



Reversing the Entrepreneurship Decline

Testimony of

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Before

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U.S. House of Representatives

The Honorable Steve Chabot, Chairman

The Honorable Nydia Velaquez, Ranking Member

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Protecting Small Business, Promoting Entrepreneurship

Reversing the Entrepreneurship Decline

The Small Business & Entrepreneurship Council (SBE Council) is grateful that the Committee on Small Business has convened this hearing on this very critical matter. Members of this committee fully recognize how important small business is to job creation, innovation, opportunity and overall dynamism for our economy. Restoring healthier levels of entrepreneurship and new business creation are vital to our country's economic strength and future competitiveness.

Thank you for the invitation to be a part of the hearing today. My name is Karen Kerrigan and I am president & CEO of SBE Council. SBE Council is an advocacy, research and education organization that works to protect small business and promote entrepreneurship. Our members have testified many times before this committee, and they've seen that their participation, along with the committee members' positive engagement, has led to successful legislative or regulatory outcomes in a number of areas, including access to capital, tax policy, government procurement and more.

On June 28, 2017, SBE Council hosted our Startup Summer Policy Forum where the state of American entrepreneurship was fully explored. The good news is that there is positive activity at the national, state and local levels to encourage more people to start businesses. I believe everyone left the Startup Policy Forum energized by the progress, for example, of the work of private sector business leaders, like Dan Gilbert, Chairman and Founder, Quicken Loans and Rock Ventures (and majority owner of the Cleveland Cavaliers) who has invested billions in the rejuvenation of Detroit and who talked about his progress on making Detroit a world-class city, which includes a vibrant entrepreneurial sector; and Federal Trade Commission Acting Chair Maureen Ohlhausen's new "Economic Liberty Task Force" initiative to lower unnecessary barriers to occupational licensing at the state and local level, which hurts career entry and entrepreneurial opportunity. Mike O'Rielly, Commissioner of the Federal Communications Commission, covered a host of policies and initiatives underway at the agency to bring broadband access and quality choices in broadband, especially to Americans in rural or underserved areas of the country. Obviously, access to broadband is essential for any new startup or business to access the tools, platforms, services and technologies that are needed for success and growth in the competitive, modern economy.

Solutions and ideas were discussed to reboot entrepreneurship in America, and it will take many people working together across the country to reform policies that in turn will improve access to capital, markets, education and training, quality and affordable broadband and the skilled workers that are needed to start and scale new businesses.

As noted by John Lettieri, Co-Founder of the Economic Innovation Group (EIG) at the Startup Policy Forum, while there is "a growing awareness about these trends in entrepreneurship, there is a lack of connectivity in the policy debate regarding just

how severe these trends are and what their implications are for the broader economy.”

Advocates for entrepreneurs, like SBE Council, thank the committee for its focus on this issue, which will shed more light on the implications, and hopefully lead to solutions that will reverse these trends.

The State of Entrepreneurship

“Dynamism is in retreat nationwide and in nearly every measurable respect,” according to the EIG report [*Dynamism in Retreat: Consequences for Regions, Markets, and Workers \(February 2017\)*](#). One key measure is the lack of new business creation. The report notes:

“The number of businesses being added to the economy has ground to a halt over time. During the recovery period from 2010 to 2014, the economy added just over 100,000 firms. Compare that to a prior era—the recovery from 1983 to 1987—when the size of the national economy was much smaller than it is today and the United States generated an increase of nearly *half a million* new businesses.”

In addition, new business creation during the 2010-2014 recovery period was highly concentrated. The EIG study notes, “five metro areas – New York, Miami, Los Angeles, Houston and Dallas – produced as big of an increase in businesses as the rest of the nation combined.”

SBE Council also tracks data regarding monthly trends and the overall state of entrepreneurship and small business in the United States. [*The latest State of Entrepreneurship analysis*](#) by SBE Council chief economist Raymond Keating shows a continuing dearth of entrepreneurial activity and a significant decline over the past decade, albeit there has been some growth during the past five years.

Keating’s analysis looks at three key measures of entrepreneurship and business activity: incorporated and unincorporated self-employed, and employer firms as shares of the relevant population. The data shows a significant shortfall in the number of businesses compared to where we should be. The most recent analysis conducted during National Small Business Week (April 30-May 5, 2017) finds some 3.4 million “missing” businesses in the United States.

