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Perspective

EXPERT INSIGHTS ON A TIMELY POLICY ISSUE

C. RICHARD NEU, DIANA GEHLHAUS, HOWARD J. SHATZ

Preserving Small Businesses

Small-Business Owners Speak About Surviving the COVID-19 Pandemic

Small businesses are important to the U.S. economy.[1] In 2017 (the latest year for which data are available), enterprises with fewer than 20 employees accounted for 16.4 percent of U.S. total employment and 12.2 percent of total payrolls.[2] Enterprises with fewer than 500 employees accounted for 47.0 percent of employment and 40.3 percent of payrolls.

Less easily quantified but equally important is the role that small businesses play in creating and sustaining the character and vitality of local communities. Both physically and socially, small businesses constitute an essential part of the "streetscape" of their communities.

Our principal aim in this Perspective is to provide a preliminary understanding of the challenges that these businesses are facing as a result of the global coronavirus disease 2019 (COVID-19) pandemic. Using this understanding, we provide a preliminary description of what kinds of policies will help them to survive.[3]

Existence can be precarious for small businesses, even in the best of times. For example, in 2016 (the latest year for which these data are available) the "exit

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rate" —that is, the rate at which establishments cease operations—for business establishments with fewer than 20 employees was 9.9 percent. For establishments with fewer than 500 employees, the exit rate was 8.6 percent.[4]

Frequently, small businesses hold limited cash reserves.[5] Typically, they do not enjoy easy access to credit or capital markets.[6] A temporary reversal or business interruption can spell the end of a small business. Not surprisingly, therefore, the restrictions that many jurisdictions put in place in 2020 to combat the spread of the pandemic—requirements for social distancing, stay-at-home orders, and mandatory business closures—have been problematic for many small businesses.

Recognizing the particular difficulties that small businesses face and the important community role that they play, the U.S. federal government instituted several programs aimed specifically at aiding small businesses during the pandemic. State and municipal governments and some private companies and foundations have adopted similar measures. The challenges resulting from the COVID-19 pandemic will not pass quickly, and government policies for assisting small businesses and managing a return to some version of normal business continue to evolve. Therefore, RAND set out to understand better these challenges.

As a first step toward this objective, we undertook a series of conversations with small-business owners in different parts of the United States in the spring of 2020. We wanted to hear how the pandemic is affecting their businesses; what they see as the biggest threats to their continued operations; what assistance they have been able to access; and, most important, what they will need for their organizations to thrive once the immediate public-health crisis has passed. We think that consideration of what small-business owners say they need should help inform deliberations about how to make assistance and recovery policies more effective.

Time was of the essence, and we needed to move quickly if we were to gain insights that would be useful in a quickly evolving policy environment. In the time available, we were able to speak with 21 business owners in a variety of sectors: restaurants, small retail shops, specialty grocers, business-support and advisory organizations, small amusement parks, a hair salon, a yoga studio, a specialty manufacturer, an outdoor recreation company, and a painting contractor.[7]

Most of our interlocutors were on the East and West coasts—in Southern California; the Washington, D.C., metro area; New Jersey; and North Carolina. Another cluster

Abbreviations

CARES Act	Coronavirus Aid, Relief, and Economic Security Act
COVID-19	coronavirus disease 2019
EIDL	Economic Injury Disaster Loan
ERC	employee retention credit
FPUC	Federal Pandemic Unemployment Compensation
PEUC	Pandemic Emergency Unemployment Compensation
PPP	Paycheck Protection Program
PUA	Pandemic Unemployment Assistance
SBA	Small Business Administration
UC	unemployment compensation

was located in Colorado. We found these individuals initially through personal connections; they were people who knew and trusted RAND researchers. At the end of each conversation, we asked for suggestions about other small-business owners who might have useful insights and be willing to speak with us. The businesses run by these owners ranged widely in size—from two employees to 350. Some of these businesses were less than two years old, but one had been in operation in one form or another for more than a century.

The views of those with whom we talked—or of business owners in general—are not the only views that are or should be important to policymaking in response to the COVID-19 pandemic. Workers in these small businesses are also affected, in many cases more harshly than the owners. Building owners and landlords who rent space to small-business owners face a variety of challenges. Similarly, state, county, and municipal officials must find ways to maintain essential services in the face of declining tax revenues. Social services agencies are also bearing heavier burdens during this crisis.

Because of the limited time and resources available to us, we opted to begin our exploration of the pandemic's consequences by seeking out and speaking with business owners, but our exploration should not end there. A fully developed understanding of the situation and resulting policy response should incorporate other views. We chose to report what we heard from this initial group as input for current policymaking—waiting to report additional views would allow us to paint a fuller picture, but that picture might come too late to be useful.

The small group of owners with whom we spoke—located in select geographical areas, and managing businesses in a handful of sectors—is far from representative of the vast range of U.S. small businesses.[8] Nonetheless, we heard about a variety of experiences and challenges, along with ideas for making assistance programs more effective.

What We Heard from Small-Business Owners

The comments we elicited from 21 owners of small businesses generally fell into two broad categories: how businesses can survive during commercial and social restrictions, and how they can return to normal operations once the restrictions are lifted. Most owners said they were willing to be named or have their businesses identified. Some, however, requested anonymity. For simplicity, we avoid characterizing any of the owners or their businesses in ways that would allow their identities to be inferred.

Keeping Businesses Alive in the Near Term

Our interviewees reported varying challenges (and in one case, an opportunity) as they sought to keep their businesses going. For some owners, the COVID-19 pandemic—or, more accurately, stay-at-home orders, requirements for social distancing, and mandated business closures occasioned by the pandemic—has resulted in sharp reductions in revenue and constitutes an existential threat to their businesses. Others are experimenting with new styles of operations to preserve at least some revenue: restaurants offering limited menus for curbside pickup, for example, and retailers trying to increase online business. In one particularly innovative arrangement, a small retailer teamed up with a local restaurant to supply puzzles and games in conjunction with takeout meals for family "game nights." A few owners could afford to shutter their businesses temporarily and still be ready to restart when conditions allowed. A small specialty grocer reported a modest increase in revenue as patrons deprived of restaurant meals are buying more delicacies to enjoy at home.

