

STATE OF THE SMALL BUSINESS ECONOMY IN THE ERA OF COVID-19
HEARINGS BEFORE THE U.S. HOUSE, COMMITTEE ON SMALL BUSINESS,
CHAIRPERSON: NYDIA M. VELAZQUEZ
FEBRUARY 4, 2021

I. Feb 4, 2021, U.S. Santa Cruz, Website: Rob Fairlie testifies before Congress on inequality in pandemic economic impacts

February 04, 2021
By [Allison Arteaga Soergel](#)

SHARE THIS STORY:[Twitter](#)[Facebook](#)[LinkedIn](#)[Reddit](#)



UC Santa Cruz Economics

Professor Rob Fairlie testified before the House Committee on Small Business.

UC Santa Cruz Economics Professor Rob Fairlie [testified](#) before the House Committee on Small Business on Feb. 4 during a [special hearing](#) dedicated to assessing the economic impact of the coronavirus pandemic and the effects of relief measures to date.

Chairwoman Nydia Velázquez opened the proceedings by acknowledging that the coronavirus pandemic has “sparked a once-in-a-lifetime crisis for American small businesses,” and that, “as we start the new year, it is not clear that conditions have improved.”

Congress is currently considering next steps for facilitating an equitable recovery process, so Fairlie was called upon to share his latest research on the economic impacts of the coronavirus pandemic, including the disproportionate hardships faced by minority-owned businesses.

Some of Fairlie's most widely-cited research has shown that minority-owned businesses are affected by pandemic-related closures at higher rates. From February to April, the number of active African-American-owned businesses dropped 41 percent, Latinx business ownership fell by 32 percent, and Asian business ownership dropped by 26 percent, compared to a 17 percent decline for white business owners. The overall number of American business owners during this period plummeted by 3.3 million, or 22 percent.

"No other two-month, or even 12-month, window of time has ever shown such a large change in business activity," Fairlie told the committee. "For comparison, from the start to the end of the Great Recession, the number of active business owners dropped by only five percent."

New data shows progress and setbacks

Since the spring, Fairlie's most recent data have shown that active business ownership rates among many minority groups were on a recovery trend, despite slower rates of recovery for Asian Americans and immigrant-owned businesses. But this trend peaked in October, then reversed course when new rounds of lockdowns in November and December brought a backwards slide toward increased small business closures.

From October to December, overall small business activity dropped by six percent, with minority business owners once again experiencing larger drops of up to 10 percent. Fairlie is particularly concerned about the effects of these losses among the two most vulnerable sets of business owners, African American and Latinx people.

"Prior to the pandemic, business ownership and revenues were already low for both groups," Fairlie said. "But perhaps more importantly, there is a huge wealth gap."

Fairlie explained that half of all Black families in the U.S. have less than \$10,000 in total wealth, and half of Latinx families have less than \$25,000 in total wealth. White levels of wealth are seven to 18 times higher. Minority-owned businesses also tend to be concentrated within the economic sectors most affected by the pandemic, like the service industry, and they generally operate at a smaller scale, which leaves them more vulnerable to economic shocks.

"Many minority business owners will simply not have the financial resources to weather prolonged closures," Fairlie said.

He also presented new data on California sales losses for the second quarter of 2020, which showed average losses of 17 percent, but with stark disparities across industries. Hotels, for example, had lost 91 percent of their taxable sales, while restaurants lost 61 percent, and clothing stores lost 56 percent.

At the same time, industries like brick-and-mortar retail are losing market share to online commerce, as customers seek to minimize their contact with others. Fairlie fears these trends may linger even after the pandemic subsides.

"We're just more used to buying things online," he said. "We're used to that convenience of having UPS deliver a package to our house. And very likely, that

package is not from a small business. That package is from a big-box store or an online retailer.”

Solutions for supporting small businesses

Fairlie recommends that relief efforts could support small businesses in building their online presences, perhaps through aid with website development. Search engines could also help by prioritizing local businesses in search results over online and big-box retailers. And the committee’s Vice Ranking Member, Representative Roger Williams, of Texas, noted that e-commerce support efforts could include expanding internet access.

“Unfortunately, there are so many rural areas across the country, including my district, that do not have access to high-speed internet,” Williams said. “This is setting these small businesses up for failure, simply because they do not have access to the necessary infrastructure to succeed.”

Fairlie also shared his thoughts on the importance of financial assistance for businesses. In particular, he recommended rent relief measures for businesses that are struggling to make ends meet. And he explained findings from his review of 15 million pandemic relief loans, which showed mixed results for these programs among minority communities.

During the first round of loans through the Paycheck Protection Program (PPP), minority business owners faced barriers in accessing funding, partly due to the types of financial institutions through which it was distributed. Changes to distribution methods then improved the flow of funding for the second round, but PPP loan amounts per employee still tend to be lower for minority-owned businesses. The Economic Injury Disaster Loan program, meanwhile, reached minority communities effectively with both the amount and number of loans provided.

To make sure future relief efforts are equitable, Fairlie says the federal government must collect more data on race as part of their relief programs. And, ultimately, the most important thing governments can do to support small business health will be to ensure rapid vaccine distribution, so that customers can regain confidence in patronizing their favorite small businesses once more. Chairwoman Nydia Velázquez expressed similar sentiments in her closing statements.

“As we continue to vaccinate more Americans, we move closer to the end of this crisis, but we are not there yet,” Velázquez said. “Until that happens, small businesses will continue to struggle to return to pre-pandemic performance, and they will need our support.”