

**The \$800 billion Paycheck Protection Program and the Impacts of COVID-19 on
Small Businesses in the United States**

Hearing: “An Empirical Review of the Paycheck Protection Program”

U.S. House of Representatives Committee on Small Business,
Subcommittee on Oversight, Investigations, and Regulations

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Thank you Chair Velázquez, Ranking member Luetkemeyer, Subcommittee Chair Phillips, and members of the Committee. It is an honor to testify before you on the Paycheck Protection Program. I am a Professor of Economics at the University of California, Santa Cruz and have studied entrepreneurship, racial inequality and small business policy for over 25 years. I have been asked to discuss the findings from my research on small businesses in the pandemic and the allocation of PPP funds to communities of color.

The economic impacts of the pandemic have been especially severe for small businesses, workers, and minority communities. In my research, I found that the number of active business owners in the U.S. plummeted by 3.3 million or 22 percent from February 2020 to April 2020 (Figure 1).¹ African-American businesses were hit the hardest experiencing a 41 percent drop in business activity (Figure 2). Latinx business owner activity fell by 32 percent, and Asian business owner activity dropped by 26 percent. Job losses were also much higher for workers of color. Black unemployment hit a peak of 17 percent and Latinx unemployment hit a peak of 18 percent in the first full month of the pandemic.²

Anticipating these potential losses, one of the stated goals in the \$2.2 trillion CARES Act of March 2020 was to prioritize serving “underserved markets” and businesses owned by “socially and economically disadvantaged individuals” (U.S. Congress 2020). In the beginning of the pandemic, however, minority businesses and communities were generally delayed in obtaining financial assistance through the Paycheck Protection Program (PPP). Research of mine and others found that the first round of the PPP went disproportionately less to minority communities.³

In the second round of PPP funding, fintech lenders were more involved in making loans, and disbursement to minority businesses and communities improved.⁴

A few months after the program ended in summer 2020, COVID cases began to rise rapidly and social-distancing restrictions returned. Given these concerns the PPP restarted in January 2021 with a strong emphasis on helping eligible borrowers in underserved and disadvantaged communities. A head start for applications through CDFIs and a two-week exclusion period for applications from very small businesses were introduced. Access to loans was emphasized for sole proprietors and independent contractors without employees.

From January to May 2021, 6.7 million loans totaling \$278 billion were provided. But, did these funds in the rebooted program get disbursed to minority communities as intended or did the program struggle with equitable loan disbursement? Analyzing the 12 million loans provided through all three rounds of the PPP, our research provides five main findings:

First, we find evidence of a strong positive relationship between PPP loans and the minority share of the population in the third round (Figures 3 and 4). We analyzed this relationship using

¹ See Fairlie (2020).

² See Couch, Fairlie, and Xu (2020).

³ See Grotto et al. 2020 and Fairlie and Fossen 2021 for example. See Fairlie and Fossen (2021) for an analysis of disbursement of Economic Injury Disaster Loan Program (EIDL) funds to minority communities.

⁴ See Grotto et al. (2020) and Fei and Yang, (2021) for example.

several different measures and found consistent evidence that minority communities received loans.

Second, in contrast to this finding, we found a negative relationship for the first round in 2020 and a less positive relationship found for the second round in 2020 (Figures 5 and 6).

Third, we find a stronger positive relationship between minority share and loans for first draw loans than second draw loans in 2021 (Figure 3 vs. Figure 4). This might capture persistence in racial inequities from the first round. A small business can only obtain a second draw loan if that business received a first draw loan in 2020.

Fourth, we find that PPP loans also went to self-employed business owners without employees in minority communities (Figures 7 and 8).

Fifth, many more banks and financial institutions were involved in the third round, including fintechs and CDFIs, which helped spread funds to small businesses in underserved markets.

To conclude, the rebooted program in 2021 appears to have been disbursed to communities of color as intended.

Although it is too early to tell what the long-term effects are from the third round of funds for small businesses in the country, there is no doubt that access to capital poses one of the most important barriers for small businesses. This is especially true for small business owners of color.

Half of Black families have less than \$14,000 in total wealth.⁵ Half of Latinx families have less than \$32,000 in total wealth. Whereas, the median level of wealth among white families is \$187,000. Black-owned businesses start with substantially less capital than white-owned businesses and these disparities continue over time.⁶

I believe that two things could help us move forward.⁷

1. First, we need to continue to provide access to capital for struggling businesses. One method is to do this is to increase the range of financial institutions both geographically and by type. Increasing involvement of a wider range of financial institutions appears to have helped improve access to communities of color.

2. Second, we need more awareness and action on increasing the diversity of suppliers and producers. Consumers often value knowing whether their purchases of goods and services help disadvantaged businesses and their workers. But, consumers and firms need information to make

⁵ See U.S. Census Bureau (2022).