Many of our discussions focused on a new small-business relief program known as the Paycheck Protection Program (PPP), explained below, because this program has been the main assistance program offered to small businesses during the pandemic. However, as will be seen, other forms of assistance also could be of value.

What's Needed Most: Support for Fixed Operating Costs

By far, the most common concern we heard was a need for assistance in covering fixed operating costs—rent and mortgage payments most prominently, but also utilities and insurance. Inability to cover these costs was the leading existential challenge that our interviewees faced.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 established the PPP (see Box 1), the largest federal government program for assisting small businesses during the pandemic. As the name of this program suggests, its principal aim is to allow companies to keep workers on their payrolls. To that end, the program makes low-interest loans to businesses, with a maximum loan amount of 2.5 times the firm's pre-pandemic monthly payroll. The loan will be forgiven—that is, it will be converted into a grant—if the borrower can document that 75 percent of the loan proceeds were spent on wages and benefits for workers during the eight weeks immediately after the loan was disbursed. This provides an incentive for companies to keep workers on the payroll. But it also means that no more than 25 percent of the loan amount is available to pay nonlabor operating costs.

Box 1
The Paycheck Protection Program

The CARES Act authorizes the Small Business Administration (SBA) to guarantee loans made by commercial banks to businesses with fewer than 500 employees. (In certain cases, larger businesses are also eligible.) For-profit businesses, not-for-profit businesses, independent contractors, and self-employed workers are eligible for PPP loans. These loans have maturities of two years and carry an interest rate of 1 percent. Loan payments are deferred for six months. The maximum loan amount is 2.5 times the borrowing company's average monthly payroll, including benefits but excluding compensation above $100,000 for any employee.

Loans will be forgiven to the extent that loan proceeds are spent on payroll, rent, mortgage interest, or utilities during the eight weeks following disbursement of the loan. At least 75 percent of the forgiven amount must have been spent on payroll.

The CARES Act initially authorized a program level of $349 billion for the PPP. Demand for these loans was very high, and available funds were exhausted within days of the program's launch. An additional $310 billion was authorized a few weeks later. The general and financial press carried many stories of delays in processing loan applications, confusion about application procedures, and allocation of loans to seemingly inappropriate borrowers.[a]

[a] For just one such story, see Stacey and Noonan, 2020.
For program details, see U.S. Small Business Administration, 2020.

Almost all our interviewees reported renting their principal business premises; one owned the business premises and was making mortgage payments. None said that the residual 25 percent of their PPP loan amount would be sufficient to cover rent, mortgage payments, utilities, and insurance, even for two months.[9] "I pay $20,000 a month for rent," said one D.C.-based store owner. A specialty shop owner based in Arlington, Virginia, lamented that the PPP "is throwing crumbs at a hungry bear." Some business owners had been able to negotiate deferrals of rent or mortgage payments. In other cases, jurisdictions have, in effect, forced landlords to accept deferrals by instituting no-eviction rules, such as a measure approved by the Washington, D.C., Council in March.[10] In all cases, however, costs continued to accrue; eventually the owners will have to make good on the deferred amounts.

Most also expressed concern about the welfare of their workers.[11] Some owners said that they had dug into their own pockets to continue to pay workers even when there was little or no work to be done and before receiving any assistance from government programs. Ultimately, wages are a variable cost, especially in the structure of the U.S. labor market. Reducing labor costs can help a business survive during a period of zero or reduced revenues. In contrast, rent, mortgage servicing, utilities, and insurance typically must be paid even if the business is not operating.[12] One small manufacturer noted that even if he were to close his business temporarily, he would still face payments not only for rent and debt service but also for supplies that he had ordered. Even with forbearance on the part of landlords, the eventual need to pay deferred rent will constitute a threat to owners' efforts to restart their businesses in the post-pandemic environment. The business owners with whom we spoke recognized that the primary legislative motivation for the PPP is to keep workers on the payroll. But without support for fixed operating costs, we heard repeatedly, many small businesses cannot survive. And if these businesses die, their payrolls necessarily die with them.[13]

Difficulties in Accessing PPP Assistance

We heard considerable criticism of the PPP—mostly alleging a lack of transparency about how applications were accepted and processed. One business owner told us that his business had to apply three times to get it right. "It's obvious it was a goat rodeo," the owner said.

The program is administered principally by banks and other private financial institutions. Small businesses apply to banks for loans; banks process applications and disburse approved loan amounts. According to our interlocutors, the SBA was slow to provide detailed regulations and guidance for both borrowers and banks. Banks were often unprepared to accept applications, did not know program rules, were overwhelmed by the initial volume of applications—and in some cases, refused to accept applications. Websites for submitting applications repeatedly crashed. Potential applicants could not get clear answers to questions about the program, and business owners who submitted applications sometimes heard nothing from banks.

Most of our interviewees had applied for PPP loans, but only about half succeeded in getting them before the initial allocation of funding was exhausted. Some owners said they submitted applications on the very first day of the program but were unsuccessful and received no explanations about why—they reported that after a few days, they received notices saying simply that no further funds were available. (Almost all of our conversations took place before the second allocation of funding for the program was authorized. We do not know how many of the unsuccessful applicants in the first round succeeded after new funding was available.)

Our sample of businesses was too small to support any inferences about the relative efficiency of different types of banks in processing applications. Nonetheless, our interviewees offered generalizations from their own observations. Some owners said that big, nationwide banks were generally unsympathetic and unresponsive to smaller applicants, preferring to deal with larger businesses whose loans would generate larger fees for the banks. The best way to get a PPP loan, several owners opined, was to deal with a local community bank, ideally one with which the applicant had a long-standing business relationship.[14]

On a positive note, most of the owners reported that the tasks of filling out the loan application itself and gathering necessary supporting documents were generally straightforward. Most reported being able to file the necessary documents without the assistance of an accountant or financial adviser. Having someone explain what was necessary proved helpful, but with this basic information in hand, they said, the process was not arduous. As one of our interlocutors put it, "It was like changing your own oil for the first time."

