

**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, Subcommittee on Economic Growth, Tax, and Capital Access  
From: Committee Staff  
Date: September 24, 2018  
Re: Hearing: “The Local Impact of Economic Growth”

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On Thursday, September 27, 2018 at 10:00 A.M., the Subcommittee on Economic Growth, Tax, and Capital Access of the Committee on Small Business will meet in Room 2360 of the Rayburn House Office Building for the purpose of examining how the recent economic expansion is affecting minority-owned small businesses. This hearing will have a particular focus on how regulatory and tax changes have renewed small business optimism and benefited small business owners.

**I. General Economic Indicators**

The United States economy grew at 4.2 percent in the second quarter of 2018.<sup>1</sup> This was the largest quarter of economic growth in almost four years.<sup>2</sup> The United States economy has averaged 3.2 percent growth through the first two quarters of 2018.<sup>3</sup> According for the Council of Economic Advisers, real GDP is on track for growth of 3.1 percent this year, which would be the first year of growth over 3 percent since 2005.<sup>4</sup>

After years of slow wage growth, the rate of wage growth is increasing, and poverty levels have recently been decreasing. According to the United States Census Bureau, real median household income increased by 1.8 percent between 2016 and 2017, and the official poverty rate decreased 0.4 percentage points.<sup>5</sup> While annual wage growth averaged 2.48 percent from 2010 to 2016, annual wage growth has averaged 3.6 percent since the beginning of 2017.<sup>6</sup> The recent wage increase is the highest seen in the United States in a decade.<sup>7</sup> Wage growth has propelled

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<sup>1</sup> BUREAU OF ECONOMIC ANALYSIS, GROSS DOMESTIC PRODUCT: SECOND QUARTER 2018 (Second Estimate) (2018), available at <https://www.bea.gov/data/gdp/gross-domestic-product>.

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> WHITE HOUSE COUNCIL OF ECONOMIC ADVISERS, “ECONOMY FIRING ON ALL CYLINDERS,” (July 27, 2018), available at <https://www.whitehouse.gov/articles/economy-firing-cylinders/>.

<sup>5</sup> UNITED STATES CENSUS BUREAU, INCOME, POVERTY AND HEALTH INSURANCE COVERAGE IN THE UNITED STATES: 2017 (September 12, 2018) [hereinafter Census Income and Poverty], available at <https://www.census.gov/newsroom/press-releases/2018/income-poverty.html>.

<sup>6</sup> *Id.*

<sup>7</sup> FEDERAL RESERVE BANK OF ATLANTA, WAGE GROWTH TRACKER (September 19, 2018), available at <https://www.frbatlanta.org/chcs/wage-growth-tracker.aspx?panel=1>.

Americans to search for new jobs as well. According to the Federal Reserve, while only 1.3 percent of Americans voluntarily quit their jobs in January 2010, 2.4 percent of American workers voluntarily quit their job in July 2018.<sup>8</sup> This is the highest the Federal Reserve's 'quit rate' has been since January 2001.<sup>9</sup> The increase in workers voluntarily quitting their jobs not only indicates the increase in job creation, but also a more optimistic outlook on the economy by American workers.<sup>10</sup>

The United States economy has had a net increase in jobs every month for nearly eight years.<sup>11</sup> More recently, the United States created 2.2 million jobs in 2017 and has added about 1.7 million jobs in the first 8 months of 2018.<sup>12</sup> Because of this surge in job creation, the unemployment rate is at an 18-year low of 3.9 percent.<sup>13</sup> This decline in the unemployment rate has also caused the amount of individuals employed only part-time for economic reasons to decline by 24 percent since the beginning of 2017.<sup>14</sup> With the surge in job creation, the number of job vacancies hit almost 7 million by July of 2018.<sup>15</sup>

#### *a. Economic Indicators by Demographics*

The recent economic expansion has positively impacted Americans of various backgrounds. First, wage increases since the beginning of 2017 have been higher for non-white Americans than the national average. According to the Federal Reserve, while wage growth for white Americans averaged 3.26 percent from January 2017 to August 2018, wage growth for non-white Americans was 3.4 percent during the same time period.<sup>16</sup> Moreover, the African American unemployment rate was 5.9 percent in May 2018, which was 24.4 percent lower than the beginning of 2017, and has declined by 63 percent since 2010.<sup>17</sup> The African American unemployment rate is currently at its lowest level since 1972.<sup>18</sup> The Hispanic unemployment rate is currently at 4.7 percent, which is 20 percent lower than the beginning of 2017, and has

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<sup>8</sup> FEDERAL RESERVE BANK OF ST. LOUIS, QUILTS: TOTAL NONFARM (2018), *available at* <https://fred.stlouisfed.org/series/JTSQR>.

<sup>9</sup> *Id.*

<sup>10</sup> Harrison, David and Morath, Eric, *In This Economy, Quitters Are Winning*, WALL STREET JOURNAL (July 4, 2018), *available at* <https://www.wsj.com/articles/in-this-economy-quitters-are-winning-1530702001>.

