

A plan for small business growth and economic recovery

In the aftermath of the Great Recession, the United States is left staring at a bleak landscape: An employment crisis along with an imbalance in government spending and revenue. Job growth is nonexistent, demand for services is weak, sales are slow, the stock market is gyrating wildly and consumer confidence is feeble. Looming over these problems is the specter of a double-dip recession. Many are left wondering whether there is a way forward.

There is a path out of this economic quagmire, and it runs down the Main Streets of America. With 14 million people out of work and the most recent data revealing that no new jobs are being created, it is clear the economy will not recover, nor will our federal deficit be cured, until American small business has reclaimed its historic role as the country's No. 1 job generator. We must grow to solve these problems and the case for policies bolstering small businesses is clear: they create 65% of the country's new jobs and they employ half of all Americans in the private sector. The government must pursue smart growth policies that will put small businesses back on their feet, thereby jump-starting an economic recovery and putting us on a path toward rebalancing the budget.

The problem for small business

The Great Recession of 2007 and four years of anemic recovery have hit the country's 28 million small businesses especially hard. Side effects like lower sales and revenue, devaluation of commercial and private real estate, and lack of access to capital have conspired to prevent small businesses from resuming their role as engines of job creation. Real estate values are a prime example of how a poorly performing economic sector can damage small business. Business owners often use their land and buildings, even their homes, as collateral for bank loans. When property values drop, a business owner's collateral evaporates and banks become reluctant to loan them money.

The government's efforts to counter the negative effects of the financial crisis have done little to help small business. The government bailout was good for Wall Street but did little for Main Street. Bank regulators tightening their guidelines have dampened commercial lending to small business. That is why we have seen the stock market recover and capital markets for Fortune 500 companies grow more robust while small businesses struggle and unemployment remains high. The credit crunch for small business has not been fixed.

What the president and Congress need to do

The government must support small businesses if it is going to harness their power to grow the economy, create jobs and reduce the long-term federal deficit. While big business grabs headlines and draws a lot of government attention, small businesses play an outsized, but less recognized, role in our economy. The federal government spends 0.026% of its budget on the Small Business Administration, yet small businesses generate 65% of all new jobs and employ half the nation.

Implementing policies that help small businesses get credit and put people to work will play a key role in our economic recovery. Moreover, it will reduce government spending and boost revenue. Fewer unemployed workers means lower spending on social programs and unemployment benefits. Tax revenue from businesses and their employees grow when small businesses do well.

To get our economy back on track, the government must develop new initiatives, and protect existing ones, that kindle demand for small business products and services and help entrepreneurs get loans, generate revenue and stimulate innovation. This can be done in a way that is fiscally responsible. The

president's proposed American Jobs Act takes some significant steps in this direction. The Act should be passed without delay, and other small business initiatives must be enacted as well.

Here are our recommended policy initiatives in addition to passing the American Jobs Act. *Details are contained in a companion document.*

- **Access to capital:** Without credit, small businesses don't have the cash flow they need to keep the doors open, pursue new business opportunities, make payroll and hire new employees. Supporting the Small Business Administration and community banks' lending programs as well as expanding credit union lending authority and boosting state development funds would help tremendously. Hosting a finance summit with private lenders that focuses specifically on small business, introduces them to government lending programs for small business and informs them about the desire to loosen lending restrictions would assist small business owners.
- **Innovation:** Small business innovation fuels economic expansion so continued support for federal programs like Small Business Innovation Research (SBIR) is crucial. These programs invest in America's small businesses, and taxpayers get a great return on those investments through job growth. Studies show that SBIR has been responsible for 25% of all innovations in the last decade, and it has ushered in more than 50,000 patents since its creation.
- **Tax policy:** Large corporations and the very wealthy enjoy tax breaks and incentives that most hard-working entrepreneurs do not. Closing these loopholes will not harm small business but will help reduce the deficit and level the playing field. Strategies like payroll tax cuts mean consumers will have more money to buy the goods and services small businesses provide.
- **Healthcare costs:** The rising cost of healthcare is a long-term problem facing small businesses. Easing this burden will allow them to invest elsewhere and hire. Pursuing cost containment measures and implementing Affordable Care Act provisions such as tax credits, worksite wellness grants and allowing small business to pool their buying power through exchanges is crucial.
- **Clean energy:** The rising cost of energy is another key area where the government can help small business. Creating incentives for small businesses to retrofit for energy efficiency will encourage them to do so, which in turn will save money they can invest elsewhere. Incentives for homes to be retrofitted in a similar manner will generate business opportunities for entrepreneurs. In addition, policies that encourage clean energy will open new markets that will provide enormous new opportunities for small businesses.
- **Infrastructure:** About 147,000 of our country's 605,000 bridges are failing. One-third of America's major roads are in poor or mediocre condition. There are 4,000 dams in need of repair and 36% of our urban highways are congested. Rebuilding America's roads, bridges and schools offers tremendous opportunities to small business. Not only do they participate in building projects and their supply chain, they run the hotels, coffee shops, restaurants and other businesses that serve people working on those projects.
- **Trade and manufacturing:** Small businesses make up 97.5% of all identified exporters and produce 31% of export value, according to the SBA. What small businesses export are the goods they manufacture. Government needs to help connect small business owners with trade opportunities, help them find trade partners and pursue balanced trade agreements that make it easier to export goods. Policies that promote manufacturing of small business products will lead to growth and jobs. We can't import our way into a strong economy.
- **Regulations:** Regulations that impact small businesses should be carefully scrutinized for undue impact. As such, the president's executive order to review government regulation on business should be fully supported. But eliminating regulations is not a top priority for small business owners. In a Small Business Majority poll released in September, only 13% say regulations are the biggest problem facing small business.