

# ***New Business Needs a Big Rescue Too.***<sup>1</sup>

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As U.S. jobless claims soar,<sup>2</sup> the Federal government is taking unprecedented action to shore up small business. Its \$349 billion Paycheck Protection Program throws a desperately needed lifeline to small and medium-sized businesses, offering low-interest loans to cover payroll, mortgage and rent payments.<sup>3</sup> We applaud these efforts. Small business represents more than 99% of all U.S. firms, close to 50% of private sector employees and over 40% of private sector payroll.<sup>4</sup> Along with larger firms and high-growth startups, Main Street firms are a core pillar of the U.S. economy. Small businesses give vibrancy to our cities and anchor of our communities. They are critical to restoring employment, trade and markets in the immediate wake of social isolation.

But, for Main Street firms to play their role in U.S. economic recovery, we also must catalyze *new* businesses. Business dynamism – “the process by which firms continually are born, fail, expand and contract” – is central to economic productivity and growth.<sup>5</sup> Job creation is, by definition, a *net* number. We need *new* businesses, not just *small* ones, to create economic opportunity and restore the foundations of our economy. People who run small businesses that do not survive the COVID-19 crisis need the opportunity to launch new businesses and start again. To date new business formation has received little focus in economic relief efforts.

That needs to change. New business formation is beginning to decline in a dramatic and worrisome fashion.

Through [the Startup Cartography Project](#), we study the rate, trajectory and growth potential of new business formation. Our project leverages population-level business registration records and predictive analytics to form measures of entrepreneurial quantity, quality and performance at an

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<sup>1</sup> As originally appeared in Forbes.com. The authors would like to thank Yupeng Liu for research assistantship with this project.

<sup>2</sup> “Weekly Jobless Claims Rise to 6.6 Million: Live Business Updates” retrieved 4/2/20, 9:30 am.

<https://www.nytimes.com/2020/04/02/business/stock-market-today-coronavirus.html?action=click&module=Spotlight&pgtype=Homepage>.

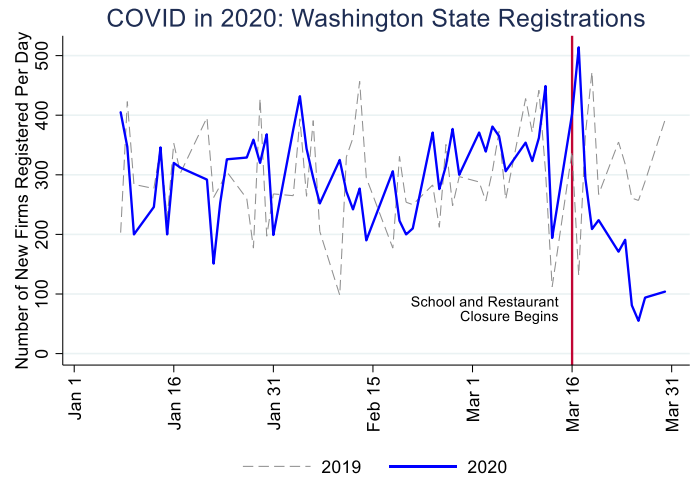
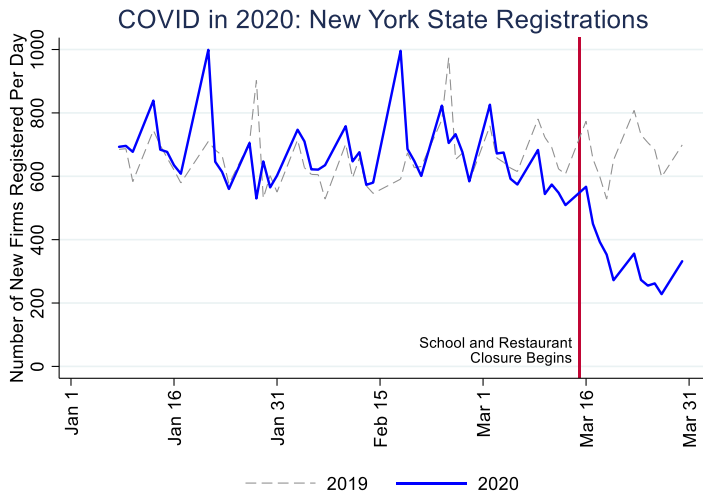
<sup>3</sup> <https://www.skadden.com/insights/publications/2020/03/cares-act-provides-much-needed-stimulus#loan>

