

The Impacts of COVID-19 on Small Business Owners

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Background

- 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 the impacts of the pandemic on small business owners.
- Obtaining up-to-date and accurate information on the effects of the pandemic has been extremely difficult.
- I have spent the past nine months compiling and analyzing data to investigate what happened to small business owners, especially minority business owners.
- Most of my research has focused on the nation as a whole, but I have calculated estimates for California for this hearing using the latest data.

Research Questions

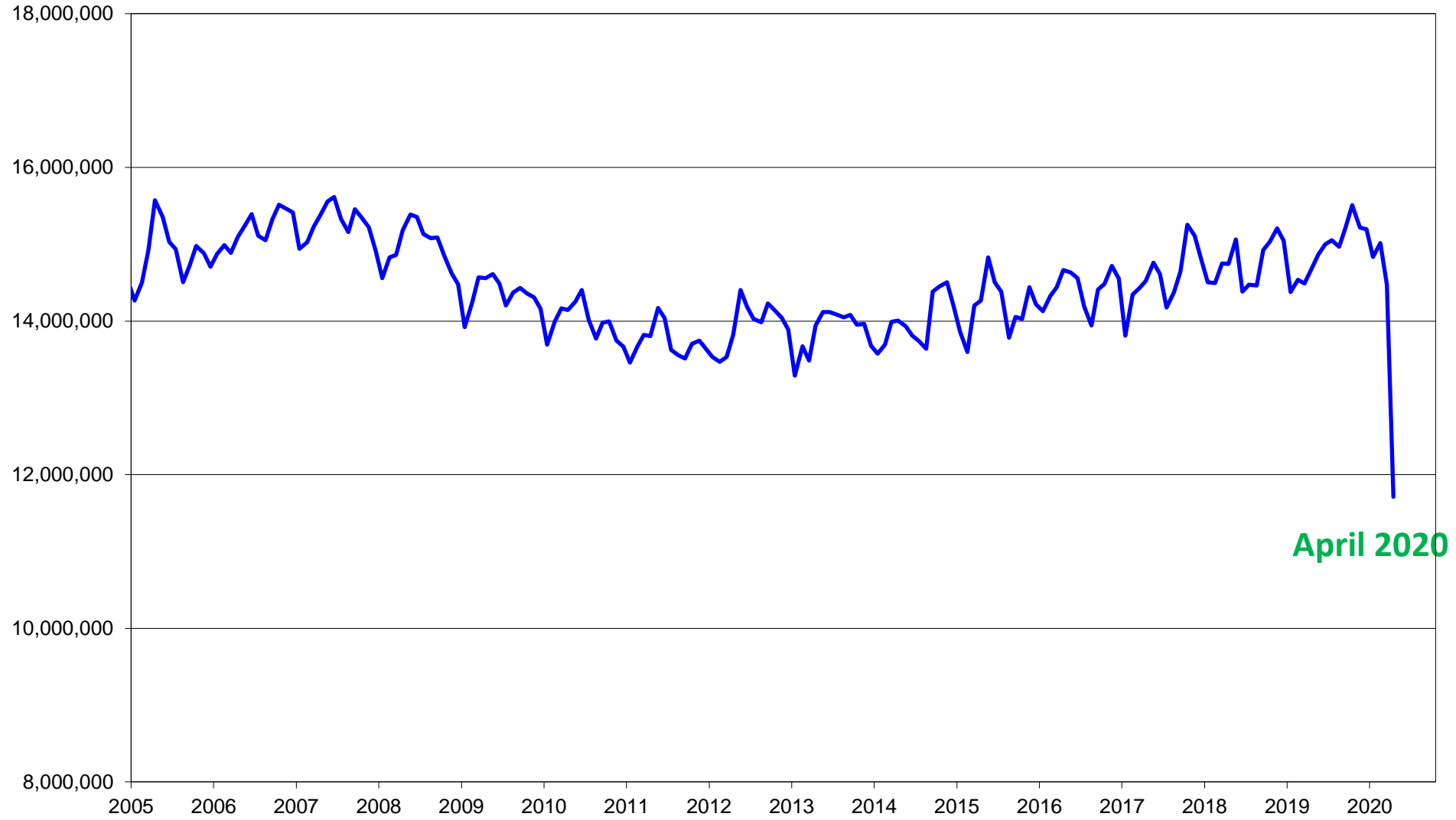
I have focused my research on three main questions.

1. First, what happened to small business owners? Did the pandemic disproportionately close minority-owned businesses?
2. Second, how much did small businesses lose in sales during the early stages of the pandemic? What types of businesses were hit the hardest?
3. Third, did the massive, unprecedented levels of government relief for small businesses through the PPP and EIDL programs get distributed evenly to minority communities?

