



**Testimony to the United States Senate
Committee on Small Business & Entrepreneurship**

**Hearing: “Pathways to Women’s Entrepreneurship: Understanding
Opportunities and Barriers”**

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Chairman Cardin, Ranking Member Ernst, and Members of the Committee, thank you for inviting me to appear today.

My name is Patrice Onwuka, and I am the director of the Center for Economic Opportunity at Independent Women’s Forum. We are a nonprofit organization, committed to increasing the number of women who value free markets and personal liberty. We advance policies that enhance people’s freedom, opportunities, and well-being.

Small business ownership has created ladders of opportunity for women of all ages, races, and backgrounds. Entrepreneurship offers a pathway to achieve work-life balance, experience fulfillment, and better one’s community.

Finding ways to ensure individuals can engage in entrepreneurial pursuits is admirable, but more importantly, it’s critical to ensure that government policies do not erect barriers to opportunity. We appreciate that this committee seeks bipartisan solutions to dismantle those barriers and promote entrepreneurship to ensure economic growth for women-owned businesses and prosperity for all.

Overview of Women-Owned Businesses

The growth of female entrepreneurship has been tremendous over the past decades, but particularly in recent years in good part due to technology.

Today, women own **12 million** small businesses (43% of all small businesses) generating \$2.1 trillion in total sales. Only about one in ten (1.1 million) of these businesses are employer firms, employing 10.1 million workers. Most women-owned businesses are one-woman shops. The **10.9 million** self-employed women-owned firms generated about \$300 billion in sales according to the Census Bureau Annual Business Survey, 2018.

Women were starting an average of **1,817** new businesses per day in the U.S. just before the pandemic, according to an analysis commissioned by American Express.

Women-owned businesses are concentrated in certain sectors, and these sectors track closely with women's labor force participation in the labor market. Health care and social assistance is the top industry for female businesses (216,000) followed closely by professional, scientific, and technical services (207,000). Retail trade, services, and accommodation and food services round out the top five industries.

Demographic characteristics of women-owned businesses largely reflect the racial diversity of our nation. According to one **national survey** by Guidant Financial, the racial breakdowns of these firms are as follows: 78.4% white, 11.3% Black, 4.6% Hispanic, 4.6% Asian, and 1% Middle Eastern. Interestingly, from 2022 to 2023, the number of women business owners who identify as "Black or African-American" increased by 33%.

Generationally, most women business owners are middle-aged and older.

Despite tremendous gains, women have not reached parity with men in starting businesses. In 2021, about **four in ten** new entrepreneurs were women, and the share of women among new entrepreneurs has remained relatively consistent over decades.

Examining **business types**, we find that most women started their businesses from scratch (59%) rather than buying an existing company (40%). Women-owned franchises outpace women-owned independent businesses by a margin of 52% to 47%. Of the women who are franchisees, more (34%) bought their own location instead of purchasing an existing franchise location (10%).

Motivations for entrepreneurship

Most female business owners strike out on their own because they desire independence, flexibility, and the ability to fulfill their passion. These motivations set them apart from their male counterparts.

According to a **survey** conducted by Guidant, the leading pull and push factors drawing women into entrepreneurship are autonomy and flexibility (27%) and dissatisfaction with Corporate America (23%). Women are also more likely than men to launch a business based on passion.

For many women, entrepreneurship is not a sudden decision, but a long-standing ambition. Some **84%** of female business owners polled said they had dreams of starting their own business for "as long as they could remember." The COVID-19 pandemic also motivated nearly two out of three (61%) women to start a business in the past few years.

Challenges Facing Women Entrepreneurs

Despite many bright spots, women's businesses face struggles. A survey of 1,000 female small business owners commissioned for Office Depot found that one in six are stressed out every day.

Women face similar economic challenges to men, such as labor shortages, inflation, regulations, taxes, and uncertain economic conditions.

Women-owned firms tend to be younger and smaller than their male counterparts, which could account for some of their revenue differences.

Average revenues of women-owned businesses are rising but are behind those of firms owned by men. Women-owned employer firms hire fewer workers and earn less. According to **Census data** from 2018, the average annual earnings of employees of women-owned firms lag behind the national earnings average of the workers of all firms by over \$15,000 (\$38,238 in average annual payroll per employee compared with \$54,114).

