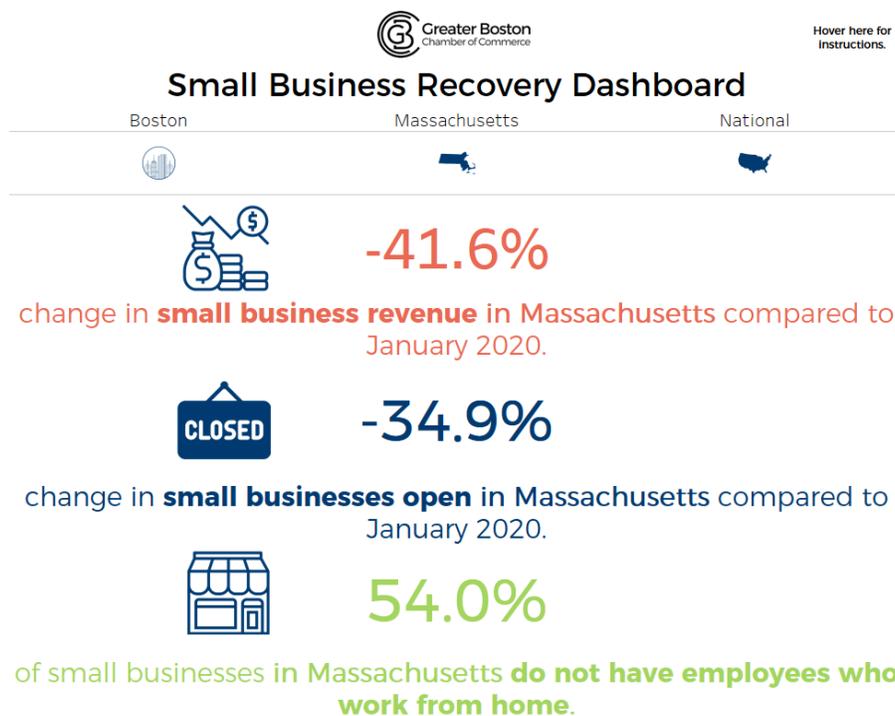


THE ROAD TO ECONOMIC RECOVERY

Small Businesses Must Be a Priority on the Road to Economic Recovery

Small businesses are fundamental to our economy: more than 700,000 small businesses directly employ 1.5 million Massachusetts residents, accounting for nearly half of the workforce. Small businesses are also a path to improving economic opportunity for residents: 99.8 percent of businesses owned by minorities are classified as small, and 17.7 percent are owned by women. Small businesses are entrepreneurs, employers, taxpayers, and community members all in one.

But with the COVID pandemic, shutdown, and ensuing economic fallout, many of our small businesses face - at best - an uncertain future. [As the dashboard below](#) shows, the devastation is real: small business reopenings and revenue in Boston and Massachusetts are lagging and despite 118,000 of them taking advantage of the federal Paycheck Protection Program, employment is down, and the future outlooks are grim.¹



As seen in the dashboard above, the majority of small businesses continue to rely on employees commuting to the workplace. As of October, 54 percent of small businesses in Massachusetts did not

¹ Data on small business revenue and openings are from [Track the Recovery](#), which defines small businesses as those with annual revenue below the [Small Business Administration's thresholds](#). Work from home data are from the [U.S. Census Small Business Pulse Survey](#), which defines small businesses as having between 1-499 employees.

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have employees who work from home. This is in-line with the national average of 54 percent of small businesses having no employees working from home.

Partially because of their inability to work from home, many small businesses have struggled to remain open during the COVID pandemic. The number of small businesses open in Massachusetts has declined 34.9 percent since January, with small business revenue declining 41.6 percent. The decline in small business in Massachusetts has outpaced the national averages since January. Nationally the number of businesses open declined 26.7 percent and revenue declined 26.1 percent.

Boston has experienced an even steeper decline in small business operations and revenue. Since January, the number of small businesses open in Boston has declined by 41 percent, while small business revenue has declined by a staggering 53.5 percent.