We heard one anecdote that suggested that application policies and procedures were applied unevenly and that having influential friends proved helpful. A small retailer in the D.C. metro area tried to apply for a PPP loan from a large, national bank. Initially, the bank refused to accept applications. She subsequently received an email saying that she could in fact apply. That application was rejected, without explanation. She mentioned her frustration to a member of Congress whom she knew socially. Within a few days, she was informed by email that her application had been approved and she received a loan agreement to sign. Four days after that, she received her money. Never in the entire process, she reported, had she actually spoken with anyone from the bank.

One Size Does Not Fit All

The general problem of inflexibility in how PPP loan amounts can be spent if loans are to be forgiven is greater for businesses that have few direct employees (sometimes called W-2 employees) relative to the size of their operations.[15] One specialty retailer, for example, provided display space for some 60 local artisans who worked as independent contractors, paying fees to rent the display space and sharing a portion of their total sales revenue with the shop owner. When the shop, classified as a nonessential business, was forced to close, this revenue stream dried up. The shop owner had only two regular employees and consequently was eligible for only a small PPP loan. The amount available for her to pay rent on her showroom premises was only a quarter of this already small amount and nowhere near what she needed to maintain the large showroom. In this case, more flexibility on the allowable uses of PPP loans would have been very welcome.

What Is Best for Workers?

Some business owners reported that they faced a dilemma in trying to assist their workers as restrictions on their businesses began to bite: Should they keep workers on the payroll, at least for a time, or should they lay workers off, thereby allowing the workers to qualify for unemployment insurance benefits?

The issue arises because the CARES Act authorized a temporary enhancement of unemployment compensation, adding a federal supplement of $600 per week to regular unemployment compensation for each beneficiary (see Box 2). This supplement is scheduled to expire July 31, 2020. Many employees of small businesses are paid relatively little, and the weekly supplement can constitute a significant percentage increase in total benefits. (For some workers, the enhanced unemployment compensation can actually be greater than what they were earning before they were laid off.[16])

The issue faced by employers is that keeping workers on the payroll during the April–July period will deprive workers of the opportunity to earn these enhanced benefits during at least a part of the limited period when they are available. One of our interlocutors explained that when his restaurant had to close and while his application for PPP funding (unsuccessful at the time of our conversation) was pending, he decided to furlough all his workers. "It was good for the workers and good for the business," he said. Ironically, very large numbers of workers filing first-time claims for unemployment benefits have overwhelmed state agencies accustomed to handling much smaller volumes, and some laid-off workers have faced delays in receiving benefits. One restaurant owner who had laid off his workers four weeks earlier told us that none of these workers had yet received unemployment compensation. In contrast, we also heard from another restaurant owner who had gotten wind of the local jurisdiction's plan to order closures and laid off the restaurant's workers a few days in advance so they could avoid the rush at the unemployment insurance office.

Box 2
Unemployment Benefits in the CARES Act

The CARES Act has three provisions for expanded unemployment compensation. The first, Federal Pandemic Unemployment Compensation (FPUC), is a $600-per-week federal supplement to regular unemployment compensation (UC). FPUC is available for individuals collecting UC starting from the date their state signed an agreement with the U.S. Department of Labor through July 31, 2020. It is administered by states alongside UC.

The second, Pandemic Emergency Unemployment Compensation (PEUC), allows states to extend traditional UC benefits for an additional 13 weeks.

The third, Pandemic Unemployment Assistance (PUA), is available for individuals who are unemployed but not eligible for regular UC (e.g., self-employed, employed part-time). Individuals eligible for PUA can receive benefits for up to 39 weeks through December 31, 2020. Individuals who have exhausted UC and PEUC benefits can claim PUA to receive up to 39 weeks of unemployment support.

FPUC is also available to individuals receiving PEUC and PUA. Similar to UC, the exact amount of PEUC and PUA compensation filers are eligible for is determined by state policies.

For more details on the unemployment provisions contained in the CARES Act, see U.S. Department of Labor, undated.

More-Flexible Sources of Assistance Are in Short Supply, Hard to Get

Our interviewees reported that they were looking aggressively for sources of financial assistance beyond the PPP. Because a big piece of PPP loans is earmarked for labor costs (if the loan is to be forgiven), they were particularly interested in financial aid with fewer restrictions on how it can be spent.

The CARES Act authorized a new assistance vehicle from the SBA called the Economic Injury Disaster Loan (EIDL) Advance. Small businesses (for-profit and not-for-profit) can apply for a modest advance ($10,000 maximum) that can be used for any operating expense. This advance does not have to be repaid.

Not surprisingly, there was considerable interest in the EIDL Advance among those we interviewed. This is, after all, effectively free money that can be used for a variety of purposes. More than half of the owners reported applying for an EIDL Advance. Only two succeeded in getting advances, however.

The principal obstacle to getting this assistance, it appears, was that SBA was overwhelmed with applications. In contrast with applications for PPP loans, which were processed through thousands of banks, EIDL applications had to be submitted to and processed by SBA regional offices. A second problem quickly emerged: Authorized funding for EIDL Advances had been exhausted. Most of our interlocutors who applied for advances reported receiving acknowledgments of their applications but nothing more. Funding for EIDL Advances has been restored, but as of mid-May 2020, SBA has resumed processing applications only for agricultural businesses.

Prior to the COVID-19 pandemic, an EIDL—different from the EIDL Advance—from SBA was the primary source of aid for small businesses facing hardship because of a natural disaster (see Box 3). Traditional EIDLs were less attractive to business owners than EIDL Advances because EIDLs must be repaid and carry interest rates

Box 3
Economic Injury Disaster Loans

Under the terms of the CARES Act, small businesses adversely affected by the COVID-19 pandemic are eligible to receive EIDL Advances. These advances can be as large as $10,000. They do not have to be repaid.

Confusing the nomenclature of assistance programs somewhat, the SBA also provides disaster relief loans to small businesses (for-profit and not-for-profit) with fewer than 500 employees through the EIDL program. (As with PPP loans, certain businesses with 500 employees or more are also eligible.) This program predates the COVID-19 pandemic. Small businesses in federally designated disaster areas are eligible for these loans. Because the entire nation has been designated a disaster area during the COVID-19 pandemic, all small businesses negatively affected by the pandemic are eligible for this traditional EIDL program. Loans can be for up to $2 million and can have maturities of up to 30 years. Interest rates are 3.75 percent for for-profit businesses and 2.75 percent for not-for-profits. Loan proceeds can be used for any business operating expenses, and there is no commitment to maintain particular employment levels. Traditional EIDLs are not forgivable.

