

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members, Rural Development, Agriculture, Trade, and Entrepreneurship Subcommittee
FROM: Abby Finkenauer, Chairwoman
DATE: September 10, 2020
RE: Subcommittee Hearing: “Kick Starting Entrepreneurship and Main Street Economic Recovery”

The House Small Business Rural Development, Agriculture, Trade, and Entrepreneurship Subcommittee will hold a remote hearing entitled, “Kick Starting Entrepreneurship and Main Street Economic Recovery” on **Thursday, September 10th at 1:00 p.m. via Cisco Webex.**

The hearing will allow members to learn more about why the COVID-19 pandemic is a unique challenge for rural economies. Further, it will examine what worked and did not work to encourage rural development and entrepreneurship during and after the Great Recession, and how these lessons can be applied to the current crisis.

Witnesses include:

- Mr. Chad Nath, Executive Director, LINK Grinnell Inc., Grinnell, IA;
- Mr. Jeremy Ketelsen, Vice President, Ketelsen RV, Hiawatha, IA;
- Mr. Mark Rembert, Head of the Rural Innovation Network, Center on Rural Innovation, Hartland, VT; and
- Mr. Jason Duff, Founder, Small Nation, Bellefontaine, OH

Background

Natural disasters and economic recessions impose serious financial stress on many small businesses and increase the risk of business failure.¹ Yet, the economic shock resulting from these events can also produce new businesses and new entrepreneurs, eventually leading to more economic growth through increased job opportunities.² This was especially true following the Great Recession that began in late 2007.

¹ See McKinsey & Co., *COVID-19: Implications for Business*, (July 16, 2020), <https://www.mckinsey.com/business-functions/risk/our-insights/covid-19-implications-for-business>.

² See Scott Shane, *The Great Recession’s Effect on Entrepreneurship*, FED. RES. BANK OF CLEVELAND, (Mar. 24, 2011), <https://www.clevelandfed.org/newsroom-and-events/publications/economic-commentary/economic-commentary-archives/2011-economic-commentaries/ec-201104-the-great-recessions-effect-on-entrepreneurship.aspx>.

The unprecedented natural disasters of 2020—including the Midwest derecho; Hurricanes Laura and Isaias; wildfires in California and Colorado; and the earthquakes in Puerto Rico—have caused extensive physical and economic damage to many small businesses and entrepreneurs across the U.S. These disasters occurred amidst the ongoing the coronavirus pandemic (COVID-19) that began in late 2019. The pandemic has caused widespread public health and economic hardships around the world and in the United States of America. It has plunged the global and U.S. economies into a recession with global gross domestic product shrinking by approximately 5.2 percent—the deepest decline since the Second World War.³ Even though COVID-19 was slower to arrive in Rural America, these areas are at serious risk due to their generally older population and lack of public health resources.⁴ Many rural small businesses have closed due to COVID-19 and other disasters potentially causing permanent economic damage to these communities.

Rural economies had just begun to recover from the Great Recession when the COVID-19 pandemic hit. Unlike urban businesses, which had recovered from the Great Recession by 2011, rural businesses did not recover until 2017.⁵ While Congress and this Administration have disbursed \$761 billion in direct spending targeting small businesses during this pandemic, there is more to be done. In order to avoid repeating a prolonged recovery for Rural America, Congress must take additional steps to strengthen rural small businesses. Possible steps to accelerate the post-pandemic rural recovery include expanding rural broadband, improving access to capital, and creating and sustaining expanded entrepreneurial ecosystems.

Before, During, and After the Great Recession in Rural America

From immediately after World War II to the mid-1980's, Rural America's population declined as farm consolidation and mechanization shrank the agricultural workforce. Automation and offshore production contributed to the decline of rural manufacturing and “company towns” dependent on a single industry. Between 1992 to 1996, Rural America reversed course and created approximately 135,000 new businesses—a third of the nation's business creation. At the same time, rural employment increased by 2.5 million, or 16 percent—twice the pace of urban counties.⁶ This economic expansion, which lasted until 2000, increased earnings and additional income, reduced poverty rates, and attracted new residents to Rural America.⁷

From the summer of 2000 through November 2001, Rural America—alongside urban America—experienced a recession. Then, in 2002, rural economies began to recover with the migration of population to Rural America, which increased following Hurricane Katrina in 2005. This migration also resulted in parallel increases in employment and household income and decreases

³ The World Bank, *COVID-19 to Plunge Global Economy into Worst Recession Since World War II*, (June 8, 2020), <https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii>; NAT'L BUR. OF ECON. RES., DETERMINATION OF THE FEBRUARY 2020 PEAK IN US ECONOMIC ACTIVITY, (June 8, 2020), <https://www.nber.org/cycles/june2020.html>.

