

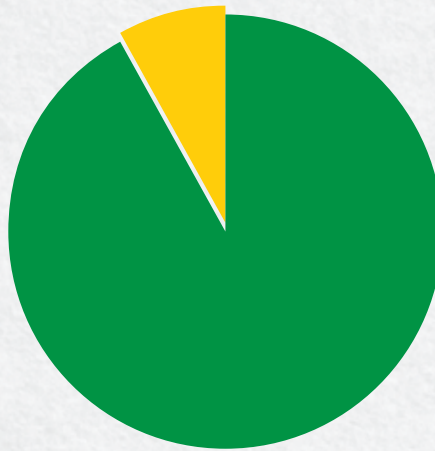
# BIGGER THAN YOU THINK

The Economic Impact  
of Microbusiness  
In the United States

Microbusinesses  
represent

92%

of all U.S.  
businesses



The  
Ripple  
Effect

Direct  
26m jobs

Indirect  
1.9m jobs

Induced  
13.4m jobs

41.3 Million  
Jobs

Microbusinesses are  
defined as enterprises  
with fewer than five  
employees, including  
the owner



**AEO** Association for  
Enterprise Opportunity  
THE VOICE OF MICROBUSINESS

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# About AEO

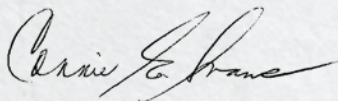
The Association for Enterprise Opportunity (AEO) is the voice of microbusiness in the United States. For two decades, AEO and its more than 400 member organizations have helped millions of entrepreneurs contribute to economic growth while supporting themselves, their families and their communities. AEO members and partners include a broad range of organizations that provide capital and services to assist underserved entrepreneurs in starting, stabilizing and expanding their businesses. Together, we are working to change the way that capital and services flow to underserved entrepreneurs so that they can create jobs and opportunities for all.

## Preface

AEO has long recognized the substantial contributions made by microbusinesses—our country’s largest segment of small businesses—to local economies across the country. The onset of the Great Recession and its lingering consequences of unemployment and wealth stripping sounded a bell of urgency to generate the evidence behind our beliefs. We have now built the evidence base for a well-informed case that documents the economic impact of microbusinesses in the United States. As top policy experts and law makers, economists and business journalists, philanthropists and business leaders posit and debate ideas on what to do about the tens of millions of unemployed people and the growing number of children and families living in poverty, we urge them to learn more about the impact of microbusiness now. Microbusinesses are responsible for more than 41 million jobs in this country. Just imagine the potential impact microbusiness could have if we made more strategic investments in it as a deliberate strategy and solution to move our economy forward.

This report, ***Bigger than You Think: The Economic Impact of Microbusiness in the United States***, is one of a series of reports and forthcoming papers. Two other reports were produced from the two-year study (*Microbusinesses in the United States: Characteristics and Sector Participation*; and *Microbusinesses in Georgia: Characteristics and Economic Impact*), and are available on the AEO website ([www.aeoworks.org](http://www.aeoworks.org)). Additional data analysis by the Insight Center for Community Economic Development (ICCED) is contained in the unpublished report, *The Economic Impact of U.S. Microbusinesses*. This report and its 207-page Appendix can be made available to other researchers and analysts upon request.

The evidence gathered through AEO’s efforts goes far in filling the data gap on microbusinesses. The findings paint a compelling portrait of a remarkably vigorous microbusiness community that plays an outsized contribution to the economy, more so than the size of any single business would suggest. Microbusinesses are demonstrating great success in spreading business participation and ownership across underserved communities — they represent a path to economic opportunity for all.



Connie E. Evans,  
*President and CEO, Association for Enterprise Opportunity*

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# BIGGER THAN YOU THINK:

## The Economic Impact of Microbusiness in the United States

*Ninety-two percent  
of all U.S. businesses  
are microbusinesses.*

### Executive Summary

How great of an impact does microbusiness have on our new economy? A lot greater than many previously thought. As summarized in AEO's new report, *Bigger than You Think: The Economic Impact of Microbusiness in the United States*, microbusinesses are an increasingly feasible and attractive option to those for whom a precarious economy and mercurial labor market no longer serve. Beyond affording their owners freedom and flexibility to forge paths to job stability and self-sufficiency, these enterprises also wield an inherently boundless power to resuscitate America's employment and economic health.

In fact, data from AEO's earlier report, *The Power of One in Three: Creating Opportunities for All Americans to Bounce Back*, showed that "If one in three Main Street microbusinesses hired a single employee, the United States would be at full employment." This statement has taken the nation by storm, yet many did not fully recognize the transformative nature of U.S. microbusiness. AEO's current research details the potential of microbusiness by examining the characteristics of microbusiness types and exploring the ways in which microbusinesses can take advantage of non-standard work arrangements and recent technological advances.

As the U.S. economy evolves, microbusinesses are well-poised to capitalize on that evolution in our labor market and broader economy. While individually small in scale, as a whole, microbusinesses play a significant role. Ninety-two percent of all U.S. businesses are microbusinesses, and in 2011, the direct, indirect, and induced effects of microbusinesses on employment amounted to 41.3 million jobs, or 31 percent of all private sector employment. Direct sales and receipts and indirect and induced economic output of microbusinesses combined to result in an almost \$5 trillion economic impact. Correspondingly, microbusinesses contributed \$135.5 billion in tax and fee revenues to federal, state, and local governments.

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Microbusinesses, defined as enterprises with fewer than five employees, including the owner, are the small businesses on Main Streets and cross streets all over this country and they cover the full gamut of economic activity. From the local dry cleaner to the online financial consultant or the contractor inspecting water pipes, microbusiness activity is everywhere. To better understand these 25.5 million businesses, AEO developed a typology to separate microbusiness owners into five categories, based on common business characteristics.

