The Importance of Supporting Small Business to New York City’s Economic Recovery

By Michael Hendrix

Senior Fellow and Director, State and Local Policy Manhattan Institute for Policy Research

February 2022

QUESTION: HOW CAN NEW YORK CITY GOVERNMENT SUPPORT SMALL BUSINESSES TO AID IN ITS ECONOMIC RECOVERY?

WHY IMPORTANT:

—
1. New Small businesses represent the overwhelming majority of all firms in the City and employee nearly one-half of all residents.
2. Small businesses can help revitalize communities in need of economic growth and opportunity.
3. New York City government historically has made it difficult for small businesses to start and operate – from fines to heavy regulation to unresponsive bureaucracies.

---

RECOMMENDATIONS:

1. New York City government should connect and coordinate the support that already exists to aid small businesses.
2. New York can offer better capital access to entrepreneurs by encouraging the creation of an independent Entrepreneur Backed Assets (EBA) fund, which creates a secondary market for loans originated by community-based micro-lenders.
3. Eliminate barriers – from licenses, to approvals, and to other red tape - to starting up a business in City.
4. Put a single agency reporting directly to the mayor in charge of controlling all permitting and licensing processes for New York City, rather than the numerous agencies involved currently.
5. Appoint a Startup Advocate who is close to the mayor who will be the point person for focusing City efforts to assist entrepreneurs.

---

CONSTRAINTS:

1. Need mayor to bring different agencies and programs together under one roof, which may encounter resistance to change.
2. Small business support and growth may not result in significant headlines as large businesses do, despite the centrality of small business to the City’s economic recovery.
3. Culture of being anti-business in parts of New York City government.
INTRODUCTION

New York is a big city of small businesses accounting for 99 percent of all firms and employing nearly half of all New Yorkers. The new firms that join their ranks help drive growth and dynamism throughout the Big Apple, especially in communities most in need of opportunity.

These seeds of the Big Apple’s growth will be even more essential after the devastation of the Covid-19 pandemic. The number of small businesses in New York City fell by 45 percent from January 2020 to the summer of 2021, while revenues declined an incredible 58 percent during the same period. Many small shops, particularly restaurants, were forced to lay off thousands of employees, and job rolls have yet to fully recover nearly two years on.

Newly elected Mayor Eric Adams declared in September 2021 that “New York will no longer be anti-business.” Among his first moves as mayor was to direct city agencies to reform the fees and fines impacting small businesses. With a new mayor in office, New York City has the opportunity to become the best city in America for starting—and running—a small business.

This brief contains five ideas for how New York City can achieve that goal by: 1) connecting and coordinating every available resource for small businesses; 2) helping create markets for “micro-loans”; 3) committing to zero barriers to starting a business; 4) creating a one-stop shop for all business regulation, licensing, and permitting; and 5) appointing a Startup Advocate.

IDEA #1: Connect and Coordinate

New York City government should connect and coordinate the support that already exists to aid small businesses. The city as well as its state government boast a dizzying array of grants, loans, and tax incentives available to businesses, some of which can be consolidated and all of which require help navigating. Rather than creating duplicative programs that complicate aid or unnecessarily divert resources, the city should help businesses better access aid.

Similarly, the city should coordinate and consolidate the small-business services outfits operating there, from the Small Business Services (SBS) team and the city council–backed Made in NYC to the New York Public Library’s Small Business Resource Centers and the state government’s Small Business Development Centers located in several local colleges—all with the goal of better targeting their work to the actual needs of businesses and communities. It is not so much the incentives or subsidies that mayors have at their discretion that drive small-business success but the mayor’s ability to connect the dots between entrepreneurs and the organizations that support them. To support high-growth startups
in particular, mayors should play the role of connectors and champions, celebrating successful entrepreneurs and, in turn, acting like one themselves.

IDEA #2: Markets for Micro-Loans

To small businesses, micro-loans—between $500 and $50,000—can make it possible to purchase inventory, pay wages, or just stay afloat. Micro-loans are often offered through smaller community-based lenders and are vital sources of funding for entrepreneurs who have trouble obtaining financing through traditional banking institutions. Yet the demand for these small, risky loans typically exceeds the amount that community institutions have to lend, requiring philanthropic or public dollars to make up the shortfall.

New York can offer better capital access to entrepreneurs by encouraging the creation of an independent Entrepreneur Backed Assets (EBA) fund, which creates a secondary market for the loans originated by community-based micro-lenders. The fund purchases and bundles a portfolio of micro-loans and resells them to commercial banks. The money they receive goes back to micro-lenders, who then recycle those dollars and lend them back out. City government or nonprofit institutions could opt to put up their own cash in the EBA to multiply its lending power. The first EBA Fund, launched in 2020 with backing from the Citi Foundation, has so far seen 78 percent of loans its purchased go to support low-income communities and 72 percent to entrepreneurs of color.

IDEA #3: Zero Barriers to Starting Up

New York ranks as the worst city in America for ease of starting a business, according to a survey by Thumbtack, an online marketplace for local professionals. That is why New York’s mayor should commit to zero barriers to starting a business. There should be no fees or registration costs for at least five years from the establishment of a new firm. The city should initiate a regulatory review promising to halve New York City’s 6,000-plus rules and regulations and about 250 business-related licenses and permits, as well as streamlining the “spaghetti map” of processes to comply with the remaining red tape. For certain types of businesses with no clear public safety or health concerns and where clear templates can be established, setting up shop should be as easy as one-click shopping on Amazon.

The city also needs to drastically shorten the processing time for permits and licenses. One way to do this is by establishing a 60-day “shot clock” for permits and licenses; any applicant should receive a clear yes or no within that time frame, or an approval is immediately issued. Establishing a clear deadline ensures that no business or licensee is left waiting indefinitely while incentivizing bureaucratic streamlining and accountable customer service.
IDEA #4: One-Stop Shop

Rather than making numerous trips to different agencies at varying times, small businesses should have to deal with only a single office, physically and digitally, where all relevant agencies come together to achieve specific regulatory tasks, whether starting a business or receiving a particular permit. Better yet, starting a business should pass the smartphone test—able to be completed in a virtual city hall without leaving your screen. The end goal is for a single agency reporting directly to the mayor that controls all permitting and licensing processes for New York City, rather than the alphabet soup that exists today.

As an interim step, this one-stop shop can serve as a regulatory concierge service that shifts the time-consuming burden of navigating government to the bureaucracy itself and centralizes all relevant information, forms, and know-how. Indeed, the city’s Small Business Services department already has a unit intended for this purpose—the New Business Acceleration Team—and it can be given more resources and authority.

IDEA #5: Startup Advocate

Small businesses new and old are missing a powerful voice in government. While business groups often perform this role from the outside, and numerous public servants may find this in their job description, there is no one close to the mayor whose sole responsibility is to speak up for entrepreneurs. That is why the mayor should appoint a Startup Advocate, modeled after a similar role in Seattle, not only to be the campaigner, connector, and convener for small businesses but to help the city meet ambitious benchmarks en route to making New York City the best place to be an entrepreneur in America.

New York City’s Startup Advocate should be an entrepreneur who knows the difficulty of running a small business and has a sense of how government can help. The advocate will help in connecting entrepreneurs with one another and to the right resources across public and private sectors; using the inherent convening authority of the mayor’s office to help turn talk into action. A Startup Advocate signals to the rest of the city that small-business success is one of the mayor’s top priorities, as it should be.