

EXECUTIVE SUMMARY

Big Ideas for

Small Business

**A Five-Step Roadmap for Rebuilding the U.S.
Small-Business Sector, Reviving Entrepreneurship,
and Closing the Racial Wealth Gap**

Peter Bassine

Della Clark

Gary Cunningham

Benjamin Della Rocca

Bulbul Gupta

Marie C. Johns

Bruce Katz

Nate Loewentheil

Jamie Rubin

Mary Jean Ryan

Luz Urrutia

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SMALL BUSINESSES IN AMERICA ARE IN CRISIS. Since COVID-19 hit in February, 2020, almost 25% of all U.S. small businesses have closed at least temporarily. In the hardest hit sectors, like restaurants, hotels, and retail, the numbers are far higher. In September, Yelp reported that for businesses on its platform, 60% of closures were permanent. Those closures have left millions of Americans out of work, transformed lively neighborhoods around the country into retail graveyards, and destroyed the wealth built by many families over generations.

The devastation of COVID-19 has forced the country to take stock of our small-business sector. Small businesses drive our economy, employing 47% of the U.S. workforce, generating two-thirds of new jobs, and serving as a critical path to economic self-sufficiency. Small businesses animate our neighborhoods, reflecting, embodying and sustaining the unique cultural fabric of their communities. **But notwithstanding their critical role, small businesses have never been a central focus for federal policymakers.** As a result, the federal government did not have the expertise or resources to meet the exigencies of the COVID-19 pandemic, as evidenced by the troubled launch and execution of the Paycheck Protection Program (PPP).

The storms of COVID-19 were a fierce blow to an economic sector already battered by the unrelenting winds of economic centralization. Since the late 1990s, more than two-thirds of all U.S. industries have grown more consolidated, from dog food to airline travel. Even more strikingly, the rate of business creation has fallen by half since the 1970s. **Entrepreneurs of color, meanwhile, have continued to struggle against structural constraints.** While Black Americans are 12.3% of the U.S. population, they own only 2% of U.S. small businesses. Latinx Americans are similarly underrepresented. **From the challenges of finding equity to launch a new venture to the difficulties in accessing bank credit for expansion, minority entrepreneurs must climb a far steeper path than their white counterparts.** Because minority businesses operate with less capital, they are also more susceptible to the financial pressure of COVID-19. The Federal Reserve of New York reported that from February to April the number of Black businesses declined by 41 percent.

Given current market conditions, it is clear that absent major federal interventions, whole swathes of the small-business sector will never return, minority business owners will suffer more than their fair share of the burden, and entrepreneurship levels will remain depressed for a generation or more. But the collision of these forces—COVID-19, economic consolidation, and deep racial inequality—also create a window of opportunity for significant reform. **This report provides a five-step roadmap towards a more inclusive, dynamic, and productive small-business sector.** We break down the five steps into ten major policy recommendations. While the federal government must take the lead for many of our recommendations, we also suggest how it can galvanize the full energy of public, private and civic institutions.

Importantly, we do not believe that federal small-business programs need to be consolidated into a single agency. What matters is the focus, scale and scope of small-business programs across the federal government. That said, the U.S. Small Business Administration will be critical for executing on this roadmap and needs significant investment.

ROADMAP		
Step	Action	Policy Recommendations
1	Respond to the COVID-19 Crisis in the Small-Business Sector	I. Provide loan and grant products at scale, tailored to meet the unique needs of small businesses during the COVID-19 crisis
2	Unleash America's Entrepreneurial Spirit	II. Spur entrepreneurship among minority, female, and other disadvantaged founders III. Reduce barriers to entry and strengthen antitrust law and enforcement IV. Replicate proven organizations and models that help small businesses scale
3	Strengthen financial institutions that focus on local business formation and growth	V. Create a new generation of federally backed debt and equity products to meet diverse market demand VI. Strengthen financial institutions that focus on local business formation and growth
4	Harness the Power of Public and Private Procurement	VII. Set ambitious new targets for federal procurement and push state and local governments to match these efforts VIII. Mobilize the Corporate Sector and Medical and Educational Institutions Around Minority- and Women-Owned Small-Business Growth
5	Measure to Manage: Evaluate for Continuous Improvement	IX. Collect more and better data on federal programs and the small-business sector X. Use data to rigorously evaluate impact and refine programs over time

Many of our proposals build on existing programs, like the Obama-era State Small Business Credit Initiative (SSBCI). In other cases, we advocate for bills currently in Congress, like the RELIEF for Main Street Act. We also advance a number of novel ideas, including:

- A federally-backed, **first-loss guarantee loan program** for fintech lenders that operates at the portfolio level to enable disadvantaged entrepreneurs to access right-sized, federally subsidized loans without the onerous paperwork required under current law;
- The development of a **private sector Environmental, Social and Governance (ESG) standard for procurement from disadvantaged business owners**, around which the private sector could mobilize to bring the benefits of contracting set-asides to a broader market; and
- A new **federal Small Business Ecosystem Demonstration Project** to catalyze and evaluate ways of driving transformative small-business outcomes at the metropolitan level.

There is no question that the COVID-19 crisis is a turning point for America's small businesses. Absent a broad national commitment to rethinking how we support those businesses, it will be a turn for the worse. But if we come together and follow this roadmap, over the next ten years we can:

- **Create 1.5 million net new small businesses;**
- **Grow the small-business share of employment by 25%;**
- **Triple the number of small businesses owned by Black & Latinx Americans; and**
- **Grow average minority household net worth by 20%.**

Our hope is that this report serves as a rallying point for all those who care about small business in America. Together, we can build a more competitive, dynamic and fair economy with a flourishing small business sector that enriches our individual and collective lives.