

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2561 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members, Committee on Small Business
FROM: Nydia Velázquez, Chairwoman
DATE: November 3, 2021
RE: Full Committee Hybrid Hearing: “Entrepreneurship in the New Economy”

The Committee on Small Business will meet for a hybrid hearing titled “Entrepreneurship in the New Economy.” This hearing is scheduled to begin at **10:00 A.M. on Wednesday, November 3, 2021 in person in Room 2360 of the Rayburn House Office Building, and virtually via the Zoom platform.**

The COVID-19 pandemic hit small businesses particularly hard, yet the number of startups across the country surged in 2020. The boom in entrepreneurship is not only unexpected but reversing four decades of steady declines. This hearing will examine the increase in American entrepreneurship and discuss how businesses are rebuilding from a once-in-a-generation economic crisis. Members will hear from experts alongside small business owners that will describe the changing nature of the economy coming out of the pandemic.

Panel

- Ms. Ellie Diop, CEO, Ellie Talks Money, Los Angeles, CA
- Mr. Andrew Fogaty, Director & Executive Director, 36Squared Business Incubator & Chicago’s SBDCs, Chicago, IL
- Ms. Stephanie DeVane, Vice President Entrepreneurship and Development, National Urban League, NY
- Mr. Raymond Keating, Chief Economist, Small Business & Entrepreneurship Council (SBE Council), Vienna, VA

Background

New businesses are a major driver of economic growth, job creation, and innovation, yet the number of new startups has been dwindling for decades. In 1980, 12 percent of employers were new businesses, compared to 8 percent in 2018.¹ In 1982, 38 percent of all businesses were new firms, compared to 29 percent in 2018.² Finally, in 2018, at the pinnacle of the longest economic expansion in U.S. history, the rate at which businesses were exiting the market exceeded the rate at which businesses were entering.³

¹ U.S. CBO, *Federal Policies in Response to Declining Entrepreneurship*, Dec. 2020.
<https://www.cbo.gov/system/files/2020-12/56906-entrepreneurship.pdf>.

² *Id.*

³ *Id.*

Despite expectations that new startups would decline significantly as a result of the pandemic, just as they did due to the Great Recession in 2008, the data is showing that the opposite occurred. Last year, Americans filed paperwork to start 4.3 million new businesses.⁴ This is a 24 percent increase from 2019 and by far the highest over the past 15 years for which the government has tracked the data.⁵

The COVID-19 Recession and Start-up Boom

The COVID-19 pandemic, which began in March 2020, resulted in widespread economic disruption. Unemployment rose from 3.5 to 14.8 percent, the S&P 500 dropped by more than 34 percent, and gross domestic product (GDP) declined by more than 32 percent between February and April 2020.⁶ Main Street businesses were particularly hard-hit in the early days of the pandemic largely because of their heavy reliance on foot traffic. Much of the economic relief provided by the government, like the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loan (EIDL) program, focused on keeping existing businesses open. Despite the relief, an estimated 200,000 additional businesses closed because of the pandemic by April 2021.⁷

Increased Entrepreneurship

The challenging business landscape made the growth in entrepreneurial activity throughout the end of 2020 and into 2021 even more surprising. The increased entrepreneurial activity described above was largely driven by the non-store, online retail sector.⁸ There was a large increase in both employer and non-employer firms, a trend that does not align with previous recessions. For instance, during the Great Recession, non-employer firms grew steadily, as some of those unable to find work became self-employed, while applications for employer businesses fell substantially for 63 subsequent weeks.⁹ While new businesses fell during the early weeks of the pandemic, they quickly jumped in both categories. This is demonstrated in Figure 1.

⁴ John C. Haltiwanger, *Entrepreneurship During the COVID-19 Pandemic: Evidence from the Business Formation Statistics*, NBER, June 2021. <https://www.nber.org/papers/w28912>.

