

Michael S Barr: Opening remarks – "2025 Northeast/Mid-Atlantic Small Business Credit Symposium"

Speech (via pre-recorded video) by Mr Michael S Barr, Member of the Board of Governors of the Federal Reserve System, at the 2025 Northeast/Mid-Atlantic Small Business Credit Symposium, co-hosted by the Federal Reserve Banks of New York, Cleveland, Philadelphia, Boston, and Richmond, held at the Federal Reserve Bank of New York, New York City, 15 May 2025.

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Good afternoon, and thank you for the opportunity to be part of the Small Business Credit Symposium.¹ Small businesses are the backbone of our economy, and yet they face significant challenges. As a researcher and public official, I have spent considerable time working on these issues, and today, I would like to address three critical challenges that small businesses face: access to capital, skills development, and network building. Then, given my role as a member of the Federal Open Market Committee, I'll offer my perspective on the impact of economic conditions and the outlook on small businesses and provide some details on the vital role that small businesses play in our economy.

The first challenge facing small businesses that I'll highlight is access to capital and credit. Small businesses access credit from diverse sources, including banks of all sizes, credit unions, online lenders and other nonbank financing companies. Nevertheless, entrepreneurs and small business owners face a significant gap, relative to larger businesses, in accessing capital. According to the Federal Reserve's Small Business Credit Survey (SBCS), credit availability is a challenge faced by over a quarter of small businesses.² In addition, many small businesses worry about the cost of credit and confusing terms and conditions in some credit offers. And still others are discouraged from even applying for credit and so are unable to start or grow their businesses. Minority entrepreneurs and those located in low- and moderate-income areas often have an even harder time than other businesses in accessing credit in safe and affordable ways.³

There are many ways to help address these gaps. For example, in Detroit, I was fortunate enough to work with colleagues to help set up a loan loss fund serving small businesses in Detroit, Michigan. The loan loss fund helps banks to reach deeper into the small business market by mitigating downside risks to lending. Community Development Financial Institutions (CDFIs) can also play important roles in expanding access to small business credit, especially in underserved areas. Fintech providers can use lower cost structures and technological innovations to serve small business owners as well. Federal and state governments have a role to play as well, such as through SBA programs, the CDFI Fund, and the State Small Business Credit Initiative.

In addition to the credit gap, many small businesses often face a knowledge and skills gap. Many entrepreneurs and small business owners start their firms without the range of financial and management skills needed to run a successful business.⁴ And it's not always easy for entrepreneurs to identify or develop the specific skills and knowledge they need to grow and sustain their businesses. Bridging this knowledge gap may

require a variety of approaches. For instance, many organizations, both private and public, have developed information and training to help small business owners establish and grow their businesses. Online learning platforms, payment platforms, small business development centers (SBDCs), chambers of commerce, and community colleges, for example, develop and provide information tailored to the various needs of small business owners and entrepreneurs.⁵ Focusing on practical skills, such as financial management and operations planning, can help build the capacity for greater knowledge and skill acquisition.

In my own experience with this challenge, I had the privilege of working with colleagues to launch the Detroit Neighborhood Entrepreneurs Project, which brings faculty-supervised student teams to collaborate with local businesses on their legal, financial, design, marketing, business strategy, and technology challenges. The interdisciplinary program helps to bridge the skills and resource gaps that small businesses owners face, while students learn important new skills themselves from both faculty and the small businesses that they serve.

The third challenge facing small business owners and entrepreneurs is the need to cultivate strategic connections and build robust professional networks that support their growth and success. Business and professional networks often provide entrepreneurs and small business owners with access to critical resources and knowledge. While established entrepreneurs have actively cultivated these connections and all that they can offer, emerging entrepreneurs and new small business owners often don't know where to start. Accessing networks of experienced entrepreneurs can help early-stage entrepreneurs and small business owners gain perspectives that will be vital for growing their firms. Business associations and member organizations that connect owners and staff at companies of all sizes can facilitate knowledge sharing. Even more importantly, these business networks can help to expand market access. Many years ago, for example, I helped to establish BusinessLINC, which brought together established businesses and budding entrepreneurs.