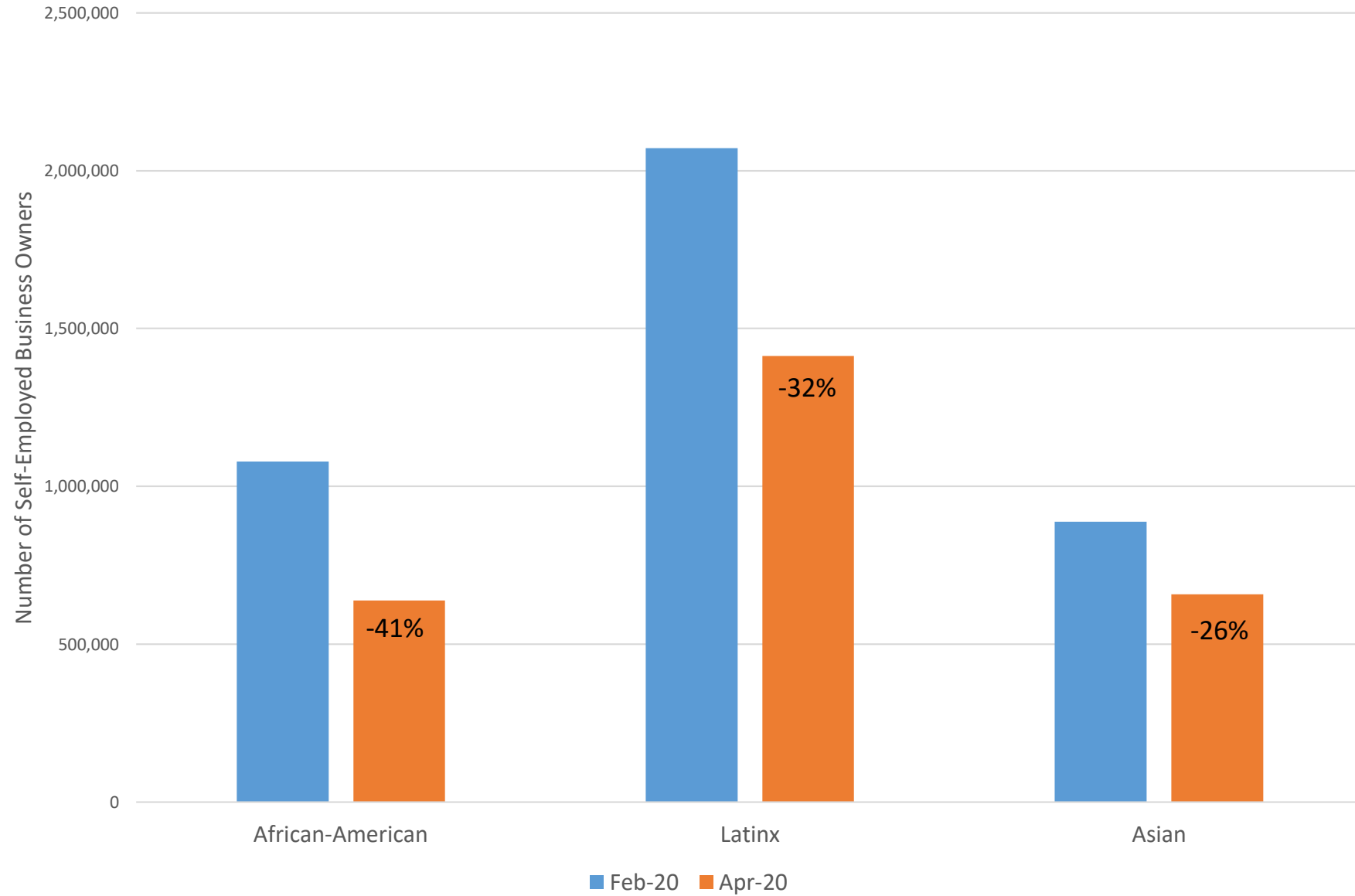
Timeline of Pandemic and Closures

- March 11, 2020: The World Health Organization (WHO) declared COVID-19 a pandemic.
- March 16, 2020: San Francisco Bay Area imposed shelter-in-place restrictions
- March 19, 2020: State of California
- March 20, 2020: New York State
- By early April: most states imposed social distancing restrictions

Number of Active Business Owners in the United States (January 2005 - April 2020)

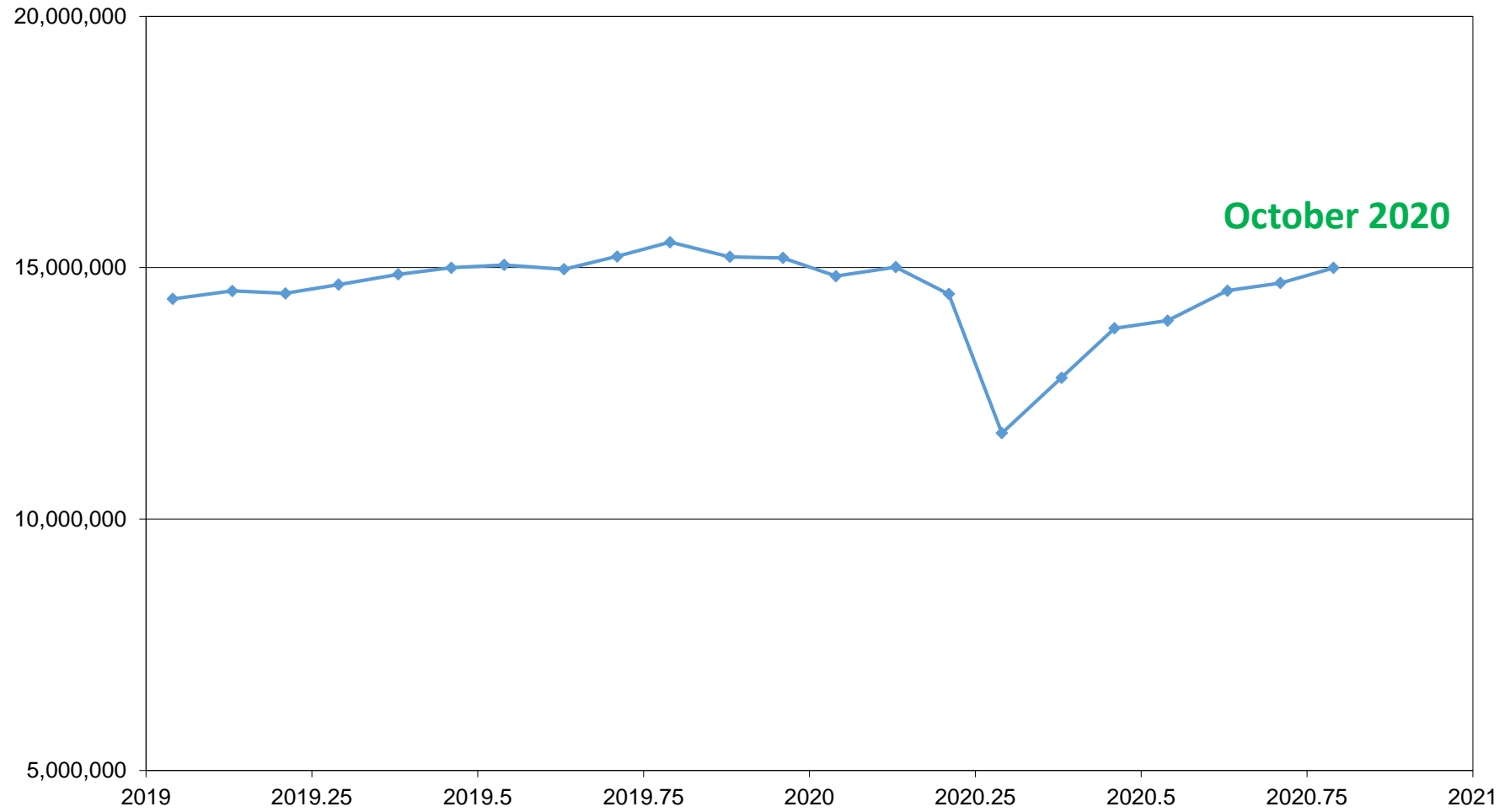


Number of Active Business Owners before and after COVID-19 (Racial Minority Groups)



Has There been a Rebound since April?

