

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0515

MEMORANDUM

To: Members, Small Business Committee
From: Nydia M. Velázquez, Chairwoman
Date: February 4, 2019
Re: Full Committee hearing: “The Shutdown: Economic Impact on Small Businesses”

On Wednesday, February 6 at 11:00 a.m. in Room 2360 of the Rayburn House Office Building, the Committee on Small Business will hold a hearing entitled “The Shutdown: Economic Impact on Small Businesses.” The hearing will allow Members to hear firsthand how the recent shutdown has impacted small firms, small business lending, government contracts, and the overall economy. Witnesses will include:

- Dr. Matthew Shapiro, Lawrence R. Klein Collegiate Professor of Economic, University of Michigan - Department of Economics.
- Mr. Bill Butcher, Founder, Port City Brewing
- Ms. Heidi Gerding, CEO, HeiTech Services, Inc.
- Mr. Charles “Tee” Rowe, President and CEO, America’s SBDC

Background

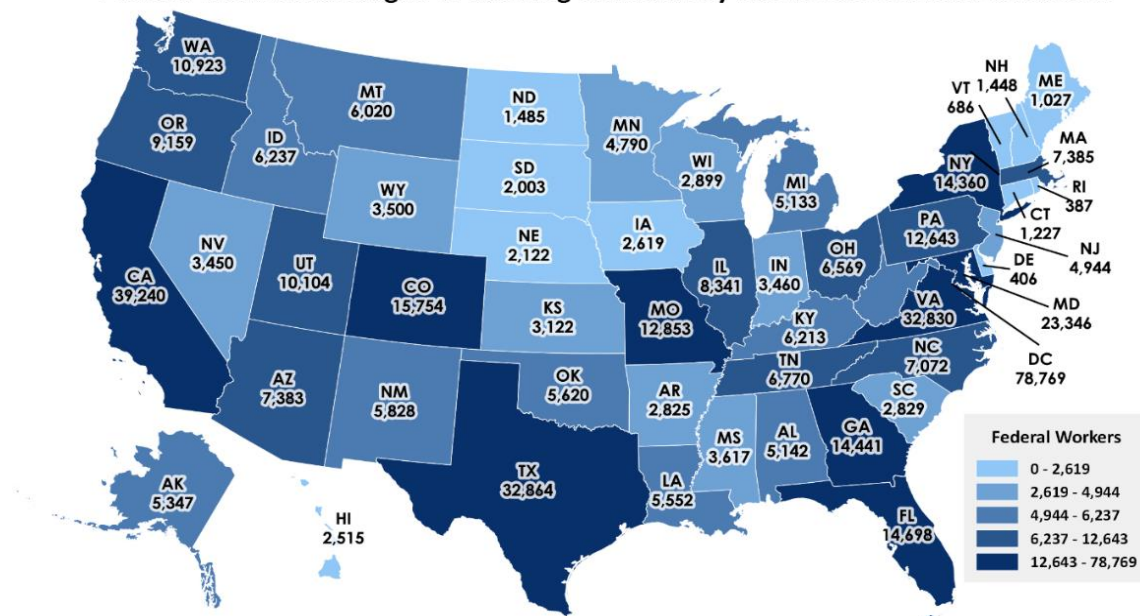
A properly functioning government is critical to the success of America’s small businesses and entrepreneurs. Unfortunately, the recent partial government shutdown has undermined the prospects of success. Funding for approximately 25 percent of federal agencies lapsed, leaving more than 800,000 federal workers and many more federal contractors without pay. After spanning 34 full days from December 22, 2018 to January 25, 2019, a three-week extension deal was reached, but not without major consequences. When the Small Business Administration (SBA), one of the many agencies impacted by the shutdown, stopped approving loans and ceased regular operations, the costs were felt by small businesses, entrepreneurs, and the economy.

