AMERICA'S NEW BUSINESS PLAN

START US UP
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Ideas and Actions for State Policymakers

EXECUTIVE SUMMARY

America's entrepreneurs don't ask for much. They embrace the future by building it themselves, working toward goals with the spirit and drive to overcome every hurdle in their paths. But too often and for too long, America's policymakers have taken that spirit and drive for granted. Being "pro-business" has come to represent favoring big business in today's politics. And when government does act to help American enterprise, support is heavily skewed toward established businesses — not scrappy and striving new business owners and entrepreneurs. This is despite the fact that new businesses created by entrepreneurs are the primary source of almost all net new jobs.[1]

Making it easier for everyday Americans to start their own businesses is essential for creating economic growth that works for everyone. After all, this is what the American Dream is all about: the belief that anyone, regardless of who they are or where they are from, has the opportunity to make a better life. Unless leaders move quickly to reduce unnecessary barriers and expand the circle of American entrepreneurs, the United States will no longer be the most innovative nation with the most dynamic economy on Earth.

America's New Business Plan puts the ambitions and can-do spirit of everyday Americans first through a four-part entrepreneurship plan that ensures anyone with an idea has access to the opportunity, funding, knowledge, and support to turn it into a reality.

OPPORTUNITY ★ A Level Playing Field and Less Red Tape

When it comes to starting a business, entrepreneurs need a level playing field to compete with established businesses, which have better access to policymakers. Among other things, this means economic development efforts should support local business owners and not just offer incentives to attract outside businesses. Policymakers should prioritize the development of supportive ecosystems that help everyday Americans start businesses and they should cut red tape that holds people back.

FUNDING ★ Equal Access to the Right Kind of Capital Everywhere

Entrepreneurs continually emphasize the need for access to capital, including patient capital and other innovative models that give them an opportunity to get their businesses off the ground. These funding streams must extend beyond the coasts and reach deep into the heart of America to serve communities that lack access to capital and populations that are underrepresented as entrepreneurs.

KNOWLEDGE ★ The Know-How to Start a Business

Starting a business is a courageous act, and far too many entrepreneurs take that risk without really knowing where to begin or understanding the requirements and barriers that come with turning an idea into reality. Policymakers can help by supporting policies that connect entrepreneurs to those who can show them the ropes and programs that teach entrepreneurs the skills needed to successfully launch a business. Policymakers can ensure a strong current of new entrepreneurs and their employees by embedding real world learning in classrooms — sharpening workplace skills such as communication, problem-solving, judgement, and decision-making.

