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“Long-Lasting Solutions for a Small-Business Recovery”
Hearing of the Committee on Small Business
U.S. House of Representatives

July 15, 2020

Chairwoman Velazquez and Ranking Member Chabot, thank you for the opportunity to address the Committee on Small Business on the topic of “Long-Lasting Solutions for a Small-Business Recovery.”

The coronavirus pandemic and the resulting human, economic, and financial crises are unfolding at break-neck speed. And, as a result, small firms are in crisis.

The quick action of Congress has gone a long way to lessen or postpone the pain associated with this pandemic-induced recession. Specifically, assistance to small businesses to keep paying employees through the Paycheck Protection Program (PPP) was a critical lifeline for many small businesses.

Prior to the pandemic, most small firms reported being in good shape, and 73 percent reported that their financial health was good or stable. Nonetheless, minority-owned firms had at least two strikes against them before the pandemic – their financial situation and the sectors in which they are concentrated, which render them more vulnerable in the wake of a pandemic.

Before March 2020, the financial health of small firms varied greatly depending on the race or ethnicity of the owner. Compared to 27 percent of small white firms reporting that they were “at risk” or “in distress,” 49 percent of small Hispanic firms and 57 percent of small Black firms reported being “at risk” or “distressed.”¹ This fact suggests that Black and Hispanic firms would be less prepared to weather an adverse shock. According to the Federal Reserve, distressed firms are three times more likely to close relative to healthy firms due to a two-month revenue shock.²

Further, similar to the concentration of employment that makes Hispanic and Black workers more vulnerable to Covid-19, the concentration of small minority-owned firms in certain sectors makes them more vulnerable in the wake of Covid-19. These sectors in which small minority-owned firms are overrepresented are accommodation and food services, personal and laundry services, and retail.³

¹ McKinsey (2020).

² McKinsey (2020).

³ McKinsey (2020).

By early May, it is estimated that 100,000 small businesses, or two percent of small businesses, had already closed.⁴ By mid-June, of the businesses that are listed on Yelp, 140,000 of those closing since March 1 were still closed by mid-June. Thirty-five percent of shopping and retail businesses listed have closed their doors temporarily. 53 percent of restaurants listed have closed their doors permanently.⁵ The burden of business closures is also unevenly distributed. Forty-one percent of African American businesses reporting being closed, compared to 35 percent overall (Fairlie 2020). In the only survey providing demographic data on PPP loan recipients, Color of Change reports that 45 percent of Black and Latino businesses will close by the end of the year without more relief. Minority-owned businesses also report not being able to access PPP loans due the heavy reliance on large banks, with whom they have had historically poor relationships.⁶ Over a third of small businesses reported paying reduced rent or deferred rent payments.⁷

Prior to reopening, states that received more PPP loans and with more generous unemployment benefits had less severe declines and faster recoveries (Bartik, Bertrand, Lin, Rothstein, and Unrath 2020). The results from early-reopening states suggest that many small businesses, such as restaurants and bars, will need to close again. Data from Open Table had begun to show a slow, steady recovery from early May. However, this trend started reversing itself in early July. In Texas, this meant that seated dining business went from a fall of 60 percent relative to a year earlier at the end of June to a fall of 75 percent relative to a year earlier in early July.⁸

In Five-Thirty-Eight's most recent survey, the majority of macroeconomists believe that there will be a partial rebound in economic activity and a slow recovery, rather than a V-shaped, sharp recovery.⁹ Given that consumer spending is 70 percent of GDP, it is clear that more and extended help to the American people and small businesses will be urgently needed.

In addition, demographic data on the PPP were supposed to be tracked such that the most vulnerable firms would be prioritized. These data should be collected, and any current and additional relief should be targeted at these firms, including minority-owned. In the long run, the systemic factors leading to the structurally fragile nature of these small minority-owned firms, regardless of the presence of a pandemic, should be addressed.

Any and all relief to the American people and the small businesses they and their families founded should be authorized and disbursed with all deliberate speed.¹⁰

⁴ Bartik, Bertrand, Cullen, Glaeser, Luca, and Stanton (2020).

⁵ Grossman (2020).

⁶ Color of Change (2020).

⁷ Bartik, Bertrand, Cullen, Glaeser, Luca, and Stanton (2020).

⁸ Guzman (2020).

⁹ Paine and Thomson-DeVeaux (2020).

¹⁰ See Cook (2020) for a detailed proposal to use mobile money to get direct federal payments to Americans quickly.

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