Economic and Pocketbook Impact

As the government shutdown ticked away, the real economic pain was being felt by American families and small businesses. During the shutdown, over 800,000 government workers were

Figure 1

Federal Workers Furloughed or Working Without Pay Due to Government Shutdown



Source: Center for American Progress

Note: See Center for American Progress website for methodology and notes on data availability. These numbers are an underestimate due to limitations on available data.

Source: Center for American Progress

furloughed or worked without pay for over a month.¹ The duration and unpredictability of the government shutdown strained family budgets of federal workers, forcing many to rely on meager savings. In fact, the median pay for Transportation Security Administration screening agents, one of the many critical jobs furloughed, is \$40,580, far below the national wage average.²

The economic pain was also felt among federal contractor workers. Nearly 1.2 million government contractors across several agencies were ensnared in the shutdown.³ Of those workers, over 41,000 small contractors had work stalled because of the shutdown, with a majority not able or eligible to receive backpay.⁴ According to the U.S. Chamber of Commerce, the shutdown cost small

¹ According to the Federal Reserve, four in ten adults are unable to cover or would need to sell something in order to cover an unexpected expense of \$400. Additionally, more than one-fifth of adults are not able to pay all of their current monthly bills in full. See BD. OF GOVERNORS OF THE FED. RESERVE SYS., REPORT ON THE ECONOMIC WELL-BEING OF U.S. HOUSEHOLDS IN 2017 (2018), available at <https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf>.

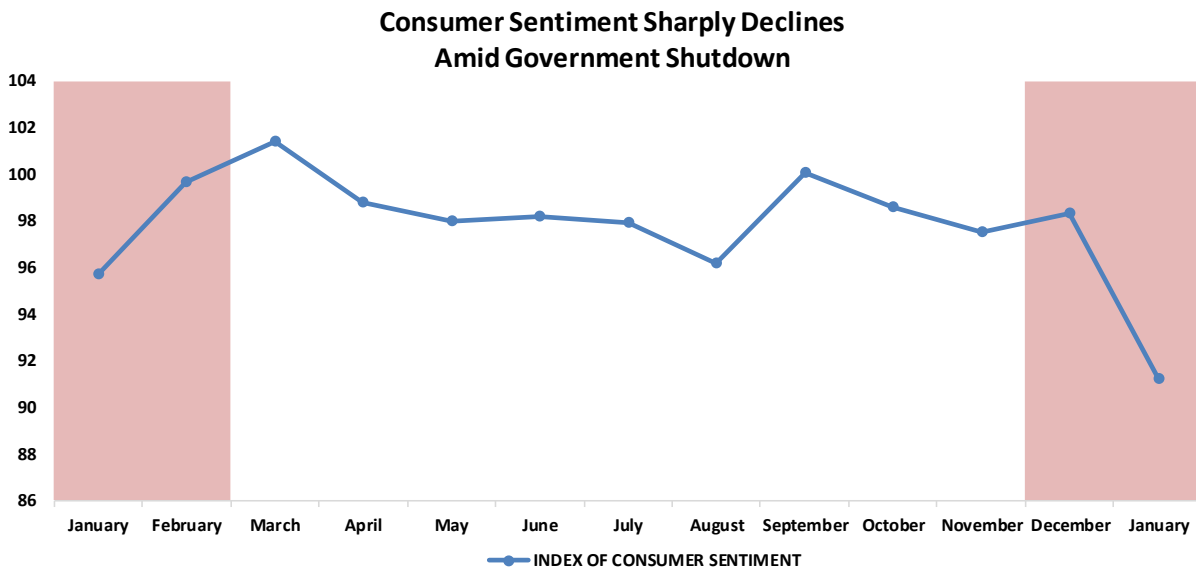
² BUREAU OF LABOR STATISTICS, OCCUPATIONAL EMPLOYMENT AND WAGES: 33-9093 TRANSPORTATION SECURITY SCREENERS (last updated 2018) available at [https://www.bls.gov/oes/2017/may/oes339093.htm#\(2\)](https://www.bls.gov/oes/2017/may/oes339093.htm#(2)).

