



**STATEMENT FOR THE RECORD BEFORE THE U.S. SENATE COMMITTEE ON
SMALL BUSINESS AND ENTREPRENEURSHIP**

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Thank you, Chairman Cardin, Ranking Member Paul, and members of the committee.

My name is John Arensmeyer, and I am the founder and CEO of the national small business organization Small Business Majority.¹ As a leading representative of America's 32 million small businesses, Small Business Majority is pleased to testify today regarding the unique challenges small businesses face when trying to retain and recruit a strong workforce. I also plan to offer several solutions to overcome these challenges and suggestions for cultivating a strong, skilled small business workforce through commonsense and meaningful policy changes.

Small Business Majority's mission is to empower America's diverse entrepreneurs to build a thriving and equitable economy. We engage our network of more than 85,000 small businesses and 1,500 business and community organizations to deliver resources to entrepreneurs and advocate for public policy solutions that promote inclusive small business growth. Our work is bolstered by extensive research and deep connections with the small business community that enables us to educate stakeholders about key issues impacting America's entrepreneurs, with a special focus on the smallest businesses and those facing systemic inequities.

Before launching Small Business Majority more than 16 years ago, I was the founder and CEO of ACI Interactive, an award-winning interactive communications company. Based on my work at Small Business Majority and ACI, I know firsthand that for a very long time small business owners have faced challenges attracting and retaining talented employees. Key barriers facing our nation's entrepreneurs include the ability to offer quality affordable healthcare, paid family leave, childcare and retirement benefits along with not having the same ability as big corporations to participate in workforce training programs. Furthermore, small businesses don't have the support they need to hire from specialized populations such as immigrants and those who are justice-impacted.

It is no secret that the pandemic introduced new demands on small business owners. Small business owners overwhelmingly cited labor shortages as one of the most significant challenges they faced as COVID-19 continued to plague their recovery efforts. According to a recent survey from Goldman Sachs, 87% of hiring small firms reported difficulties filling open positions.² Polling conducted in March 2022 by Small Business Majority revealed that more than half (52%) of small business owners reported being negatively impacted by workforce shortages.³

¹ <https://smallbusinessmajority.org/>

² <https://www.goldmansachs.com/citizenship/10000-small-businesses/US/voices/policy-agenda/documents/2022-report-summary.pdf>

³ <https://smallbusinessmajority.org/our-research/small-businesses-share-current-business-concerns-challenges-federal-relief-programs>

Despite limited resources, small businesses are doing what they can to address their workforce challenges. According to our polling, small businesses have taken measures to create more incentives for workers, such as: increasing pay (32%), increasing benefits (20%), creating more part-time positions (26%), and hiring younger staff (23%).⁴ However, as emergency financial assistance from the federal government has expired and additional assistance remains stymied by partisan politics, small firms await the resources they need to sustain a long-term recovery.

The recent jobs report released by the Bureau of Labor Statistics showed there is a high demand for workers, meaning that we are currently in a tight labor market. Many small firms have reported the impact hiring and retention during a tight labor market has had on their bottom line. To attract talent, they must compete with larger corporations that can offer more robust benefits, but they need to be able to do so on a level playing field.

It's important for policymakers to understand that small businesses simply do not have the same resources or administrative capacity as large corporations to manage benefit programs like healthcare, paid family leave, childcare and retirement. Therefore, we must support forward-thinking policies that will help small businesses compete. Small Business Majority has outlined several solutions that will strengthen the nation's small business ecosystem and grow a skilled small business workforce.

Providing essential benefits

Healthcare

The “Great Resignation” has incited record numbers of new businesses and entrepreneurs. In the first half of 2021, small businesses with fewer than 50 employees created 1.9 million jobs, the fastest start to small business job growth in any year on record.⁵ It also exacerbated workforce challenges for small businesses that had difficulty maintaining health benefits for their workers during a period of uncertainty. As small businesses were forced to close, lay off staff, or cut health benefits for employees, nearly 2.7 million people in the U.S. lost their health insurance over 12 weeks in the spring and summer of 2020.⁶ Workers who lost access to benefits at small businesses were more likely to pursue positions at larger firms that guaranteed access to health benefits, thus increasing workforce shortage in the small business community.