Figure 1
Number of Active Business Owners in the United States (Jan. 2019 - Oct. 2020)



Number of Active Business Owners by Race/Ethnicity before and after COVID-19

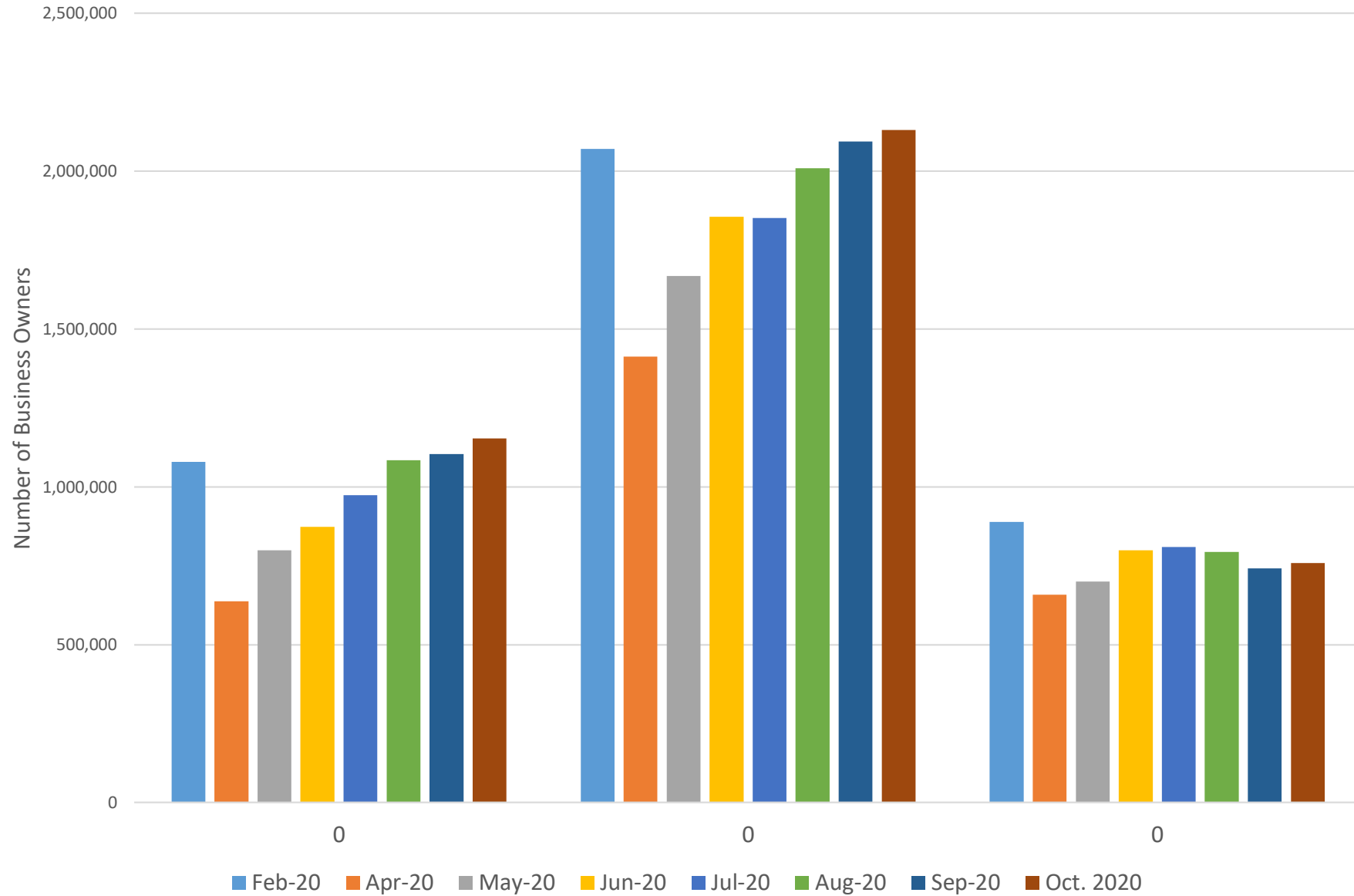
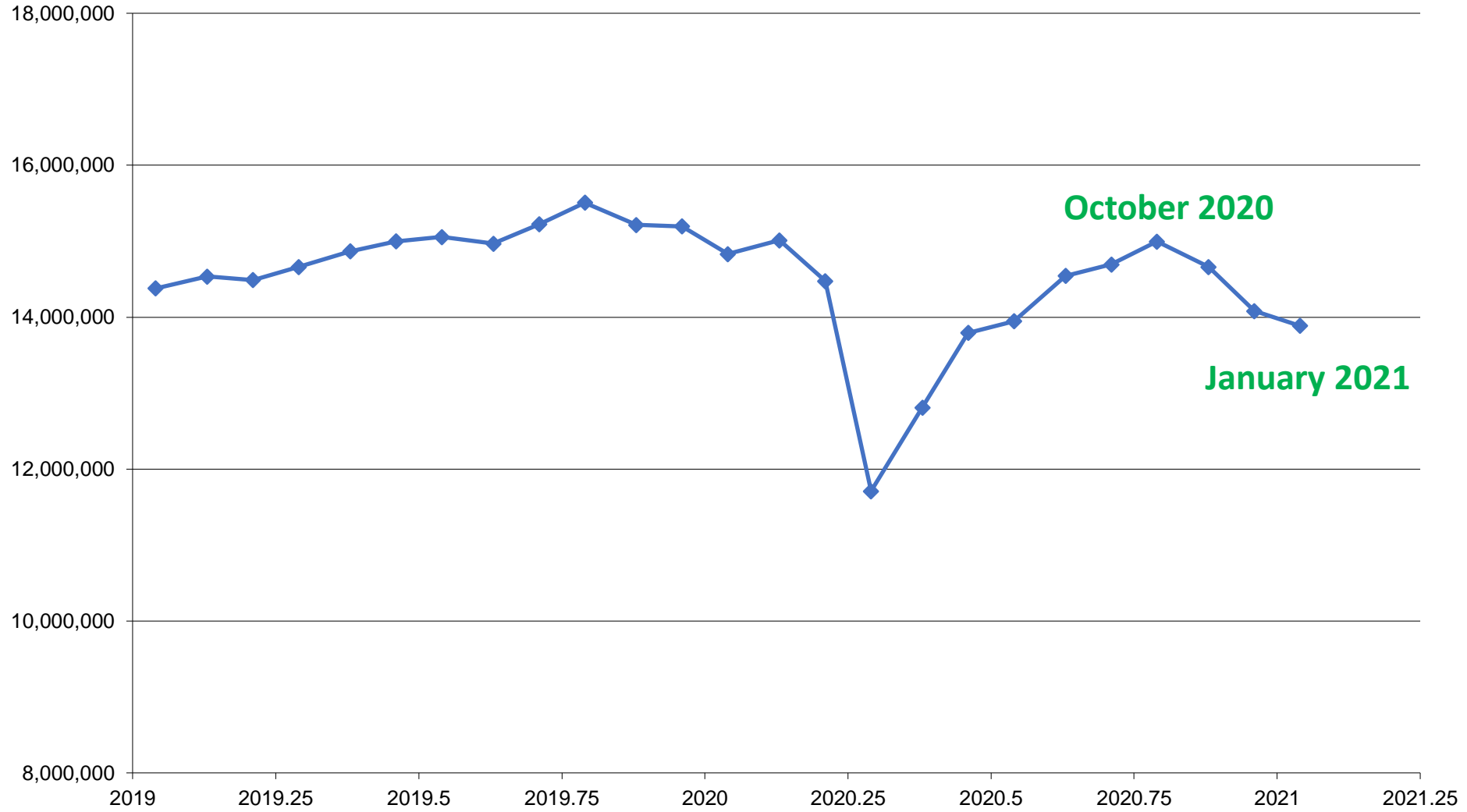
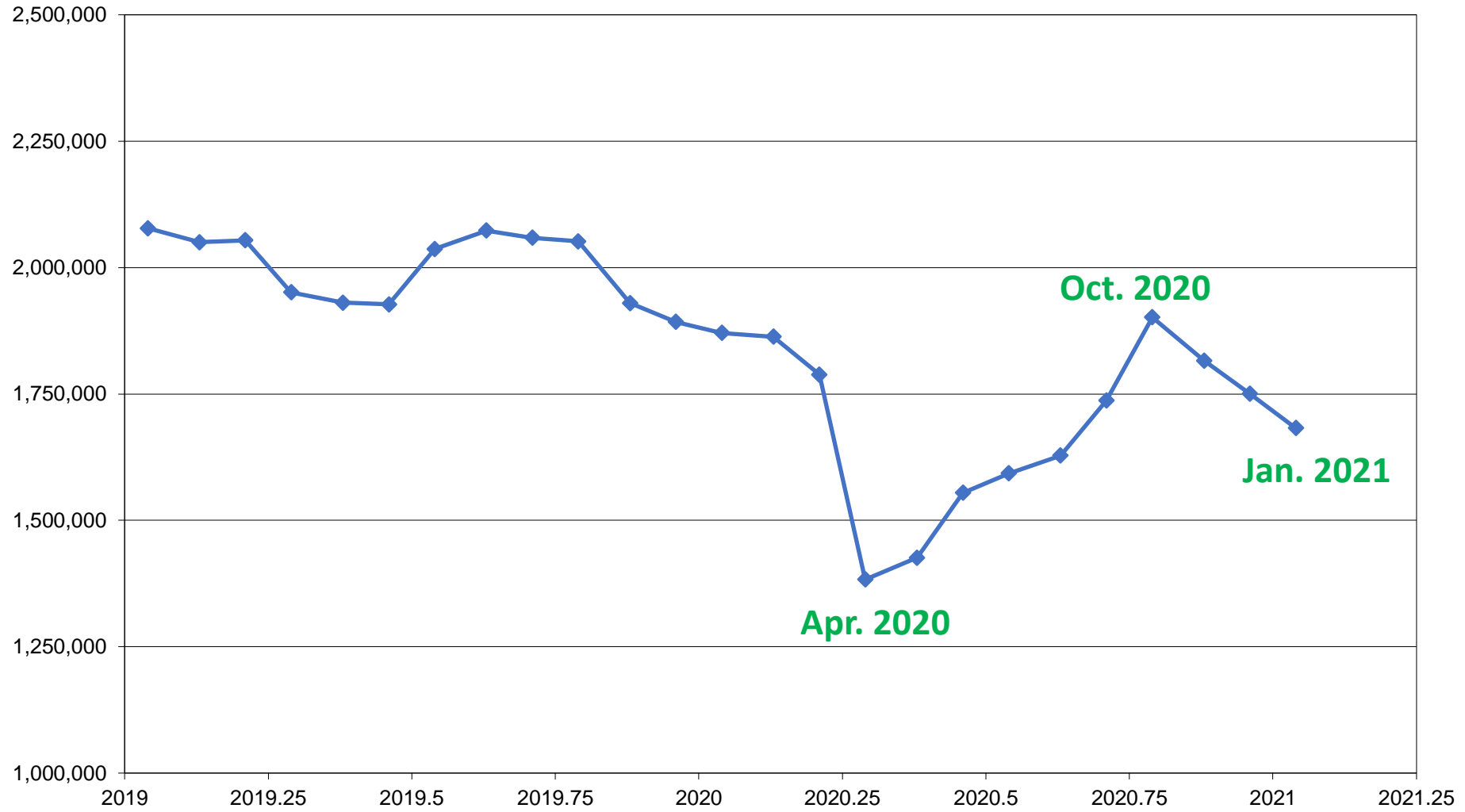