From **newcomers, with no previous business experience and less than four years in operation**, to **full-timers with \$50,000+ in sales and receipts**, microbusiness owners are committed to succeeding in business. The biggest group of microbusinesses includes owners who work **full time, with less than \$50,000 in sales and receipts**. These owners account for more than 30 percent of microbusinesses. The next largest type- is **full time, \$50,000+ in sales and receipts** (28.6 percent) and **part time, not primary income** (25.8 percent). Another 10.9 percent of microbusiness owners were categorized as **part timers whose microbusiness provided their primary source of income**.

The characteristics of the **newcomer** type (younger median age, more likely to be women and people of color) reflect what we know about microbusiness: it can be an especially significant economic activity for those demographic groups that have not always shared fully in economic good times and have suffered most during times of recession and sluggish economies.

In today's economy, starting a microbusiness is often a necessary and increasingly viable option because of relatively low barriers to entry. For example, a college degree is not required, most business owners who utilize start-up capital, finance their businesses with personal savings, and all ages are represented in microbusiness, with a median age of 50+ for owners. Furthermore, median microbusiness wages are greater than – often double – the minimum wage level. Many microbusinesses do not offer traditional employee benefits such as paid holidays and retirement plans. However, non-quantifiable benefits, such as flexible hours, convenient locations, and alternative work options (such as telecommuting) may be quite advantageous to some owners and employees.

By their very nature, microbusinesses are flexible and resilient; moreover, microbusinesses create a variety of positive social impacts by providing income, wealth and upward mobility across racial, ethnic, and gender lines. Strategies to promote the expansion of successful microbusinesses can create greater equality and economic inclusion while seeding new businesses and jobs. Historically regarded as too small to count, microbusinesses are bigger than once thought of—and too important to ignore.

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## Introduction

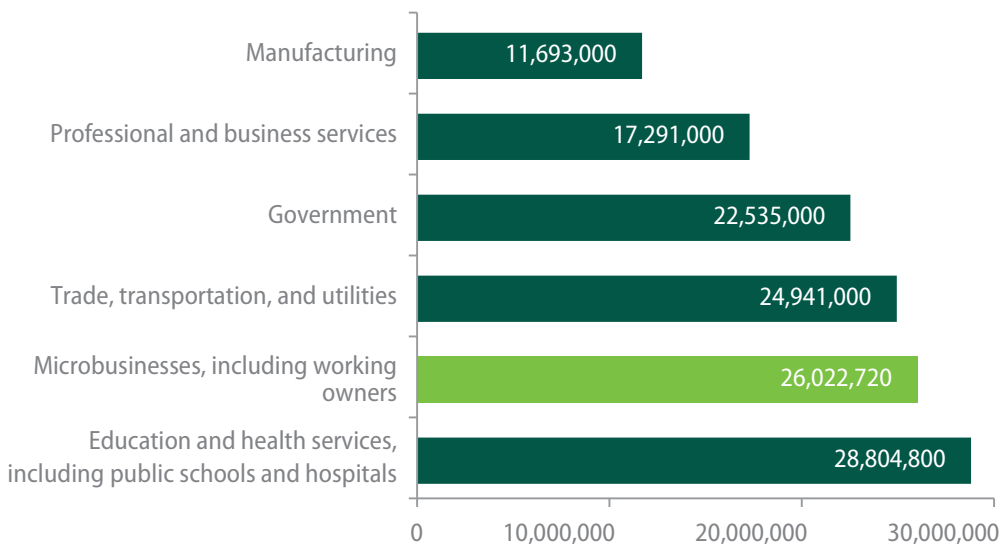
When it comes to the U.S. economy, size matters. Whether it's Big Business, Big Oil, or Big Banks, scale of operation is clearly a big deal. As daily media coverage shows, it is the nation's major undertakings and enterprises that occupy the attentions of Washington and Wall Street. For all intents and purposes, it's the performance of the Fortune 500 companies that serves as a barometer for the rest of the economy and tells the rest of us how well or how poorly we are doing.

However, this focus on scale fails to take into account other parts of the economy, such as microbusinesses, which represent 92 percent of all U.S. businesses. While, by definition, these businesses are small in scale, in the aggregate they are much more significant than most people realize. What's more, they have the potential to be even bigger and to provide the growth and jobs our economy so desperately needs.

It's time to give microbusinesses a closer look.

## Bigger than You Think

In 2011, microbusinesses directly accounted for approximately 26 million jobs in the economy. That's more than the total number of individuals employed in the government sector at the local, state and federal levels, and more than twice as many who work in Manufacturing (Figure 1). It is also more than total numbers in the Trade, Transportation and Utilities sector.



**Figure 1: Microbusiness Employment Compared to Industry Sectors**

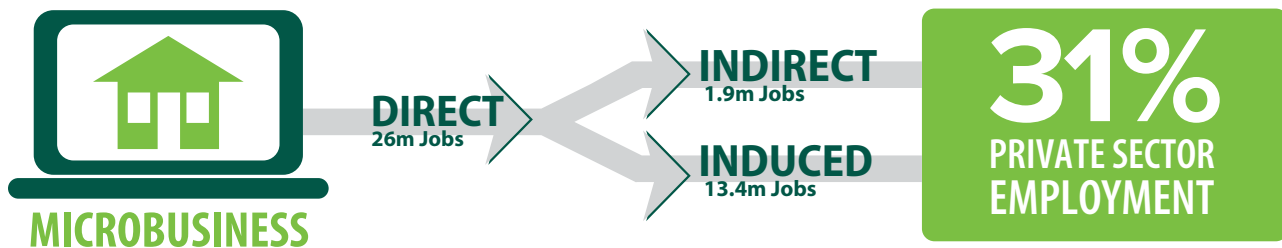
Persons employed in microbusinesses, including working owners, compared to number of persons employed in industry sectors or super sector, U.S., May 2011<sup>1</sup>

In addition to the jobs they create directly, microbusinesses cause a “ripple effect” that generates further employment. This can be broken down into two types – the indirect effect and the induced effect.