<sup>4</sup> <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/09/24153946/Frequently-Asked-Questions-Small-Business-2019-1.pdf>

<sup>5</sup> <https://www.brookings.edu/research/declining-business-dynamism-in-the-united-states-a-look-at-states-and-metros/>

arbitrary level of geographic and temporal granularity. We measured and mapped the startup formation rate and predicted growth potential of over 40 million new business registrants in 44 states from 1989 through 2016. Our measures are leading indicators for the health of the U.S. economy. Early trends in newly available data are troubling.

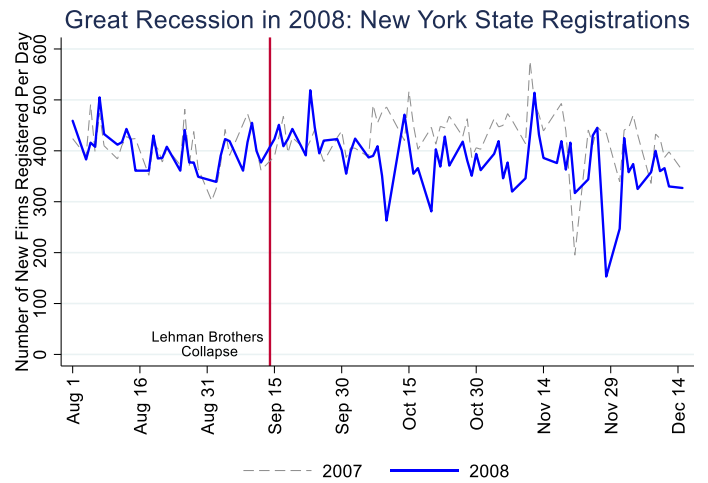
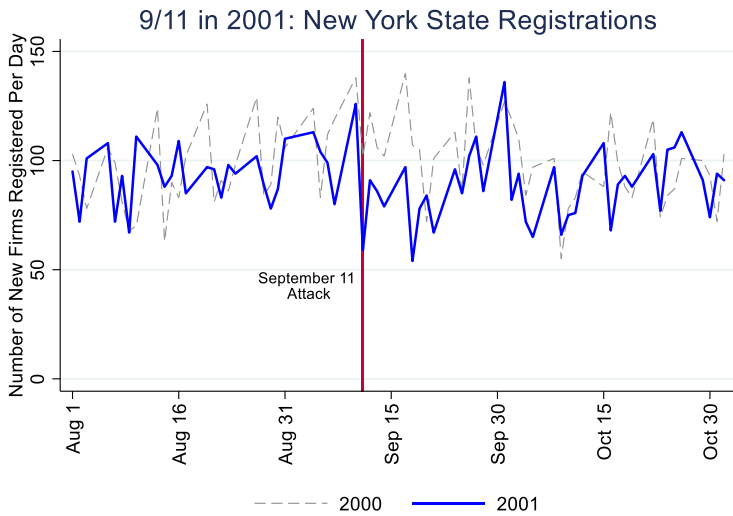
Consider these simple plots of the number of new business registrations/day for New York and Washington between January 1 and March 31 of 2019 and 2020.



While new business registrations/day in 2019 and 2020 initially track fairly closely, they sharply diverge starting on March 15-16, 2020 (when each state closed their schools and banned large gatherings). Each plot shows a similar trend. Following the first significant social isolation order, new business registrations fall by more than 75% relative to the prior year and then gap persists or grows. Neither the closure of government offices nor suspension of registered agent services explains the magnitude of the drop. In both states, the registration process can be completed online and is not contingent on other licensing, agent or permit requirements.