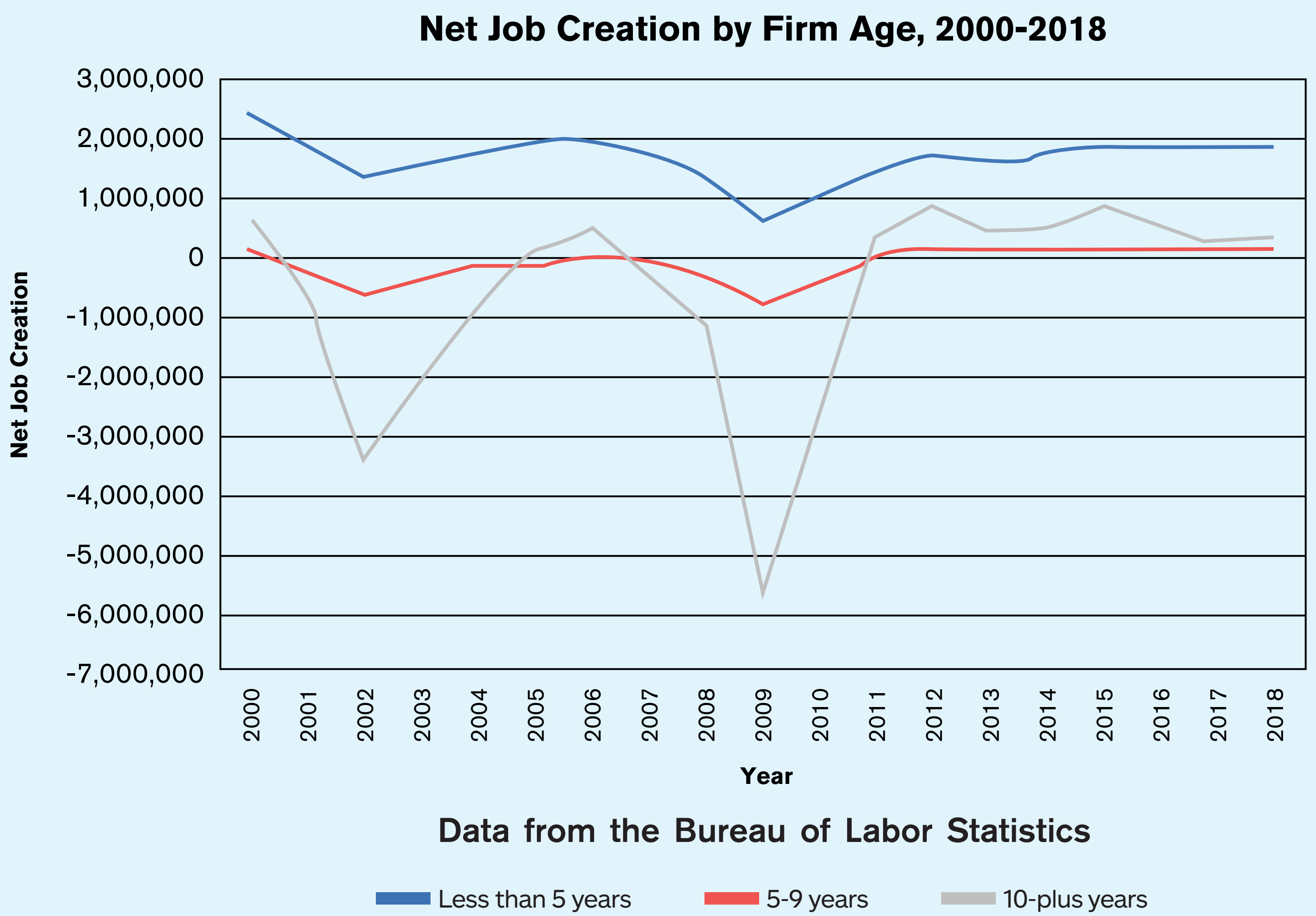
SUPPORT ★ The Ability for All to Take Risks

Becoming an entrepreneur means leaving behind the stability of a traditional job, and with it benefits such as health care and retirement savings. Most importantly, it often means forgoing a stable salary — a daunting proposition for anyone, but especially for the many Americans living paycheck to paycheck or with little savings. Policymakers must act to ensure the next generation of entrepreneurs is not locked out of opportunities to improve their economic situations by addressing Americans' real financial concerns that limit risk-taking.

1 John Haltiwanger, Ron S. Jarmin, and Javier Miranda, "Who Creates Jobs? Small Versus Large Versus Young," The Review of Economics and Statistics 95, no. 2 (May 2013): 347-361.

A PARADIGM SHIFT: AGE, NOT SIZE

Policymakers often think of small businesses as the employment engine of economic growth. But when it comes to job creation, it is not the size of the business that matters as much as the age of the business. Businesses that are less than 5 years old create nearly all of the net new jobs in the American economy, including fueling net new job creation during economic downturns.[2]



Policymakers must shift their focus to think in terms of age, not size. Accordingly, the federal government should create a standard definition of "new businesses" as those less than 5 years old. Codifying the distinction between the age and size of a business and providing policy support for new businesses across each stage of the entrepreneurial journey will better enable everyday Americans to start businesses and, in the process, employ millions.

2 John Haltiwanger, Ron S. Jarmin, and Javier Miranda, "Who Creates Jobs? Small Versus Large Versus Young," The Review of Economics and Statistics 95, no. 2 (May 2013): 347-361.

What State Policymakers Can Do To Tap America's Entrepreneurial Spirit

OPPORTUNITY ★ A LEVEL PLAYING FIELD AND LESS RED TAPE

Create an Entrepreneurship Impact Statement

Nearly three-quarters of entrepreneurs believe that government regulations on businesses are complex and hard to follow.[3] Another 65% say that it is too time-consuming for business owners to stay legally compliant with local, state, and federal regulations.[4] While retroactively addressing laws that have had negative effects on entrepreneurs is critical, it is not enough. It is imperative that entrepreneurs be considered from the start as new laws and policies are enacted. To do so, state legislatures should:

- Require an Entrepreneurship Impact Statement (EIS) for all new laws, regulations, and rules developed that affect businesses less than 5 years old. At the state level, the EIS would require the state budget office and issuing agencies to estimate the direct costs to new businesses (i.e., those less than 5 years old) of changes to laws and regulations so that policymakers become aware of the impact these policies would have on new businesses before bills are passed or new regulations issued.