The indirect effect on employment results from the buying of goods and services by microbusinesses in the course of doing business. This would be the case, for example, when microbusiness purchases a computer for its business use. The induced effect results from purchases made by microbusiness owners and employees for their own personal use. In keeping with the example above, this would be so when the computer was bought for home use by a microbusiness owner or employee.

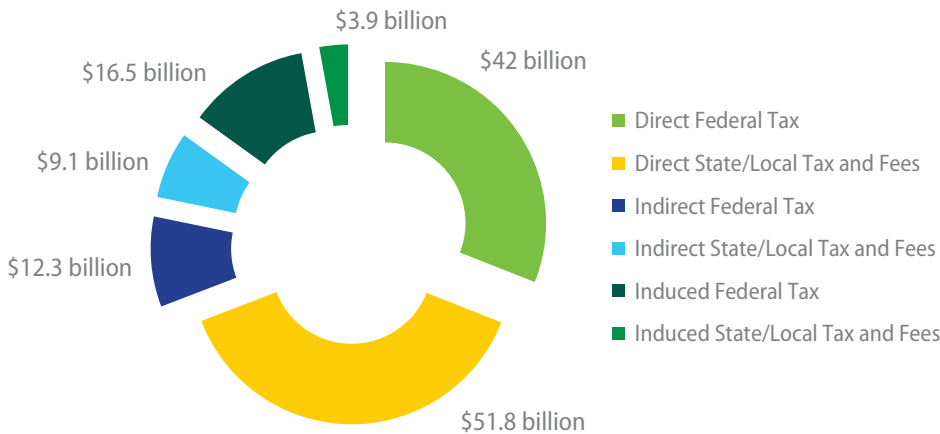
Thus, in addition to the 26 million jobs contributed *directly* in 2011 by microbusinesses, they also added 1.9 million *indirect* jobs and 13.4 million *induced* jobs. This gives a combined total of 41.3 million jobs, which amount to 31 percent of all private sector employment.

*Microbusinesses can increase inclusiveness and equality in our economy.*



As they increase employment, microbusinesses also exert a substantial influence on the broader economy. Again, this can be assessed in terms of direct as well as ripple effects. The ripple effects include an indirect economic output of \$364 billion in 2011 and an induced output of \$1.6 trillion. These, combined with the direct sales and receipts of microbusinesses, result in a \$4.87 trillion economic impact — an impact reflected in the contribution of microbusinesses to tax and fee revenues for federal, state, and local governments. In 2011, that reached \$135.5 billion, or 13.1 percent of all taxes paid by businesses (Figure 2).<sup>2</sup>

While microbusinesses are present in all neighborhoods and in all industry sectors of the U.S. economy, they are an especially significant economic activity for those demographic groups that have not always shared fully in the economic good times and have suffered most during times of recession.



**Figure 2: Microbusiness Activity Generates Significant Tax and Fee Revenue**  
 Estimated total federal, state, and local taxes and fees generated by U.S. microbusinesses (includes direct, indirect, and induced effects), 2011<sup>3</sup>



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These groups include individuals who lack the capital to launch larger-scale enterprises, such as people of color and women, especially women heads of household. Strategies to promote a flourishing microbusiness sector can provide essential avenues to success for such groups. In this way, microbusinesses not only have a beneficial impact on our economy but can increase inclusiveness and equality in that economy, too.

Microbusinesses can also be vital for income and wealth creation in underserved communities. In 2010, for instance, female-headed family households in which at least one person owned a microbusiness generated \$8,000 to \$13,000 more in annual household income than similar households without a business owner. This additional income could especially make a difference among female-headed households with children below 18 years of age, among whom the 2011 poverty rate was 41 percent.



**“The median net worth of business owners is almost two and a half times greater than that of non-business owners”**

And, according to AEO’s report *The Power of One in Three: Creating Opportunities for All Americans to Bounce Back*, the median net worth of business owners is almost two and a half times greater than that of non-business owners. For a Latino man<sup>4</sup>, the difference is five times higher for business owners compared to non-business owners. For an African-American woman, the difference is more than ten-fold.

Before we go further, however, we need to take a closer look at microbusinesses. Terms and definitions are important – and an understanding of “microbusiness” should be clear from the outset.

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# So What Are Microbusinesses? How “Micro” Is Micro? And Just Who Is a “Typical” Owner?

Here, it might seem as if the natural point of reference should be the U.S. Small Business Administration (SBA), which does so much to promote the role of small businesses. However, for the most part the SBA addresses a much broader subset of businesses in the economy, defining a small business “as one that is independently owned and operated, organized for profit, and is not dominant in its field” and depending on industry, is under various employee and/or sales levels. For example, the SBA’s size standard for a small business in the wholesale sector includes a maximum number of employees ranging from “100 to 500 depending on the particular product being provided.”<sup>5</sup> The SBA does target very small businesses with its Microloan Program, which funds up to \$50,000 in capitalization loans through intermediary lenders.<sup>6</sup>

Both AEO and the U.S. Census’s *Survey of Business Owners and County Business Patterns* define microbusinesses as enterprises with fewer than five employees, including the owner. Think of a small law firm with two attorneys and a paralegal; the owner of a corner grocery, stock assistant, and clerk; an after-school tutor; a computer technician; or an independent truck driver.

To better understand this array of microbusinesses, AEO developed a typology to separate microbusiness owners into distinct types and group them by common business characteristics. The research identifies five types of microbusiness owner:

# 5 TYPES OF MICROBUSINESS OWNERS

30.4%

**Full time —**

Owner works full time in microbusiness that generates less than \$50k in annual sales and receipts.

