Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515–6315

MEMORANDUM

TO:	Members, Subcommittee on Innovation, Entrepreneurship, and Workforce Development
FROM:	Jason Crow, Chairman
DATE:	6/30/2021
RE:	Subcommittee Hybrid Hearing: "Jobs! Jobs! Jobs!"

The Small Business Subcommittee on Innovation, Entrepreneurship, and Workforce Development will hold a hybrid hearing entitled, "Jobs! Jobs! Jobs!" **This hearing will begin at 10:00 A.M. on Wednesday, June 30, 2021 in Rayburn room 2360 and via the Zoom platform (Information to be provided).**

While small businesses play an outsized role in local economies and job creation, they have been particularly hard hit by the COVID-19 pandemic. To ensure a robust recovery, Congress will need to consider ways to fill the entrepreneurship gaps that have existed for years in low-income and rural areas. This hearing will focus on H.R. 1226, the Next Generation Entrepreneurship Corps Act, which would establish a Corps to make an investment in these Main Street businesses, and give Members the opportunity to hear from experts about how this program could potentially help with the economic recovery.

<u>Panel:</u>

- John Dearie, President, Center for American Entrepreneurship, Great Falls, VA.
- Dr. J.D. LaRock, President and CEO, Network for Teaching Entrepreneurship, New York, NY.
- Ms. Denyse Airheart, Director of Business Pathways, Mi Casa Resource Center, Denver, CO.
- Mr. Craig Etkin, President and CEO, Intelligence360, Sugarland, TX.

<u>Background</u>

The COVID-19 pandemic devastated the U.S. economy, particularly the small firms that serve as the backbones of their communities, making up 99 percent of all employers and creating two-thirds of all new jobs.[1] Despite government efforts, nearly 200,000 additional businesses shuttered during the pandemic may never reopen.[2] This comes on the heels of a decades-long decline in entrepreneurship rates around the country.

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[1] SBA OFFICE OF ADVOCACY, *2019 Small Business Profile*, 2019. https://cdn.advocacy.sba.gov/wp-content/uploads/2019/04/23142719/2019-Small-Business-Profiles-US.pdf.

[2] Crane, Leland D., Ryan A. Decker, Aaron Flaaen, Adrian Hamins-Puertolas, and Christopher Kurz, *Business Exit During the COVID-19 Pandemic: Non-Traditional Measures in Historical Context*, FINANCE AND ECONOMICS

Widening gaps in entrepreneurship are often drawn along socio-economic, demographic, and generational divides. In fact, Millennials are on track to be the least entrepreneurial generation in history, with startup rates well below Baby Boomer and Generation X counterparts.[3] Working-age population growth has been in steady decline since the 1990s, contributing to fewer working-age people starting businesses.[4] Moreover, low-income communities and communities of color often cannot access the same training, mentorship, and capital opportunities as wealthier urban areas, leading to lower start-up rates and job creation.[5]

By revitalizing the entrepreneurship ecosystem, the American economy can benefit from the enhanced growth contribution made by small firms in the wake of the COVID-19 pandemic. The growth of small firms contributes a large share of net job creation because their expansion potential is much greater than larger, established businesses. In fact, between 1980 and 2010, job creation by new firms averaged about 2.9 million per year. Therefore, lower business formation rates caused by this decades-long decline alongside the COVID-19 pandemic, may slow the recovery. By working from the proven model of establishing a system of fellows around the country, the Next Generation Entrepreneurship Corps incentivizes new entrepreneurs to take their ideas to under resourced communities, providing jobs and opportunity along the way.

Causes and Consequences of Declining Entrepreneurship

Low-Income Communities

Many of the communities hit hardest by the pandemic were already economically distressed. For instance, one report from the Kaiser Family Foundation found that low-income and communities of color were at higher risk of serious illness if infected by COVID-19.[6] Moreover, these communities have long seen a gap in entrepreneurship. A report from the SBA Office of Advocacy analyzed data from 2013 and found that self-employment rates in low-income communities were significantly lower (9.2 percent) relative to other areas (10.9 percent).[7] This study also found there are proportionately fewer businesses operating in these areas, and those businesses are more likely to be run out of the owner's residence rather than being incorporated relative to businesses in other areas. Finally, the businesses in these areas are less likely to be employer businesses or have fewer than average employees. These factors emphasize the need to invest in young startups in these areas in order to spur a more equitable recovery.

DISCUSSION SERIES 2020-089R1. WASHINGTON: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, https://doi.org/10.17016/FEDS.2020.089r1.

