

The Coming Crisis of Entrepreneurship

By James M. Trutko

Just a few months ago in Crain's March 15 issue, I was celebrating the fact that Cuyahoga County seemed to have broken out of a decadelong period of economic stagnation that followed the 2008 recession. Cuyahoga County was experiencing annual job growth of more than 8,000, a rate not seen since 1998, and unemployment had decreased to the lowest level since 2002.

In a few short weeks, COVID-19 and the economic lockdown wiped out these gains. From February to April, unemployment in Cuyahoga County tripled from about 30,000 to almost 100,000, employment decreased by around 100,000, and 30,000 or more people dropped out of the workforce.

The impact of the virus and lockdown on local employers is harder to gauge because there is less current data available. Heading into the shutdown, the total number of establishments in Cuyahoga County had grown to more than 36,000, the highest level in a decade. After suffering a severe loss of more than 3,400 businesses from 2001 to 2014, Cuyahoga County was enjoying a modest five-year growth of about 175 establishments per year, which suggested starts were exceeding closures by 0.5% per year. It's worth noting that small changes in business openings and closings drive change. In an average year, about 3,500, or 10%, of businesses fail and a similar number, about 10%, of new businesses take their place. Thus, a 1% change in the start or stop rate represents about 350 businesses.

Based on anecdotal data and media reports, it's realistic to expect a significant negative shift in this delicate balance as more marginal businesses call it quits and fewer entrepreneurs launch new businesses in this uncertain environment. If, for example, 3% more businesses fail and 3% fewer businesses are launched this year, Cuyahoga County would have nearly 1,700 fewer businesses the next year and over 30,000 fewer available jobs. It's not too early to ask Cuyahoga County political and community leaders to develop a plan to deal with a severe unemployment problem intensified by a dearth of entrepreneurial ventures.

To date, national, state and local approaches have focused on lending businesses money to cover payroll and other expenses and giving workers money to maintain aggregate consumer spending. Government lending and giveaways are stopgap solutions that buy time and minimize suffering, but a comprehensive approach is needed to create a climate that restores entrepreneurial vitality and economic opportunity in Cuyahoga County.

Local leaders should begin by viewing the problem through the lens of a typical small business owner. For many small businesses, the startup after the lockdown will require organizing and mobilizing new financial, labor and material resources in the face of uncertain customer demand and greater risk. The best thing local government can do to help private sector businesses adjust to these new circumstances is to create a secure, orderly and predictable environment and to avoid a massive, expensive and disruptive burst of new initiatives aimed at solving unemployment or other difficult social problems. Stability, predictability and clear communication of a steady, dependable approach will do much to reassure existing small business owners as well as those who might be considering launching a new business venture.

Leaders need to adopt a small business perspective, especially when it comes to how small businesses view workers, because restoring entrepreneurial growth is an essential precondition to reducing unemployment. The average small business person does not set up a business simply to hire workers. Instead, the number and kinds of workers a small business needs are determined by the market — what customers want, need and are willing to pay for, along with the technology available to meet customer needs. Coming out of this pandemic, handling employees will be more challenging for small businesses since work processes may change a lot. For example, employees likely will be making more demands for safety and working from home, regardless of what employers want.

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In this uncertain environment, leaders should realize that this is not the time for an equity drive. There's no doubt that the economic consequences of the pandemic fell heavily on the poor, vulnerable and working people. However, leaders should understand that many entrepreneurs and small business owners suffered significant and irretrievable losses during the pandemic, too. If the goal is to get the most people hired as quickly as possible, local governments should avoid all measures that make it more difficult or expensive to hire workers and to refrain from making comments that disparage business owners. Ultimately, it's simply a practical fact in a high-risk environment: Most people will not start the businesses that will eventually hire workers if they feel government will devalue their sacrifices and redistribute any potential rewards to the workers.

Second, political and community leaders should realize that the pandemic has irretrievably destroyed a portion of society's wealth. That wealth is lost, not hidden somewhere in a cave or bank account. The lockdown damaged the financial capacity of all levels of government, so any help from the state or federal government is likely to be minimal. Businesses have lost customers' revenue and individuals have lost income so local tax revenues will be weak and voters will have little appetite for tax increases. Now is a good time to demand better performance from existing employees, trimming of nonessential functions, less regulation, more innovation and an overall focus on the more efficient delivery of public services.

It's hardly fair or reasonable to expect business owners and workers to struggle in a difficult environment and pay taxes without asking government to change and give maximum value for the money spent. Demanding more from government would have a huge impact on the poor and most vulnerable in society. About 40% of the Cuyahoga County government budget, for example, is spent on health and human services. To ensure accountability and better services to the poor, county government should develop meaningful metrics that measure the quantity and quality of public services for the most vulnerable and needy members. Society asked health workers and first responders to deal with the pandemic, scientists to develop treatments and a vaccine, business owners to shut down and workers to lose income. It is not unreasonable to ask local government to figure out how to do better for about the same amount of money.

Third, political and community leaders should adjust their vision of the community's future to include many commonplace values and traditions. The pandemic has shown the weaknesses of the urban expert's vision of a high-density, environmentally sustainable city with much zoning regulation and dependence on public transit. There is value in a diversity of homes and living styles, spread out over a moderate landscape tied together by private transportation. In a "true emergency," it turns out that many aspects of lifestyle that are taken for granted are really important, such as the mundane and ordinary jobs that maintain our lifestyle. A pandemic that disrupts normal life brings home the importance of a trusted circle of family and friends, schools and libraries, social and religious activities, and leisure and recreational activities that are part of normal daily life. But new technologies and adaptations, many of which are enjoyable as well as convenient, will linger on and might seed new business ideas and ventures.

The goal should be a healthy, prosperous and safe city with well-functioning and efficient services at a reasonable cost. Our resiliency depends on having measurable objectives; rational, rigorous cost-benefit analysis to make the best use of scarce resources; and transparency about the use of those resources. And an entrepreneurial mindset — whether is it about starting a new business, maintaining an existing business or thinking about how to get more from every tax dollar as an entrepreneurial government employee — will be key to returning our cities and states to prosperity.

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