

The Economic Impact of COVID-19 on Small Businesses in the United States

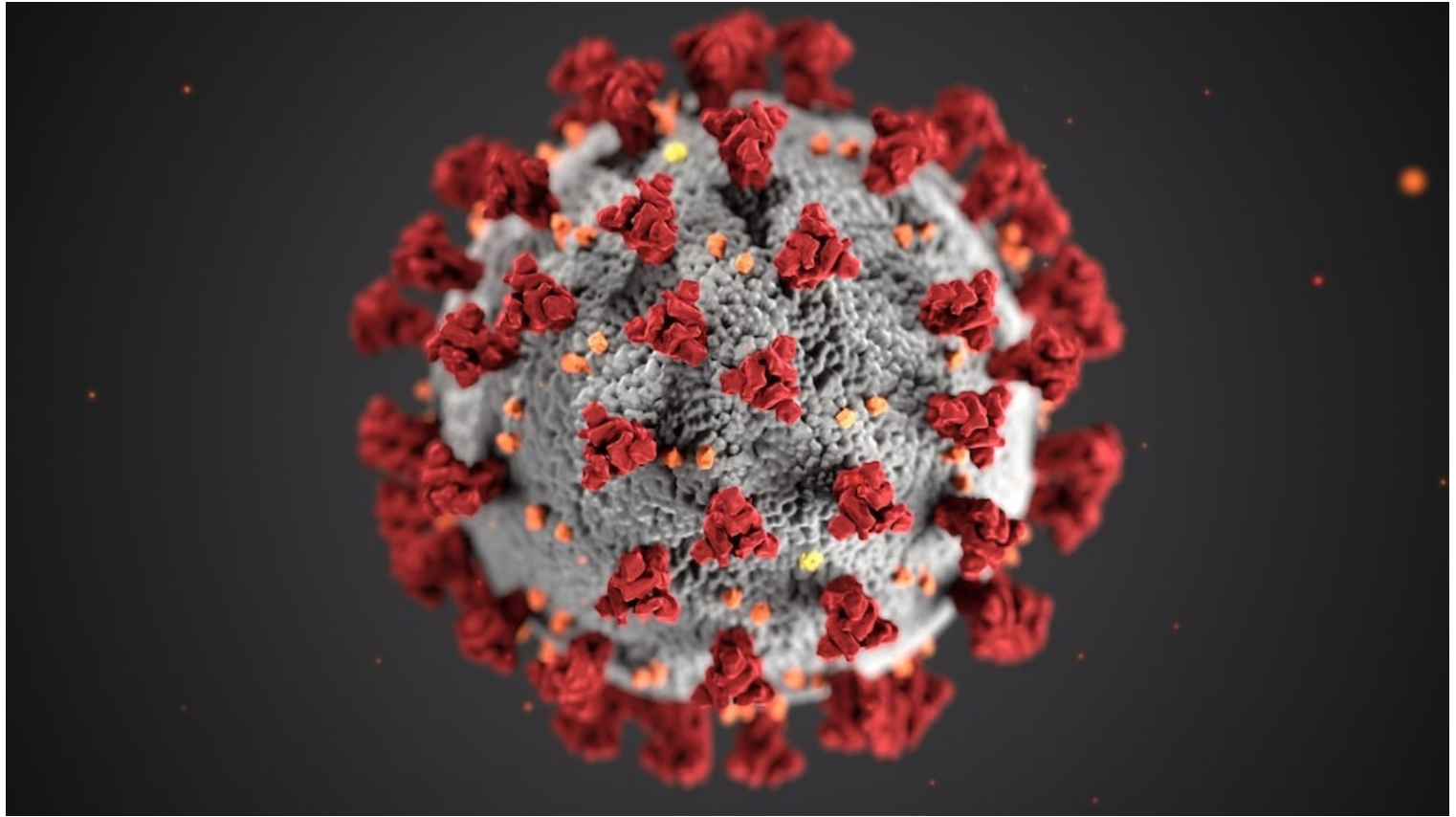


Image Source: Unsplash

The outbreak of the coronavirus disease 2019 (COVID-19) has not only posed a significant threat to public health but has also caused a major economic shock across the globe. In the United States, small businesses have been particularly affected by the economic disruptions resulting from the pandemic. In this article, we will explore the impact of COVID-19 on the small business landscape in the United States, focusing on how businesses have adjusted to the crisis, the financial fragility of these businesses, and their expectations for the future.