For more details, see U.S. Small Business Administration, undated.

of 3.75 percent for for-profit businesses (2.75 percent for not-for-profits). Most of our interlocutors wished to avoid taking on additional financial obligations. Only one of our interlocutors reported taking a traditional EIDL.

Our interviewees also reported applying for assistance from a variety of programs created and funded by states, municipalities, business districts, local foundations, and—in some cases—large private companies. Applications to these programs are generally restricted to small businesses operating in specific geographical areas (e.g., within the city boundaries or in a specified downtown business district), and such programs are not available in all areas. The amounts of assistance available through these programs are typically small. (For a fairly typical example, see Box 4.) Application procedures are usually simple; consequently, application volumes are heavy. One such program in Colorado reported receiving 500 applications for the 25 grants the program was able to award. Few of our interlocutors reported success in getting assistance from any of these specialized programs and some noted the dearth in support from their localities.

Many owners expressed frustration about the difficulty of understanding government programs being created and regulations being written, it sometimes seemed, in real time. One restaurant group spent a week preparing nine applications, only to receive last-minute Treasury guidance that forced the group to redo all of the work. Others complained about getting no response to applications for assistance and wondered why bankers or government officials sometimes seemed to be ignoring them. “Nothing. Not even a decline. Don’t even know if it was submitted,” said an owner of a small luncheonette.

Box 4
Assistance for Small Businesses in Los Angeles, California

The Los Angeles City Small Business Emergency Microloan Program makes loans to for-profit and tax-exempt businesses with 100 or fewer employees and a primary business location in the City of Los Angeles. To be eligible for a loan, a business must have been “negatively impacted by the COVID-19 outbreak” and owners must agree to “make their best effort to continue or re-establish their business operations and employees.” Loan proceeds must be used for working capital. Loan amounts are between $5,000 and $20,000. Loan maturities range from 18 months to five years, with no prepayment penalty. Interest rates are 0 percent for terms up to 18 months, with repayment deferred for up to six months. Loans for longer terms carry higher interest rates: 2 percent for tax-exempt businesses for terms up to five years, with repayment deferred for up to 12 months; and 3 percent for for-profit businesses for terms up to five years, with repayment deferred for up to 12 months.[a]

The Los Angeles County Employer Assistance Grant Fund makes grants to small businesses (two to 50 employees) that can demonstrate “significant economic hardship as a result of COVID-19.” Grants can be as large as $10,000 and can be used for operating costs, rent, mortgage payments, utilities, or inventory. This program is extremely limited. Total available funds are only $500,000.[b]

[a] For more details, see Los Angeles Economic and Workforce Development Department, 2020.

[b] For more details, see Los Angeles County Workforce Development, Aging, and Community Services, undated.

A Particular Sore Point: Business-Interruption Insurance

About half of our interviewees carried business-interruption insurance. None of them had succeeded in collecting on a claim for the interruption of their business during mandated business closures and restrictions on business operations. Most business-interruption insurance policies contain clauses (with varying degrees of specificity) excluding coverage of losses due to viruses, bacteria, or microorganisms. The existence of such clauses came as a surprise to many of our interlocutors; they had never had any reason to inquire into coverage for such events. They were not happy about being denied coverage; at least one of our interlocutors vowed to fight his insurance company on the matter.

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He will not be alone. In late April 2020, an iconic Hollywood restaurant, Musso & Frank Grill, filed suit in Los Angeles federal court demanding that its insurance company cover the losses incurred by the restaurant when it had to close its in-house dining operations. The case is interesting, in part, because the restaurant argues that its losses were not caused by the virus; rather, the suit alleges that the proximate cause of these losses was a government order, which is covered by the policy.[17]

The outcome of this case could have important consequences for the insurance industry and perhaps for the availability and price of business insurance more generally. A broader policy issue lies behind the question of how to insure businesses against losses of the sort that they are exposed to by the COVID-19 pandemic and the measures that governments adopt to counter it. A recent RAND commentary provides further discussion of this matter, including the possibility of creating a government backstop for insurers in such circumstances.[18]

Supply Chain Concerns

Most of the business owners with whom we talked were not experiencing supply chain problems yet—but some were, and more were concerned about the future. Among those already experiencing problems was the owner of a puzzle and games store, who noted that most of the store's distributors were closed and the few that were open were running out of product because of increased demand, presumably from homebound people coping with closure orders. The owner of a restaurant group that has remained partially open noted that it has been difficult and expensive to get personal protective equipment for employees.

Among those concerned about the future was a small manufacturer who makes a specialty consumer product. He said he relies on inputs that can be sourced only from Europe, but he does not know if the factories that make those inputs are still operating. One input he sources from China made it to the Port of New York and New Jersey, but the U.S. distribution warehouse was closed, so he did not know when he would receive it. The owner of an ethnic restaurant that sources food from Asia said there is limited competition among suppliers and if they have problems, the restaurant will have problems. “The learning curve with new vendors will be expensive and time-consuming,” the owner said. “It might be impossible to replace some vendors,” in which case the owner will have to change the restaurant’s entire concept.

Anxiety

We cannot conclude a discussion of how small-business owners are working to keep their companies alive during the COVID-19 pandemic without noting the psychic toll that the crisis is having on them. Two things are apparent from our conversations.

The first is that these individuals are, almost by definition, enterprising people—resourceful, persistent, not afraid of a challenge. Without these characteristics, they would not be business owners. They are doing their best to cope with a difficult situation. They have not given up. This, too, is almost a matter of definition. If they had already quit, we would not have found them.

But in our conversations, we also heard serious concern about an unpredictable and fast-changing environment. Several were worried about the future. “[E]conomic destruction is only now percolating,” said one small manufacturer, noting the “worst days are ahead.” Another small-business owner told us, “The future is terrifying.”