[3] Maria Hollenhorst, *Millennials Want to be Entrepreneurs, but a Tough Economy Stands In Their Way*, NPR, Sept. 26, 2016. https://www.npr.org/2016/09/26/495487260/millennials-want-to-be-entrepreneurs-but-a-tough-economy-stands-in-their-way.

[4] U.S. CBO, *Federal Policies in Response to Declining Entrepreneurship,* Dec. 2020. https://www.cbo.gov/system/files/2020-12/56906-entrepreneurship.pdf.

[5] Maurice Kugler, Marios Michaelides, Neha Nanda, and Cassandra Agbayani, *Entrepreneurship in Low Income Areas*, SBA OFFICE OF ADVOCACY, Sept. 2017. Entrepreneurship in Low Income Areas (sba.gov).

[6] Argita et al., *Low-Income Communities of Color at Higher Risk of Serious Illness if Infected with Coronavirus*, KFF, May 7, 2020. https://www.kff.org/coronavirus-covid-19/issue-brief/low-income-and-communities-of-color-at-higher-risk-of-serious-illness-if-infected-with-coronavirus/

[7] *Supra* note 5.

Declining Entrepreneurship

As stated above, this pandemic has come on the heels of a decades-long decline in entrepreneurship around the country. A CBO report from December 2020 found that from the period of 1982 to 2018, the rate at which firms were created decreased from 10 percent of all businesses to 8 percent, and the share of employment belonging to new firms (less than five years old) fell from 14 percent to 9 percent.[8] In 1982, new firms constituted 38 percent of all businesses, but fell to only 29 percent in 2018.[9] Finally, in 2018, the rate at which firms were exiting the market out-paced the rate at which firms entered (shown in Figure 1).[10] This likely increased dramatically throughout 2020, where an additional 200,000 firms closed permanently.[11]

Figure 1.

Rates at Which Firms Entered and Exited the Market, 1982 to 2018

Data source: Congressional Budget Office, using data from the Census Bureau's Business Dynamics Statistics. See www.cbo.gov/publication/56906#data.

This decline in entrepreneurship is likely due to several factors: First, many small firms lack financing opportunities and are much more vulnerable to general economic trends.[12] For example, not only did the 2007-2009 recession decrease aggregate demand, making the business environment much more constrained, it also led to more difficult lending circumstances. As a result of the financial crisis, large banks were wary of risky investments in startups while small, community banks continued disappearing along their own decades-long trend.[13]

This downward trend in entrepreneurship could also likely be a result of demographic trends. An aging population means fewer working-age people, and from the end of the 1970s to the late 2010s,

[8] *Supra* note 4.
[9] *Id.*
[10] *Id.*
[11] *Id.*
[12] *Id.*
[13] Craig Hall, *How the Decline in Community Banks has Hurt U.S. Entrepreneurship*, BARRON'S, May 18, 2019. https://www.barrons.com/articles/how-the-decline-in-community-banks-has-hurt-u-s-entrepreneurship-51558184413.

working age population growth declined from 3 percent to 1 percent.[14] The 35-54 age group, which is most likely to start a business and be successful in that venture, has declined since 2000.[15]

Moreover, generational entrepreneurship rates can likely be attributed to other systemic factors. For instance, Millennials are on track to be the least entrepreneurial generation in history, likely due to high amounts of student loan debt, fewer employment opportunities coming out of the Great Recession, and the increasing consolidation of businesses and role of oligopolies in the American economy. From 2004 to 2014, the number of student loan borrowers rose 89 percent and the average debt held by each borrower increased 77 percent.[16] Starting a business is a risky thing to do, and larger amounts of debt could deter risk-taking among this generation.

Starting a firm also becomes a riskier endeavor when a small number of large firms dominate the markets. Since, the 1990s, 75 percent of U.S. industries have experienced more concentration.[17] As of 2016, CVS and Walgreens controlled between 50 and 75 percent of the drug store market in each of the country's 14 largest metro areas.[18] Since then, Walgreens has acquired Rite Aid. Furthermore, Amazon and Barnes & Noble sell half the country's books, Facebook owns four out of five of the most downloaded apps, and Google controls 86.6 percent of the search engine market share.[19] Alongside the countless examples of increasing industry concentration in the U.S. comes the proportionate decline in business startups.