These challenges are not new to small business owners because their employees have historically comprised a disproportionate share of the working uninsured, and small businesses have consistently identified healthcare costs as one of the top barriers to maintaining and growing their business.⁷ However, the passage of the Affordable Care Act (ACA) allowed small business owners and their employees to access crucial healthcare resources that support stability and affordability. Indeed, more than half of all ACA marketplace enrollees are small business owners, self-employed, or small business employees.⁸ Data suggests that recent policies, particularly the American Rescue Plan (ARP), helped fill the coverage gap.⁹ While many Americans lost employer-sponsored coverage during the pandemic, new tax credits made available through the ARP, as well as other solutions, played an important role in insulating the small business community from one of the worst consequences of the pandemic.

⁴ <https://smallbusinessmajority.org/our-research/small-businesses-views-on-tax-reforms-workforce-shortages>

⁵ <https://www.whitehouse.gov/wp-content/uploads/2022/04/President-Biden-Small-Biz-Boom-full-report-2022.04.28.pdf>

⁶ <https://jamanetwork.com/journals/jama-health-forum/fullarticle/2783874>

⁷ <https://smallbusinessmajority.org/our-research/entrepreneurship-freelance-economy/small-business-owners-say-government-doesn-t-understand-their-concerns-need-help-healthcare-costs-and-other-challenges>

⁸ <https://smallbusinessmajority.org/our-research/healthcare/small-businesses-see-significant-gains-aca>

⁹ <https://aspe.hhs.gov/sites/default/files/documents/ed44f7bb6df7a08d972a95c34060861e/aspe-data-point-2020-2021-uninsured.pdf>

However, the success of these affordable healthcare programs remains at risk and must be further bolstered by:

- Extending the premium assistance provided by the ARP that has helped make healthcare more affordable for many entrepreneurs and their employees;
- Addressing the rising costs of prescription drugs, as these costs are hurting small business owners' bottom lines; and
- Passing the Medicaid Saves Lives Act to ensure that the benefits of expanded Medicaid coverage is extended to small business employees and others in the 12 states that have failed to do so on their own.

Paid family and medical leave

Small business owners know it makes good business sense to take care of their employees, as it is crucial to retaining a productive and talented workforce. Unfortunately, many small businesses do not have the resources to offer robust benefits that larger companies can provide, like paid family and medical leave, which puts them at a disadvantage when it comes to attracting and retaining employees. And private insurers generally do not offer affordable, adequate paid leave policies to small businesses. As a result, as of 2019, only 14% of workers in firms with 99 or fewer employees had access to employer-provided paid family leave, compared to 29% of workers in firms with 500 or more employees.¹⁰ This is why small businesses strongly support implementing a federal program that would allow small employers to facilitate access to a paid leave program funded by employee and employer contributions.¹¹

A federal insurance program, like that proposed in the Family and Medical Insurance Leave (FAMILY) Act and previous iterations of Presidents Biden's Building a Better America plan, would go a long way toward helping entrepreneurs and their employees through difficult times while also benefiting business owners' bottom lines. What's more, 65% of small businesses support a proposal to establish a national program that would provide four weeks of paid family and medical leave to anyone to care for a new child or to care for a loved one's serious illness or other covered medical leave issues.¹² Research has found that paid leave programs have been popular with small employers in states where the program has been implemented. For example, in California, which has had a paid family leave program in place for more than a decade, some businesses reported cost savings due to reduced employee turnover and most businesses saw no increased costs to their bottom lines.¹³

Childcare

Access to quality, affordable childcare impacts the small business ecosystem in a multitude of ways and therefore is an essential investment small business owners need to address workforce instability.

The lack of access to affordable childcare has also impeded the ability of small businesses to retain a skilled workforce as parents have struggled to return to work amid extreme childcare challenges that grew during the pandemic. Women especially have been forced out of the labor pool due to the lack of access to affordable childcare during the pandemic. Childcare providers are feeling the pinch and we are hearing from our network how this shortage is not only impacting their business, but also their community.