⁵ *Id.*

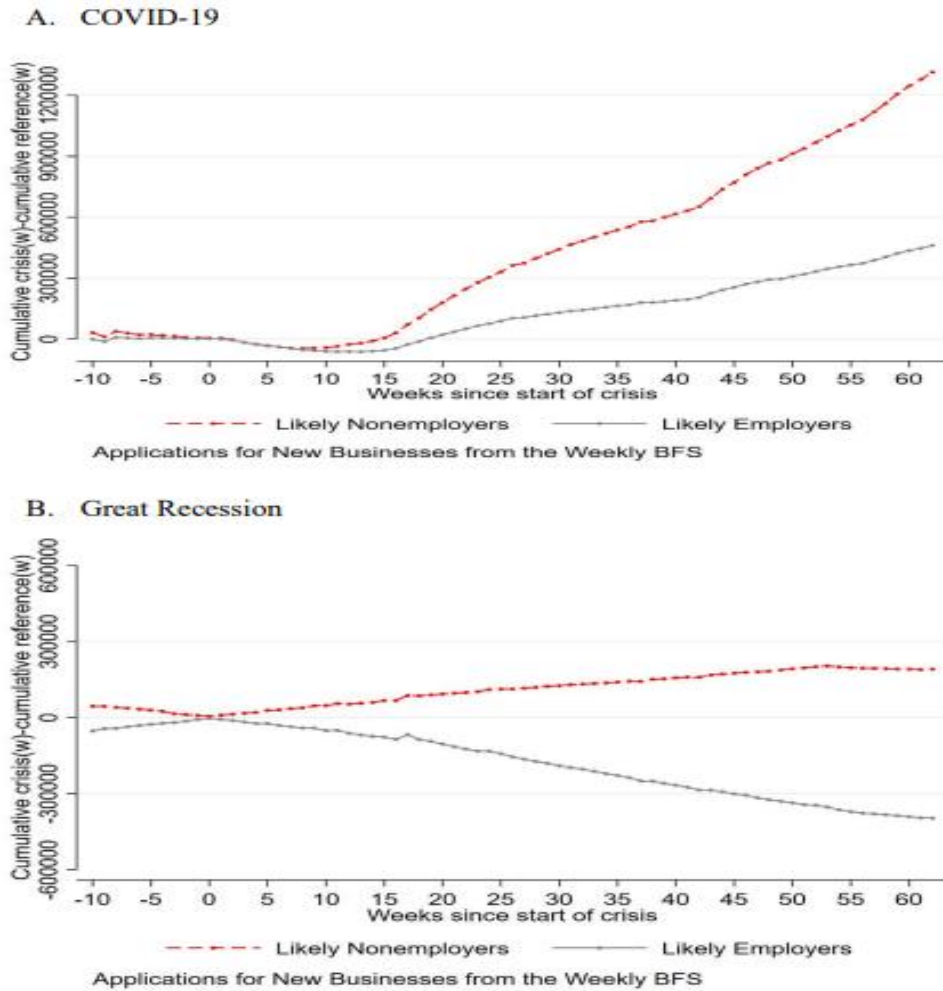
⁶ Catherine E. Fazio, Jorge Guzman, Yupeng Liu, Scott Stern, *How Is Covid Changing the Geography of Entrepreneurship? Evidence from the Startup Cartography*, NBER, May 2021. https://www.nber.org/system/files/working_papers/w28787/w28787.pdf

⁷ Ruth Simon, *COVID-19's Toll on U.S. Business? 200,000 Extra Closures in Pandemic's First Year*, WALL STREET JOURNAL, April 16, 2021. <https://www.wsj.com/articles/covid-19s-toll-on-u-s-business-200-000-extra-closures-in-pandemics-first-year-11618580619>.

⁸ U.S. CENSUS BUREAU, *Business Formation Statistics*, October 14, 2021. https://www.census.gov/econ/currentdata/dbsearch?program=BFS&startYear=2004&endYear=2021&categories=TOTAL&dataType=BA_BA&geoLevel=US&adjusted=1¬Adjusted=1&errorData=0.

⁹ *Supra* note 4.

Figure 1.



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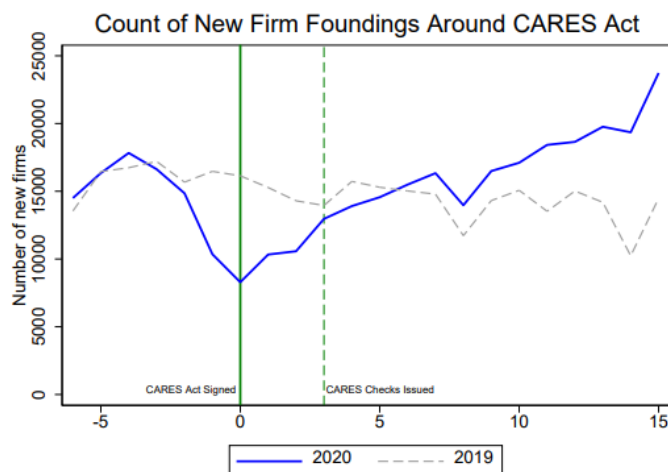
Demographics of COVID-19 Entrepreneurs

The 24 percent surge in entrepreneurship is largely concentrated in Black and Hispanic communities with higher median incomes, and the new business registrations correlate with economic stimulus measures taken through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Consolidated Appropriations Act of 2020, and the American Rescue Plan of 2021.¹¹ Figure 2 shows that new business registrations were on the decline until the CARES Act was passed in March 2020.