³ Ari Nutter, *Government Contractors to Lose Out on Shutdown Pay, Dragging Down Economy*, BLOOMBERG, Jan. 17, 2019, available at <https://www.bloomberg.com/news/articles/2019-01-17/shutdown-hammers-1-million-contractors-muting-economic-outlook>.

⁴ Federal contractors who shoulder many of the federal jobs are not legally guaranteed backpay, though, multiple efforts and bills have been proposed to ensure backpay. See generally Danielle Paquette, *The Lowest-paid Shutdown Workers Aren't Getting Back Pay*, WASH. POST, Jan. 29, 2019, available at

contractors an estimated \$2.3 billion.⁵ Consequently, affected federal workers, and the many government contractors, took unnecessary measures to make ends meet; cutting or changing spending habits and being late on paying bills, mortgage payments, and/or rent.

Figure 2



Source: University of Michigan Survey of Consumers, Final January 2019 Results.

Note: Red shade only represents the month(s) in which a government shutdown occurred months, does not represent a full month shutdown. For example, the most recent shutdown was from December 21, 2018 to January 25, 2019, the longest in U.S. history.

Source: University of Michigan Survey of Consumers, Final January 2019 Results

The government shutdown, while over, will continue to have a lingering and detrimental impact on the American economy. To date, it is estimated that the government shutdown cost the U.S. economy over \$11 billion, with an estimated \$3 billion in economy activity permanently lost.^{6, 7} The Congressional Budget Office also estimates that the level of real GDP for the first quarter of this year will be reduced by 0.2 percent – nearly \$8 billion lower than expected.⁸ What's more, White House Chief Economist, Kevin Hassett, and J.P. Morgan Chase CEO, Jamie Dimon, suggest

https://www.washingtonpost.com/business/2019/01/29/lowest-paid-shutdown-workers-arent-getting-back-pay/?utm_term=.e829dda45d3e.

⁵ Frank Konkel, *Chamber of Commerce Says Shutdown has Cost Small Businesses \$2.3 Billion*, NEXTGOV, Jan. 24, 2019, available at <https://www.nextgov.com/cio-briefing/2019/01/chamber-commerce-says-shutdown-has-cost-small-businesses-23-billion/154403/>.

⁶ CONG. BUDGET OFFICE, *THE EFFECTS OF THE PARTIAL SHUTDOWN ENDING IN JANUARY 2019*, (2019), available at <https://www.cbo.gov/publication/54937>.

⁷ A federal government shutdown in 2013 lasted substantially shorter than the most recent shutdown, only 16 consecutive days, with approximately 850,000 federal employees furloughed. The total cost to the economy was \$24 billion – \$1.5 billion a day – according to an analysis by Standard & Poor's. The impact was particularly acute for small businesses that paid an enormous price in temporary layoffs and missed payroll. Dominic Rushe, *Government Shutdown Has Cost US Economy \$1.5 Billion a Day, S&P Says*, THE GUARDIAN, Oct. 16, 2019, available at <https://www.theguardian.com/business/2013/oct/16/government-shutdown-has-cost-us-economy-15bn-a-day-sp-says>.

⁸ CONG. BUDGET OFFICE, *supra* note 6.

the potential for zero percent growth for the first quarter, or at least a sharp decline undermining recent economic gains.⁹ Through a multiplier effect, the shutdown can result in dislocations for individuals and markets that have a broader impact on the economy as a whole. By delaying or withholding pay to federal employees and contractors, many businesses providing goods and services to affected employees and local governments are indirectly impacted by the shutdown. In Washington, D.C. alone, \$39 million in sales tax and fee revenue was lost.¹⁰

The decline in consumer sentiment figures from the most recent University of Michigan Consumer Survey also highlight the toll the shutdown had on consumer confidence. The measure, depicted in Figure 2, dropped by 7.2 percentage month over month.¹¹ Further, the shutdown comes at a time when small business owners' confidence in the economy has weakened for the fourth consecutive month.¹²