⁶ See Fairlie, Robb and Robinson (2022) and Fairlie and Robb (2008) for example.

⁷ Another recommendation is that the federal government should collect more data on race in relief efforts. Demographic information was only partially and unevenly collected when providing PPP funds, and there was much criticism for this omission. The information is crucial for future research on equity issues. Additionally, collection of information on applications for loans that were denied would be useful to further study equity issues.

these choices. Additionally, governments and businesses can increase diversity in their suppliers. All of which will help provide a steadier stream of revenues to disadvantaged small businesses.

Thank you for the opportunity to present the findings from my research on this topic. I look forward to hearing your comments and questions.

Robert Fairlie

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Figure 1
Number of Active Business Owners in the United States (January 2000 - April 2020)

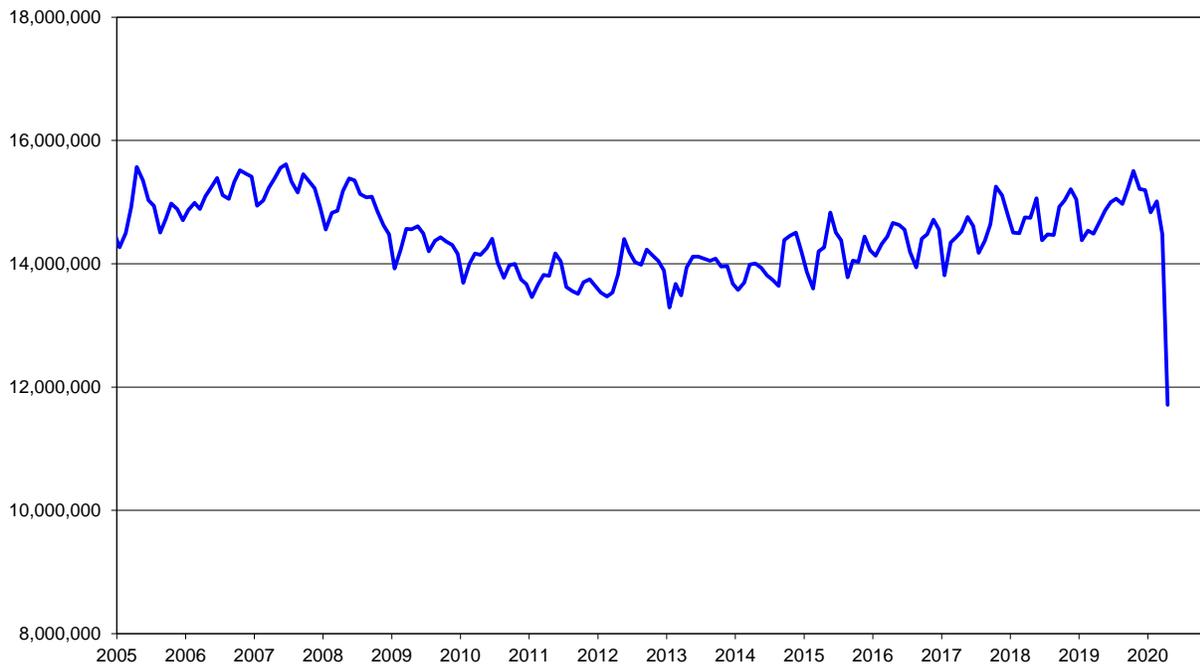


Figure 2: Losses in the Number of Active Business Owners before and after COVID-19 Restrictions (February to April 2020)

