



Is it as hard to start a business as Trump says?

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While signing an executive order Monday, President Trump declared that it was “now almost impossible” to start a small business given federal rules and regulations.

Roughly 679,000 entrepreneurs may disagree. That is the number of new businesses that were created in the 12-month period between March, 2014 to March, 2015, according to data from the Department of Labor.

In fact, other than a small dip in 2013, the number of businesses newly created has risen steadily since 2010, when the entrepreneurial economy bottomed out following the financial crisis. Joining the ranks of first-time business owners are more women – particularly among African American women – and Millennials.

Business owners, chamber of commerce lobbyists and Republican lawmakers insist that rules and regulations and costs to comply with them – including licensing requirements, inspections, disclosure forms, guidance on work performance -- inhibit entrepreneurs looking to start a nail salon or the next Google. And Trump has said for months that they will have his ear.

Surrounded by small business owners, Trump signed an executive order Monday that will require agencies cut two existing regulations for every new rule introduced. The order also sets a cap on the cost of new regulations.

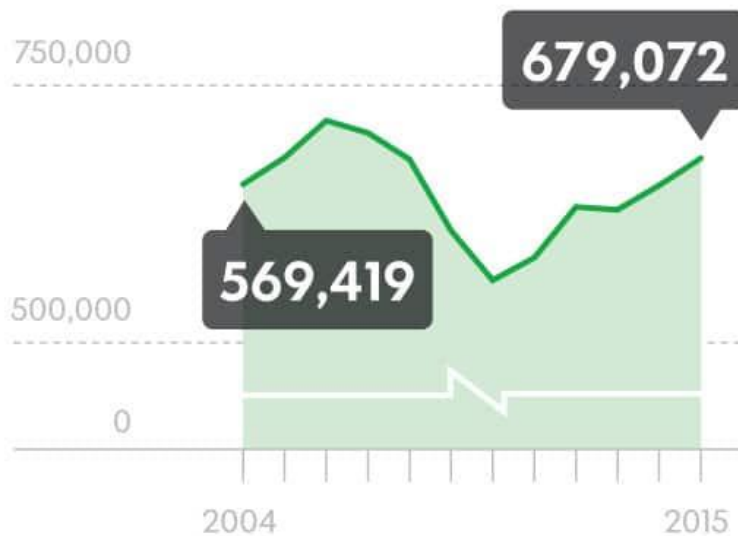
“An unelected fourth branch of government—the regulatory branch—is holding our small business sector back while imposing unnecessary costs on larger companies too,” U.S. Chamber of Commerce CEO Thomas Donohue said in a speech earlier this month.

Several studies have sought to calculate the financial cost of regulatory compliance. Federal regulations cost small firms – fewer than 50 employees -- \$11,724 per employee, according to a 2014 study by the National Association of Manufacturers.

Still, empirical evidence that regulations inhibit business creation is difficult to find, says Wes David Sine, professor of entrepreneurship at Cornell University. “I think it’s true that anytime you put a speed bump on the road, cars will go slow,” he said. “But for people who are driven with great ideas, (regulations) are probably not going to stop them.”

SMALL BUSINESS CREATION

Number of U.S. business establishments less than one-year-old:



NOTE Figures are for March 2004–March 2015

SOURCE Bureau of Labor Statistics

KARL GELLES, USA TODAY

USA TODAY

The pattern of business creation generally mirrors the economic cycle. The steep drop in newly created businesses, starting 2007, reflects the tightening of the credit market and the impending financial crisis that erupted a year later.

The rebounding but sluggish numbers posted in years after 2008 also underscore the lack of capital available for entrepreneurs, says Aaron Klein, policy director of the Center on Regulation and Markets at the Brookings Institution. “Most new businesses’ capital comes from savings, home equity and credit cards,” he says. “Banks rarely lend loans to entities not already in business. The financial crisis hit savings and home equity.”

Thaya Brook Knight, associate director of financial regulation studies at the Cato Institute, says financial technology, particularly in peer-to-peer lending and direct loan marketplaces online, has helped entrepreneurs rebound from the depth of the credit crunch after the crisis. “That was huge,” she says.

Still she notes that the rate of new business creation still lags the levels seen from 2005 to 2007. “That doesn’t give me a lot of confidence,” she says, adding unemployed individuals striking out on their own account for some growth. “I still don’t feel like they’re great, robust numbers.”

Nail salons, sandwich shops and food trucks, while perhaps enhancing the livelihood of owners, don’t significantly move the needle in the labor market, Cornell’s Sine says. “It’s the Googles, IBMs and Medtronics that really generate jobs,” he says.

Also unaccounted for in official studies is the market for informal jobs – day laborers, contractors and maids who operate businesses without ever registering. The burdens associated with regulations may inhibit them from “jumping over” to being registered businesses, he says.

"A conversation about how to make it easier to start a new business is a worthwhile one for America to have," Klein says. "That's not the conversation the president had today."