¹⁰ *Id.*

¹¹ *Supra* note 6.

Figure 2.



Additionally, young entrepreneurs play an integral role in the new economy. With a challenging job market, many young adults entering the workforce were compelled to rethink their career path pivoting towards entrepreneurship.¹² Young entrepreneurs found innovative ways to navigate the impact of COVID-19, adapt, and support their communities by developing new products and services.¹³

Possible Explanations for the Startup Surge

Layoffs

The COVID-19 recession resulted in a once-in-a-generation employment crisis. The economy shed 22 million jobs between February 2020 to April 2020.¹⁴ By August, the economy regained 11 million jobs. By November 2020 there were still 10 million fewer jobs than in February 2020.¹⁵ The magnitude of job loss in March and April 2020 is unprecedented in the post-World War II era. The layoffs were heavily concentrated in industries that had the most face-to-face interactions with consumers such as restaurants and bars, hotels, theaters, sports arenas, and concert halls. The Kauffman Foundation found that about 20 percent of new entrepreneurs during the pandemic were unemployed when they started their business. This is roughly double the pre-pandemic rate.¹⁶ Just

¹² Mateo Garces-Jimenez, *Covid is Making College Students Rethink Their 'Dream Job' and Plans for After Graduation*, CNBC, January 3, 2021. <https://www.cnbc.com/2021/01/03/covid-is-making-college-students-rethink-their-dream-job-.html>

¹³ Anne Sawyer, *How Business and Education Can Help Gen Z Reframe the Future*, EY, April 19, 2021. https://www.ey.com/en_gl/corporate-responsibility/how-business-and-education-can-help-gen-z-reframe-the-future

¹⁴ Elizabeth Weber Handwerker, Peter B. Meyer, Joseph Piacentini, Michael Schultz, and Leo Sveikauskas, *Employment Recovery in the Wake of the COVID-19 Pandemic*, BUREAU OF LABOR STATISTICS, December 2020. <https://www.bls.gov/opub/mlr/2020/article/employment-recovery.htm>

¹⁵ U.S. BUREAU OF LABOR STATISTICS, *The Employment Situation*, August 7, 2020. https://www.bls.gov/news.release/archives/empsit_08072020.pdf

¹⁶ Fairlie and Desai, *National Report on Early-Stage Entrepreneurship in the United States: 2020*, KAUFFMAN FOUNDATION, Feb. 2021. https://indicators.kauffman.org/wp-content/uploads/sites/2/2021/03/2020_Early-Stage-Entrepreneurship-National-Report.pdf

as was seen in previous recessions, laid off employees survived by turning their skills into becoming their own boss.¹⁷

Credit and Housing Markets

In March 2020, the Federal Reserve cut interest rates to .25 percent, making it more affordable than ever for banks, individuals, and businesses to borrow money.¹⁸ A booming housing market created a significant increase in household wealth for those who were already homeowners.¹⁹ The combination of increased household wealth and a low cost of borrowing could have been a source of capital for many would-be entrepreneurs.²⁰

COVID-19 Relief and Stimulus

The Federal Pandemic Unemployed Compensation provided an additional \$600 on top of state unemployment insurance, which helped to keep business demand high. Stimulus payments of \$1,200 per individual and \$2,400 per married couple also gave households additional disposable income helping pay down debts and make rental payments. Despite the uncertainty of the pandemic, continued unemployment benefits alongside stimulus payments may have given entrepreneurs confidence that demand would be maintained even with no end to the pandemic in sight.²¹

Transitioning to the New Economy

Recent data indicates the COVID-19 pandemic has sparked many changes throughout the economy and among the workforce.²² While massive layoffs in early 2020 triggered many to change careers or start businesses out of necessity, many workers in 2021 are considering career shifts due to new perspectives gained during a global pandemic or through newfound power due to a tight labor market. Some 4.3 million people quit jobs in August, which is approximately 2.9 percent of the workforce, according to new data from the Labor Department.²³