Streamline the Process of Starting a Business

Too often, the regulatory requirements of starting a business are unclear for entrepreneurs. This is especially the case when starting a brick-and-mortar business. Conflicting information from various local regulatory bodies can cause delays that are far costlier than just the added time to become compliant. To entrepreneurs, it may mean more time paying rent on a commercial space with no revenue or income, and it can often be the difference between a successful enterprise and one that is forced to close its doors far too early. Even seemingly insignificant fees and forms can add up to have a detrimental effect. Government should support the following solutions:

- Create a single list of all requirements to start any business and easy-to-read guides that walk entrepreneurs through the permitting process. These should be translated into multiple languages and posted in public offices and in an easy-to-find location online.
- Require coordination across agencies to simplify all federal, state, and local procedures, forms, licenses, and permits required to start a business.
- Create state incentives for local authorities to reduce barriers to starting businesses, even down to the smallest fees and forms.

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3 "Breaking Barriers: The Voice of Entrepreneurs," Kauffman Foundation, Global Strategy Group, and Public Opinion Strategies, November 30, 2018.
4 Ibid.

Unlock Entrepreneurial Activity by Reforming Noncompete Agreements

The free movement in and out of jobs is essential for a dynamic, entrepreneur-driven economy. Yet many states enforce employer noncompete agreements that lock employees into their current jobs and hamper new business creation.[5] To curb the negative impacts of noncompete agreements on entrepreneurship, policymakers should:

- Restrict the use of noncompetes through outright bans or by shortening the maximum duration of these contracts and narrowing the scope of industries and jobs for which noncompetes may be used.
- Improve transparency by requiring employers to disclose their intent to use a noncompete in job postings and offers.

Rein in Occupational Licensing

Occupational licensing erects barriers to workers entering certain fields and to prospective entrepreneurs creating businesses that can compete with incumbent firms benefiting from licensing protection. Policymakers should:

- Replace licensing with less onerous forms of regulation, such as certifications or permits, in industries where public health is not seriously threatened.
- Streamline remaining licensing requirements. States can develop regional or interstate compacts to ensure occupational licenses are transferable to or recognized by neighboring states, just like a driver's license. Federal pre-emption would accomplish a similar purpose.
- Reduce blanket bans and "good character" clauses in remaining licensing requirements, which erect barriers to entrepreneurship for the formerly incarcerated.[6,7]

5 Karla Walter, "States Must Act to Protect Workers From Exploitative Noncompete and No-Poach Agreements," Center for American Progress, April 2019.

6 "Barriers to Work: People with Criminal Records," National Conference of State Legislatures, July 17, 2018, http://www.ncsl.org/research/labor-and-employment/barriers-to-work-individuals-with-criminal-records.aspx.

7 Dick M. Carpenter II, Ph.D., Lisa Knepper, Angela C. Erickson and John K. Ross, "License to Work: A National Study of Burdens from Occupational Licensing," Institute for Justice, May 2012.

FUNDING ★ EQUAL ACCESS TO THE RIGHT KIND OF CAPITAL EVERYWHERE

Make a State Commitment to Expanding Access to Capital for All Entrepreneurs

Too many Americans have been denied the opportunity to turn their ideas into businesses because they lacked the funding required to do so. Between 90% and 95% of entrepreneurs who hire employees require some amount of financing to start their businesses, making capital a critical requirement for new business creation.[8] However, many government programs meant to provide capital to entrepreneurs are biased in favor of established businesses instead of newer businesses. To address the significant and persistent gaps in access to capital, the governor should announce a public-private partnership to close such gaps for entrepreneurs in the state. In doing so, state policymakers should:

- Incentivize financial innovation that addresses gaps in capital access by spurring the creation of new funding models and technologies that serve all types of new businesses, especially those currently underserved by the capital marketplace.
- Examine how their state and local ecosystems can be improved to increase access to capital for all entrepreneurs.