Why?

The financial crises, followed by the Great Recession and a weak economic recovery continue to impact the psyche and mindset of many Americans. Starting a business is a major risk, and many people feel like they are still recovering from the recession. Certainly, many Americans will never forget that difficult period and we can understand why there is a strong aversion to risk.

Consider the millennial generation, who are starting businesses at a far lower rate than previous generations:

- According to the Small Business Administration Office of Advocacy report, [The Missing Millennial Entrepreneurs \(February 2016\)](#), this cohort is the least entrepreneurial: “At age 30, less than 4 percent of Millennials reported self-employment income in their primary job in the previous year, compared with 5.4 percent for Generation X and 6.7 percent for Baby Boomers. Trends among the age groups Millennials will join in future years suggest that entrepreneurship among Millennials will remain relatively low for decades.”
- An analysis of Federal Reserve data by the Wall Street Journal ([Endangered Species: Young U.S. Entrepreneurs, January 2015](#)) found that the share of younger people who own private businesses has reached a 24-year low.
- A study by Lavaughn M. Henry published in Business Economics ([Are Young People Becoming More Risk Averse? January 2017](#)), found “precautionary” savings among young people aged 18-34 “exceeds that of all age groups, and has occurred against a backdrop of declining real income, a tepid economic recovery from the Great Recession of 2008-2009, a tightened credit environment and changing household demographics.” In addition, home ownership among young adults in the second quarter of 2016 “reached the lowest level that it ever has been since the survey first began in the first quarter of 1994.”

Still, while the trends may not bode well for the Millennial generation as it relates to starting a business, many in this cohort still have aspirations for doing so. In fact, [a May 2017 survey by America’s Small Business Development Centers \(America’s SBDC\)](#) found that “half of Millennials plan to start a business in the next three years.” This represents a dramatic shift from the trends noted above. The survey also identifies some of the key barriers and challenges that often get in the way of turning aspirations into action. For example, 45 percent say access to capital is the biggest barrier in starting a business and 46 percent consider “financial stability a must” before embarking on this endeavor. Interestingly, according to the survey, the number one reason that holds them back from starting a business is that they do not know where to go for help.

Addressing Risk: For a generation that is more risk averse than others, strengthening optimism while lowering barriers to risk-taking seems to be key. Sustainable and robust economic growth, where wage growth and opportunity are strong, along with solutions that address their biggest financial fears (for example, an EY & EIG National Survey: [The Millennial Economy, September 2016](#) found that 74 percent were worried that they would be unable to pay their health care bills if they get sick) generally align with the concerns of many Americans and these are the issues that the U.S. Congress and this Committee have been focused on –

fixing the Affordable Care Act, tax reform, access to capital, regulatory relief and reform, access to markets (global markets and federal contracting), and others.

Reversing the Trends

Removing state and local barriers to entrepreneurship is very important to boosting new business creation. States and localities that understand the connection between burdensome taxes and regulations and economic development are strengthening ecosystems by addressing these barriers. The entrepreneur's or budding entrepreneur's first touch with regulation mostly begins at the local and state level where they are met with licensing, zoning, registration, fees and other regulations that are often burdensome and costly for starting a business.

In addition to fixing and streamlining policies, smart localities and cities are rounding out the ecosystem through private-public partnerships that provide access to mentors, one-on-one assistance or ombudsmen who directly help startups or connect them to the people or places that can help, and creating channels for continuous feedback from the small business community to improve the business environment or develop initiatives to address emerging needs.

Low taxes and a light regulatory environment are indeed factors for encouraging startups and attracting new businesses to a locality or state, but other attributes such as educational and training support, the quality of human capital, affordability and business costs, and the availability and concentration of capital are critical as well ([6 Factors that Make States Attractive to Small Business](#), CNBC, July 2017.)

