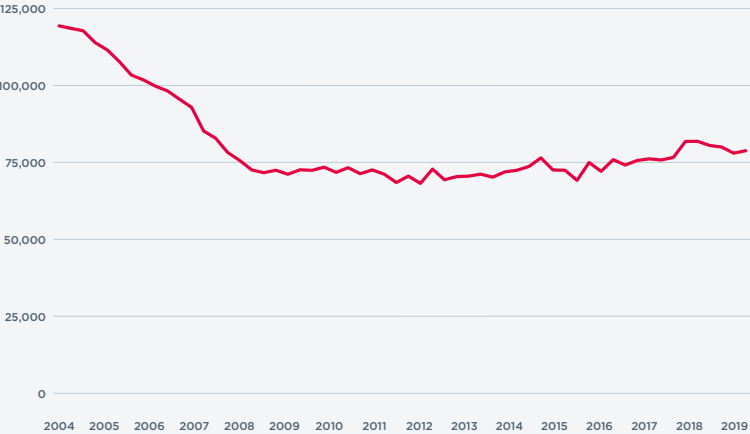
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STAGNATION IN NEW BUSINESS GENERATION IS BAD FOR GROWTH, WAGES, AND ECONOMIC MOBILITY

AFTER 10+ YEARS OF ECONOMIC RECOVERY, NEW BUSINESS FORMATION REMAINS FLAT²

New business formation declined rapidly from 2005-2009 amid the Great Recession. Despite America's economic rebound in the past 10 years, business formation has remained stagnant.

NEW BUSINESS FORMATION

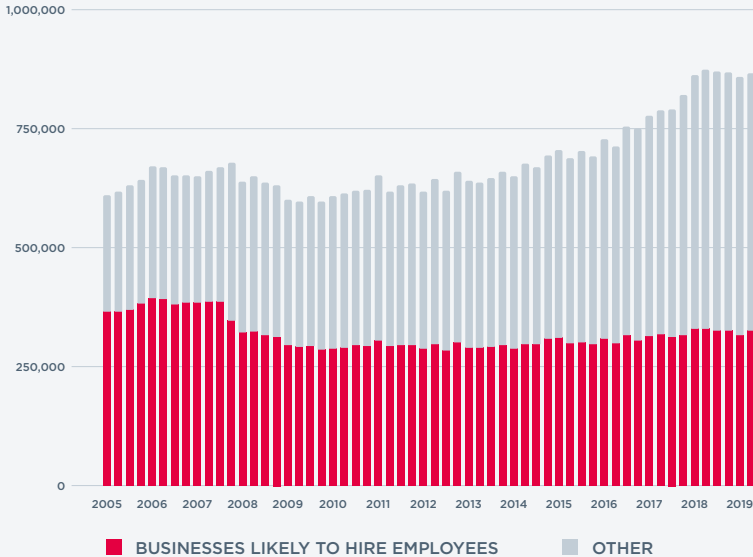


DATA FROM 2016-PRESENT ARE BASED ON CENSUS ESTIMATES OF THE LIKELIHOOD THAT A BUSINESS APPLICATION TURNS INTO AN EMPLOYER BUSINESS.

APPLICATIONS FOR BUSINESSES LIKELY TO HIRE EMPLOYEES ALSO REMAIN LOW³

Despite an uptick in the applications for new businesses in general, applications for businesses that are likely to hire paid employees remain low. New businesses that hire employees create additional economic value.

NEW BUSINESS APPLICATIONS



CORPORATIONS HAVE BENEFITED FROM THE ECONOMIC RECOVERY; SMALL BUSINESSES HAVEN'T

What you see is reduced social and economic mobility... It means that most of the growth is occurring in the corporate sphere, which keeps wage growth down and improves profits.⁴