A direct result of small business closures and revenue loss are job losses. Massachusetts' total nonfarm employment plummeted almost 19 percent (approximately 691,000 jobs) in the first two months of the economic shutdown, from 3.7 million jobs in February 2020 to 3 million jobs in April 2020. As of October, Massachusetts remains nearly 10 percent, or approximately 360,000 jobs, below its February 2020 employment levels.

Job losses occurred more quickly and to a greater extent among small businesses. Nationwide, large employers (over 500 employees) saw their largest decrease in employment relative to February levels during May, at -8.8 percent. In contrast, small businesses employment levels dropped more quickly, bottoming out in April with declines relative to February employment at -15.2 percent (10-49 employees), -14.6 percent (50-99 employees), and -11 percent (100-499 employees). By September, larger employers had rebounded better than smaller businesses with employment down only 5.5 percent compared to February. In contrast, small business employment in September for firms with 50-99 employees (-6.2 percent relative to February) and 100-499 employees (-6.6 percent) still lags larger businesses.

Massachusetts' small business owners also have a grim economic outlook and little hope for a swift return to normal. Just over half of Massachusetts small business owners (51.1 percent) believe that it will take more than 6 months before their business returns to a normal level of operations. Furthermore, almost 1 in 10 small business owners in Massachusetts believe their business will never return to a pre-pandemic level of operations. By and large, Massachusetts' small business owners are more pessimistic of their economic future than the national average and would benefit from policies that facilitate their operations and enhance their overall competitiveness.

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Recommendations

Protecting the state's small businesses must be a priority for policymakers, and opportunities include the following recommendations:

Freeze the Unemployment Insurance Rate Schedule by January 1

The cost for unemployment insurance is projected to rise by an average of \$322 per employee in 2021, from \$544 to \$866. The Legislature can mitigate the impact on employers by freezing the rate at the current Schedule E instead of moving to the higher-rate Schedule G. Making this adjustment prior to January 1 will provide small businesses a degree of certainty related to personnel costs as they grapple with the myriad impacts of the pandemic. To fill the gap left by maintaining employer rates, the state can borrow or bond and spread the costs out over several years and during a period of economic growth.

Mitigating the rate increase in January will provide much-needed relief to small businesses, but that relief will be temporary without further changes to the unemployment system. Despite years of low unemployment, Massachusetts lagged in building its reserve account even though employer contributions increased. This structural problem shows a need to review and reform the state's UI system once the state enters an economic recovery.

Adopt liability protections

Businesses of all sizes and types face increased civil liability risks during Massachusetts' phased economic reopening because there are only ways to mitigate, not eliminate, a COVID-19 infection. Employers are eager to protect their workforces and customers, but they need to be protected from damaging litigation if they have taken actions to prevent the spread of COVID-19 outlined in state and federal guidance. Small businesses are particularly fragile, with many already at jeopardy of permanent closure, and one frivolous lawsuit could be an existential risk.

Lawmakers can encourage a smooth reopening by placing temporary limits on legal liability in areas including worker privacy, discrimination, employment practices, and product manufacturing. Safe harbors have been established in the past to protect businesses from exceptional risk in extraordinary situations, and a similar solution should be pursued now.

Continue Widespread Testing with Fast Results

The limited share of small businesses that can work remotely makes it clear: small business survival depends on the ability to be in-person safely. As the state is seeing spikes in cases, continued widespread testing with fast results is necessary to mitigate against a second shutdown. Even as a

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vaccine becomes available, distribution will take time so testing will be needed beyond the date a vaccine is released.

Avoid damaging policies

Sometimes the policies that are not adopted are just as important as those that are. Small businesses are struggling and there are significant additional changes unrelated to the COVID pandemic that they must implement in the coming months in the form of mandatory paid family and medical leave begins and an increase in the minimum wage. Policymakers should avoid adding to the list by avoiding policies that will raise their costs, make hiring more difficult, or otherwise harm their ability to do business in Massachusetts.