Those are a few of the challenges I have observed over the years, and some thoughts on how to address them. With the time remaining, let me turn to my current vantage point and the question of why small businesses are so vital to a healthy and growing economy. In part, this is because small businesses, to a great extent, *are* the U.S. economy. Businesses with 500 or fewer employees account for almost half of all private sector employment, nearly 40 percent of the sales revenue of businesses, and nearly 40 percent of what is paid to private sector workers.⁶ But this actually understates the impact of small businesses, because they are especially important for economic growth. We know that the overwhelming number of new businesses are small businesses, and we also know that new businesses are a particularly potent source of innovation and productivity growth.⁷ One of the reasons that the U.S. economy has done so well the past few years is because of an acceleration in productivity growth, which, together with immigration increasing the labor force, allowed our economy to grow resiliently while inflation was falling. It is no coincidence that this productivity surge occurred while the creation of new businesses was also surging.⁸ For instance, small businesses are responsible for 16 times as many patents per employee as larger businesses. Small businesses play an important role in innovation and economic growth.⁹

In my view, the economy is on solid footing, with solid growth, low and stable unemployment, and inflation continuing to come down towards our 2 percent target. But the outlook has been clouded by trade policies that have led to an increase in uncertainty, contributing to declines in measures of consumer and business sentiment. Potential disruptions to supply chains and distribution networks are particularly acute for small businesses, which are less diversified, less able to access credit, and hence more vulnerable to adverse shocks. Small businesses play a vital role in production networks, often providing specialized inputs that can't easily be sourced elsewhere, and business failures could further disrupt supply chains. As we saw during the pandemic, such disruptions can have large and lasting effects on prices, as well as output. If these disruptions were to occur, we'd likely see lower growth and higher inflation ahead.

That's the macro view. At the level of individuals and households, small businesses are a vital basis for financial security and economic mobility. Outside of stockownership and retirement savings, home ownership is responsible for 45 percent of household non-financial wealth, with business equity right behind at 34 percent.¹⁰ Those who are self-employed, as most small business owners are, have an average of four times as much wealth as those who are employed by others, and twice as much as retirees. Successful entrepreneurship also correlates strongly with upward mobility, with studies showing business owners more likely to move into higher income brackets than their non-entrepreneurial counterparts.¹¹

These opportunities matter a great deal to individuals, families and communities, and they also matter in promoting a strong economy with stable prices and low unemployment, key to the Fed's mission. I look forward to hearing more about the insights from today's event and working with all of you to encourage entrepreneurship and small business ownership, which is so vital to our economy.

1 The views expressed here are my own and are not necessarily those of my colleagues on the Federal Reserve Board or the Federal Open Market Committee.

2 "[2025 Report on Employer Firms: Findings from the 2024 Small Business Credit Survey](#)," *Small Business Credit Survey*, Federal Reserve Banks, March 2025. Other financial challenges include rising costs of goods, services, and/or wages; paying operating expenses; uneven cash flow; weak sales; and making payments on outstanding debt.

3 Michael S. Barr, "[Minority and Women Entrepreneurs: Building Capital, Networks, and Skills \(PDF\)](#)," Brookings Institute, March 2015.

4 According to Intuit/QuickBooks, only half (54 percent) of small business owners say they had a good understanding of financial management before starting a business. "20 Small Business Financial Literacy Statistics to Know in 2025," QuickBooks Blog, April 2, 2025, <https://quickbooks.intuit.com/r/small-business-data/financial-literacy-statistics/>.

5 SBDCs are cooperative efforts involving the Small Business Administration (SBA), a college or university, and often other private or public partners. There are more than 1,000 SBDCs operating in all 50 states, the District of Columbia, and many U.S. territories. The centers offer free counseling and training for small businesses on topics

such as business planning, financial management, marketing, and access to capital. "[America's SBDCs](#)," America's SBDCs.

6 "[Frequently Asked Questions \(PDF\)](#)," Small Business Administration Office of Advocacy, July 2024.

7 See Titan Alon, David Berger, Robert Dent, and Benjamin Pugsley, "Older and Slower: The Startup Deficit's Lasting Effects on Productivity Growth," *Journal of Monetary Economics*, vol. 93 (January 2018): 68–85; and Ryan Decker, John Haltiwanger, Ron Jarmin, and Javier Miranda, "The Role of Entrepreneurship in US Job Creation and Economic Dynamism," *Journal of Economic Perspectives*, vol. 28 (Summer 2014), 3–24.

8 See the Census Bureau's Business Formation Statistics, based on Internal Revenue Service applications for new Employer Identification Numbers.

9 U.S. Senate Committee on Small Business & Entrepreneurship, "[Innovation and Research](#)," news release, September 22, 2021 to November 4, 2022.

10 "[Small Business Facts: The Importance of Business Ownership to Wealth \(PDF\)](#)," Small Business Administration Office of Advocacy, August 2021.

11 Ross Levine and Yona Rubinstein, "Smart and Illicit: Who Becomes an Entrepreneur and Do They Earn More?", *Quarterly Journal of Economics*, vol. 137(1) (2022): 191–241; JPMorgan Chase & Co and Gallup, "Employing Others is Linked to Wealth and Well Being," April 11, 2024, <https://news.gallup.com/poll/643268/employing-others-linked-wealth-wellbeing.aspx>; and Signe-Mary McKernan and Hal Salzman, "[Self-Employment and Economic Mobility \(PDF\)](#)," April 2008.