⁴ Christopher Curley *Rural America Could be the Region Hardest Hit by the COVID-19 Outbreak*, Healthline, (May 13, 2020), <https://www.healthline.com/health-news/rural-america-hardest-hit-by-covid-19-outbreak>.

⁵ See Daniel Wilmoth, *Growth in Number of Rural Establishments*, U.S. Small Biz. Admin., (Dec. 2019), <https://cdn.advocacy.sba.gov/wp-content/uploads/2020/02/04111621/Rural-Business-Growth-Fact-Sheet1.pdf>.

⁶ Eduardo Porter, *The Hard Truths of Trying to 'Save' the Rural Economy*, N.Y. Times, (Dec. 14, 2018), <https://www.nytimes.com/interactive/2018/12/14/opinion/rural-america-trump-decline.html>.

⁷ ECONOMIC RESEARCH SERVICE, RURAL AMERICA AT A GLANCE: 2002 EDITION, U.S. DEP'T OF AG., https://www.ers.usda.gov/webdocs/publications/47064/31167_rdr94-1_002.pdf?v=6771.3.

in unemployment and poverty rates.⁸

After the onset of the Great Recession late 2007 and early 2008, rural communities continued to show modest economic gains throughout 2008, while employment rates only decreased by 0.9 percent.⁹ Then in late 2008, the Great Recession reached Rural America. Population, employment, and household income declined while poverty and unemployment increased.¹⁰ Between 2008 and 2017, much of the economic recovery from the Great Recession missed Rural America. The Bureau of Labor Statistics found that in Rural America, employment levels had remained stagnant between 2008 to 2017, and that there were fewer jobs available for residents in 2017 than in 2008.¹¹ Additionally, the Center for American Progress found that rural areas saw almost no change in the number of businesses immediately following the Great Recession and the number of businesses actually declined slightly from 2011 to 2016.¹²

One bright spot for Rural America has been the continued growth of the outdoor recreation economy since the Great Recession. According to the Recreation Roundtable, most outdoor recreation businesses are considered small businesses, including 97 percent of RV dealers, 98 percent of private campgrounds, and 90 percent of sportfishing dealers.¹³ These small businesses accounted for \$427.2 billion or 2.2 percent of gross domestic product (GDP) in 2017, produce \$734 billion in gross economic output annually, and support 4.5 million quality jobs according to the Bureau of Economic Analysis (BEA). These small businesses have helped to revitalize America's Main Streets.

What Makes the COVID-19 Pandemic Unique for Rural Communities

The COVID-19 pandemic combines a public health emergency with an economic downturn. This dual crisis creates additional hardships for America's most distressed communities, which includes large portions of Rural America including Alabama, Arkansas, Louisiana, Mississippi, New Mexico, and West Virginia. Distressed rural communities are particularly vulnerable to COVID-19 because of their large at-risk populations, vulnerable local economies, and weak healthcare infrastructure.¹⁴

The Economic Innovation Group (EIG) considers a community "distressed" by measurements from the U.S. Census Bureau's American Community Survey, including high school completion rates, housing vacancy rates, unemployment rates, poverty rates, median income ratio, change in

⁸ ECONOMIC RESEARCH SERVICE, RURAL AMERICA AT A GLANCE: 2007 EDITION, U.S. DEP'T OF AG., https://www.ers.usda.gov/webdocs/publications/44200/11100_eib31_1_.pdf?v=2057.

⁹ Jason Henderson and Maria Akers, *Recession Catches Rural America*,

¹⁰ ECONOMIC RESEARCH SERVICE, RURAL AMERICA AT A GLANCE: 2008 EDITION, U.S. DEP'T OF AG., <https://www.ers.usda.gov/webdocs/publications/44268/eib-40.pdf?v=6249.6>.

¹¹ U.S. Bureau of Labor Statistics, *Great Recession, Great Recovery? Trends from the Current Population Survey*, (Apr. 2018), <https://www.bls.gov/opub/mlr/2018/article/great-recession-great-recovery.htm>.