Figure 1
Number of Active Business Owners in the United States (Jan. 2019 - Jan. 2021)



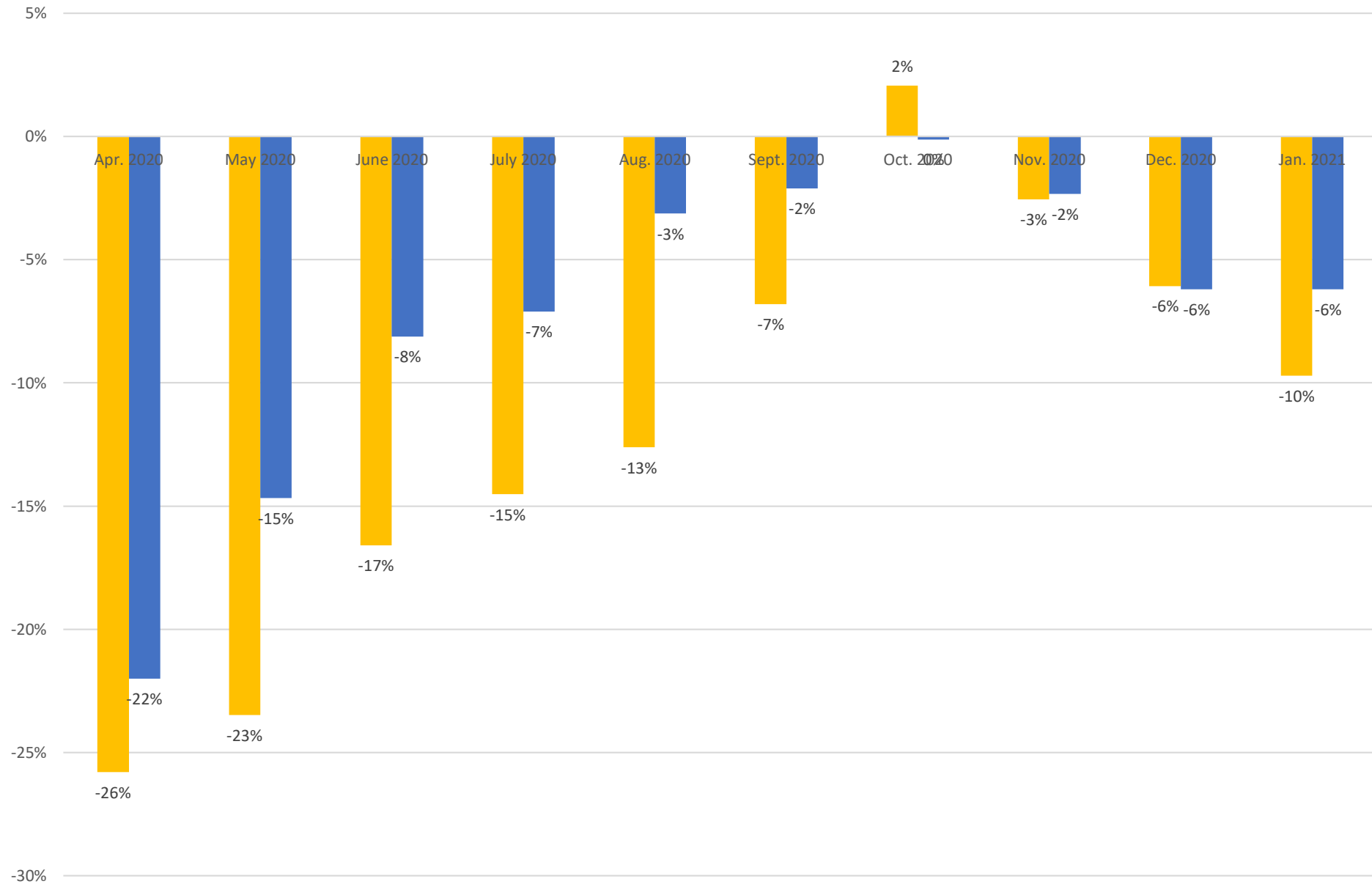
What Happened in California?

Figure 1
Number of Active Business Owners in California (Jan. 2019 - Jan. 2021)