28.6%

**Full time —**

Owner works full time in microbusiness that generates more than \$50k in annual sales and receipts.

25.8%

**Part time —**

Microbusiness does not provide primary source of income.

10.9%

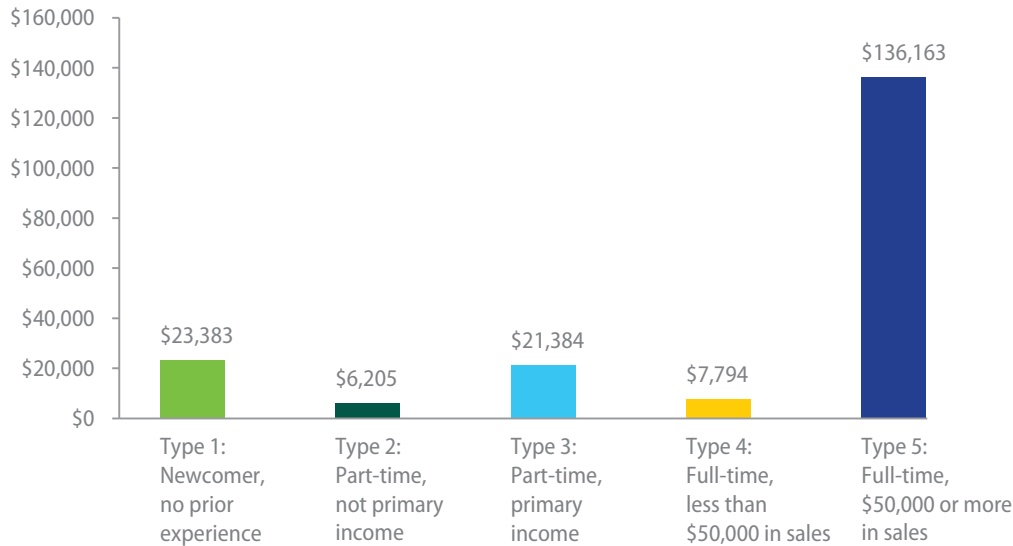
**Part time —**

Microbusiness provides primary source of income.

4.4%

**Newcomer —**

No previous business ownership experience and in current business less than four years. Business may be part or full time, representing owner's primary source of income.



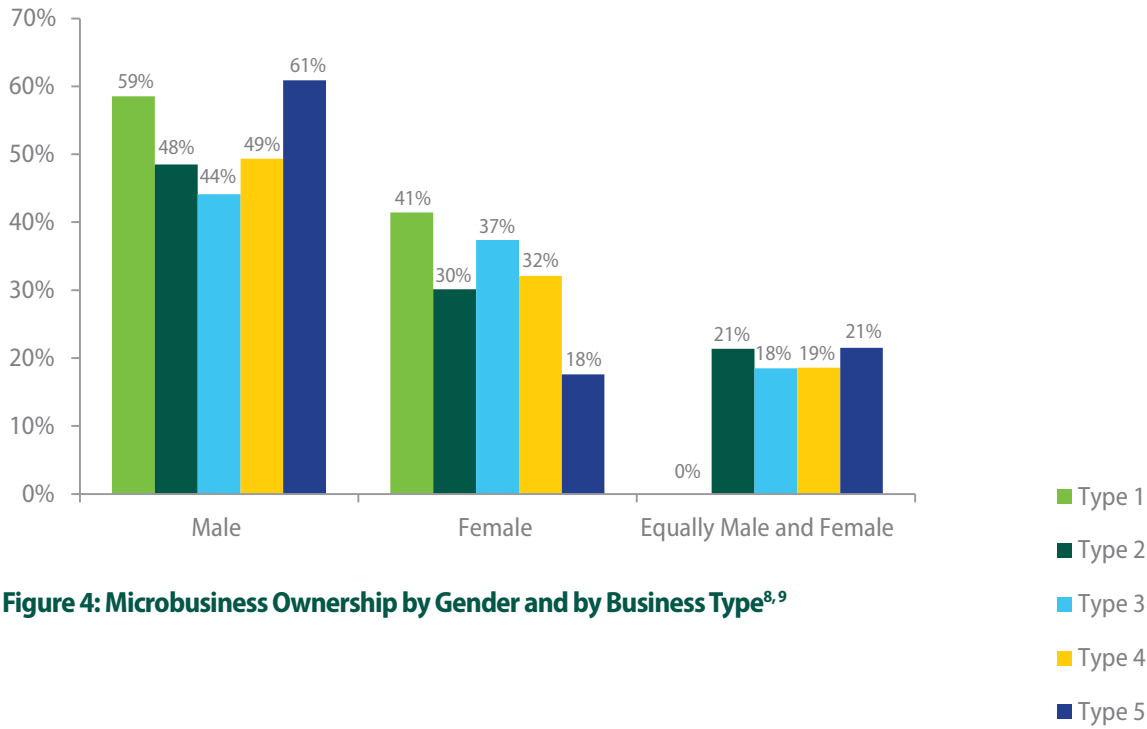
**Figure 3: Median Annual Sales and Receipts of U.S. Microbusinesses by Business Type<sup>7</sup>**

As one would expect, median annual sales and receipts varied by type (Figure 4). Type 2s, who work part time for a secondary source of income, have the lowest annual sales and receipts, while Type 5s, who work full time and by definition, have more than \$50,000 in sales and receipts and have been self-employed at least four years, have the highest.