Develop State and Local Entrepreneurial Capital Catalyst Grants

With bank loans and venture capital unavailable to so many entrepreneurs, states and communities should develop innovative funding streams to promote entrepreneurship and to help support new businesses in their jurisdictions.[9] Capital should help entrepreneurs at different stages of starting a business, from having new ideas to opening doors to serving customers. There are a number of innovative models that could be scaled across America. States should create competitive Entrepreneurial Capital Catalyst Grants to:

- Create "evergreen" community investment funds that support new businesses as they move through the early stages of proof-of-concept and product development. States and localities can look to successful models such as MassVentures in Massachusetts and JumpStart Evergreen Fund in northeast Ohio.
- Build collaborative investment funds that engage established businesses to work with emerging businesses for joint product development and supplier relationships. States and localities can gain lessons from the experiences of Cintrifuse and Renaissance Venture Capital, operating in Cincinnati and Michigan, respectively.
- Support investment funds that spur the growth of new financial intermediaries — entrepreneurs creating capital to invest in other entrepreneurs — particularly those with innovative models such as revenue-based investing and profit-sharing. States and localities can leverage domestic learnings from Lighter Capital and the New Hampshire Community Loan Fund, and can borrow international lessons from Israel's Yozma Group, IDB Lab, and Capria on growing new investment categories.

8 Kauffman Foundation, "Access to Capital for Entrepreneurs: Removing Barriers."
9 Kauffman Foundation, "Access to Capital for Entrepreneurs: Removing Barriers."

Unleash Online Tools to Drive Alternative Funding Opportunities into the Heartland

While venture capital is highly concentrated, crowdfunding and other online tools have the potential to drive innovative funding sources to entrepreneurs throughout the American heartland. To spur more online financing activity, policymakers should:

- Create tax incentives for investors purchasing securities offered by new businesses through qualifying crowdfunding channels.
- Improve regulatory flexibility and reduce compliance burdens in crowdfunding.
- Create standards that ensure transparency and fair treatment of new and small businesses by online technology-based lending firms.

KNOWLEDGE ★ THE KNOW-HOW TO START A BUSINESS

Integrate Entrepreneurship into K-16 Education

To ensure that a strong current of entrepreneurial talent is continuously emerging in the United States, policies must jumpstart the stagnant rate of new entrepreneurs, grow the next generation of business owners, and develop employees with entrepreneurial capabilities. To do this, policymakers should:

- Embed entrepreneurial know-how and spirit in classrooms throughout America by creating opportunities for students to explore and acquire the habits of mind, behaviors, skills, knowledge, and competencies that equip them to be entrepreneurial – whether by creating businesses themselves or by making contributions as employees and community members.
- Provide students with real world learning experiences through project-based learning, client-based projects, and internships.
- Give students opportunities to explore design thinking and prototyping, problem-solving and communications, as well as ensuring all students are leaving high school with basic financial literacy skills.
- Examine how state agencies can better collaborate, collect appropriate data, provide curriculum and credit flexibility, and allow for alternative teacher certification pathways.
- Monitor state funding formula implications that will support or incentivize real world learning within districts.

Foster Pro-Entrepreneur Workforce Education and Training Programs

Current workforce training programs in the United States, especially for those displaced by automation or globalization, have shown to result in only modest gains in employment and wage increases.[10,11] The Government Accountability Office (GAO) looked at federal employment and job training programs and found that "in FY2009, nine federal agencies spent approximately $18 billion to administer 47 programs," while also noting that "little is known about the effectiveness of most programs." Given this mixed record of federal workforce development programs, it is time for an overhaul to achieve better results. In the process, policymakers should give workers fresh options, including approaches that educate and train individuals where America has its greatest potential economic strength — its entrepreneurs. Recognizing that much of this support is provided through state and local workforce development systems, state policymakers should work to:

- Prioritize entrepreneurial skill-building, access to networks, and new business creation as key components of workforce training programs.
- Significantly expand the number of entrepreneur support organizations (ESOs) that receive workforce training funding.
- Empower the 3,000 One-Stop centers to be user-friendly outlets for information about entrepreneurship and to provide support for more Americans wishing to start their own businesses.
- Include entrepreneurship and applicable information and tools in workforce training programs to help tens of thousands of young Americans start their own businesses.