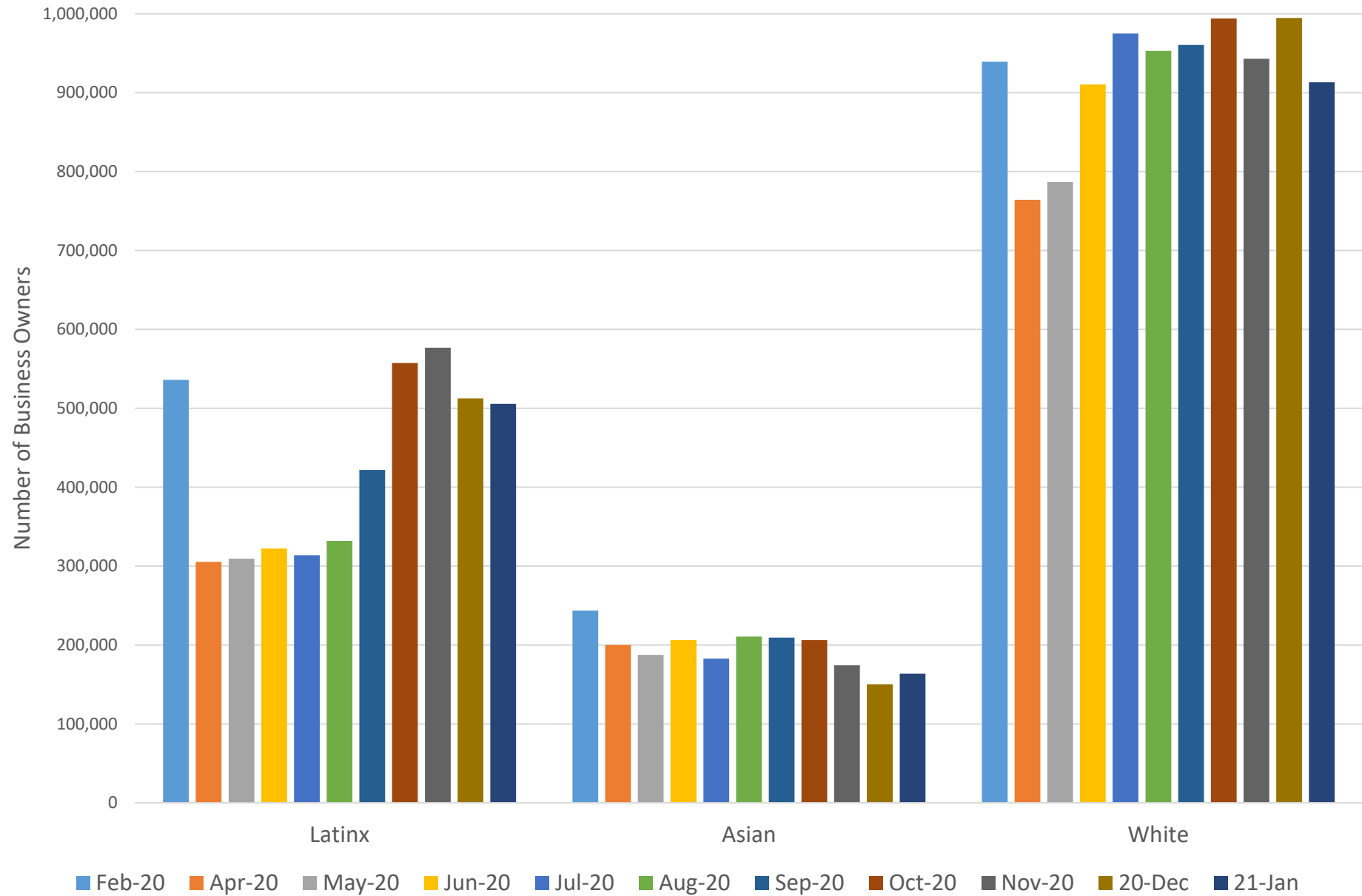


Business Owner Activity Losses Relative to February 2020

California United States



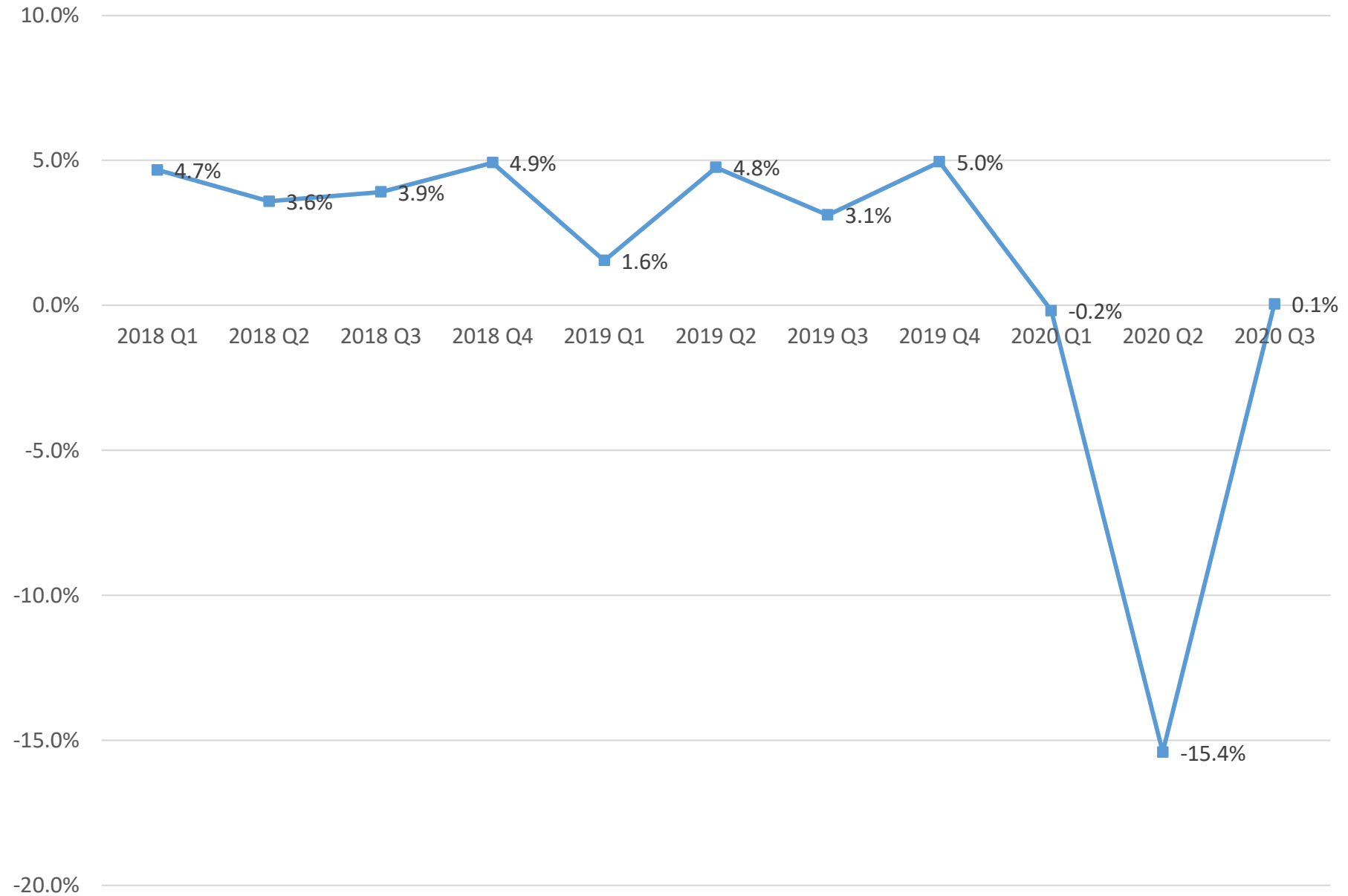
Number of Active Business Owners in California by Race/Ethnicity before and after COVID-19



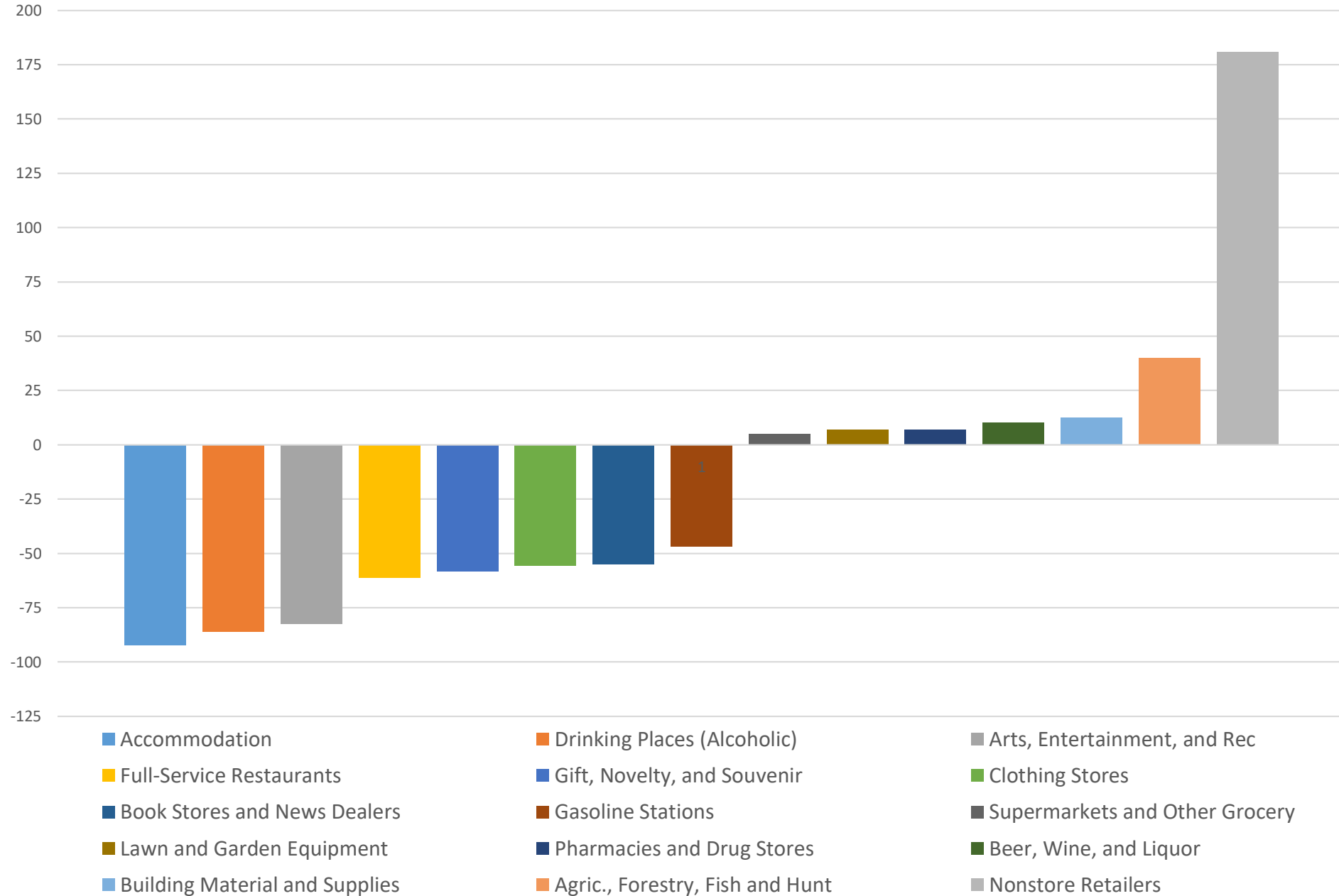
Sales Losses in California

- It has been especially difficult to figure out how much small businesses have lost in sales and revenues in the pandemic.
- We suspect that losses have been great but data on actual losses in sales are very difficult to find.
- Using taxable sales data from the California Department of Tax and Fee Administration, we examined average sales losses in the second quarter of 2020.