Some of these owners said the businesses that they had spent years building are now very much on the line, and lamented the very real limits in the support and prioritization they were receiving. “We’re low on the totem pole. [The state is] worried about their citizens, their revenue, and then their businesses. They don’t want to let people go because it’s government. Businesses are low,” one owner said. Another expressed frustration “that state and local response has been so disappointing in terms of financial assistance. D.C. is a rich city. We pay an immense amount of taxes. But then when we need help, there’s been nothing.”

Owners across industries also worried about their workers—their health and their livelihoods. Noted one restaurant owner about his decision to close all operations temporarily: “If something had happened [to employees because of COVID], I’d feel awful forever. It’s not worth the money. I didn’t want to take the risk.”

The business owners we encountered are resilient but stressed by the situation. “The longer this goes on, we could lose everything,” said one family-run restaurant owner, while an interlocutor from a small food service company observed “If not operational by June 1, we will close.”

Many other people—not least small-business employees—are also under severe stress because of mandated closures, restrictions on business activities, associated layoffs, and financial losses. We do not suggest that small-business owners are under any greater stress than anyone else during the pandemic. The level of anxiety that came through in our conversations was nonetheless notable.

Returning to Normal Business Operations

Although those small-business owners with whom we spoke were concerned primarily with keeping their businesses alive and functioning at some level during periods of stay-at-home orders, mandatory closures, and restrictions on operations, most were already thinking about the future—how they might reopen their business or return to something like pre-pandemic operations. Views about the future were mixed. Some owners expected generally smooth returns to normal operations, perhaps after a transition during which restrictions would be gradually eased. Others had not yet been able to see a clear path to normalcy, citing uncertainties about future requirements and conditions. Said one food-service business owner, "We need more information on what is expected from us in food service. Is a health inspector coming by? Do we have to wear masks? Can we reuse cooler bags?"

This Will Not Be Over Soon

All our interviewees expressed uncertainty about the conditions they will face in the near future. Even in states where some restrictions were scheduled to be relaxed within a couple of weeks, owners were under no illusions that they would quickly be able to resume operating as they had pre-pandemic. They might have to limit the number of patrons in their establishments. Their employees or customers might have to wear face coverings. Customers might not feel comfortable going out or mixing with other people, or they might have gotten out of the habit of shopping in person. The effects of the economic downturn resulting from stay-at-home orders and widespread unemployment might linger for months, depressing disposable income and general levels of economic activity. Some workers might not be willing to return to work because they (or, in the case of younger workers, their parents) have fears for their safety. Relationships with suppliers might have to be rebuilt; in some cases, suppliers that have gone out of business will have to be replaced. Working capital will be needed to rebuild inventories or to pay workers in advance of payment for services.

Business owners noted that getting back to "business as usual" will take more than a simple executive order from a governor. Most of our interlocutors recognized that it will likely be a matter of months before they understand how they will have to operate, how long they will have to pursue modified business practices, and whether their businesses will be viable in a future business environment they can see only dimly at present.

A common hope was that details would begin to emerge soon regarding social distancing standards, maximum occupancy of business spaces, frequency of cleaning, and other health and safety measures that might be required during a transition to normal business operations. Without a sense of the costs of doing business in the post-pandemic world, several business owners told us, it will be impossible to determine whether their businesses can be viable in the longer run. "If I have to lose money for a couple of months, that's okay," a restaurant owner told us. "But I have to see a way forward."

The prospect of prolonged uncertainty and only gradual ramping up of operations led some to criticize the terms of the PPP. As already discussed, PPP loan forgiveness requires that 75 percent of the loan amount be spent on payroll during the eight weeks immediately following disbursement of the loan. For those who received PPP loans when the program was first launched in early April, this eight-week period will end sometime in early June. But few saw their businesses back in full operation with a need for all of their previous employees that quickly. The loan can be used to pay employees for eight weeks, some noted, but what then? If business does not rebound as quickly as owners hope, they could have to lay off some or all of the workers after those eight weeks end. In the process, owners might have used up scarce reserves and deprived workers of the opportunity to collect two months of enhanced unemployment benefits that will expire soon. In the view of these business owners, the time lines built into the PPP are simply too optimistic and too inflexible. Is it not possible, they asked, to give them more time to spend the PPP amount on payroll?

Concerns About Worker Safety

Virtually all our interviewees expressed concern about the safety of their workers as limitations on business operations are lifted. These owners communicated a moral responsibility to keep their workers safe. One restaurant owner was succeeding at shifting toward all takeout but realized that there was no way to provide a safe environment in the restaurant's tight kitchen space and so shut down. A few also mentioned concerns about a legal responsibility to provide a safe workplace.

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The novel coronavirus will still be around months from now (and possibly longer), and all of the owners were struggling to identify practical steps to protect workers in unprecedented circumstances. Some expected mandated or self-imposed limitations on the number of customers in their establishments at one time, for example. Some noted that it might be possible to install physical barriers between customers and staff. But others pointed out the impossibility in their businesses of maintaining social distance while serving customers. "You can't cut hair from six feet away," the owner of a salon noted. A restaurant owner noted the impossibility of maintaining distance among staff in a crowded kitchen. Another noted that the restaurant might not survive if the number of people

We heard an additional concern about rehiring workers whose skills are easily transferrable from one establishment to another.

it could host was limited by distancing rules: “Is it even worth it with reduced capacity?” Most owners said they expected face coverings to be a part of everyday life for some time to come, but they recognized the practical limits of such measures. “I can require my employees to wear face coverings,” one restaurant owner pointed out, “but diners can’t wear masks.” And all interviewees recognized that they exercise almost no control over who comes into their establishments. “Am I supposed to hire a nurse to check temperatures as customers walk in?” one asked.

We heard of no concerted efforts aimed at rethinking fundamental business models to improve worker safety. Perhaps that is understandable. The businesses of those to whom we spoke are either one-establishment firms or small-business groups. None of our interviewees were members of large national or regional chains. The resources they have for researching and implementing new ways of doing business are limited. Most seemed to be waiting for guidance from a trade association or regulatory authority about what precautions will be considered adequate or “best practice” that they would then use to determine whether they can do business while observing these precautions.

Those concerned about legal liability expressed a desire for guidelines or “safe harbor” rules—precautions that, if taken and documented, would protect the owner from liability if an employee becomes ill. “We’ve learned over the years what we need to do to protect instructors from sexual harassment,” said the owner of a yoga studio, adding, “What precautions against COVID-19 will be adequate?”