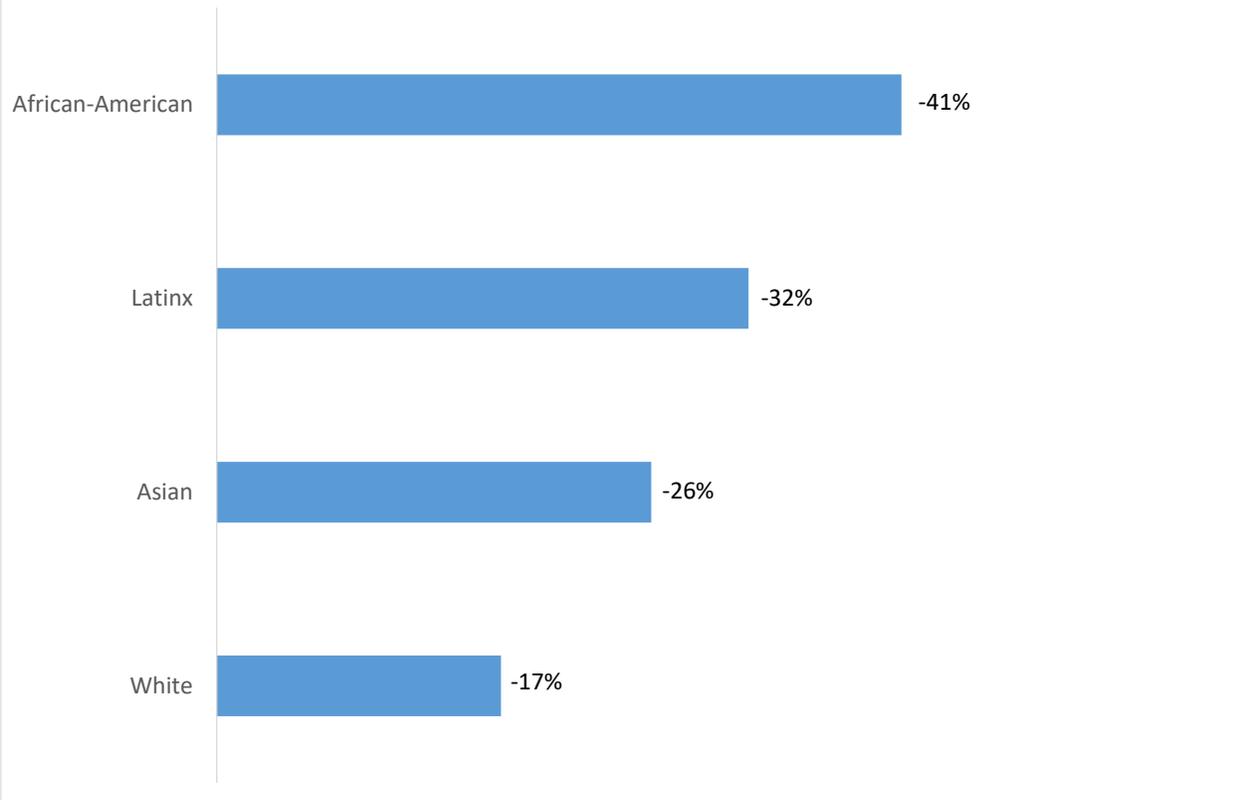
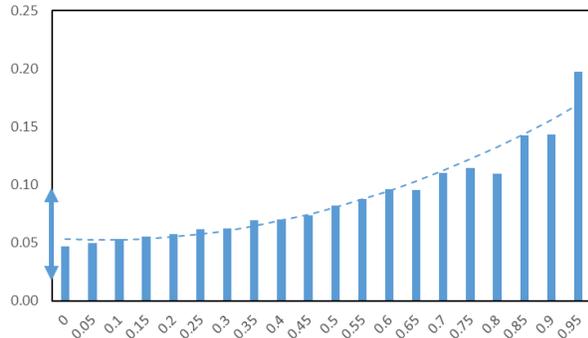
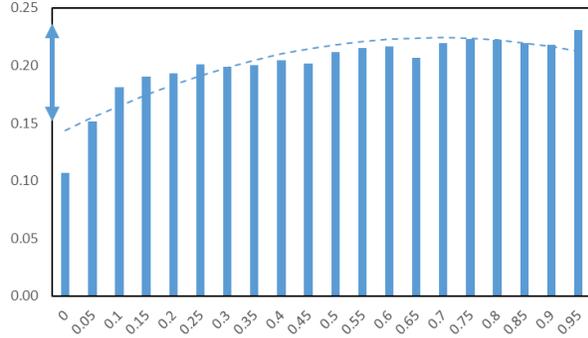


Figure 3: PPP Number of Loans to Employer Businesses per Employer Business in Zip Code by Minority Share in 2021

Panel A: First Draw



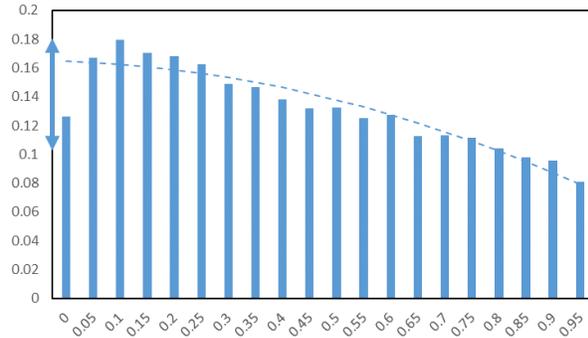
Panel B: Second Draw



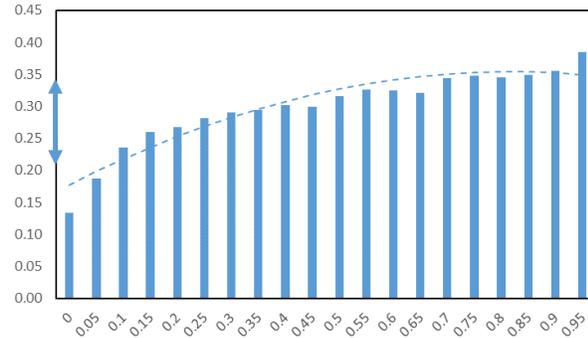
Notes: Mean numbers of first and second draw PPP loans to employer businesses in 2021 (Round 3) per employer business in zip codes by minority share of the population, weighted by population. The dashed lines are from quadratic regressions at the county level. The double arrow on the Y-axis indicates the median \pm $\frac{1}{2}$ standard deviation.