Federal Policy

SBE Council has many entrepreneurs who also serve as mentors to other startup entrepreneurs in their communities, or who have taken an active role in re-building their hometown Main Streets and towns that used to be vibrant centers of commerce. Regarding issues at the federal level, they believe the U.S. Congress and Administration can continue to address these key areas:

Tax Reform: Lower taxes and vastly simplify the system. Our tax code needs to be internationally competitive and to encourage growth. Growth breeds confidence, optimism and entrepreneurial opportunity. Lowering taxes on small businesses is essential as profits are poured back into the business through wage increases, better benefits and updating technology and equipment. In addition, lowering corporate rates would create a downstream effect on small business suppliers and vendors as these corporations spend and invest more at home. But we also must remember that most C-corporations are small businesses. According to the latest Census Bureau data, 86 percent of corporations have less than 20 employees, and 96.7 percent less than 100 workers. Tax reform also presents an opportunity to modernize the tax system by updating various thresholds that have not been addressed since the 1950s, such as when the self-employment kicks in. The

threshold on self-employment taxes kicks in at \$400, which is 15.3 percent of profits, but has never been updated. However, the standard deduction on federal income tax is adjusted annually. If the self-employment tax floor had been adjusted at the same rate as the standard deduction, it would be more than \$6,000.

Health Care Reform: Unfortunately, this is the issue that never goes away. Access to affordable coverage becomes more critical with each passing year that costs go higher. High costs are a deterrent to those currently employed with coverage but who want to strike out on their own and start a business. Diminishing access to affordable coverage compounds risk aversion. SBE Council has supported various reform proposals to improve choices and affordability such as allowing small business owners to also participate in the cafeteria plans and Health Reimbursement Arrangements (HRAs) that they offer to their employees.

Regulatory Relief & Reform: Federal agencies are currently undergoing a process where they are reviewing regulations to identify those that can be streamlined, updated or repealed if they are duplicative or outdated. This is a healthy and needed process, and it is very positive to see the SBA's Office of Advocacy directly engaged through their [development of an online platform](#) for small business input, and hosting roundtables across the country to receive their direct input. SBE Council has been active in roundtables being hosted by various department and agencies, such as the U.S. Treasury, and is providing input to these entities in response to their open comment periods. Clearing regulatory underbrush and streamlining rules is a good for startups and the U.S. business environment. Strengthening the business environment overall will improve private sector investment and capital formation, which will enhance the ecosystem for entrepreneurship.

Access to Capital: Committee members have explored this issue continuously over the years. The challenge is ongoing. Reforms to relieve community banks of unneeded regulation, and modernizing and streamlining an array of Security and Exchange Commission rules and compliance requirements will be helpful in unlocking capital for startups and small businesses. Equity and debt-based crowdfunding has had a promising start despite the delay in fully implementing Title III. Regulated crowdfunding can be a much more powerful tool if some simple changes are made to lower costs for startups, and increase the amount that can be raised via Title III crowdfunding. Pro-growth tax reform, if enacted, can be another positive for improving access to capital.

Private Sector Action and Leadership

At SBE Council's Startup Policy Forum, Dan Gilbert expressed his passion for Detroit as a reason why he relocated Quicken Loan's headquarters there. He grew up in Detroit and his father was a small business owner. Mr. Gilbert and several other business leaders have invested billions of dollars into downtown Detroit, which is leading to its incredible rebirth. The revitalization has created new energy, new residents and many new businesses. The United States needs more Dan Gilberts.

SBE Council member and successful entrepreneur Jason Duff is doing the same in Bellefontaine, Ohio. While not on the same grand scale as Gilbert’s investments in Detroit, Duff’s investment of capital and time is leading to the revitalization of the small town he grew up in. Walking along the streets one day, he was moved by the “Closed,” “Out of Business” and “Thank you for 40 years of business” signs. Duff was moved to action and began investing his own money into the old storefronts, recruiting businesses into Bellefontaine, and encouraging people to start businesses. Duff personally mentors those businesses that rent in his buildings and storefronts. Due to his effort, Duff has helped to create dozens of new businesses and the jobs that go along with that ([Bellefontaine Sees Boom in Downtown Shops, Expects it to Continue, Springfield News, February 2017.](#))

Thankfully, there are countless examples of successful entrepreneurs who are using their know-how, capital, passion and networks for revitalization and rebuilding projects across the country. These leaders are also helping entrepreneurs and startups meet their most pressing needs – whether that be capital, mentoring, training or encouragement.