- STEVE STRONGIN
HEAD OF GLOBAL INVESTMENT RESEARCH
GOLDMAN SACHS



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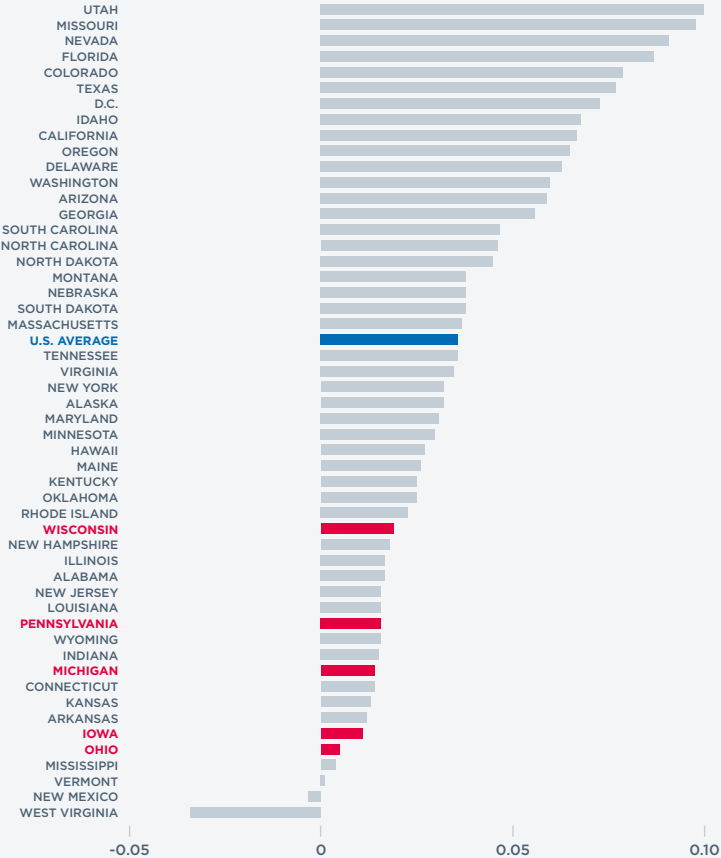
SMALL BUSINESS GROWTH IS PARTICULARLY BAD IN THE MIDWEST

“ New firms are the ‘creative’ part of creative destruction... [They] replace dying industries, foster competition with incumbent companies, and produce new, higher wage jobs. When they disappear, the cycle of creative destruction falls out of balance.⁵ ”

- ECONOMIC INNOVATION GROUP

MIDWEST STATES SUFFER MORE

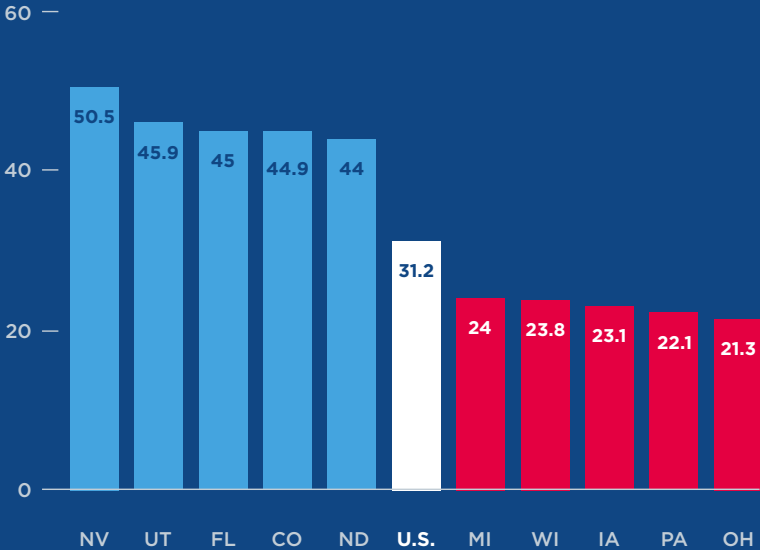
PERCENT GROWTH IN NUMBER OF ESTABLISHMENTS (2012-2016)⁶



OTHER INDICATORS DEMONSTRATE FALLING “DYNAMISM” IN MIDWEST MARKETS

The Economic Innovation Group’s ranking reflects the rate of new business formation, frequency of labor market turnover, and the geographic mobility of the workforce.

DYNAMISM SCORE BY STATE⁷



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SMALL BUSINESSES ARE SMALLER, MORE VULNERABLE THAN MOST PEOPLE THINK

AMERICA'S 32 MILLION SMALL BUSINESSES...