10 Ronald D'Amico and Peter Z. Schochet, "The Evaluation of the Trade Adjustment Assistance Program: A Synthesis of Major Findings," Social Policy Research Associates and Mathematica Policy Research, December 30, 2012.

11 Sheena McConnell, Kenneth Fortson, Dana Rotz, Peter Schochet, Paul Burkander, Linda Rosenberg, Annalisa Mastri, and Ronald D'Amico, "Providing Public Workforce Services to Job Seekers: 15-Month Impact Findings on the WIA Adult and Dislocated Worker Programs," Mathematica Policy Research, May 30, 2016.

SUPPORT ★ THE ABILITY FOR ALL TO TAKE RISKS

Provide Health Care Options for Early-Stage Entrepreneurs

For an unmarried potential entrepreneur over the age of 26, the security of employer-sponsored health insurance can prevent risk-taking. This dilemma contributes to "job lock," a situation in which employees stay at their current jobs because leaving would result in the loss of benefits they value. To reduce the effects of job lock, policymakers should:

- Facilitate the development of a system of portable benefits that follow workers as they move across jobs or out of the workforce to start a business.

- Provide tax incentives to new businesses to offset health care costs.

Provide Entrepreneurs Relief from Student Loan Debt

In 2011, cumulative outstanding student loan debt in the United States surpassed $1 trillion.[12] Between 2004 and 2014, the number of student loans increased 89%, and the average debt grew 77%.[13] As student loan debt continues to grow, the burdens on the behaviors of those incurring the debt are still not fully known. What's more, as student loan debt has increased, so too has the amount of time it takes for individuals to pay off their loans. A growing body of research has begun to point to student loan debt as a contributing factor to depressed rates of entrepreneurship, especially among younger generations.[14] To avoid a lost generation of entrepreneurial talent, policymakers need to address the burden of student loans. Policymakers should:

- Provide entrepreneurs who maintain residence in the state an exclusion from state income tax equal to the amount of student loan payments made in a year up to a capped amount.

12 Rohit Chopra, "Too Big to Fail: Student debt hits a trillion," Consumer Financial Protection Bureau, March 21, 2012.
13 Andrew Haughwout, Donghoon Lee, Joelle Scally, and Wilbert van der Klaauw, "Student Loan Borrowing and Repayment Trends, 2015," Federal Reserve Bank of New York, April 16, 2015.
14 Laura Checovich and Tom Allison, "At the Extremes: Student Debt and Entrepreneurship," Young Invincibles, 2017.

Become A Champion For Entrepreneurs Now

Entrepreneurs and government operate at different speeds. As policymakers pursue the adoption of new policies to support everyday Americans opening new businesses, they can also leverage the unique powers associated with their public offices to champion entrepreneurs today. Below is a list of tangible, actionable steps that governors and state policymakers can pursue now.

- Use their State of the State and other public addresses and bully pulpits to make increasing entrepreneurship a priority in their states by highlighting the benefits to individuals, families, the state economy, and communities throughout the state.
- Take the pulse of the state's entrepreneurial ecosystem by holding town hall meetings and focus groups with entrepreneurs to assess their needs, identify policies that would support them, and remove barriers.
- Appoint a secretary of entrepreneurship and put this position in the governor's cabinet to coordinate across all relevant state agencies and with the private and nonprofit sectors to build a strong, competitive state ecosystem in which entrepreneurs can thrive.
- Conduct a statewide review of the impact of existing rules and regulations on the creation of new businesses, and work to eliminate barriers or revise laws as appropriate.
- Charge state economic development and unemployment insurance agencies with making the support of entrepreneurs, new businesses, homegrown enterprises, and entrepreneurial ecosystems a top priority, and hire managers within those agencies who understand this priority.
- Examine how state contracting and procurement can support new businesses and be more entrepreneur-friendly, including among underserved areas and populations.
- Build ecosystems with strong networks of entrepreneurs, including leaders of incubators, accelerators, and entrepreneur support organizations, who can help entrepreneurs across the state navigate issues related to starting a business, accessing capital, and finding talent.
- Examine how city contracting and procurement can support new businesses and be more entrepreneur-friendly, including among underserved areas and populations.
- Direct state agencies to collect and utilize data on new businesses in order to appropriately target interventions that reduce barriers to new business creation.

To view the full America's New Business Plan or for more information, visit www.startusupnow.org.

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