The Economic Impact of Declining Entrepreneurship

Considering the negative impacts of declining entrepreneurship is just as important as understanding the causes. Available research indicates lower rates of entrepreneurship, and as a result fewer small firms, has several detrimental effects on the economy. First, small businesses tend to allocate resources more efficiently than their larger counterparts, and as a result increase productivity.[20] The decline of entrepreneurship over the past four decades has been identified as a contributor to recent decline in labor productivity – specifically, the 3 to 4 percent decline in the mid-2010s.[21] Entrepreneurship contributes to greater efficiency in the economy in several ways, like introducing new products and technologies to the market that increase productivity or having more room for growth and therefore more potential for job creation.[22] Moreover, they often make the economy more productive by compelling established firms to work more efficiently to maintain business.

Creating an ecosystem that is more favorable towards entrepreneurs would likely result in more economic growth and a more speedy and equitable recovery from the COVID-19 pandemic. Since

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[14] *Supra* note 4.
[15] *Id.*
[16] Derek Thompson, *The Myth of the Millennial Entrepreneur*, THE ATLANTIC, July 6, 2016. https://www.theatlantic.com/business/archive/2016/07/the-myth-of-the-millennial-entrepreneur/490058/.
[17] Gastavo Grullon, Yelena Larkin, Roni Michaely, *Are U.S. Industries Becoming More Concentrated?,* REVIEW OF FINANCE, Vol. 23, Issue 4, July 2019, Pages 697-743.https://academic.oup.com/rof/article/23/4/697/5477414.
[18] Cory Stern, CVS and Walgreens are completely Dominating the U.S. Drugstore Industry, Business Insider, July 29, 2015. https://www.businessinsider.com/cvs-and-walgreens-us-drugstore-market-share-2015-7.
[19] Statista, *Worldwide Desktop Market Share of Leading Search Engines from January 2010 to February 2021*, Feb. 2021. https://www.statista.com/statistics/216573/worldwide-market-share-of-search-engines/.
[20] Supra note 4.
[21] *Id.*
[22] *Id.*

small firms tend to allocate resources more efficiently, create more productive workspaces, and contribute to faster job growth, legislation has been introduced to incentivize more business startups in areas that have traditionally lacked business growth. The Next Generation Entrepreneurship Corps Act would establish a fellowship-based pilot program to create startups in economically distressed areas.

The Next Generation Entrepreneurship Corps Act

The Next Generation Entrepreneurship Corps Act (Next Gen) would seek to accomplish two main objectives: entrepreneurial inclusivity and increased entrepreneurship in distressed regions. It would provide access to capital for fellows in the program, as well as several benefits while they seek to grow their startup over the two-year program. Since it is geared toward lower income and communities of color, the entrepreneurs chosen as fellows would likely reflect that, and as a result build a more inclusive entrepreneurships ecosystem alongside providing the access to capital to the historically underserved.

This legislation is modeled after previous successful fellow-based programs like Teach for America and Peace Corps as well as the Truman and Fulbright scholarships. Instead of training teachers, public servicemembers, and researchers, it works to build the next generation of America's entrepreneurs.

The bill creates a national business proposal competition judged by a committee established at the SBA. This committee consists of a bipartisan selection of 12 leaders from the public and private sector, representing SBA resource partners, industry, and academia. If chosen, the fellow receives a $120,000 two-year stipend for living and start-up expenses as well as health benefits. It prepares entrepreneurs by giving access to advice and mentorship through SBA Resource Partners and networking opportunities with business leaders and venture capitalists. The Next Gen bill also contains a partnership with the SBA's federal contracting assistance programs, which provides business assistance to socially and economically disadvantaged business owners and helps them gain access to government contracting. Finally, and perhaps most importantly, it provides access to capital to these entrepreneurs by connecting them with SBA-backed lenders to receive fast-track access to credit, as well as establishing a new, $30 million fund to encourage private investors by providing leverage who make an equity investment in a corps member's business.

Conclusion

The Next Generation Entrepreneurship Corps Act seeks to train the next generation of American entrepreneurs through a fellowship-based model with demonstrated success in programs like Teach for America and Peace Corps. Its primary goal is to aid in a more equitable recovery from the COVID-19 pandemic by provided much needed federal investment in business activity in historically underserved urban and rural neighborhoods, as well as expand inclusivity in business startups. It follows a decades-long decline in entrepreneurship and seeks to mitigate the negative economic impacts that has wrought. This hearing will examine this legislation by providing an opportunity for members to hear from experts in entrepreneurship from around the country about the impacts of declining entrepreneurship, the COVID-19 pandemic, and the investment needed to revitalize the entrepreneurship ecosystem.