OCTOBER 2019

ANSWERING AMERICA

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

THE BUSINESS CASE AGAINST TRUMP’S AGENDA

BUSINESS FORWARD FOUNDATION
QUESTION 8:
WHAT’S HOLDING BACK OUR SMALL BUSINESSES?

ANSWER:
FINDING A FAIR LOAN AND MANAGING COLLEGE DEBT.
Small businesses employ about half of America’s workers. They generate most of our new jobs and train most of our first-time workers.

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.

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.

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

We need to protect small businesses from predatory lenders.

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

- President Donald Trump
STAGNATION IN NEW BUSINESS GENERATION IS BAD FOR GROWTH, WAGES, AND ECONOMIC MOBILITY

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

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.

APPLICATIONS FOR BUSINESSES LIKELY TO HIRE EMPLOYEES ALSO REMAIN LOW

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.

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.

- STEVE STRONGIN
HEAD OF GLOBAL INVESTMENT RESEARCH
GOLDMAN SACHS

DATA FROM 2016-PRESENT ARE BASED ON CENSUS ESTIMATES OF THE LIKELIHOOD THAT A BUSINESS APPLICATION TURNS INTO AN EMPLOYER BUSINESS.
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)\(^6\)

<table>
<thead>
<tr>
<th>State</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utah</td>
<td>50.5</td>
</tr>
<tr>
<td>Missouri</td>
<td>45.9</td>
</tr>
<tr>
<td>Florida</td>
<td>45</td>
</tr>
<tr>
<td>Ohio</td>
<td>44.9</td>
</tr>
<tr>
<td>North Dakota</td>
<td>44</td>
</tr>
<tr>
<td><strong>U.S.</strong></td>
<td>31.2</td>
</tr>
<tr>
<td><strong>NV</strong></td>
<td>24</td>
</tr>
<tr>
<td><strong>UT</strong></td>
<td>23.8</td>
</tr>
<tr>
<td><strong>FL</strong></td>
<td>23.1</td>
</tr>
<tr>
<td><strong>CO</strong></td>
<td>22.1</td>
</tr>
<tr>
<td><strong>ND</strong></td>
<td>21.3</td>
</tr>
<tr>
<td><strong>MI</strong></td>
<td>20.9</td>
</tr>
<tr>
<td><strong>WI</strong></td>
<td>20.6</td>
</tr>
<tr>
<td><strong>IA</strong></td>
<td>19.8</td>
</tr>
<tr>
<td><strong>PA</strong></td>
<td>19.7</td>
</tr>
<tr>
<td><strong>OH</strong></td>
<td>19</td>
</tr>
<tr>
<td><strong>WV</strong></td>
<td>18.2</td>
</tr>
<tr>
<td><strong>MS</strong></td>
<td>17.8</td>
</tr>
<tr>
<td><strong>CO</strong></td>
<td>17.5</td>
</tr>
<tr>
<td><strong>LA</strong></td>
<td>17</td>
</tr>
<tr>
<td><strong>SD</strong></td>
<td>16.8</td>
</tr>
<tr>
<td><strong>OK</strong></td>
<td>16.5</td>
</tr>
<tr>
<td><strong>AR</strong></td>
<td>16.2</td>
</tr>
<tr>
<td><strong>NE</strong></td>
<td>15.9</td>
</tr>
<tr>
<td><strong>NM</strong></td>
<td>15.6</td>
</tr>
<tr>
<td><strong>NV</strong></td>
<td>15.3</td>
</tr>
<tr>
<td><strong>TN</strong></td>
<td>14.9</td>
</tr>
<tr>
<td><strong>KY</strong></td>
<td>14.6</td>
</tr>
<tr>
<td><strong>AL</strong></td>
<td>14.3</td>
</tr>
<tr>
<td><strong>NC</strong></td>
<td>13.9</td>
</tr>
<tr>
<td><strong>AL</strong></td>
<td>13.6</td>
</tr>
<tr>
<td><strong>LA</strong></td>
<td>13.2</td>
</tr>
<tr>
<td><strong>IL</strong></td>
<td>12.9</td>
</tr>
<tr>
<td><strong>CA</strong></td>
<td>12.6</td>
</tr>
<tr>
<td><strong>MA</strong></td>
<td>12.3</td>
</tr>
<tr>
<td><strong>CT</strong></td>
<td>12.0</td>
</tr>
<tr>
<td><strong>MS</strong></td>
<td>11.7</td>
</tr>
<tr>
<td><strong>MI</strong></td>
<td>11.4</td>
</tr>
<tr>
<td><strong>IA</strong></td>
<td>11.1</td>
</tr>
<tr>
<td><strong>IN</strong></td>
<td>10.8</td>
</tr>
<tr>
<td><strong>WI</strong></td>
<td>10.5</td>
</tr>
<tr>
<td><strong>OH</strong></td>
<td>10.2</td>
</tr>
<tr>
<td><strong>MI</strong></td>
<td>9.9</td>
</tr>
</tbody>
</table>

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 State\(^7\)**
SMALL BUSINESSES ARE SMALLER, MORE VULNERABLE THAN MOST PEOPLE THINK

AMERICA'S 32 MILLION SMALL BUSINESSES...