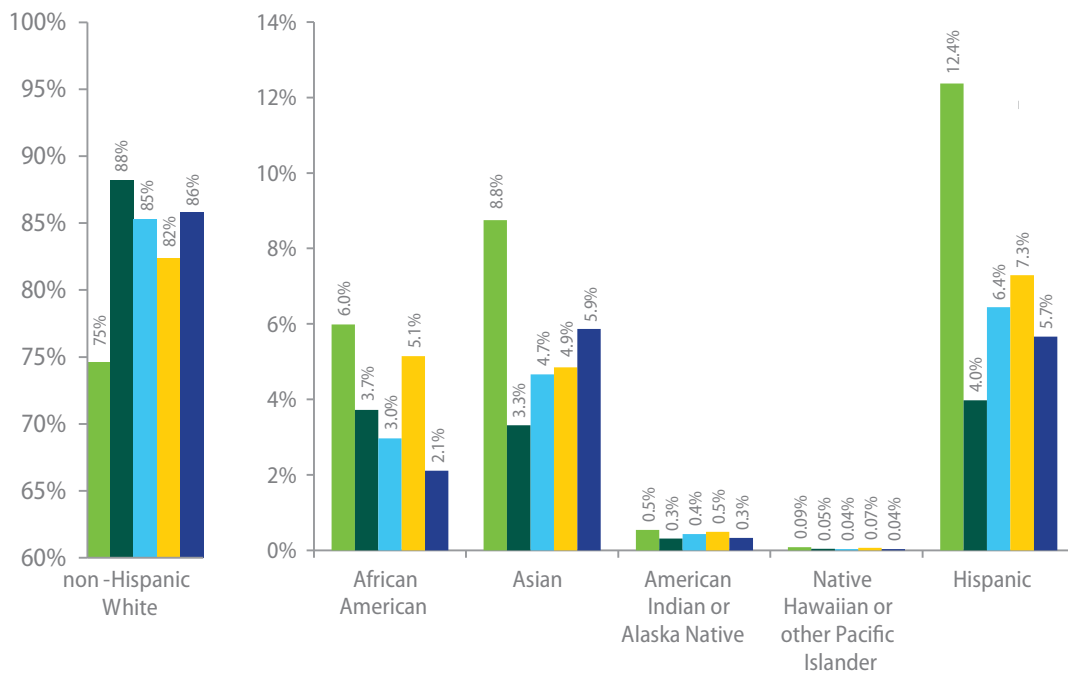
The microbusiness owners in this typology exhibit a wide demographic spectrum. Type 1 owners, for example, have a median age of only 39 (compared to 50+ in the other 5 groups); 41 percent are women and 27 percent people of color (Figures 5 and 6), representing the highest percentage of any of the five types.

Type 4s – full time, with less than \$50,000 in sales and receipts – make up the largest group of owners, with more than 3.5 million in this category (30.4% of the total). Only 37 percent of the owners possess college degrees, and their median age is 50. Thirty-two percent of Type 4 owners are women, and 18 percent of owners are people of color.

Type 5 full timers with sales and receipts \$50,000+ are the most likely to be employers (38 percent) and able to access banks loans for their businesses (13.2 percent). Only 18 percent are women, when compared to men; and the African-American percentage is the lowest (2.1 percent) by race and ethnicity. Relatively high proportions of Type 5 microbusiness owners are in the Professional, Scientific, and Technical Services sector, followed by Construction. Furthermore, four in 10 Type 5 owners owned a business prior to their current one.



**Figure 4: Microbusiness Ownership by Gender and by Business Type<sup>8,9</sup>**



**Figure 5: Microbusiness Ownership by Race and Ethnicity and by Business Type<sup>10</sup>**

When it comes to goods and services offered, microbusinesses cover the full gamut of economic activity in the United States. They include restaurants, hardware stores, florists, plumbing businesses, mechanical shops, financial advisories, computer engineering companies, health clubs, and accounting firms. Indeed, of an estimated total of 27.7 million businesses in the United States in 2011, some 25.5 million were microbusinesses.<sup>11</sup> One reason for their proliferation is the relatively low barriers to entry.

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## Low Barriers to Entry

Establishing a microbusiness does not require a college degree. In fact, more than half of microbusiness owners did not have a degree in 2010 compared to only about 28 percent of non-microbusiness owners. In some industry sectors, more than two-thirds of microbusiness owners do not have a college degree, including Construction (73.5 percent), Transportation and Warehousing (71.5 percent), and Agriculture, Forestry, and Fishing (69.3 percent).

Lack of financing likewise does not prove a steep barrier to entry. Slightly more than 77 percent of microbusiness owners who utilize start-up capital finance their businesses with personal savings. Just one in ten use a bank business loan.<sup>12</sup>

Microbusiness is a practical option for workers of all ages – microbusiness owners have a median age of more than 50, and as “boomers” age, microbusinesses may be a destination for mid-career workers. Microbusiness growth may also reflect the disappearance of long-term job stability in the labor market. The median age of Type 1s, the newcomers, is 39.

Job benefits vary. Many microbusinesses do not offer the traditional employee benefits historically offered by large firms: paid holidays, vacation and sick leave, health insurance benefits, retirement plans and employer contributions, and stock options.<sup>13</sup> However, non-quantifiable benefits, such as flexible hours, convenient locations, and alternative work options for caregivers may be seen as advantageous to microbusiness owners and some employees.

Median wages are higher than minimum wage. While most microbusiness owners and employees earn lower wages than employees of larger businesses (Figure 7), microbusiness wages are still greater than — often double — the minimum wage level. This is true across all microbusiness typologies. Moreover, at a time when other businesses have been downsizing, microbusinesses can provide job opportunities that may not have otherwise existed.