SBA Lending and Entrepreneurial Development Programs

Access to capital remains a significant challenge for small businesses, and the government shutdown stalled critical financial support and programming needed to start and grow businesses. During the recent shutdown, the SBA, which provides support to help Americans start, build, and grow businesses, ceased many of the critical operations needed to keep small businesses afloat. This included not accepting or approving new 7(a)¹³ or 504¹⁴ loans and limited staff availability to continue serving and liquidation activities. In fact, nearly \$2 billion in SBA lending was delayed, with other analysts estimating a figure as high as nearly \$3 billion.¹⁵

⁹ Matthew Choi, *Trump Economic Advisor Says Zero Percent Growth Possible Due to Shutdown*, POLITICO, Jan. 23, 2019, available at <https://www.cnbc.com/2019/01/15/jamie-dimon-says-shutdown-could-reduce-economic-growth-to-zero-this-quarter-if-it-continues.html>; Hugh Son, *Jamie Dimon Says Shutdown Could Reduce Economic Growth to Zero This Quarter if it Continues*, CNBC, Jan. 15, 2019, available at <https://www.politico.com/story/2019/01/23/kevin-hassett-shutdown-economy-1120921>.

¹⁰ Robert McCartney, *Shutdown Cost Washington Region More Than \$1.6 Billion and Damaged its Image*, WASH. POST, Jan. 26, 2019, available at https://www.washingtonpost.com/local/shutdown-cost-washington-region-more-than-16-billion-and-damaged-its-image/2019/01/26/892b8dec-20de-11e9-8e21-59a09ff1e2a1_story.html?utm_term=.4cbcd0f504be.

¹¹ Univ. of Mich., *Surveys of Consumers: Final Results for January 2019*, (last visited Feb. 1, 2019), available at <http://www.sca.isr.umich.edu>.

¹² Maria Armental, *Small-Business Owners' Confidence in U.S. Economy Weakens*, WALL ST. J., Jan. 8, 2019, available at <https://www.wsj.com/articles/small-business-owners-confidence-in-u-s-economy-weakens-11546945200>.

¹³ SBA's flagship lending program, the 7(a) Program, provides small businesses with comprehensive financial assistance including working capital, fixed and intangible asset financing, as well as refinance and export support through term and revolving loans.

¹⁴ The 504/CDC program provides permanent, fixed rate financing for businesses to acquire industrial or commercial buildings or heavy equipment and machinery. The program is delivered by local Certified Development Companies (CDCs) working in partnership with private lenders and SBA.

¹⁵ Estimates come from Mark Zandi, Chief Economist at Moody's Analytics. See Ruth Simon, *Small Businesses' \$2 Billion Problem: Government Shutdown Leaves Loans in Limbo*, WALL ST. J., Jan. 17, 2019, available at <https://www.wsj.com/articles/small-businesses-2-billion-problem-government-shutdown-leaves-loans-in-limbo-11547722800>; Edward C. Baig and Paul Davidson, *What was the Economic Cost of the Government Shutdown and What Comes Next?*, USA TODAY, last updated Jan. 28, 2019, available at <https://www.usatoday.com/story/money/2019/01/27/government-shutdown-over-lingering-pain-impact-you/2695343002/>.

Participating small business lenders also felt the sudden halt in operations. Participants in capital access programs were left unable to approve loans during the shutdown or verify loan application information provided by the Internal Revenue Service.¹⁶ For reference, in FY 2018, the SBA approved more than 66,000 7(a) and 504 loans and provided more than \$30 billion in lending to small businesses. The government shutdown, in essence, created a freeze on SBA guaranteed loans forcing many small businesses to turn to other forms of capital.¹⁷

Access to capital was not the only way small businesses were hampered by the shutdown. With SBA district offices across the country closed and some counseling programs shuttered, would-be and existing entrepreneurs were unable to access the necessary resources to launch and grow their small businesses. These free and low-cost services are critical to growing the number of small businesses and our economy. Entrepreneurial Development (ED) resource partners, such as Small Business Development Centers¹⁸ (SBDCs), Women's Business Centers¹⁹ (WBCs), and SCORE,²⁰ had to shutter over 100 offices nationwide, curtailing valuable counseling and training to aspiring entrepreneurs and small businesses. Moreover, the ED programs rely heavily on SBA government employees to provide the needed programmatic information to small businesses, and the SBA employees were furloughed.