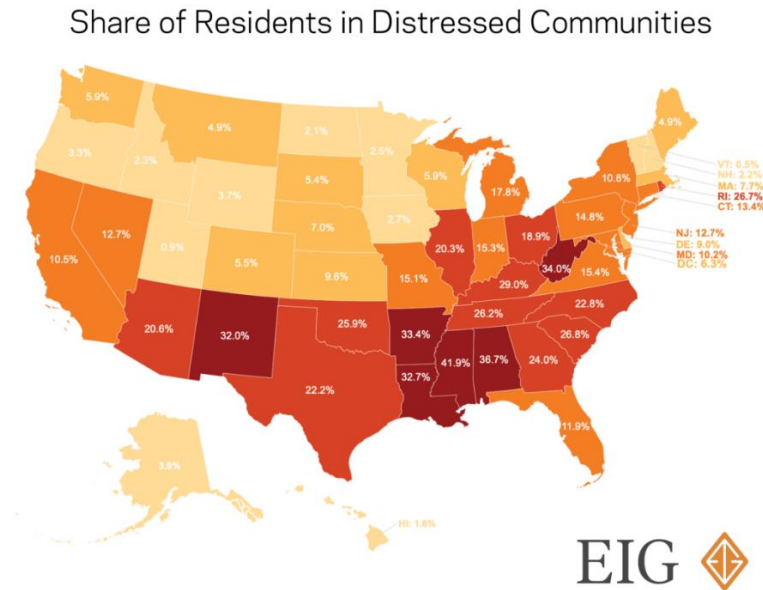
¹² See Olugbenge Ajilore, *Economic Recovery and Business Dynamism in Rural America*, CTR. FOR AM. PROG. (Feb. 20, 2020), <https://www.americanprogress.org/issues/economy/reports/2020/02/20/480129/economic-recovery-business-dynamism-rural-america/>.

¹³ See Outdoor Recreation Roundtable, *Outdoor Recreation Industry and Coronavirus*, <https://recreationroundtable.org/coronavirus/>.

¹⁴ Daniel Newman & Kenan Fikri, *The Unique Challenges COVID-19 Poses to America's Distressed Communities*, Economic Innovation Group, (Mar. 27, 2020), <https://eig.org/news/the-unique-challenges-covid-19-poses-to-americas-distressed-communities>.

employment rates, and change in the number of business establishments for communities. Economically distressed communities all tend to suffer from low rates of labor force participation, limited educational attainment, and persistent poverty.

Figure 1:



Source: EIG's Distressed Communities Index

Source: ECONOMIC INNOVATION GROUP, FROM GREAT RECESSION TO GREAT RESHUFFLING: CHARTING A DECADE OF CHANGE ACROSS AMERICAN COMMUNITIES, (Oct. 2018).

Furthermore, families across the nation already faced barriers to finding safe and affordable childcare prior to onset of COVID-19. This was especially true in Rural America where nearly two-thirds of families live in a childcare desert—an area where there are at least three young children for every licensed childcare slot, or no licensed childcare at all.¹⁵ The COVID-19 pandemic has exacerbated this challenge. Many experts predict that, without government intervention, nearly half of the childcare centers in the country would close. This would have major economic consequences across the nation as millions of Americans would be unable to return to work.¹⁶

Policy Proposals

Investing in Rural America can lead to great successes—as demonstrated by the creation of one-third of the nation’s new businesses from 1992 to 1996. Rural communities offer entrepreneurs and America’s small business owners a lower cost of living and lower cost of doing business. As rural communities struggle to recover from the COVID-19 pandemic and other natural disasters, policy makers should investigate new ways to attract and cultivate entrepreneurs and accelerate

¹⁵ See Leila Schochet, *5 Facts to Know About Child Care in Rural America*, CTR. FOR AM. PROG., (June 4, 2019), <https://www.americanprogress.org/issues/early-childhood/news/2019/06/04/470581/5-facts-know-child-care-rural-america/>.

¹⁶ See Rasheed Malik, et al., *The Coronavirus Will Make Child Care Deserts Worse and Exacerbate Inequality*, Ctr. for Am. Prog. (Jun. 22, 2020), <https://www.americanprogress.org/issues/early-childhood/reports/2020/06/22/486433/coronavirus-will-make-child-care-deserts-worse-exacerbate-inequality/>.

rural small business growth.

Rural Broadband

The U.S. struggles with a deep digital divide. This is especially true in Rural America, where 23 million individuals—39 percent of the population—lack access to a broadband connection.¹⁷ Without competitively priced broadband internet, rural businesses, especially small businesses, cannot compete successfully in national and global markets.

Researchers, including those at the think tank Third Way, recommend looking back to the Federal Rural Electrification Act (REA),¹⁸ which provided electricity to Rural America, as an example of how to improve rural broadband. The REA created approximately 400 rural electrical cooperatives, which in turn provided approximately 25 percent of Rural America with electrical power in in three years. Nine years after it was created, REA helped to provide over 90 percent of Rural America with electricity. Today, these rural electrical cooperatives are instrumental in providing broadband internet to the communities that they serve.¹⁹

On July 1, 2020 the House passed H.R. 7095, the Investing in a New Vision for the Environment and Surface Transportation (INVEST) in America Act, which included \$100 billion for investments in rural broadband.