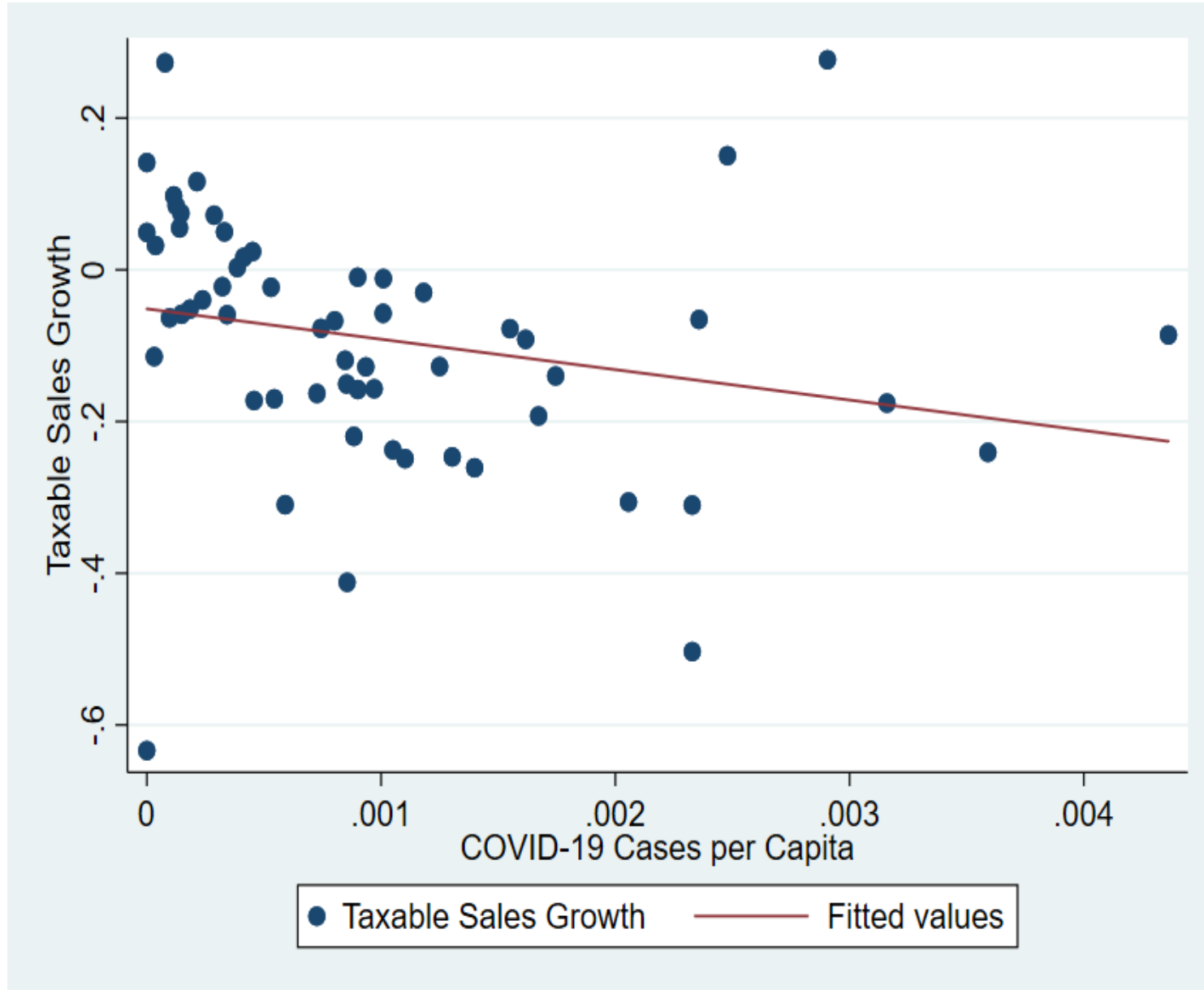
California State Taxable Sales (Annual Change) 2018 Q1 to 2020 Q3



Sales Growth Percent (2019Q2 to 2020Q2) Selected Business Types with Large Losses and Gains



Taxable Sales Losses by County for All Outlets (2020 Q2)