Opportunity and Entrepreneurial Rebirth

My members and I continue to be bullish on U.S. entrepreneurship. Changes and reforms are being made at the state and local level as the competitive environment for private investment and business location or relocation is driving that change.

Certain industries, like technology and energy, offer tremendous opportunity for startups and business growth. In fact, the energy industry has bucked the poor trend in entrepreneurship. This sector is a “good news” story for new business creation as highlighted by the chart below.

Employer Firms in Key Sectors	2005	2014	Percent Change 05-14
Total (all sectors)	5,983,546	5,825,458	-2.64
Oil & gas extraction	6,317	6,646	5.21
Drilling oil & gas wells	1,833	2,121	15.71
Support activities for oil and gas operations	6,183	9,735	57.45
Oil and gas pipeline and related structures construction	1,612	1,839	14.08
Oil and gas field machinery and equipment manufacturing	480	599	24.79

Data Source: U.S. Census Bureau (2014 latest data available)

And, like most U.S. industries, the energy industry is dominated by small businesses and entrepreneurs, who have been at the center of America’s energy renaissance, as noted by the following chart:

	Percent with Less Than 20 Employees	Percent with Less Than 100 Employees
Oil & gas extraction	90.2	96.7
Drilling oil & gas wells	77.5	92.2
Support activities for oil and gas operations	80.7	95.2
Oil and gas pipeline and related structures construction	59.2	84.0
Oil and gas field machinery and equipment manufacturing	52.9	80.5

Data Source: U.S. Census Bureau (2014 latest data available)

Other trends favoring small business growth and U.S. entrepreneurship include:

- “Buying local” and supporting small businesses - these are not passing fads. Communities and local businesses, however, need to make continuous efforts at marketing their small businesses and reminding consumers about the importance of supporting small business. The consumers’ desire for “niche” products and services favors innovative entrepreneurs, and small business owners have a competitive advantage in providing personal customer service.
- The on-demand business model has expanded, grown and gone mainstream. Consumers, including the corporate sector, are embracing on-demand services such as Taskrabbit, Uber, Lyft, Airbnb and the like. The on-demand sector offers incredible opportunity for more disruption and startup activity.
- Older entrepreneurs and immigrant entrepreneurs continue to increase. According to [the 2017 Kauffman Index](#) entrepreneurs aged 55 to 64 made up for 25.5 percent of all new entrepreneurs in 2016, up from 14.8 percent in 1996. Immigrant entrepreneurs account for nearly 30 percent of all new entrepreneurs in the United States. Immigrants are highly entrepreneurial and are almost twice as likely as the native-born to become entrepreneurs.
- Educational initiatives at the college level have greatly expanded to include entrepreneurship majors and minors. The University of Virginia, for example, was one of the first colleges to offer an entrepreneurship minor for all undergraduate students. Still, we believe it is critical that entrepreneurship courses and teaching needs to be incorporated into educational curricula starting in grade school. Young students need more exposure to a diversity of successful entrepreneurs. Business ownership and entrepreneurship needs to be elevated and celebrated as a career option early on. As suggested by a [Startup America: Reducing Barriers](#) report

published under the leadership of former SBA Administrator Karen Mills, perhaps an “E” for Entrepreneurship needs to be added to STEM - “STEEM.”

- **Broadband Access:** SBE Council is heartened by FCC Chairman Ajit Pai’s genuine concern and interest in focusing on “communities left behind” in the recovery and digital economy. Access to broadband, as noted earlier in my testimony, is critical to economic development in these communities. Chairman Pai just returned from a tour of rural America to understand the challenges and opportunities. Rural America has incredible advantages for business development, which includes affordability and a lifestyle that many Americans would like to return to, or simply enjoy. Obviously, access to quality broadband is critical to economic development and an entrepreneurial rebirth in more rural areas of the nation. I believe the leadership is in place to make this happen.

I look forward to your questions and our discussion about reversing the decline in entrepreneurship, and how to encourage more people to start businesses.

This committee’s bipartisan work continues to produce results that help to strengthen the ecosystem for entrepreneurship and small business growth. SBE Council applauds the committee’s efforts and looks forward to working with you on solutions to encourage and enable more entrepreneurship in the U.S. Thank you for your leadership.

Respectfully submitted,
Karen Kerrigan