¹⁰ <https://www.bls.gov/ncs/ebs/factsheet/family-leave-benefits-fact-sheet.htm>

¹¹ <https://www.nationalpartnership.org/our-work/economic-justice/paid-leave-resources.html>

¹² <https://smallbusinessmajority.org/our-research/small-businesses-views-on-vaccine-mandates-supply-chain-disruptions-and-build-back-better>

¹³ <https://smallbusinessmajority.org/our-research/workforce/california-small-business-owners-support-expanding-state-s-paid-family-and-medical-leave-program>

“As a childcare provider, I know firsthand the impact of inadequate childcare on a community and workforce. During the pandemic, my industry suffered tremendous losses and with the assistance of federal aid, my small childcare business was able to buffer the effects of low enrollment on my bottom line. But despite our best efforts, we were unable to return our workforce to pre-pandemic levels. Many of our parents and staff could no longer afford to pay for childcare. The pool of educators willing and able to return as childcare providers became very small. Access to affordable and quality childcare isn’t a local problem; it is one that should be addressed on a national level. Government support for childcare through long-term subsidies to nearly all working families would enable businesses like mine to charge a little more in tuition and in turn, attract quality talent with the reward of better pay,” says Ludmila Parada, president of Nelly’s Childcare and Preschool in Campbell, Calif.

Ninety-five percent of childcare providers in the United States are small businesses, and like Ludmila, most childcare providers are women and people of color. Additionally, more than one-third of small business owners with children reported that a lack of access to affordable, high-quality child care was a barrier to starting their business.¹³ Congress can help address this gap by expanding and improving federal income tax credits for childcare expenses that would allow working parents to receive a percentage of childcare expenses back as a tax refund.

Retirement and wealth building

The COVID-19 pandemic has highlighted the importance of wealth building, including saving for retirement. As the small business workforce continues to recover, they are searching for the resources they need to prepare for unprecedented financial setbacks. In order to compete and combat staff shortages across multiple industries, small businesses want to provide their employees with retirement packages to help them feel more prepared to face another possible global fiscal crisis. Unfortunately, many small businesses do not have the resources or administrative capability to offer retirement benefits to their employees. As such, a large percentage of small business owners support efforts to establish publicly-administered retirement savings programs to help more small businesses, their employees, and the self-employed save for retirement.¹⁴ In an effort to support retirement packages that better fit the needs of smaller employers, we must expand state Secure Choice programs that offer an easy “on-ramp” for employees to save for retirement. We must also pass a parallel federal program such as that included in the pending Secure Act 2.0, while ensuring that self-employed individuals have similar access.

Promoting a more robust workforce pool

Our country’s changing landscape provides us an opportunity to enact policies that would support entrepreneurship bolstered by a ready workforce that includes immigrants and justice-impacted individuals. To do that, we must reassess exclusive policies that restrict our ability to strengthen and grow our workforce, such as outdated immigration laws and regulations that stigmatize second chance hiring.

Immigrants

Immigrants are highly entrepreneurial, launching new companies at twice the rate of native-born Americans and creating large numbers of jobs.¹⁵ This pool is prime for creating candidates that will be able to strengthen the middle class while also boosting recovery in communities through job creation. Research shows that immigrants generally complement rather than compete with American workers

¹⁴ <https://smallbusinessmajority.org/our-research/entrepreneurship-freelance-economy/small-business-owners-say-government-doesn-t-understand-their-concerns-need-help-healthcare-costs-and-other-challenges>

¹⁵ <https://www.sba.gov/sites/default/files/rs396tot.pdf>

because they have different skill sets and educational backgrounds.¹⁶ Moreover, immigrants help grow the economy by filling labor needs, purchasing goods and paying taxes. When more people work, productivity increases. To keep this population engaged in the small business ecosystem, it is necessary that we pass comprehensive immigration reform guaranteeing eventual citizenship for those who contribute to our economic success. More immediately, we must expand the H-1B visa program to allow more visas for both skilled and low-skilled foreign workers while decreasing the waiting period for rejected applicants from one year to three months.