Rehiring Furloughed Workers

Most interviewees expected that furloughed employees would return when businesses reopened, but they noted some concerns on this score. For example, as long as enhanced unemployment compensation is available, some low-paid workers might prefer to remain unemployed. Businesses (often seasonal businesses) that rely heavily on younger workers expressed a fear that parents might not allow these workers to return to situations that are not entirely safe.

The Benefit of Coordinated Reopening

We heard an additional concern about rehiring workers whose skills are easily transferrable from one establishment to another. The owner of a high-end hair salon explained the problem. In his business, he said, customers have stronger attachments to individual stylists than to a particular salon. He said that he believes the stylists who previously worked in his salon would prefer to return when he is allowed to reopen, but if salons in a neighboring jurisdiction are permitted to reopen before he is permitted to do so, these stylists will face a strong incentive to relocate. If the new location is not too far away, customers are likely to follow the stylists. This owner hoped, therefore, that the various jurisdictions in his vicinity would coordinate their plans and allow all salons in the region to reopen at the same time and with similar safety measures.

Coordinated easing of restrictions might be valuable to businesses even if their workers are not likely to move to different establishments. Any business that has built a base of loyal customers—retail shops and restaurants, for example—could be threatened if earlier easing of restrictions attracts customers to another jurisdiction.

The Need for Working Capital

We heard from several business owners about a need for working capital to restart their businesses. The issue is most pressing from restaurant owners, who need to replace considerable inventories of perishable ingredients lost or given away when their establishments were forced to close or scale back operations. In some cases, they estimated that this restocking will cost hundreds of thousands of dollars. With available lines of credit already stretched during business closures or limited operations, they wondered where the necessary cash would come from.

We also heard about needs for working capital in other types of businesses. A painting contractor, for example, explained that payment from his customers is typically made well after the job starts. Yet he has to pay his workers weekly as the job proceeds. "My guys will be working ten hours per day, but I'll have no cash to pay," he said. Others said they expected that they would have to pay for modifications to their business premises to separate staff from customers or to accommodate social distancing measures.

Most interviewees expressed a reluctance to take on debt in uncertain economic times. But few could identify a ready source of cash to get their businesses restarted, and prospects for reopening their businesses consequently remain clouded.

What We Did Not Hear

We were struck by the absence of comments concerning another provision of the CARES Act that could benefit small businesses. The Employee Retention Credit (ERC) is a refundable federal tax credit against payroll taxes for businesses that are wholly or partially shut down by government orders related to the COVID-19 pandemic or if their gross receipts in any quarter are less than 50 percent of gross receipts in the same quarter of 2019. There is no limitation on the size of the firm applying for the credit, and the credit is available to both for-profit and tax-exempt firms. Under most circumstances, it is not available to small businesses that take small business loans, such as PPP loans (U.S. Department of the Treasury, 2020a).[19] The maximum credit is 50 percent of "qualifying wages" in the year-ago quarter, up to $10,000 per employee.[20] And because this is a refundable credit, a business can receive a refund even if the amount of the ERC is larger than the business's federal tax liability. This means that a business, small or large, affected by government-ordered closures could receive a cash payment to be used at the business's discretion, even if the business suffers losses in the current year and consequently has no federal tax liability.

Employers can be immediately reimbursed for this credit by reducing the amount of payroll taxes they have

The most pressing near-term need we heard about is for assistance in meeting fixed operating costs—rent, mortgage payments, utilities, and insurance.

withheld from employees' wages that they are required to deposit with the Treasury. This could be a helpful source of working capital for a business in the process of rebuilding after the pandemic has passed. Perhaps this feature of the CARES Act should be more widely publicized.

What Policies Might Be More Helpful to Small Businesses?

From our conversations, we conclude that some modifications to existing policies and perhaps some entirely new initiatives might be helpful to small businesses trying to deal with the COVID-19 pandemic. Our interviewees identified some adjustments or additions to current policies that they saw as desirable. Consistent with our aim to represent accurately what we heard from business owners, we summarize their suggestions for helpful policy changes. Further analysis would be useful to determine likely effectiveness of these changes or the consequences for broader commercial or social interests. We comment briefly in the following section on what will be necessary to formulate fully developed policy recommendations.

Support for Fixed Operating Costs

The most pressing near-term need we heard about is for assistance in meeting fixed operating costs—rent, mortgage payments, utilities, and insurance. The simplest way to meet this need, without instituting an entirely new assistance program, would seem to be relaxing the requirement that 75 percent of PPP loan proceeds must be spent on payroll if the loan is to be forgiven. This could free up resources for meeting fixed costs and allow individual business owners to direct available resources where they would be most beneficial in a given set of circumstances.

Rent poses a particular problem because landlords also have to meet their mortgage obligations and could have difficulty deferring rent. However, if tenants go bankrupt and the economic recovery is prolonged, landlords will then have difficulty renting out space and thus also might face financial difficulties or bankruptcy. No-eviction rules shift but do not solve the problem. What might be needed ultimately is some way "to make landlords whole," as one of our interlocutors put it, if they agree to rent reductions—perhaps some sort of federal backstop for landlords to cover at least some of their losses.

More Time to Spend PPP Funds

As business disruptions resulting from stay-at-home orders and restrictions on business activities linger, and as it becomes apparent that a return to pre-pandemic business operations will take months, business owners are concerned that using 75 percent of PPP loan proceeds for payroll in the first eight weeks following disbursement might be unrealistic if continuing restrictions on business operations or sluggish demand slows their return to pre-pandemic levels of employment. (This is the effective requirement for forgiveness of the loan under current policies.) Some extension of the time permissible for using these funds to meet payroll would give small businesses increased flexibility in managing a situation that few can yet predict clearly. A longer period to spend loan proceeds on payroll might allow a business owner time, for example, to adjust to continuing restrictions or to test post-crisis demand before committing to a full reopening.