<sup>11</sup> FEDERAL RESERVE BANK OF ST. LOUIS, ALL EMPLOYEES: TOTAL PRIVATE INDUSTRIES, *available at* <https://fred.stlouisfed.org/series/USPRIV?cid=32306>.

<sup>12</sup> DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, EMPLOYMENT, HOURS, AND EARNINGS FROM THE CURRENT EMPLOYMENT STATISTICS SURVEY, *available at* [https://data.bls.gov/timeseries/CES0000000001?output\\_view=net\\_1mth](https://data.bls.gov/timeseries/CES0000000001?output_view=net_1mth).

<sup>13</sup> *Id.*

<sup>14</sup> FEDERAL RESERVE BANK OF ST. LOUIS, EMPLOYMENT LEVEL: PART-TIME FOR ECONOMIC REASONS, ALL INDUSTRIES (2018), *available at* <https://fred.stlouisfed.org/series/LNS12032194>.

<sup>15</sup> FEDERAL RESERVE BANK OF ST. LOUIS, JOB OPENINGS: TOTAL NONFARM (2018), *available at* <https://fred.stlouisfed.org/series/JTSJOL>.

<sup>16</sup> Federal Reserve Bank of Atlanta, Wage Growth Tracker by Race (2018), *available at* <https://www.frbatlanta.org/chcs/wage-growth-tracker.aspx?panel=1>.

<sup>17</sup> DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, LABOR FORCE STATISTICS FROM THE CURRENT POPULATION SURVEY, UNEMPLOYMENT RATE – BLACK OR AFRICAN AMERICAN (2018), *available at* <https://data.bls.gov/timeseries/LNS14000006>.

<sup>18</sup> *Id.*

declined by 64 percent since 2010.<sup>19</sup> Also, Hispanic median income increased by 3.7 percent from 2016 to 2017, which was the largest increase by any demographic during that time period.<sup>20</sup> Female economic indicators are also near record numbers. For example, the female unemployment rate was 3.6 percent in May 2018, which is not only lower than the national unemployment rate, but also down 60 percent from the female unemployment rate in 2010.<sup>21</sup> The recent economic expansion has therefore had a significantly positive economic impact on Americans of diverse backgrounds.

## II. Small Business Economic Indicators

Small business statistics and surveys reaffirm the strength of the American economy. The National Federation of Independent Business (NFIB) Optimism Index, which has surveyed small business owners about various aspects of running their businesses for 45 years, had the highest rating ever for small business optimism in August 2018.<sup>22</sup> Additionally, the United States Chamber of Commerce Small Business Index also reached a record high in the third quarter of 2018<sup>23</sup> and the Wells Fargo/Gallup Small Business Index reached an all-time high.<sup>24</sup> While all of these surveys suggest small business owner confidence, it is important to further examine these surveys to see where this confidence is being generated.

Regulatory reform has been a particular source of optimism for small business owners. For example, in the NFIB survey, the percent of firms that say regulations are their single most important problem has been cut in half since the beginning of 2017.<sup>25</sup> In the Wells Fargo/Gallup Small Business Survey, the percent of businesses surveyed that say regulations are their top concern has reached an all-time low at only six percent this year.<sup>26</sup> In a hearing before the House Committee on Small Business, Patrick Hedren, Vice President for Labor, Legal, and Regulatory Policy at the National Association of Manufacturers, said that the dramatic slowdown in new

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<sup>19</sup> The Hispanic unemployment rate hit an all-time record in July 2018 at 4.5 percent. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, LABOR FORCE STATISTICS FROM THE CURRENT POPULATION SURVEY, UNEMPLOYMENT RATE – HISPANIC OR LATINO (2018), available at <https://data.bls.gov/timeseries/LNS14000009>.

<sup>20</sup> Census Income and Poverty, *supra* note 5.

<sup>21</sup> FEDERAL RESERVE BANK OF ST. LOUIS, UNEMPLOYMENT RATE: WOMEN (2018), available at <https://fred.stlouisfed.org/series/LNS14000002>.

<sup>22</sup> NATIONAL FEDERATION OF INDEPENDENT BUSINESS, AUGUST 2018 REPORT: SMALL BUSINESS OPTIMISM Index (2018), available at <https://www.nfib.com/surveys/small-business-economic-trends/>.

<sup>23</sup> METLIFE AND THE UNITED STATES CHAMBER OF COMMERCE, METLIFE AND UNITED STATES CHAMBER OF COMMERCE SMALL BUSINESS INDEX, INDEX SUMMARY (2018), available at <https://www.uschamber.com/sbindex/summary/>.

<sup>24</sup> WELLS FARGO, WELLS FARGO SURVEY: SMALL BUSINESS OPTIMISM HITS RECORD HIGH AMID STRONG ECONOMY (2018), available at <https://wellsfargoworks.com/insights/press-release/small-business-optimism-hits-record-high-as-economy-surges>.

<sup>25</sup> About 20 percent of surveyed businesses said regulations were their most important issue in 2016. In 2018, that number declined to 10 percent. NATIONAL FEDERATION OF INDEPENDENT BUSINESS, NFIB SMALL BUSINESS ECONOMIC TRENDS 18 (August 2018) [hereinafter NFIB Economic Trends], available at <https://www.nfib.com/assets/SBET-Aug-2018.pdf>.

