May 25, 2023

The Honorable Chuck Schumer
Majority Leader
United States Senate
S-221, The Capitol
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
S-230, The Capitol
Washington, D.C. 20510

The Honorable Kevin McCarthy
Speaker
United States House of Representatives
H-232, The Capitol
Washington, D.C. 20515

The Honorable Hakeem Jeffries
Minority Leader
United States House of Representatives
H-204, The Capitol
Washington, D.C. 20515

RE: Business organizations urge Congress to address the debt ceiling on behalf of America's entrepreneurs

Dear Majority Leader Schumer, Minority Leader McConnell, Speaker McCarthy and Minority Leader Jeffries:

As a leading representative of America's 30 million small businesses, Small Business Majority and the undersigned organizations strongly urge Congress to identify a path forward to raise the debt ceiling for the good of our nation's entrepreneurs. Congress must consider the impact that a default would have on small businesses. A report from the U.S. Senate Committee on Small Business and Entrepreneurship found that a default today would force the federal government to cut spending by $125 billion in the first month alone. The impact would have a myriad of effects on small businesses, including access to essential services. Entrepreneurs are busy running their businesses and being the drivers of their local economies. They do not care about the mechanics of the debt ceiling, but most certainly will be negatively impacted should Congress reach an impasse.

Credit tightening and loan programs

Access to capital is critical to a small business' ability to start, grow and expand, but the market is already tightening. In fact, a Small Business Majority survey more than one in three small businesses in our network reported that their financial institution indicated it was planning to restrict lending due to developments in the banking industry. Additionally, 55% of small businesses have found it harder to access capital in the past year.

Capital is the lifeblood to a small business, but a default could impede a business's ability to pay their employees and contribute to their local economies. Loans, including loans from the U.S. Small Business Administration, might become more expensive and harder to access as private lenders will be forced to increase their interest rates and tighten lending. Many small businesses are financed with variable-interest-rate loans and credit lines—unlike larger businesses, which can sell their own fixed-rate long-term bonds in the market. If interest rates spike, small businesses will be impacted most because they'll have to pay higher interest despite having the least amount of income, making it harder to cover short-term expenses such as payroll.

What's more, those small businesses that depend on government loans will inevitably be cut-off from those programs, which would be devastating. These loans have lower interest rates and longer loan terms than conventional loans and are a critical source of capital for entrepreneurs.

Government contracting

If the debt limit is breached, an estimated 40% of the government's operations could be impacted. Those businesses that rely on contracting might see delayed payments, which could put their businesses at risk of closure. Additionally, it would almost certainly undermine their ability to pay employees on time.

A long-lasting effect of the debt limit on small business contracting could create a precedent where banks deny lines of credit because their primary source of revenue comes from the government. It would also weaken the success of programs recently enacted through the Inflation Reduction Act, the bi-partisan Infrastructure Investment and Jobs Act, and the CHIPS and Science Act.

Erosion of consumer buying power

Defaulting on our nation's debt would undermine consumer and business confidence, which, in turn, could reduce the spending that is fundamental to economic growth. Moody's Analytics has projected that a default lasting even a few weeks could cause a recession comparable to that during the global financial crisis–resulting in the loss of nearly 6 million jobs–and the stock market to have a fall off of almost one-third, which could wipe out $12 trillion of household wealth. This will have devastating impacts on Main Streets across America as consumers have fewer dollars to spend at local businesses.

Uncertainty already creating problems now

Small businesses are already making decisions to prepare for a default and those decisions are having a ripple effect. Although polling from October found that 8 in 10 small business owners (83%) are optimistic about their business prospects, those sentiments have shifted. Some entrepreneurs are not hiring, expanding or taking out short-term credit. Once optimistic about pulling out of the post-pandemic slump, these shifts in business practices are alarming.

It's critical that Congress immediately address the debt limit to avoid a default and find a long-term solution to this issue. In doing so, we are opposed to any legislative efforts that would undercut essential small business programs such as those seen in the Limit, Save, Grow Act, which includes cutting nearly $2 billion in funding for the State Small Business Credit Initiative (SSBCI) and additional dollars for other key capital programs. This is not the time to punish small businesses by restricting capital.

We urge you address the debt limit immediately for America's small businesses.

Sincerely,

Small Business Majority

Access to Capital for Entrepreneurs (ACE)

American Booksellers Association

Atlanta Wealth Building Initiative

Center for American Entrepreneurship

Central Valley Women's Entrepreneur Center (WEC)

The Fax Partnership

LISC Atlanta

The Main Street Alliance

New Covenant Community Development Corporation

Pacific Community Ventures

Urban League of Greater Atlanta

Vail Valley Partnership