EMPLOY NEARLY

50%

OF THE PRIVATE SECTOR⁸

CREATED

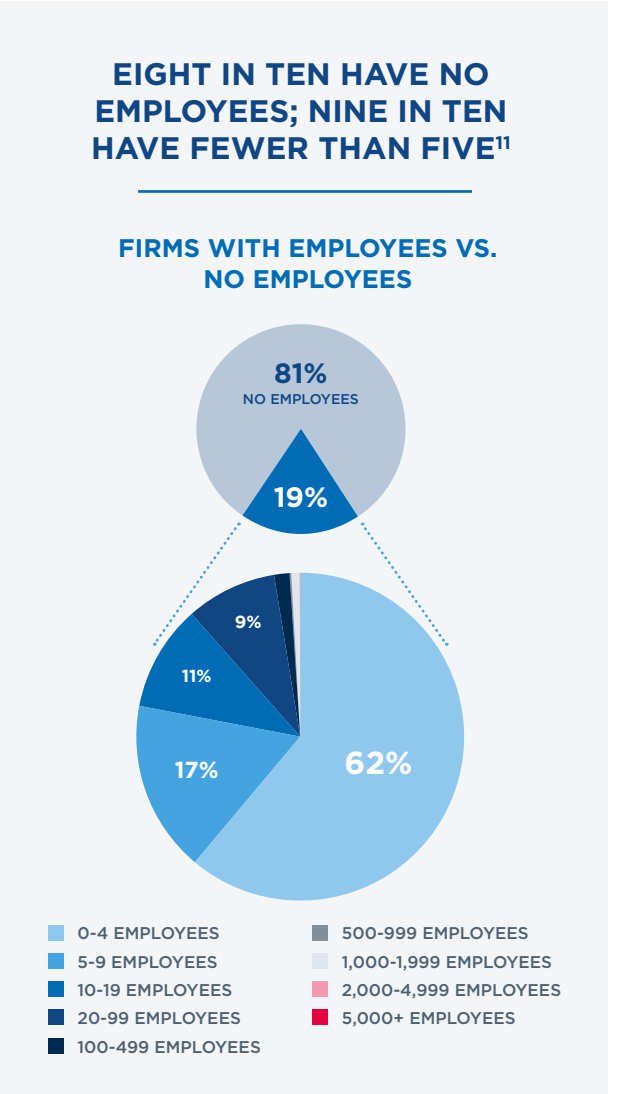
67%

OF NET NEW JOBS SINCE 2000⁹

CREATE

33%

OF U.S. EXPORT VALUE¹⁰



IN TERMS OF REVENUE, MOST SMALL BUSINESSES LOOK MORE LIKE FAMILIES THAN BIG COMPANIES

MEDIAN HOUSEHOLD INCOME¹²

\$63,179

MEDIAN INCOME FOR SMALL BUSINESS WITH FIVE OR FEWER WORKERS¹³

\$95,512

MEDIAN REVENUE OF FORTUNE 100 COMPANIES¹⁴

\$61.6B

1/5

NEW BUSINESSES FAIL IN YEAR ONE¹⁵

1/2

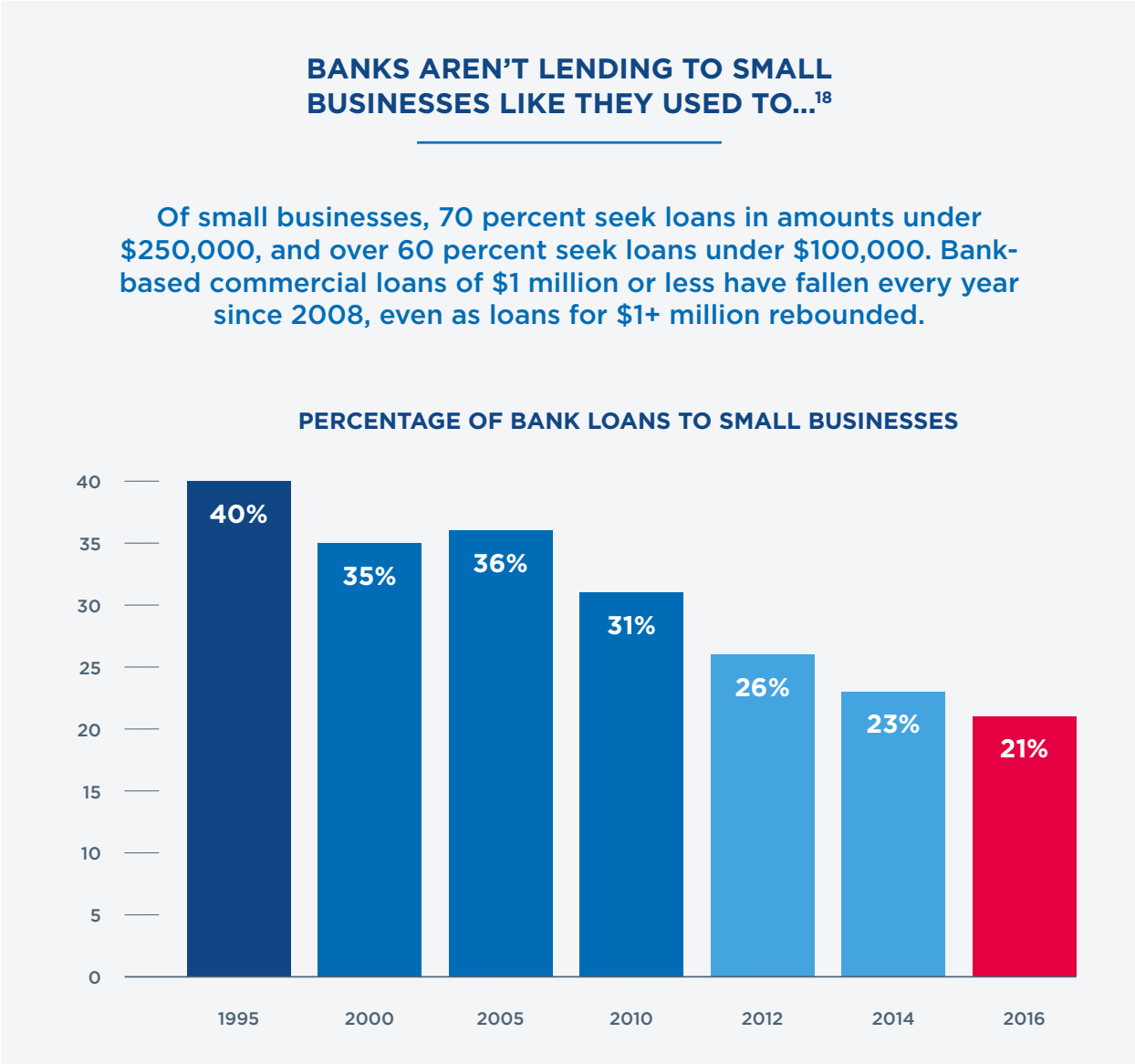
NEW BUSINESSES FAIL BY YEAR FIVE¹⁶

80% OF MICRO-BUSINESSES RELY ON PERSONAL FUNDS