Justice-impacted individuals

Though often overlooked due to persistent stigma, second chance hiring opens an enormous untapped talent pool for small employers. Research has shown that most employers hiring justice-impacted individuals have positive experiences and notably lower turnover rates.¹⁷ Small business owners within our network have shared their own personal experiences with second chance hiring.

“I was initially very hesitant to hire someone who had been to prison. I was not sure how to ask employment questions without sounding inappropriate. I ultimately decided to hire a justice-impacted individual, and I’m glad I did. I valued his positive attitude more than the circumstances of his criminal record. The relationship that I pursued became mutually beneficial because he is now one of my most reliable employees,” shares Ron Nelson, president and general manager of Pioneer Overhead Door in Las Vegas, Nev.

Justice-impacted individuals are often eager to contribute to their communities and to achieve financial independence. These traits are highly favored and too important to overlook during a labor shortage. When justice-impacted individuals come home after paying their debt to society, our workforce will be positively impacted if we equip them with the tools and resources they need to rebuild their lives, including opportunities for employment and entrepreneurship. Some of the tools and resources needed include: supporting occupational licensing reform, implementing clean slate procedures, and creating materials that will educate small businesses on the benefits of second chance hiring.¹⁷ In turn, this population will themselves perhaps be inspired to launch businesses and careers that provide them with income and generate economic prosperity.

Equipping small businesses with workforce training resources

As small businesses struggle to attract and retain talented employees in a tight labor market, many know that offering workforce training will attract quality talent and retain skilled labor. A study by Pew Research Center found that 87% of workers believe training and developing new job skills throughout their work life is essential to succeed in the workplace.¹⁸ But providing training and apprenticeship programs is an investment that many small employers struggle to undertake.

If policymakers want small businesses to succeed, they must invest more in helping small business owners get the resources they need to train a skilled workforce. We hear this firsthand from members of our network.

“As a small employer, I pay for my apprentices’ training out-of-pocket, which costs about \$100,000 over a five-year training period. These trainings are necessary for our field, yet there are no assistance options through the government,” says Melanie Lichtfeld, owner of Lichtfeld Plumbing, Inc. in Madison, Wis.

¹⁶ <https://research.stlouisfed.org/publications/page1-econ/2014/05/01/the-economics-of-immigration-a-story-of-substitutes-and-complements/>

¹⁷ <https://www.prisonpolicy.org/reports/outofwork.html>

¹⁸ <https://www.pewresearch.org/social-trends/2016/10/06/the-state-of-american-jobs/>

Since small firms rarely have enough time to dedicate to extensive staff training or sufficient funds to pay for employee education, we are glad that the Lifelong Learning and Training Account Act was reintroduced by U.S. Senators Mark R. Warner (D-VA) and Chris Coons (D-DE) earlier this year. We support this legislation as it will be a huge boost to small businesses by offering them another way to invest in developing their staff. This legislation will also help solo entrepreneurs invest in their own development and acquire skills without the aid of an employer.

The Lifelong Learning and Training Account Act is an example of legislation needed to promote a more robust workforce pool while making lifelong learning more accessible for low- and moderate-income workers. Additionally, we must implement studies that ensure Workforce Innovation & Opportunity Act (WIOA) programs are meeting small business and worker needs. We also recommend establishing regional economic clusters and partnerships that include educational institutions such as community colleges with the resources to provide industry-focused training and skills development. Enacting these policies and programs will expand internship and mentoring opportunities that will create career paths for youth and ensure access to skilled, entry-level workers for small businesses.

Conclusion

More than two years into the pandemic, small businesses are slowly rebuilding but need a vibrant stable workforce to fully recover. Entrepreneurs, especially those in under-resourced communities, need an array of support to address labor shortages and ensure employees are able to come back to the workforce. I appreciate the opportunity to comment on these critical issues and I thank you for your time.