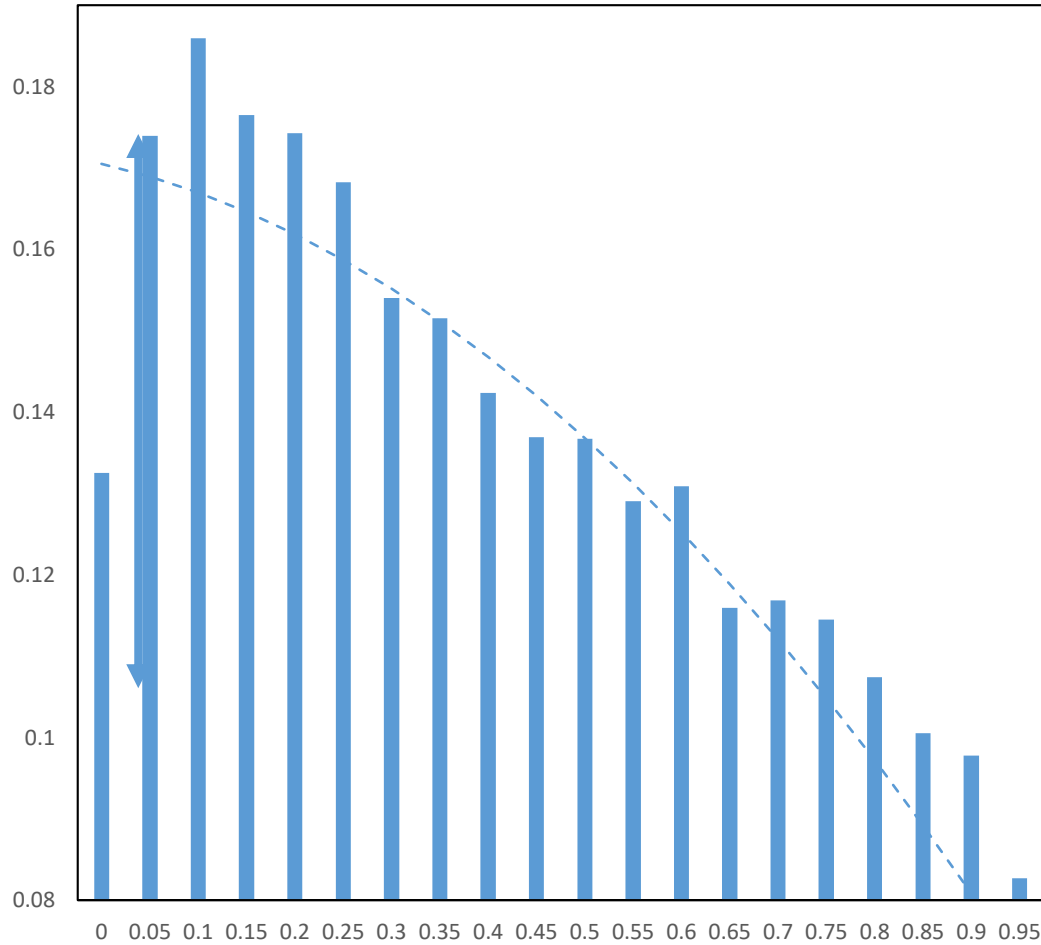


Federal Government Aid (PPP and EIDL programs)

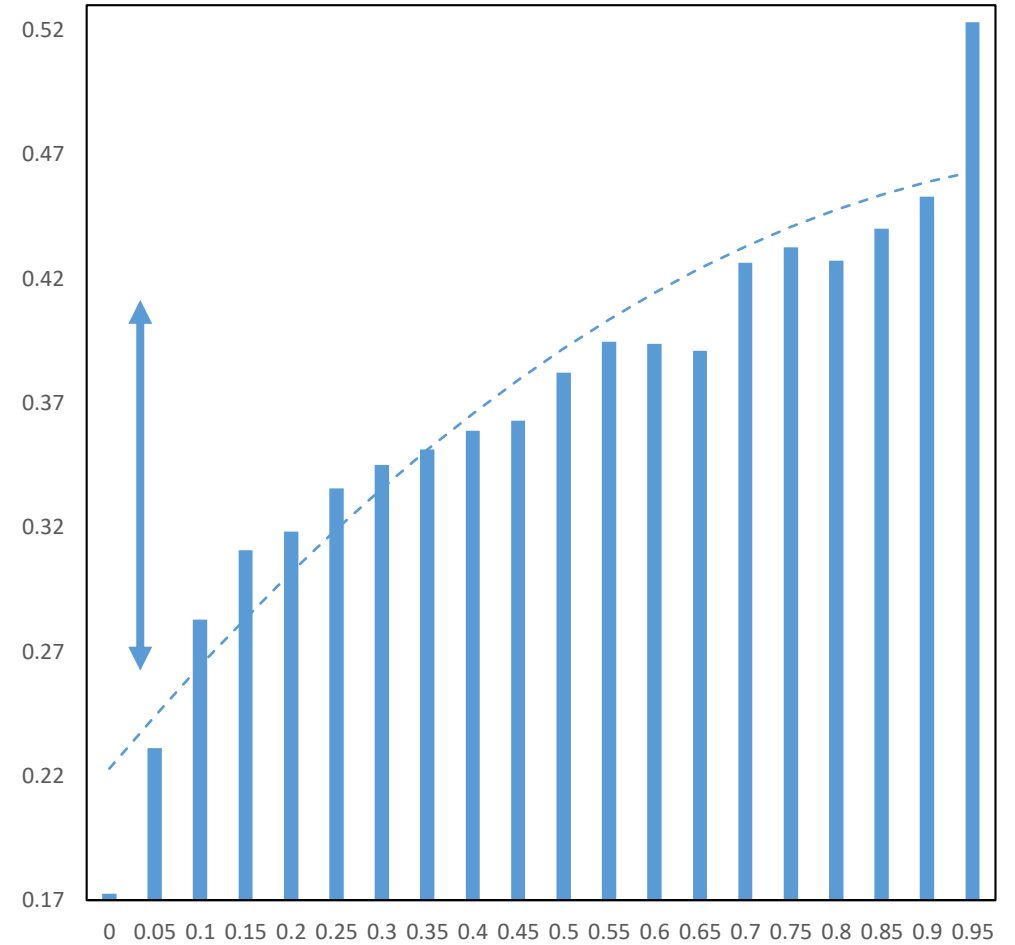
- One of the stated goals in the CARES Act was to prioritize serving “underserved markets” and businesses owned by “socially and economically disadvantaged individuals.”
- Did the PPP and EIDL programs, which were key components of the CARES Act, get distributed to minority communities?
- Using data on 15 million individual loans, we found that funding from these relief programs both flowed to minority communities and away from minority communities.

Paycheck Protection Program Loans per Employer Establishment by Minority Share of Zip Code

First Round (April 3-April 16, 2020)



Second Round (April 27-August 8, 2020).



What Can We Do to Move Forward?

1. Consumers need to feel safe again. The number one priority for helping small businesses is to get the vaccine out faster. People are anxious to get back to restaurants and shops.
2. More financial assistance is needed for small business owners especially during the next few months. In particular, rent relief and protection could be crucial for survival.
3. We need to slow down the extensive shift to online shopping which was happening prior to the pandemic. Small businesses need to have more of an online presence. Aid in the form of web page assistance could be useful. Search engines could prioritize local small businesses instead of online retailers and big box stores.
4. More data on race needs to be collected. Demographic information was only partially and unevenly collected in the first two rounds 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 grants and loans that were denied would be useful.

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

References

Fairlie, Robert W. 2020. "The impact of COVID-19 on small business owners: The first three months after social-distancing restrictions." *Journal of Economics & Management Strategy*, 29(4): 727-740.

Fairlie, Robert, and Frank Fossen. 2021. "Sales Losses in the First Quarter of the COVID-19 Pandemic: Evidence from California Administrative Data," NBER Working Paper No. 28414.

Fairlie, Robert, and Frank Fossen. 2021. "Did the \$660 Billion Paycheck Protection Program and \$220 Billion Economic Injury Disaster Loan Program Get Disbursed to Minority Communities in the Early Stages of COVID-19?" NBER Working Paper No. 28321.

Ongoing Small Business Activity Tracking: <https://people.ucsc.edu/~rfairlie/recent/>