RAISING CAPITAL IS A MAJOR HURDLE TO SMALL BUSINESS CREATION¹⁷

33%
LACK OF CAPITAL/
CASH FLOW

15% MARKETING/ ADVERTISING	13% ADMINISTRATIVE WORK
13% RECRUITING/ EMPLOYEE RETENTION	6% MANAGING/ PROVIDING BENEFITS
13% TIME MANAGEMENT	6% OTHER



SO SMALL BUSINESS OWNERS RELY ON THEIR PERSONAL FUNDING

4/5 OR **23M**
MICRO-BUSINESSES INDIVIDUALS

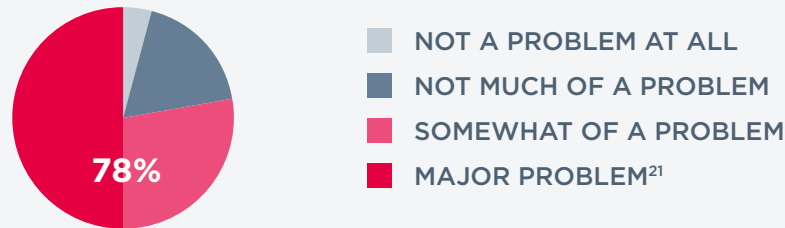
USE PERSONAL FUNDS TO ADDRESS FINANCIAL CHALLENGES FOR THEIR BUSINESS.¹⁹

MOST POPULAR FINANCING METHODS²⁰

Financing Method	Percentage
CASH	32%
401(K)	13%
FRIENDS & FAMILY	12%
LINE OF CREDIT	10%
UNSECURED LOAN	9%
SBA LOAN	5%