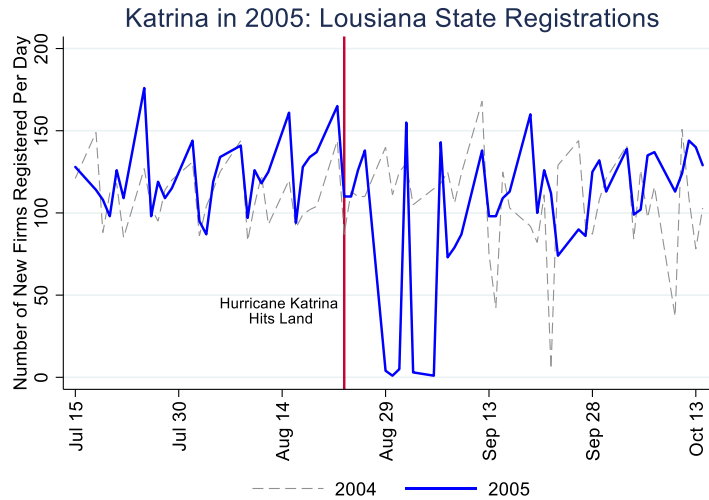
To provide some context, we look at new business registration patterns for New York in the period around September 11, 2001 and at the onset of the Great Recession (following the Lehman Brothers collapse). We also consider Louisiana before and after Hurricane Katrina.

At the greatest point of divergence following both 9/11 and the collapse of Lehman Brothers, we see drops in new business registration rates of roughly 10%. Both times, new business registrations/day rebounded within two weeks. The current declines in new business registrations/day in New York and Washington thus provides a striking contrast. Not only are they 7.5 times *steeper* than that seen in New York after 9-11 and the onset of the Great Recession, they show no signs of rebounding.



After Katrina, new business registrations/day in Louisiana fell effectively to zero. But, these rates rebounded (and even improved) with billions in Federal assistance. While many programs, including the “Road Home” (which provided \$9 billion to residents to rebuild) were subject to criticism,<sup>6</sup> they likely contributed to the recovery of new business creation and the later economic performance of the state.

<sup>6</sup> <https://gnoinc.org/news/region-news/after-hurricane-katrina-how-federal-aid-helped-the-region-rebuild-improve-advocate-staff-photo-by-john-mccusker-the-new-permanent-london-avenue-canal-pumping-station-is-under-construction-where/>. <https://www.nytimes.com/2009/04/05/us/05louisiana.html>.



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While rough and preliminary, our analysis indicates that the impact of COVID-19 on startup formation is likely to be severe. It likewise suggests that Federal aid can make a meaningful difference in providing opportunities for new businesses to launch and grow.

The CARES Act aims to sustain existing businesses and streamline bankruptcy, not seed new companies. It is not designed to foster the dynamism our economy needs to rebound.

To get America going again, we urge the creation of a Main Street Fund to provide low interest loans of up to \$500,000 to launch new local businesses. A complement to the SBA microloan program (which provides startup loans up to \$50,000), this fund would inject capital at the median level needed to start the businesses that line our main streets, like restaurants (\$375,500),<sup>7</sup> drycleaners (\$500,000),<sup>8</sup> and coffee shops (\$300,000).<sup>9</sup>

In the meantime, we encourage the Small Business Administration, U.S. Senate Committee on Small Business & Entrepreneurship and U.S. Treasury to offer more guidance on the extent of new business loans currently available and how to apply for them. And, we invite universities, accelerators and the SBA to continue to provide mentoring to fledgling businesses.

Many different types of businesses will be critical in the U.S. recovery. As the United States navigates its path out of economic crisis, we can't afford to keep new business in our blind spot. For Main Street firms to remain a mainstay of the economy, we need to save *new* businesses too.

<sup>7</sup> <https://www.restaurantowner.com/public/Survey-How-Much-Does-it-Cost-to-Open-a-Restaurant.cfm>

<sup>8</sup> <https://www.wikihow.com/Start-a-Dry-Cleaning-Business>

<sup>9</sup> <https://coffeemakersusa.com/how-to-start-a-coffee-shop/>