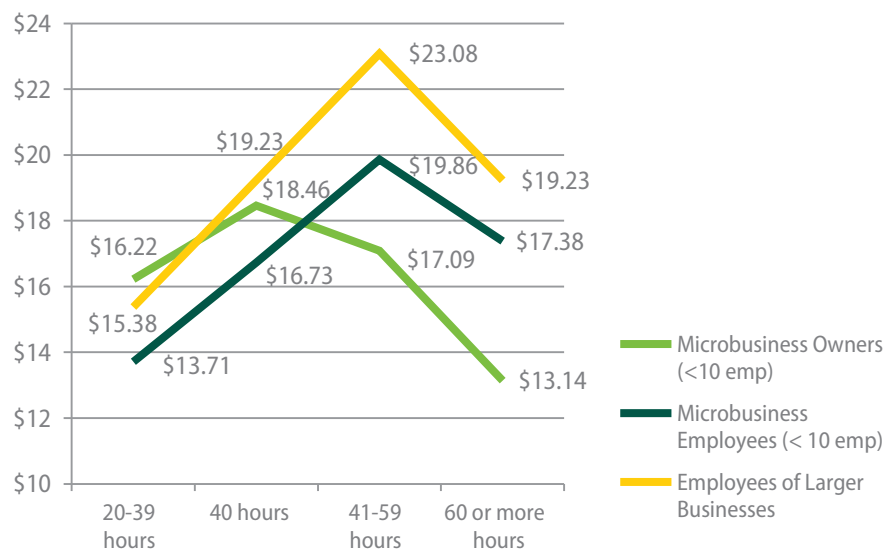
Microbusinesses also create an array of positive social impacts. Of particular note is the educational impact of microbusiness on youth. Utilizing the U.S. Census Bureau’s 2007 *American Community Survey*, research indicates that there may be an education advantage for households where there is a microbusiness owner, in that higher percentages of youth from these households attend college compared to youth in other households.<sup>15</sup> This may be because the characteristics of business owners, such as upward mobility and occupational independence, positively influence their offspring’s educational attainment.

## ACCESS TO CAPITAL VITAL FOR BUSINESS GROWTH

While financing may not be necessary to start a microbusiness, capital is essential for business growth. AEO has found that the major constraint limiting microbusiness growth— especially for women- and minority-owned businesses — is *inadequate capital*. They have little or no collateral, and typically have no access to funds from public markets.

AEO research has found that microbusinesses tend to be hindered by an *availability* problem, where there are not enough services, products or opportunities that meet their needs. Some entrepreneurs must overcome additional hurdles of *access*; these business owners are unable to make use of available solutions to their needs typically as a consequence of their low starting wealth.

As U.S. Treasury Secretary Lew has noted, 8,000 small business loans are declined in this country each day (Capital Access Innovation Summit, Washington, D.C., June 10, 2013). It doesn’t have to be this way. Three years ago, AEO launched a systematic study of financing entrepreneurs in order to uncover and resolve barriers to capital, and AEO is now focused on resolving the structural barriers in the areas of distribution, product development, and investment.



**Figure 6: Median hourly income by number of hours worked per week by microbusiness owner, employee, or employee of larger business<sup>14</sup>**

*Microbusinesses can provide opportunities for many individuals in society, but they are of particular value to women and people of color.*

## Microbusiness: A Pathway to Success

Microbusinesses not only impact the livelihood of owners, they also lead to better outcomes for their families, local communities, and entire regions, as well as the national economy. Microbusinesses can provide opportunities for many individuals in society, but they are of particular value — both actual and potential — to women and people of color.

### A Game Changer for Women

Microbusinesses are an important tool for women to achieve upward mobility, providing them with financial independence through self-employment and thereby allowing them to support their children and families. According to a study by the National Women’s Law Center using data from the Bureau of Labor Statistics, 60 percent of the increase in employment for women from 2009 to 2012 was in jobs in the ten lowest wage occupations that pay less than \$10.10 an hour.<sup>16</sup> In 2010, the median hourly income of women microbusiness employees and women microbusiness owners was \$15.79 and \$12.38, respectively, demonstrating that microbusiness employment and ownership provide a significant increase in wages for women and a better alternative to lower wage occupations.<sup>17</sup> In the United States, women own nearly one third of all microbusinesses, and in 2010, the median income for households headed by women with a microbusiness owner or employee was significantly more than similar households without microbusiness involvement.<sup>18</sup> And with 41 percent of households headed by women with children existing at or below the poverty level, such businesses potentially represent an important anti-poverty strategy.

*Microbusiness is an economic lifeline for people of color.*

In a nation rapidly becoming majority-minority, microbusiness ownership can likewise be a strategy for the economic advancement of people of color with relatively low household incomes and relatively small holdings in assets. By increasing the paths to economic success for minorities, microbusinesses can provide economic growth in communities where opportunities were previously limited or elusive.

Along with the population, this demographic is rising as a percentage of total microbusiness ownership, up from 5.6 percent in 2002 to 7.6 percent in 2007. Some 98.3 percent of all African-American-owned businesses were microbusinesses that year. The number for Latinos was 96.4 percent.



**“Microbusinesses are an important tool for women to achieve upward mobility, providing them with financial independence through self-employment and thereby allowing them to support their children and families.”**

## **A Closer Look at African-American Microbusinesses**

African-American microbusinesses employed almost 117,000 persons in 2007, with a total payroll of about \$3.5 billion, and most owners of these microbusinesses were working owners, (1.68 million). Among the almost 1.9 million African-American-owned microbusinesses in 2007, almost half (46 percent) were in three sectors: Other Services, Health Care and Social Assistance, and Administrative and Support Services.

The fastest-growing sector for African-American microbusinesses is Manufacturing, which increased from 2.1 percent of all Manufacturing microbusinesses in 2002 to 3.4 percent in 2007, a 62 percent change. At the other end of the spectrum, the sector that grew the least was Professional Services, which went from 3.7 percent of all microbusinesses in 2002 to 4.5 percent of all microbusinesses in 2007, a 22 percent change.<sup>19</sup> The slow growth in this sector calls for further examination regarding education, training, and access, among other factors.