Adjustments to Economic Disruptions

To understand the impact of COVID-19 on small businesses, a survey was conducted among members of Alignable, a network of 4.6 million small businesses in the United States. The survey was conducted between March 28 and April 4, 2020, at a critical point in time when the progression of the virus and the government's response were uncertain.

The survey revealed that within just a few weeks of the onset of the pandemic, a significant number of small businesses had already experienced massive dislocation. Across the entire sample, 43% of businesses had temporarily closed, with nearly all of these closures attributed to COVID-19. The main reasons cited for closure were reductions in demand and concerns about employee health. Disruptions in the supply chain played a lesser role in the decision to close. On average, businesses reported a 39% reduction in active employment since January, with the Mid-Atlantic region being the most severely impacted.

Furthermore, the survey highlighted the financial fragility of many small businesses. The median firm with monthly expenses over \$10,000 had only enough cash on hand to last approximately two weeks. Three-quarters of the respondents had cash reserves to cover no more than two months of expenses. Not surprisingly, businesses with more cash on hand were more optimistic about remaining open by the end of the year.

Expectations and Duration of the Crisis

The survey also sought to understand businesses' beliefs about the duration of the crisis and its impact on their operations. The median business owner expected the dislocation to last well into midsummer, with 50% of respondents believing that the crisis would last at least until the middle of June. However, there was considerable variation in these expectations, indicating potential forecasting errors among firms.

The duration of the crisis plays a significant role in the overall impact on businesses. For a crisis lasting four months instead of one month, the proportion of businesses expecting to remain open in December dropped from 72% to 47%.

The sensitivity to the crisis varied across industries, with in-person industries such as retail and personal services reporting worse prospects compared to industries that could more easily transition to remote production.

Impact of Policy Proposals

The survey also explored the potential impact of different policy proposals on business resilience. Over 70% of respondents anticipated taking advantage of aid programs similar to the Paycheck Protection Program (PPP) included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. These businesses expected the funding to influence their decision-making, including layoff decisions and the decision to stay in business. However, concerns about administrative complexity and eligibility deterred many businesses from applying for funding through the CARES Act.

An analysis of different stimulus packages revealed that liquidity provision was paramount for businesses facing liquidity crunches and significant cash flow disruptions. The more generous PPP program improved take-up and business outcomes compared to traditional loans, but both options were found to shift business owners' expectations about survival. The availability of funding with little administrative complexity was crucial for these small business owners.

Conclusion

The impact of COVID-19 on small businesses in the United States has been severe, with widespread closures and significant employment reductions. The financial fragility of many businesses highlights the need for immediate support to ensure their survival. The duration of the crisis and the effectiveness of policy interventions will play a crucial role in determining the ultimate impact on these businesses and the millions of workers they employ.

As policymakers consider the scale of necessary interventions, they must take into account the potential for widespread job losses and the resilience of the small business ecosystem. The fate of the 48% of American workers employed by small businesses depends on the ability of these businesses to weather the economic disruption caused by the pandemic. Liquidity provision and timely access to funding are essential to support small businesses and enable them to recover and contribute to the overall economic recovery.

The survey conducted among members of Alignable provides valuable insights into business decisions and expectations during a period of substantial policy uncertainty. These findings can inform policymakers as they design and implement measures to aid the recovery and minimize the long-term impact of the crisis on small businesses and employment.

References:

- [Reference Article 1](#)
- [Reference Article 2](#)
- [Reference Article 3](#)
- [Reference Article 4](#)
- [Reference Article 5](#)
- [Reference Article 6](#)
- [Reference Article 7](#)
- [Reference Article 8](#)
- [Reference Article 9](#)
- [Reference Article 10](#)