<sup>26</sup> In the 4<sup>th</sup> quarter of 2015, 13 percent of surveyed small businesses said regulations were their top concern, compared to only 6 percent of surveyed businesses in the 3<sup>rd</sup> quarter of 2018. WELLS FARGO, SMALL BUSINESS SURVEY TOPLINE 30 (July 20, 2018), available at <https://media.wellsfargoworks.com/insights/study/q3-2018-small-business-index-survey-results.pdf>.

rulemaking over the last two years is one of the key components for the record high optimism among small manufacturers.<sup>27</sup>

Tax reform was also met with relief among surveyed small businesses. While taxes were the single most important problem for 20 percent of NFIB surveyed small businesses in August 2017, only 15 percent of surveyed small businesses claimed taxes as their most important issue in August 2018.<sup>28</sup> In a survey of small business owners conducted by Bank of America, 63 percent of surveyed businesses said that the recently enacted changes to United States tax policy made them more optimistic about their business outlook.<sup>29</sup> Additionally, more than half of business owners said they plan to invest tax savings back into their business to expand operations, and reward and hire employees.<sup>30</sup>

*a. Minority-Owned Small Business Statistics*

Growth rates of minority-owned small businesses are outpacing the national average. For example, the percent of Latino-owned businesses as a percentage of all United States firms increased from 8.3 percent in 2007 to 12 percent in 2012.<sup>31</sup> Also, about 66 percent of Latino businesses are in industries with the top five sales growth areas.<sup>32</sup> Between 1997 and 2017, the number of women-owned businesses grew at a rate of more than 2.5 times the national average.<sup>33</sup> With these surging growth rates, it is safe to assume that the impact of minority-owned small businesses will continue to increase in the coming years.

Minority-owned small businesses tend to be smaller businesses as well. For example, while only 8.7 percent of businesses with between 100-499 employees are owned by women, 21 percent of businesses with between 1 to 4 employees are women-owned.<sup>34</sup> Similarly, while only 2.4 percent of businesses with 100 to 499 employees are Latino-owned, 6 percent of businesses with 1 to 4 employees are Latino-owned.<sup>35</sup> Therefore, it is important to note that when examining smaller businesses, they are more likely to be minority-owned than a larger business.

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<sup>27</sup> *Regulatory Reform and Rollback: The Effects on Small Businesses: Hearing Before the House Committee on Small Business*, 115<sup>th</sup> Congress (2018) (testimony of Patrick Hedren), available at <https://www.gpo.gov/fdsys/pkg/CHRG-115hhrg28782/pdf/CHRG-115hhrg28782.pdf>.

<sup>28</sup> NFIB Economic Trends, *supra* note 23 at 18.

<sup>29</sup> BANK OF AMERICA, SPRING 2018 SMALL BUSINESS OWNER REPORT (2018), available at [https://newsroom.bankofamerica.com/system/files/Small\\_Business\\_Owner\\_Report\\_-\\_Spring\\_2018\\_1.pdf](https://newsroom.bankofamerica.com/system/files/Small_Business_Owner_Report_-_Spring_2018_1.pdf).

<sup>30</sup> *Id.*

<sup>31</sup> STANFORD GRADUATE SCHOOL OF BUSINESS, ON THE UP AND UP: THE RISE OF LATINO-OWNED BUSINESSES IN THE U.S. 1 (2018), available at <https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/academic-publication-slei-8-facts-latino-businesses.pdf>.

<sup>32</sup> *Id.* At 4.

<sup>33</sup> AMERICAN EXPRESS, THE 2017 STATE OF WOMEN-OWNED BUSINESSES REPORT 3 (2018), available at [https://about.americanexpress.com/sites/americanexpress.newshq.businesswire.com/files/doc\\_library/file/2017\\_SW\\_OB\\_Report\\_-FINAL.pdf](https://about.americanexpress.com/sites/americanexpress.newshq.businesswire.com/files/doc_library/file/2017_SW_OB_Report_-FINAL.pdf).

<sup>34</sup> JP MORGAN CHASE INSTITUTE, SMALLER BUSINESSES ARE MORE LIKELY TO BE OWNED BY WOMEN AND MINORITIES (2018), available at <https://www.jpmorganchase.com/corporate/institute/small-business-ownership.htm>.

<sup>35</sup> *Id.*

### **III. Conclusion**

After years of slow economic growth, the United States is currently on pace to surpass 3 percent economic growth for the first time in more than a decade. Wage growth, job creation, and unemployment are all at very healthy levels as well. This recent economic expansion has positively impacted Americans across gender and racial backgrounds. Based on several small business surveys, regulatory reform and tax reform were significant policy changes that are helping the United States economy achieve record numbers. At the same time, minority-owned small businesses are far outgrowing national trends and are thriving in this economic climate. This hearing will examine how policy changes in the 115<sup>th</sup> Congress have benefitted minority-owned small businesses, and how Congress continues to support this rapidly growing segment of the small business economy.