Access to Capital

The availability of capital is one of the most fundamental needs of any business. Substantial research indicates that entities that have capital constraints grow slower and create fewer jobs.²⁰ A recent U.S. Small Business Administration (SBA) report reveals that small businesses and entrepreneurs in rural America have more difficulty accessing capital than their urban counterparts, and, when they were able to access capital, they borrowed less money.²¹

One of the many ways to provide additional access to capital to rural small businesses is through SBA's Small Business Investment Company (SBIC) program. The SBIC program was created to stimulate and supplement the flow of private equity capital and loan funding to small businesses that would normally not have capital available to them. SBA and the U.S. Department of Agriculture have partnered together since 2018 through the Rural Business Investment Company (RBIC) program to encourage investment in small businesses located in rural areas. From FY2015 to FY2018, SBA and the RBIC investments have averaged \$700 million each year.

¹⁷ Jennifer Levitz & Valerie Vauerlein, *Rural American is Stranded in the Dial-Up Age*, WALL ST. J. (Jun. 15, 2017), <https://www.wsj.com/articles/rural-america-is-stranded-in-the-dial-up-age-1497535841>.

¹⁸ P.L. 74-605, codified at 7 U.S.C § 901, et seq. (2016).

¹⁹ NEIL A. BELSON, PROMOTING RURAL ENTREPRENEURSHIP AND RURAL ECONOMIC DEVELOPMENT, THIRD WAY, (Jan. 7, 2020), <https://www.thirdway.org/report/promoting-rural-entrepreneurship-and-rural-economic-development>.

²⁰ See REBEL A. COLE ET AL., BANK LENDING TO RURAL VS. URBAN FIRMS IN THE UNITED STATES BEFORE, DURING, AND AFTER THE GREAT FINANCIAL CRISIS, U.S. SMALL BUS. ADMIN, OFF. OF ADV., (May 5, 2020), https://cdn.advocacy.sba.gov/wp-content/uploads/2020/05/05100852/REPORT-Cole-Rural-and-Urban-Lending_pd.pdf.

²¹ *Id.*

Growing, Nurturing, and Sustaining Entrepreneurship

Before a community can realize the benefits of entrepreneurship, they must be able to foster and sustain an entrepreneur-friendly environment. The Kauffman Foundation, which is a well-recognized leader in growing entrepreneurs, identifies four factors in the entrepreneurial process:

1. Talent, which belongs to individuals who recognize market opportunities and then create organizations to take advantage of these opportunities;
2. Opportunity, which is defined as the ability to fill a need in the community;
3. Capital; and
4. Know-how, or the opportunity to network in order to gain expertise and technical knowledge.²²

Rural entrepreneurs face additional challenges, including low population density and the lack of “linkages” or connections that help to encourage the flow of goods, services, or information.²³

SBA provides several resources to entrepreneurs and the communities that would like to encourage entrepreneurship. SBA resource partners – including the Small Business Development Centers (SBDCs), Women’s Business Development Centers (WBCs), the SCORE program, Regional Innovation Clusters (RICs), and the Veteran’s Business Outreach Centers (VBOCs) – provide training and mentoring to entrepreneurs who are seeking to start or grow their business. It is well established that entrepreneurs who receive training and mentoring increase sales and create more jobs.²⁴ There is a direct positive correlation between the hours of advising an entrepreneur receives and the longevity, profitability, and growth of their small business.²⁵

Conclusion

Rural America struggled to recover from the Great Recession. The longstanding challenges faced by many rural communities have been compounded by the multiple natural disasters of 2020, and the COVID-19 pandemic and resulting recession. Enhancing the ability of rural small businesses to effectively compete via enhanced investments in broadband, improving access to affordable capital, and strengthening the interpersonal linkages of rural entrepreneurs through mentorship and training can both accelerate the post-pandemic economic recovery and improve the long-term economic resiliency of rural America.

²² RAYMOND SMILOR, *ENTREPRENEURSHIP AND COMMUNITY DEVELOPMENT*, THE KAUFFMAN CENTER FOR ENTREPRENEURIAL LEADERSHIP, (1997).

²³ See Brian Dabson, *Supporting Rural Entrepreneurship*, Kansas City Fed. Res., <https://www.kansascityfed.org/PUBLICAT/Exploring/RC01Dabs.pdf>.

²⁴ See, e.g., Amanda Bullough, *Entrepreneurial Resilience During Challenging Times*, 56 Bus. Horizons 343 (2013).

²⁵ *Id.*