Clarify Eligibility for PPP Funds

Many applications for PPP loans were denied during the initial round because the program had exhausted authorized funding levels. High demand for loans persisted during the second round, and it remains to be seen what fraction of applications can be granted. Some of the loans awarded in the first round (quite large loans, in some well-publicized cases) went to entities that subsequently decided that they should not have accepted this assistance. These borrowers have returned their loans, and the funds are now available to other borrowers. The detour of available funds to inappropriate borrowers and then back to the program for lending elsewhere, however, delayed disbursement of funds to borrowers with legitimate needs for funding. Clarifying the rules on what sorts of businesses are eligible and appropriate to receive funds—and ensuring that businesses are treated equally and standards are applied uniformly—could allow worthy borrowers to get funds more quickly.

Improve Government Communication Efforts More Generally

The inadequacy of government communication with regard to assistance programs was a recurring theme in our conversations. Business owners noted a desire for more transparency and information about all programs, especially notifications about the status of their applications. Particular measures could be enhanced help lines, webinars, and other forms of outreach.

A Backstop for Business-Interruption Insurance

Business-interruption insurance has proved a particular disappointment for businesses during the COVID-19 pandemic because these policies typically exclude losses due to viruses, bacteria, and microorganisms. A requirement for insurance companies to compensate such losses could have profound effects on the future price and availability of business insurance. Some sort of federal backstop or reinsurance program available to insurance companies in severe circumstances (such as those we are seeing now) might be appropriate.

Clear Rules for Reopening Businesses

Some interviewees reported themselves blocked in planning to reopen their businesses because they are lacking clear rules about what restrictions they will have to observe during a gradual return to normalcy. The details of these rules, some said, could determine whether reopening is feasible. Getting clear guidance on these matters—primarily from state and local governments—at the earliest possible date will facilitate preparations for resuming business.

"Safe Harbor" Provisions for Worker Safety

We heard repeatedly about concerns for worker safety during the period of gradual reopening. Most of the business owners with whom we spoke hoped for guidance that would help them meet the moral obligation of keeping their workers safe in an uncertain and fluid environment. Beyond this, some hoped for clear indications of what sort of safety practices might provide a "safe harbor" in terms of worker safety—practices that, if followed and documented, could shield the employer from legal liability.

Coordinated Reopening

Another matter for state and local authorities is differences among neighboring jurisdictions in the timing of lifting business restrictions or differences in regulations during a gradual reopening period. These might spell the difference between survival and failure of particular businesses. Essential workers might move to employers in a more accommodating jurisdiction. Customers could form new trading relationships with businesses in the next town over. Some interviewees pointed out the advantages for all concerned if jurisdictions within a region or metropolitan area can coordinate their policies on reopening businesses.

Needed: Sources of Working Capital

Many small businesses will need working capital to get their operations up and running again. The situation will be particularly difficult for businesses that had to draw down sources of credit during the worst of the crisis just to survive. If the lagged effects of unemployment and business closures result in several months of general economic sluggishness, raising working capital could be that much more difficult.

EIDLs from the SBA are designed to meet needs for working capital in the aftermath of an economic disaster. The scale of the economic disaster created by the COVID-19 pandemic is far beyond the scale of what SBA has had to deal with before, however, and our interlocutors reported that regional SBA offices seem overwhelmed. It will be important, then, to strengthen SBA's capacity to process EIDLs and to ensure that the program is adequately funded.

Increase Awareness of the Employee Retention Credit

The ERC is a refundable federal tax credit available to businesses—both small and large—that have been negatively affected by the COVID-19 pandemic. This credit has the potential to generate significant cash payments to businesses and might therefore constitute a useful source of working capital for businesses seeking to resume operations.

We were struck by the fact that none of the business owners with whom we spoke gave any indication that they were aware of this tax credit. An effort to publicize the ERC better might provide some near-term comfort and some longer-term material assistance to small businesses.

What Next?

We hope that the observations and suggestions from this group of business owners will be helpful in developing policies, in that they contribute to a list of options that reflect the experiences of owners trying to keep their businesses alive. However, making a convincing argument for fully developed policy changes or initiatives that will help the United States retain a vibrant small-business sector will require more information than we have been able to acquire in this initial exploration.

More voices must be added to the conversation. The views of small-business employees are important: Many of these workers have lost their jobs with no indication of when or if they will be able to return to work. And when they do, they will likely face continuing risks of COVID-19 infection during the months or years required to bring the disease under some kind of control. The uncertainties of this transition and the possibility that restrictions might need to be reimposed will make employment for this group more tenuous than it was in the pre-pandemic world if there are no significant changes in laws or practices regarding employment. What kinds of policies will serve their interests?

Other interested parties must also be heard from: the customers who patronize small businesses, landlords and mortgage lenders, state and local government officials, insurance companies, providers of social services, and more.

And then there is the need for analysis. Will the policies now being put in place so hurriedly yield the intended outcomes? What are the risks? Do we know what these programs will cost, and are the expected outcomes worth these costs? Are there more-efficient or less-costly ways to achieve the desired ends?

And, most importantly, who will pay for the massive programs already in place and for the equally large programs still to come? So far, efforts to mitigate the harm done by COVID-19 have, in effect, been charged to a kind of grand national credit card with little consideration of how to manage the resulting debt. Even when it seems that there is no limit to what we will spend to counter the pandemic and its social consequences, trade-offs are

Other interested parties must also be heard from: the customers who patronize small businesses, landlords and mortgage lenders, state and local government officials, insurance companies, providers of social services, and more.

being made. Aid for one group of beneficiaries necessarily imposes costs on some other group as finite resources are diverted from one use to another.

We have only started to formulate the right analytic questions. But when it comes to small businesses that constitute an essential part of the "streetscape" of their communities—that add variety, diversity, and even unusual experiences to daily living—policymakers have already started to arrive at preliminary answers and are searching for more.

Arriving at comprehensive solutions that balance all interests efficiently lies further in the future. The catch is that events are moving faster than relevant viewpoints can be captured and complete analyses can be made. Inevitably, decisionmakers will have to set policies before important issues can be resolved. They cannot stop trying to make sound policy but will have to make do with partial answers. This Perspective is a small step in that direction, but it is a step.

Notes

[1] There is no single definition of a small business in U.S. government usage. Maximum employment permissible for a business to qualify for a small-business preference in U.S. government contracting varies by industry. The most common upper limit is 500 employees, but this limit can be as low as 100 or as high as 1,500 in particular industries. See U.S. Small Business Administration, 2019.