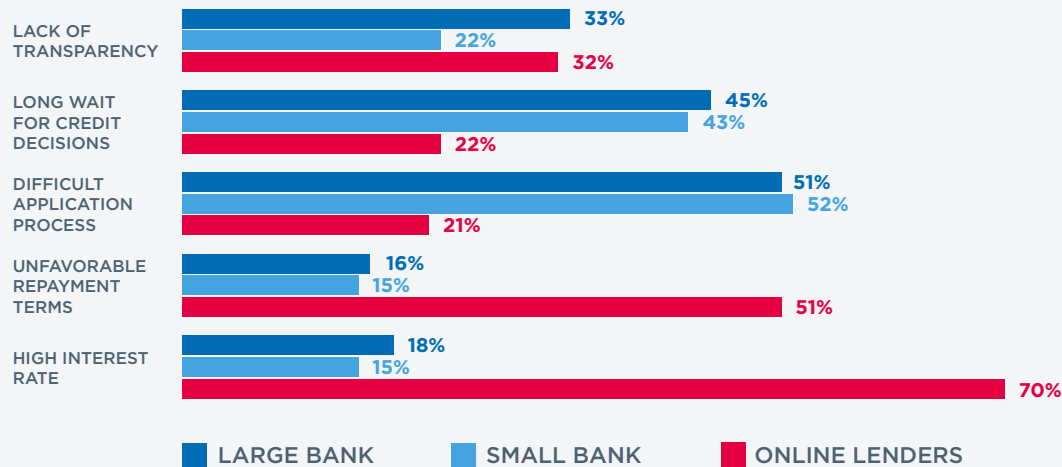
PROTECTING CONSUMERS FROM PREDATORY LENDERS IS GOOD FOR THE ECONOMY; IT'S ALSO GOOD FOR SMALL BUSINESSES

SMALL BUSINESS OWNERS AGREE THAT PREDATORY LENDING IS A PROBLEM



BORROWERS' REASONS FOR DISSATISFACTION BY LENDER TYPE

PERCENT OF EMPLOYER FIRMS DISSATISFIED WITH LENDER²²



FINTECH LENDERS HAVE POTENTIAL TO FILL CRITICAL FUNDING GAP; CAN BE PREDATORY WHEN OPERATING IN REGULATORY VOID

The mismatch in credit demand and supply has created an emerging market of online alternative lenders.

“ [Fintech]...might help increase efficiency in the economy and improve outcomes for small businesses. At the same time, these new lenders sometimes create opportunities for abuse. There are far too often situations in which small businesses are paying extremely high interest rates.²³ ”

- MICHAEL S. BARR
DEAN OF GERALD R. FORD
SCHOOL OF PUBLIC POLICY

TRUMP SIDES WITH PREDATORY PAYDAY LENDERS



Dropped lawsuit against four payday lenders, one of which charged up to 950% interest.²⁴

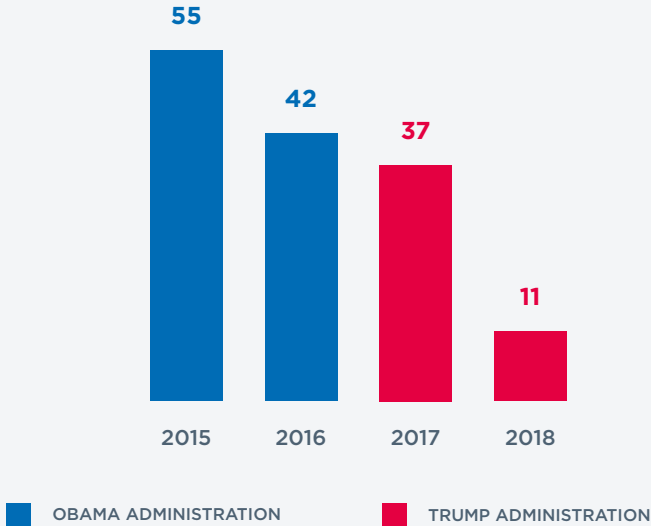
Rescinded rule that lenders establish borrowers' capacity to repay their loans before extending them credit.²⁵



BY GUTTING THE CFPB AND COLLEGE LOAN PROTECTIONS, TRUMP IS HURTING SMALL BUSINESS

THE CONSUMER FINANCIAL PROTECTION BUREAU WAS ESTABLISHED TO HOLD FINANCIAL SERVICE PROVIDERS ACCOUNTABLE²⁷

PUBLIC CFPB ENFORCEMENT CASES



THE CFPB UNDER TRUMP HAS ANNOUNCED ZERO CASES ENFORCING STUDENT LENDING PROTECTIONS²⁹

AMOUNT OF CONSUMER RELIEF IN STUDENT-LENDING-RELATED CASES

OBAMA ADMINISTRATION AVERAGE:

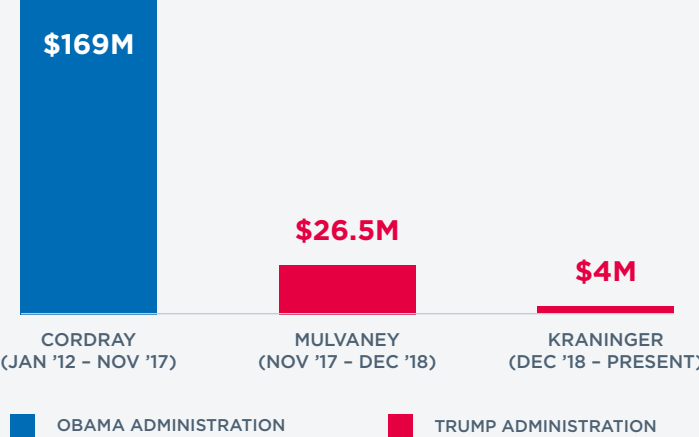
\$10 MILLION PER MONTH

TRUMP ADMINISTRATION TOTAL:

\$0

INSTEAD OF PROTECTING CONSUMERS, TRUMP'S CFPB HAS PROPPED UP PREDATORY LENDERS³⁰

\$ TOTAL CONSUMER RELIEF PER MONTH IN ALL PUBLIC CFPB ENFORCEMENT CASES



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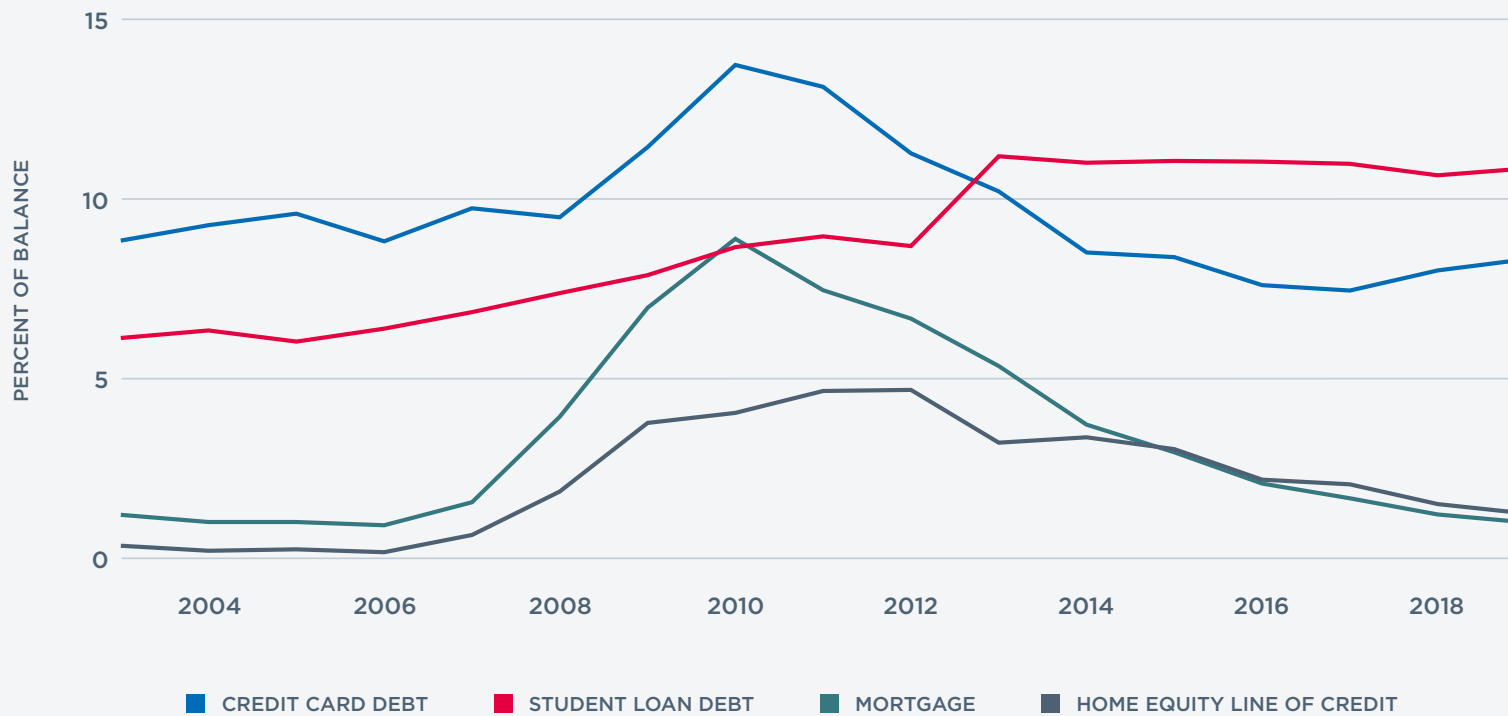
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INCREASINGLY, COLLEGE DEBT BLOCKS WOULD-BE ENTREPRENEURS