EMPLOY NEARLY 50% OF THE PRIVATE SECTOR¹⁸

CREATED 67% OF NET NEW JOBS SINCE 2000⁹

CREATE 33% OF U.S. EXPORT VALUE¹⁰

EIGHT IN TEN HAVE NO EMPLOYEES; NINE IN TEN HAVE FEWER THAN FIVE¹¹

FIRMS WITH EMPLOYEES VS. NO EMPLOYEES

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

1/5 NEW BUSINESSES FAIL IN YEAR ONE¹⁵

1/2 NEW BUSINESSES FAIL BY YEAR FIVE¹⁶

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

NEW BUSINESSES

Q8 SMALL BUSINESS

THE ARGUMENT

BUSINESS FORMATION

MIDWESTERN BUSINESS GROWTH

SIZE OF SMALL BUSINESSES

PERSONAL FINANCING

PREDATORY LENDERS

CONSUMER PROTECTION

COLLEGE DEBT

FINANCIAL VULNERABILITY

ENDNOTES
80% of micro-businesses rely on personal funds

Raising capital is a major hurdle to small business creation. 33% of small business owners rely on their personal funding. Banks aren't lending to small businesses like they used to...

Of small businesses, 70 percent seek loans in amounts under $250,000, and over 60 percent seek loans under $100,000. Bank-based commercial loans of $1 million or less have fallen every year since 2008, even as loans for $1+ million rebounded.

So small business owners rely on their personal funding...4/5 micro-businesses or 23M individuals use personal funds to address financial challenges for their business.

Most popular financing methods include: cash, 401(K), friends & family, line of credit, unsecured loan, SBA loan.

Q8: Small Business
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

- NOT A PROBLEM AT ALL
- NOT MUCH OF A PROBLEM
- SOMEWHAT OF A PROBLEM
- MAJOR PROBLEM

78%

BORROWERS’ REASONS FOR DISSATISFACTION BY LENDER TYPE

PERCENT OF EMPLOYER FIRMS DISSATISFIED WITH LENDER

- LACK OF TRANSPARENCY
- LONG WAIT FOR CREDIT DECISIONS
- DIFFICULT APPLICATION PROCESS
- UNFAVORABLE REPAYMENT TERMS
- HIGH INTEREST RATE

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.”

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

LARGE BANK
SMALL BANK
ONLINE LENDERS
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 ACCOUNTABLE

PUBLIC CFPB ENFORCEMENT CASES

<table>
<thead>
<tr>
<th>Year</th>
<th>Obama Administration</th>
<th>Trump Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>11</td>
<td></td>
</tr>
</tbody>
</table>

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

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 LENDERS

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

CORDRAY (JAN ’12 – NOV ’17):

$169M

MULVANEY (NOV ’17 – DEC ’18):

$26.5M

KRANINGER (DEC ’18 – PRESENT):

$4M

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

PUBLIC CFPB ENFORCEMENT CASES

<table>
<thead>
<tr>
<th>Year</th>
<th>Obama Administration</th>
<th>Trump Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>11</td>
<td></td>
</tr>
</tbody>
</table>

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

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 LENDERS

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

CORDRAY (JAN ’12 – NOV ’17):

$169M

MULVANEY (NOV ’17 – DEC ’18):

$26.5M

KRANINGER (DEC ’18 – PRESENT):

$4M
INCREASINGLY, COLLEGE DEBT BLOCKS WOULD-BE ENTREPRENEURS

COLLEGE DEBT RISES TO #1\(^{31}\)
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 DEBT\(^{32}\)

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 BORROWERS
FINANCIAL VULNERABILITY LEAVES YOUNG AMERICANS LESS LIKELY TO START COMPANIES

“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, 2019

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 BUSINESSES

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

“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, 2019

30 YEARS OLD AND SELF-EMPLOYED

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

“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, 2019

30 YEARS OLD AND SELF-EMPLOYED

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 BUSINESSES

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

“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, 2019

30 YEARS OLD AND SELF-EMPLOYED

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 BUSINESSES

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

“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, 2019

30 YEARS OLD AND SELF-EMPLOYED

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 BUSINESSES

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

“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, 2019

30 YEARS OLD AND SELF-EMPLOYED

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 BUSINESSES

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

“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, 2019

30 YEARS OLD AND SELF-EMPLOYED

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 BUSINESSES

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

“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, 2019

30 YEARS OLD AND SELF-EMPLOYED

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 BUSINESSES

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


6. EIG state-level DCI data 2012-2016 received via email from Chris Slevin


9. Ibid.


16. Ibid.


30. Ibid.