[2] U.S. Census Bureau, 2020c.

[3] COVID-19 is a disease caused by a novel coronavirus first identified in the city of Wuhan, China, that has since become a global pandemic. The formal name of the coronavirus is SARS-CoV-2, which stands for severe acute respiratory syndrome coronavirus 2 (Centers for Disease Control and Prevention, 2020).

[4] U.S. Census Bureau, 2020b. According to the Business Dynamics Statistics methodology, an exit

> is an establishment with zero employment in the current year and positive employment in the prior year. . . . [T]he vast majority of establishment closings are true establishment exits (i.e., operations ceased at this physical location). However, there are a small number of establishments that temporarily shut down (i.e., have a year with zero employment) and these are excluded from the counts of establishment openings and closings. (U.S. Census Bureau, 2020a)

[5] Farrell and Wheat, 2016; Farrell, Wheat, and Grandet, 2019.

[6] Board of Governors of the Federal Reserve System, 2017. In our limited sample of small businesses, this characterization held true.

[7] We focused on small businesses with a physical and visible presence in their communities. We also tried to identify businesses that were directly affected by the pandemic and measures taken to limit its spread. We did not seek conversations with providers of professional services whose operations were relatively unaffected or who could plausibly operate digitally, such as legal practices and accountancies. Such businesses are important economically and socially, but are left as the topics of another effort.

[8] Our interviewees were about equally divided between men and women. We did not inquire about age, education, race, ethnicity, or personal financial resources so that we could keep our conversations less formal and less intimidating. The number of people with whom we spoke and the fact that we found these business owners through a chain of contacts that began with RAND researchers make it unlikely that these owners are demographically representative of the U.S. population of small-business owners.

[9] This unanimity could reflect the fact that our interviewees were all from generally high-rent parts of the country: urban areas of Southern California, the mid-Atlantic coast, and Colorado. We do not know if rent is similarly problematic in rural, Southern, or Midwestern areas.

[10] Office for the Attorney General for the District of Columbia, 2020.

[11] We have no way to corroborate this concern for workers' welfare; we did not speak with workers.

[12] The extent to which labor costs are variable relative to rents, mortgage servicing, insurance, and utilities can be affected by policy. In many European countries, for example, employers are required to provide lengthy notice before laying off workers or reducing pay. This has the effect of making labor more of a fixed cost. Different business practices can also influence this balance—as one of our interlocutors suggested, greater use of short-term leases or rent payments tied to the renter's revenues could increase the variability of overhead costs.

[13] Most of the business owners said that they could not or were reluctant to take on debt to pay operating costs. Several also reported forgoing income from their businesses during business restrictions or using personal savings to meet expenses. We have no way to corroborate these reports and therefore no way to assess independently the circumstances of these business owners.

[14] More-detailed economic research supports this opinion, finding a strong relationship between states with a higher share of community banks and the share of PPP loans received (Liu and Volker, 2020). To overcome this alleged problem, the second round of PPP funding specifically set aside $60 billion to be channeled through small banks in underserved (from a banking standpoint) communities.

[15] Such workers can be called W-2 employees because they receive Internal Revenue Service form W-2, provided by employers to all workers who receive a wage, salary, or other payment from which income, social security, or Medicare tax is withheld (Internal Revenue Service, 2020b). These workers can be differentiated from independent contractors, who are also paid but do not have tax withheld and to whom employers provide one type of form 1099 (Internal Revenue Service, 2020a).

[16] St. Clair, Noecker, and Woolf, 2020.

[17] Hiltzik, 2020.

[18] Dixon and Saunders-Medina, 2020.

[19] For details, see Internal Revenue Service, 2020c.

[20] For details, see U.S. Department of the Treasury, 2020b.

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About the Authors

C. Richard Neu is an adjunct staff member at the RAND Corporation and formerly a senior economist at RAND. He is also a professor at the Pardee RAND Graduate School. He also served as director of the RAND-Initiated Research program, was the founding director of the RAND-Qatar Policy Institute, in Doha, Qatar, and spent two years as director of the RAND Mexico City office. He has a Ph.D. in economics from Harvard University.

Diana Gehlhaus is a recent graduate of the Pardee RAND Graduate School and an assistant policy researcher at RAND. Her research areas include workforce development, digitization of jobs, human capital strategic planning, technology and telecommunications policy, and regulatory reform. She has an M.A. in applied economics from Johns Hopkins University.

Howard J. Shatz is a senior economist at the RAND Corporation and a professor at the Pardee RAND Graduate School. He specializes in international economics and economics and national security. His RAND research has included the U.S. role in the global economic order, economic competition, the development of socio-economic strategy by governments, and private sector development. He holds a Ph.D. in public policy from Harvard University.

About This Perspective

In the spring of 2020, we set out to understand better the challenges facing small businesses during the coronavirus disease 2019 (COVID-19) pandemic. This Perspective describes this effort and is aimed at providing a preliminary understanding of the challenges these businesses are facing as a result of the pandemic and what kinds of policies will help them survive. Motivated by a belief that what owners of small businesses are experiencing should inform considerations about evolving public policies, we undertook a series of conversations with small-business owners in different parts of the United States. We focused particularly on small businesses with a physical and visible presence in their communities that had been directly affected by the pandemic and the measures taken to limit its spread. In the time available, we were able to speak with 21 business owners in a variety of sectors.

We organized our conversations around four principal issues: how the pandemic is affecting their businesses; what they see as the biggest threats to their businesses; what assistance they have been able to access; and, most important, what they will need if their businesses are to thrive once the immediate public-health crisis has passed.

The group of business owners with whom we spoke is not representative of the vast range of U.S. small businesses. Nonetheless, we heard about a variety of experiences, challenges, and ideas for making assistance programs more effective.

Owners are not the only parties with interests in and relevant views about the success of small businesses, but they are the main risk-takers when it comes to the success of the business. The time and resources available for this initial effort did not allow us to seek conversations with small-business employees, landlords who rent premises to small businesses, state and local authorities who are seeing declines in tax revenues, or other interested parties. The views of those groups will also be important for a fully developed policy response.

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