Small Business Contracting

Small contractors rely on the federal marketplace for new opportunities, particularly because the federal government is the world's largest purchaser of goods and services. During a shutdown, the impact to small contractors can vary from minor to devastating depending on the size and function of the contract. In many cases, small business contractors have experienced delays in payment, contract completions, and increased costs that are generally extremely difficult to recover. Additionally, contracting officers were among the federal workers furloughed, resulting in lost assistance for small contractors.

While estimates vary, the current shutdown caused financial hardship to thousands of small businesses contracting with the shuttered agencies. Delays in payment from federal agencies lead to small contractors incurring additional costs, greatly harming those businesses operating on thin margins. A great deal of uncertainty resulted from the partial shutdown in that some business owners were unsure if request for proposals (RFPs) were still due at original deadlines, whether

¹⁶ The Internal Revenue Service was also one of the federal offices closed during the government shutdown, though many employees were asked to return to work without pay.

¹⁷ Gabriel T. Rubin, *How the Shutdown Is Hitting Business*, WALL ST. J., last updated Jan. 24, 2019, available at <https://www.wsj.com/articles/shutdown-hits-industries-nationwide-11548075600>.

¹⁸ SBDCs deliver professional business advising and training focused on strategic planning, business development, financial planning, and cash flow management to hundreds of thousands of business clients annually. The SBDC program provides SBA grants to small business development centers and leverages a unique mix of federal, state, and private sector financial resources.

¹⁹ The WBC program provides grants to nearly 100 non-profit organizations that provide quality advising and training services primarily to women entrepreneurs, many of whom are socially and economically disadvantaged. Participating organizations must match the federal funding with one non-federal dollar for every two federal dollars during the first two years and on a one-to-one basis thereafter.

²⁰ The SCORE Association is a nonprofit association comprised of over 13,000 volunteer business counselors located in 348 chapters throughout the U.S. and its territories. SCORE members are trained to serve as counselors, advisors, and mentors to aspiring entrepreneurs and business owners.

requests for equitable adjustments (REAs) will be made, and how past performance ratings will be affected on future bids.

The SBA also ceased operations for certifying businesses through its website at [Certify.SBA.gov](https://certify.sba.gov) for the 8(a)²¹ business development program. While SBA continued to certify HUBZone²² applications and process contracting actions for agencies not affected by the shutdown, small contractors doing business with the shuttered agencies were put at a disadvantage because they were not being assisted. Without certification, some small businesses were unable to compete for a solicitation with agencies still operating because they failed to become certified. Further, a backlog in processing requests is expected, leading to greater challenges for small firms wishing to compete in the federal marketplace.

Conclusion

A government shutdown does not allow federal agencies, small business contractors, service providers, or lenders to properly plan for present or future funding capacity. The ongoing ripple effects to our economy will be felt in end of quarter and end of year GDP estimates. More importantly, though, halting of government services affects not only small businesses but the consumers they rely on to buy their products and services. Needless to say, the thousands of small business, entrepreneurs, and federal workers will continue to feel the direct and indirect cost of this unnecessary government shutdown.

²¹ The 8(a) program was created to provide business development assistance to eligible small disadvantaged businesses seeking to participate in federal contracting. A major benefit of the program is that 8(a) firms can receive sole source, as well as set-aside competitive federal contracts.

²² The HUBZone program aids urban and rural small businesses that are located in designated distressed areas in accessing federal procurement opportunities.