Figure 4: PPP Number of Loans to Employer Businesses per Employer Business in Zip Code by Minority Share in 2020

Panel A: First Round



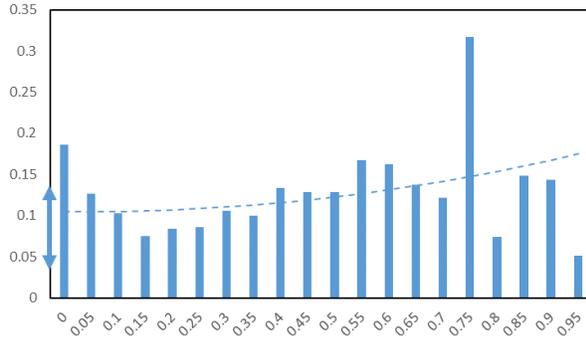
Panel B: Second Round



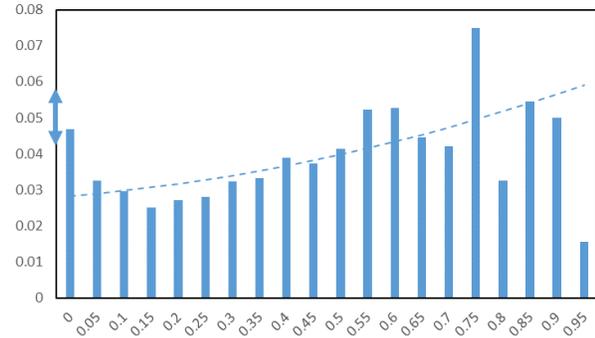
Notes: Mean numbers of PPP loans to employer businesses in 2020 (Rounds 1 and 2) per employer business in zip codes by minority share of the population, weighted by population. The dashed lines are from quadratic regressions at the county level. The double arrow on the Y-axis indicates the median \pm $\frac{1}{2}$ standard deviation.

Figure 5: PPP Number of Loans to Nonemployer Businesses per Nonemployer Business in County by Minority Share in 2021

Panel A: First Draw



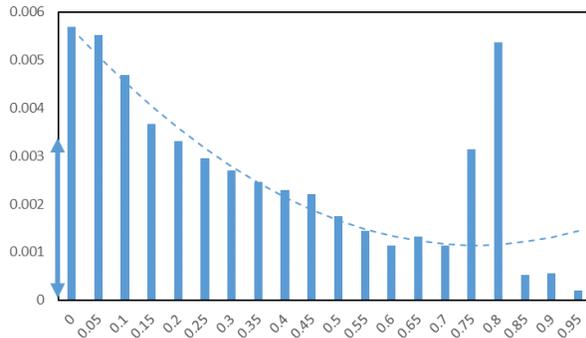
Panel B: Second Draw



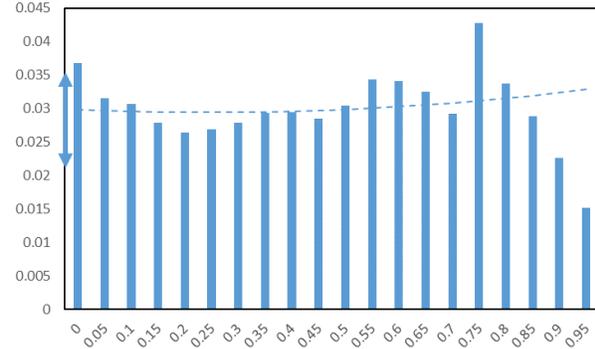
Notes: Mean numbers of first and second draw PPP loans to nonemployer businesses in 2021 (Round 3) per nonemployer business (owner job) in counties by minority share of the population, weighted by population. The dashed lines are from quadratic regressions at the county level. The double arrow on the Y-axis indicates the median $\pm \frac{1}{2}$ standard deviation. Excluding agricultural businesses.

Figure 6: PPP Number of Loans to Nonemployer Businesses per Nonemployer Business in County by Minority Share in 2020

Panel A: First Round



Panel B: Second Round



Notes: Mean numbers of PPP loans to nonemployer businesses in 2020 (Rounds 1 and 2) per nonemployer business (owner job) in counties by minority share of the population, weighted by population. The dashed lines are from quadratic regressions at the county level. The double arrow on the Y-axis indicates the median $\pm \frac{1}{2}$ standard deviation.