Industry Breakdown

Many workers are deciding that taxing hours, inadequate pay, and lack of work-life balance are no longer acceptable trade-offs for their mental and physical health. Frontline workers in health care, childcare, hospitality, and food service industries have experienced these hardships. According to a survey by Joblist, nearly 40 percent of former workers in the nation's hospitality industry say

¹⁷ Kim Mackrael, *In the Covid Economy, Laid-Off Employees Become New Entrepreneurs*, WALL STREET JOURNAL, November 18, 2020. <https://www.wsj.com/articles/in-the-covid-economy-laid-off-employees-become-new-entrepreneurs-11605716565>

¹⁸ Liz Knueven, *When the Fed Cuts Interests Rates, it Affects Everything from Your Savings Account to Your Auto Loans*, BUSINESS INSIDER, March 16, 2020.

¹⁹ *Supra* note 4.

²⁰ *Id.*

²¹ *Supra* note 6.

²² Mitchell Barnes, Lauren Bauer, and Wendy Edelberg, 11 Facts On The Economic Recovery From The COVID-19 Pandemic, BROOKINGS, September 29 2021. <https://www.brookings.edu/research/11-facts-on-the-economic-recovery-from-the-covid-19-pandemic/>

²³ BUREAU OF LABOR STATISTICS, *Job Openings and Labor Turnover*, October 12, 2021.

<https://www.bls.gov/news.release/pdf/jolts.pdf> <https://www.washingtonpost.com/business/2021/10/12/jolts-workers-quitting-august-pandemic/>

they do not plan to go back to jobs in hotels, restaurants, or bars.²⁴ Additionally, roughly 4 percent of the retail workforce has quit each month.²⁵ In June alone, 632,000 workers quit retail jobs.²⁶

Changing Nature of Work

Telework preserved some jobs during the pandemic. Roughly one-third of U.S. workers have jobs that could be done remotely. Online job searches for remote positions increased 460 percent between June 2019 and June 2021, according to an analysis by Glassdoor.²⁷ Videoconferencing services like Zoom and Skype made telework feasible by providing a platform for virtual meetings, conferences, and even social events. Remote work also opened doors for more workplace diversity by releasing some restraints on groups that were previously disadvantaged. Additionally, e-commerce within the retail industry has become especially prevalent with consumers spending approximately \$900 billion more online than they had in the previous two years.²⁸ The surge in online entrepreneurship was made possible by advances in technology, which provided a magnitude of choices to meet new consumers demands.

Conclusion

An entrepreneurial boom during an economic recession is unexpected and reverses four decades of decline. Challenges in the workplace brought on by the pandemic have resulted in a record number of Americans are quitting their jobs in favor of independent work. Countless COVID-19 entrepreneurs note that the pandemic did not just provide a motivation, it also provided a business opportunity. While it is too early to assume this boom is long-lasting, remote work, technological advances, and economic relief can help explain this transition outside traditional office settings towards entrepreneurship.

²⁴ JOBLIST, *Q2 2021 United States Job Market Report*, July 8 2021. <https://www.joblist.com/jobs-reports/q2-2021-united-states-job-market-report>

²⁵ Alina Selyukh, *More Retail Workers Are Quitting Than Ever, But More Stores Are Opening Than Expected*, NATIONAL PUBLIC RADIO (NPR), August 26, 2021. <https://www.npr.org/2021/08/26/1029768029/seriously-you-opened-a-store-in-the-pandemic-and-more-surprising-retail-trends>

²⁶ U.S. BUREAU OF LABOR STATISTICS, *Quits Levels And Rates By Industry And Region, Seasonally Adjusted*, October 2021. <https://www.bls.gov/news.release/jolts.t04.htm>

²⁷ Greg Iacurci, *Pandemic Pushes Search For Remote Jobs Up 460%*, CNBC NEWS, August 26, 2021. <https://www.cnbc.com/2021/08/26/covid-pandemic-pushes-hunt-for-remote-jobs-up-460percent.html>

²⁸ Melissa Repko, *Consumers Spent \$900 Billion More Online in 2020. Here's Who Will Keep The Biggest Gains*, CNBC NEWS, April 6, 2021. <https://www.cnbc.com/2021/04/06/consumers-spent-900-billion-more-online-in-2020-mastercard-report-says.html>