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# The World We Have Is Not the World We Need

Today, we are faced with an old question — how do we spur economic development in our towns and neighborhoods? But we must find answers to that question in a new world. Why? Because the current reality is that our economy is changing, and past solutions are no longer as effective as they once were.

For instance, one traditional strategy for economic development in disadvantaged communities has been “smokestack chasing”— attracting large-scale employers by offering incentives such as tax subsidies and low-rent land. Also known as “boosterism,” smokestack chasing can draw all kinds of employers to a particular location, including colleges and prisons as well as factories and mines.

However, this can be a more expensive jobs and economic development strategy than developing and supporting local small-scale businesses. It can also result in severe competition among communities to attract major employers. Indeed, the entry of large enterprises may even discourage the establishment of small ones and retard the growth of existing local businesses.

The latter can play a strong role in community economic development by creating jobs locally and providing goods and services to local residents. They can also help specific economies from being overly dependent on any one large firm.

## A Sea Change in the Labor Market

In today’s labor market, stable, long-term employment with competitive pay and benefits is becoming less common, and low-wage service work and temporary employment are on the rise. Government policy has traditionally been geared to the scenario in which a worker’s pension, unemployment insurance, health and life insurance, and other benefits are provided through corporate entities and employers. We are now living in a changed and changing world – one in which the top keyword for the 30 million job-seekers who visit SimplyHired.com each month is this: *part time*.<sup>20</sup>

As the notion of a 40-hour-a-week, lifetime job wanes, people are increasingly seeking to supplement their regular jobs with another job. This is part of the emerging “new normal” that looks at the employment market in a radically different way. It includes an increase in non-standard work arrangements such as part-time, contingent, and temporary employment, as well as growth in the so-called sharing economy as a means to increase access to talent, goods, and services.

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The microbusiness sector is a growing and vital part of this new normal. Yes, in some cases microbusiness wages and benefits may be less than in non-microbusinesses. As noted earlier, microbusinesses provide other benefits that individuals value highly, such as greater flexibility regarding hours worked, location, and so on, which are especially important considerations for those who have to address child care, elder care, and other issues.

In short, our economy is under transformation. What we need now is a new employment infrastructure for the new employment practice.

## The Advantage of Micro

Microbusinesses are well-poised to take advantage of the changes under way in our labor market and the broader economy. In these new circumstances, members of the workforce will have to be more entrepreneurial in their approach and more open to the new business models and technologies that can provide new paths to success.

With lower start-up capital requirements and lower educational barriers than other sectors, microbusinesses will flourish with the participation and risk-taking that are essential for success in the new economy, particularly among people of color and women. Microbusinesses thus serve as a means to address racial and gender disparities in the economy and increase economic inclusiveness.<sup>21</sup>

The advent of the Internet has opened all kinds of possibilities for new enterprises. Technology start-ups are building online platforms to facilitate offline transactions in the new economy, for example. As with other types of enterprises, the successful ones quickly outgrow the label of “microbusiness” to reflect their increased levels of sales and employment.

In this economy, technology can help even individual workers to manage themselves as a kind of microbusiness. In effect, anyone with a computer can choose how, when, and for whom to work, picking up “microtasks” as the U.S. economy trends toward more freelance and “micro-entrepreneurial” work. According to a 2011 report by the Kauffman Foundation, self-employment in America is at a 16-year high.<sup>22</sup>

As with non-microbusinesses, the number of U.S. microbusinesses increased during the years 1990–2000 and 2000–2007. However, the number of microbusinesses also rose during the downturn years between 2007 and 2011, which was a time when the number of non-microbusinesses was falling. In fact, the shedding of non-microbusiness jobs in recent years is driving the creation of microbusinesses. And as these startups get under way, they are providing employment, generating tax revenues, and boosting the economy — and in many cases, maintaining hope for the future.

*The current reality is that our economy is changing, and past solutions are no longer as effective as they once were.*

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# The Enormous Potential of Microbusiness

Just how great of an impact can microbusinesses have in the years ahead? The AEO report *The Power of One in Three: Creating Opportunities for All Americans to Bounce Back* sums it up this way: “If one in three Main Street microbusinesses hired a single employee, the United States would be at full employment.”<sup>23</sup>

If our economy is to bounce back, it must happen on Main Street. Throughout the country, in communities great and small, there is no shortage of committed and capable entrepreneurs. They are passionate, tenacious, and determined. However, they often face an uphill challenge in making their businesses succeed.

In 2010, for example, the major U.S. commercial banks turned down roughly one million applications for small business financing. The consequences of such decisions – the missed opportunities – are huge. According to *The Power of One in Three: Creating Opportunities for All Americans to Bounce Back* report, “If demand for microenterprise-intensive services and products was met locally in communities around the United States, we could create 10 to 16 million new jobs.” Put another way, an annual increase of just \$5,000 in revenues per microbusiness would generate more than \$20 billion for our economy.<sup>24</sup>

The ability to realize the potential of microbusinesses is vital for the wellbeing of those living in our most disadvantaged communities, where the risk of entrenched unemployment is high. This kind of joblessness further aggravates poverty and inequalities. The numbers involved are sobering. According to the Bureau of Labor Statistics, “Nearly 11 percent of unemployed persons had been looking for work for about two years or more in the fourth quarter of 2010.”<sup>25</sup> For such individuals, and the 40 million people in our nation currently living at or below the poverty line, self-employment is likely to be their most viable economic option.<sup>26</sup>

*What we need is a new employment infrastructure that supports the spectrum of all paid workers.*

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## Future Prospects

Owing to their flexible and mobile nature, microbusinesses are set to generate a greater proportion of our economic growth in the future. They will play an increasingly crucial role in providing income for millions of U.S. business owners and workers who choose self-employment, or for others for whom the non-microbusiness economy no longer serves.