COLLEGE DEBT RISES TO #1³¹

Together, 44 million borrowers in U.S. owe \$1.5 trillion.

PERCENT OF LOANS 90+ DAYS DELINQUENT, BY LOAN TYPE



SOURCE: New York Fed Consumer Credit Panel/Equifax

STATE-SPECIFIC DEBT³²



MICHIGAN
\$40.8B
 MORE THAN
 1.3 MILLION
 BORROWERS

PENNSYLVANIA
\$50.3B
 MORE THAN
 1.6 MILLION
 BORROWERS



OHIO
\$49B
 MORE THAN
 1.6 MILLION
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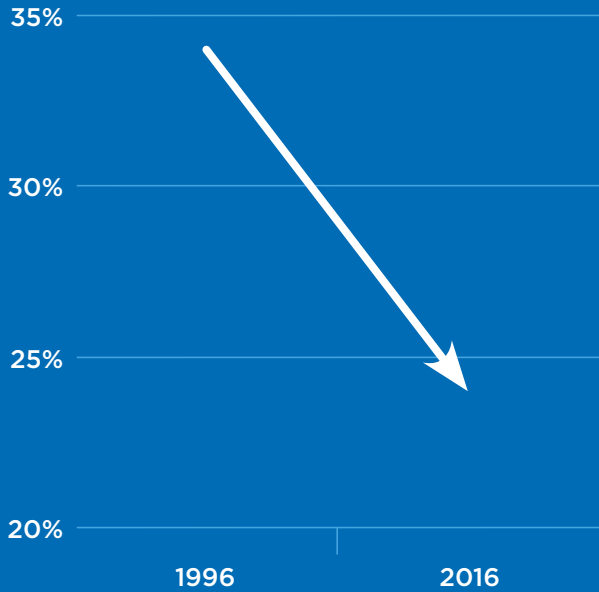
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FINANCIAL VULNERABILITY LEAVES YOUNG AMERICANS LESS LIKELY TO START COMPANIES

YOUNG COLLEGE GRADS HAVE LESS CAPITAL TO START NEW BUSINESSES³³

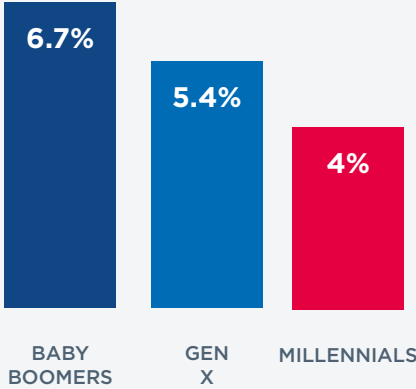
Share of new small business owners that are between the ages of 20-34 has shrunk from 34% in 1996 to 24% in 2016.



OVER 70% OF MILLENNIALS BELIEVE ENTREPRENEURSHIP IS ESSENTIAL TO THE ECONOMY, BUT THEY DON'T THINK THEY HAVE THE FINANCIAL SECURITY TO START THEIR OWN BUSINESSES³⁴

Millennials are actually on track to be the least entrepreneurial generation in recent memory.

30 YEARS OLD AND SELF-EMPLOYED



“STUDENT DEBT IS STOPPING U.S. MILLENNIALS FROM BECOMING ENTREPRENEURS”

“In fact, we haven’t seen a measurable increase in entrepreneurial activity in over 40 years, with the rate of new businesses as a percentage of all U.S. companies dropping by 29% between 1977 and 2016.”

BY VADIM REVZIN & SERGEI REVZIN
APRIL 26, 2019³⁵

**Harvard
Business
Review**



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