

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members of the Committee on Small Business

FROM: Committee Majority Staff

DATE: June 02, 2023

RE: Full Committee Hearing Titled: “Prices on the Rise: Examining the Effects of Inflation on Small Businesses.”

On **June 7, 2023, at 2:00 PM** the Committee on Small Business will hold a hearing titled **“Prices on the Rise: Examining the Effects of Inflation on Small Businesses.”** The meeting will convene in room 2360 of the Rayburn House Office Building. The purpose of this hearing is to explore the causes of the recent inflationary crisis and to examine the devastating consequences of lingering inflation on Americans and the small business economy.

I. Witnesses

- Mr. Gordon Gray, Vice President for Economic Policy, American Action Forum
- Mrs. Silvia Saldana Lee, Executive Vice President and Chief Lending Officer, First Community Bank
- Mr. Dave Zittel, President, Amos Zittel & Sons, Inc.
- Mr. Josh Bevins, Chief Economist and Research Director, Economic Policy Institute

II. Background

Inflation has remained stubbornly high for almost 2 years, so small businesses have been greatly impacted. Inflation acts as a hidden tax on everything since higher prices mean individuals purchasing power is being diminished. Inflation has caused the cost of many goods to increase significantly. When goods within the supply chain are more expensive and operational costs increase, businesses are forced to pass on the increased cost to customers to attempt to salvage margins.¹ Small business owners continue to report raising average selling prices at levels unseen

¹ William Dunkelberg, *Inflation, A Sneaky Tax On Everything And Everyone*, FORBES (Nov. 17, 2022).

since the early 1980s.² Costs can only be passed onto the consumer so much before reduced purchasing power stops them from buying altogether.

Increasing interest rates is the primary tool of the federal government to tame inflation. Since March 2022, the Federal Reserve has been raising interest rates in an attempt to reduce inflation and to calm soaring prices.³ As a result, the cost of borrowing money has significantly increased. Additionally, banks that service small businesses are being more cautious due to uncertainty about the economy by reducing the general availability of credit and tightening the conditions required to obtain a loan. Known as a ‘credit crunch,’ small business owners are finding it tougher to secure funding from small banks. With 26 percent of business owners reporting to have paid a higher rate on their most recent loan,⁴ small businesses are bracing for financial fallout from planned interest rate hikes as concerns over inflation have reached a new high.

While this inflationary crisis began with the COVID-19 pandemic, it has become even more catastrophic due to reckless government spending. Since the pandemic began, Congress has authorized \$6 trillion in new spending as part of the American Rescue Plan, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and other legislation.⁵ The Federal Reserve simultaneously purchased over \$4 trillion of new assets to inject capital and liquidity into the market.⁶ As a result, the federal debt has risen substantially. The San Francisco Federal Reserve indicated that since the first half of 2021, U.S. inflation has increasingly outpaced inflation in other developed countries.⁷ Despite evidence that prices in the United States had been rising more quickly than almost anywhere else, economists say this inflation increase was foreseeable, and that earlier warnings about growing inflation were largely ignored. Compounding pressures of constrained supply, government stimulus measures, and increased government spending projects have made inflation worse.

III. Conclusion

As the backbone of the American economy, small businesses make up 99.9 percent of all U.S. businesses and 46.4 percent of the nation’s workforce.⁸ The success of small businesses is essential to our country’s financial well-being and overcoming inflation. Massive increases in the prices of everyday goods and services, and sharp interest rate hikes are causing extreme stress on hardworking Americans, their families, and their small businesses. The small business economy would be better served with pro-growth policies instead of more stimulus policies and reckless spending that have proven to worsen inflation.

² Monthly Economic Report, National Federation of Independent Business, 5 (May 2023).

³ Prathana Prakash, *Economist Larry Summers compares the Fed’s inflation fight to taking a medicine for an ‘infection’—and says the ‘risks are very large’ that the economy tips into a recession*, FORTUNE (Feb 9, 2023).

⁴ Press Release, NFIB, Labor Quality Becomes Top Small Business Problem, Followed by Inflation (May 9, 2023).

⁵ COVID Money Tracker, Committee for a Responsible Federal Budget (last visited May 31, 2023) <https://www.covidmoneytracker.org/>.

⁶ JACKIE BENSON, U.S. CONGRESS JOINT ECONOMIC COMMITTEE REPUBLICANS, THE ECONOMICS OF INFLATION AND THE RISKS OF BALLOONING GOVERNMENT SPENDING (Oct. 6, 2021).

⁷ Òscar Jordà, *et al.* *Why Is U.S. Inflation Higher than in Other Countries*, FED. RESERVE BANK OF SAN FRANCISCO (Mar. 28, 2022).

⁸ Earl Wright, *Community Banks Are the Backbone of the Economy: The Little Guys Are Under Pressure*, BARRON’S (May 15, 2023).