Moreover, during downturns, “necessity” entrepreneurship often rises, with downsized workers more inclined than at other times to try starting their own businesses. Though often small in scale, these start-ups can be the foundation upon which future business growth and net increases in employment are based.

From workers hired to taxes paid and spending generated, microbusinesses are indispensable engines that help drive the broader economy. This must make them a key part of any discussion about reinvigorating and sustaining broad-based economic recovery, not just for the jobs and income they create now, but also for how they undergird the economy of tomorrow. Historically regarded as too small to count, microbusinesses are becoming too important to ignore.

*Historically regarded as too small to count, microbusinesses are becoming too important to ignore.*

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## Sources for Figures

Figure 1: “The Economic Impact of U.S. Microbusinesses,” Insight Center for Community Economic Development, April 2013, p.3.<sup>1</sup>

Figure 2: “The Economic Impact of U.S. Microbusinesses,” p.20<sup>3</sup>

Figure 3: “The Economic Impact of U.S. Microbusinesses,” p.11<sup>7</sup>

Figure 4: “Equally Male and Female” refers to microbusinesses with multiple owners where the female owner(s) and male owner(s) have equal total ownership shares.<sup>8</sup>; “The Economic Impact of U.S. Microbusinesses,” p. 10<sup>9</sup>

Figure 5: “The Economic Impact of U.S. Microbusinesses,” p. 10<sup>10</sup>

Figure 6: “The Economic Impact of U.S. Microbusinesses,” Appendix, p. 60.<sup>14</sup>

## Endnotes

<sup>1</sup>“The Economic Impact of U.S. Microbusinesses,” Insight Center for Community Economic Development, April 2013, p. 3.

<sup>2</sup>“The Economic Impact of U.S. Microbusinesses,” pp. 18-19.

<sup>3</sup>“The Economic Impact of U.S. Microbusinesses,” p. 20.

<sup>4</sup>“The Power of One in Three: Creating Opportunities for All Americans to Bounce Back,” The Association for Enterprise Opportunity, 2011, [http://www.aeworks.org/pdf/one\\_in\\_three.pdf](http://www.aeworks.org/pdf/one_in_three.pdf)

<sup>5</sup><http://www.sba.gov/content/what-sbas-definition-small-business-concern>

<sup>6</sup><http://www.sba.gov/content/microloan-program>

<sup>7</sup>“The Economic Impact of U.S. Microbusinesses,” p. 11.

<sup>8</sup>“Equally Male and Female” refers to microbusinesses with multiple owners where the female owner(s) and male owner(s) have equal total ownership shares.

<sup>9</sup>“The Economic Impact of U.S. Microbusinesses,” p. 10.

<sup>10</sup>“The Economic Impact of U.S. Microbusinesses,” p. 10.

<sup>11</sup>“The Economic Impact of U.S. Microbusinesses,” p. 1.

<sup>12</sup>It may be that the 77 percent above had no alternative but to finance their microbusinesses through their own savings. See text box on this page for more on availability and access to capital.

<sup>13</sup>“The Economic Impact of U.S. Microbusinesses,” p. 17.

<sup>14</sup>“The Economic Impact of U.S. Microbusinesses,” Appendix, p. 60.

<sup>15</sup>“The Economic Impact of U.S. Microbusinesses,” p. 22.

<sup>16</sup><http://www.nwlc.org/sites/default/files/pdfs/60percentfactsheet.pdf>

<sup>17</sup>“The Economic Impact of U.S. Microbusinesses,” p. 29.

<sup>18</sup>“The Economic Impact of U.S. Microbusinesses,” p. 29-31.

<sup>19</sup>“The Economic Impact of U.S. Microbusinesses,” pp. 34-35.

<sup>20</sup><http://blogs.wsj.com/digits/2013/05/29/in-the-taskrabbit-economy-freelancers-are-hard-to-measure/>

<sup>21</sup>Note: Only 39 percent of owners work full-time in their microbusinesses, and the question remains whether this is by choice or by necessity. Further, minority-owned microbusinesses hire fewer employees, enjoy lower revenues and profits, and are more likely to fail than white-owned ones. These are questions that should continue to be addressed in the new economy.

<sup>22</sup>“Starting Smaller: Staying Smaller: America’s Slow Leak in Job Creation,” The Kauffman Foundation, July 11, 2011.

<sup>23</sup>“The Power of One in Three: Creating Opportunities for All Americans to Bounce Back,” p. 1.

<sup>24</sup>“The Power of One in Three: Creating Opportunities for All Americans to Bounce Back,” pp. 3-4.

<sup>25</sup>“The Power of One in Three: Creating Opportunities for All Americans to Bounce Back,” p. 1.

<sup>26</sup>U.S. Census Bureau, as cited in “The Power of One in Three: Creating Opportunities for All Americans to Bounce Back,” p. 3.



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AEO's [previous research](#) shows if one in three Main Street microbusinesses hired just one additional employee, the country would reach full employment. That research spurred AEO to take an even more intense analysis of microbusinesses and their owners. Those findings resulted in ***Bigger than You Think: The Economic Impact of Microbusiness in the United States.***

While the data presented here are compelling, we hope your engagement does not end here. Join **AEO's One in Three Alliance.**

The Alliance is a national movement to create awareness that microbusinesses are robust job-creation agents, and that if one in three of them can hire just one employee, we can revitalize America's employment and economic health. Please join us to help that movement spread like wildfire so that the heart of Main Street USA--the heart of America-- continues beating strong.

Learn more about AEO's One in Three Alliance and Campaign. Watch the award-winning [One in Three campaign video](#), Take the One in Three **pledge. Connect** with others who've taken the pledge, and **share** the word with your networks.

Help us spread the word about the power of One in Three—when you do, you'll help us help America's 25.5 million microbusinesses start, grow and hire.