Lack of access to capital is a perennial problem. In 2022, female-founded companies garnered just **2.1%** of the total capital invested in venture-backed startups in the U.S. Men start their businesses with six times as much capital as women. Nearly half (**47%**) of women business owners said a lack of funds was their toughest startup challenge and of those, over half pointed to high startup costs with business. A large majority (**60%**) of female business owners polled believe they do not have the same access to capital that men have.

Women lack robust networks. Almost half (**48%**) of female founders cite a lack of available mentors or advisors as an impediment. Nearly a third (**29%**) of women in a poll cited networking as their biggest challenge.

Some of the challenges noted, from high costs of goods and services to labor shortages, are impacted by government policies but are economic in nature.

Two additional challenges to starting businesses are directly the results of government-imposed barriers to building human capital: overly-restrictive occupational licensure laws and restrictions on independent contracting.

Credentialing Challenges

Occupational licenses are intended to prevent consumer harm from unskilled or inexperienced workers. Unfortunately, they can also become an impediment to opportunity for women by limiting competition and discouraging entrepreneurship.

Before beginning a job in certain occupations and fields, states often require that an individual obtain an occupational license. This credential is supposed to verify that she has obtained a certain level of education, training, and testing to deliver a good

or service. Over the past 60 years, the preponderance of occupational licenses has risen from just **5%** of workers in the 1950s to more than one out of four workers today.

Despite claims by supporters, some licenses have no connection to public health or safety at all. Instead, they serve to protect established businesses against new competition, allowing them to keep prices for their services artificially high.

Excessive occupational licensing has robbed our economy of nearly **3 million jobs**, cost the national economy \$6 billion, and prevented workers who already face social and economic challenges from gaining access to opportunities and economic mobility.

Occupational licenses are required for industries that women-owned businesses are concentrated in, including personal care services such as hair styling and care, skin care, makeup artistry, nail styling, waxing and threading; and health care and social assistance. They place a burden on many women, especially those with few means and in need of opportunity, such as immigrant workers and those with criminal records.

Often the requirements for an occupational license are prohibitive for those without money or time to pursue them and may vary from state to state. For example, Texas imposes no **makeup artistry** license, but if a makeup artist moves one state over to Oklahoma, she would have to clock 600 hours of education before obtaining a license to work.

Military spouses are uniquely affected by excessive licensing. Nearly all of the 600,000 military spouses in the U.S. are highly educated (89% have some college education) but experience an astoundingly high **33%** underemployment rate. Because states vary in the requirements for a given occupation, it is difficult for workers who move frequently, such as military spouses, to be gainfully employed.

Over the past few years, bipartisan support for occupational licensing reform has unified Presidents **Barack Obama** and **Donald Trump** and governors of red and blue states. There is no national standard, nor should there be, as it could unintentionally force states to create licenses that did not exist before or to increase licensing requirements that were not as high to the new national level. However, the federal government can provide resources and encouragement—such as through the Federal Trade Commission—for states to design their own reforms.

Individuals who want to start their own businesses should not be limited by onerous, excessive licensing requirements that serve only to limit competition instead of encourage it.

Independent Contracting

Freelancing offers opportunities for women to launch small businesses across the country, but that entrepreneurial spirit is at risk from legislative and regulatory challenges.

In 2022, an estimated **65 million** people freelanced. Unlike traditional employees, independent contractors (including freelancers, gig workers, and consultants) control when, where, and how they work. This flexibility is one reason that contracting jobs are increasing in popularity, especially among women. In a 2018 survey of female gig workers, flexibility **ranked highest** among valued aspects of freelancing.

Independent contractors understand there is a tradeoff with this arrangement. Instead of a guaranteed salary and benefits, they receive the flexibility to determine their schedule and the autonomy to decide whom to work for, what work they do (or don't do), and how they get it done (i.e. being their own boss). Nearly 75% of freelancers are working independently by choice. Nearly **two out of three** women working in the gig economy (61%) would prefer to be independent while only 12% said they would want to be an employee of the company for which they gig.

In 2019, the California legislature passed Assembly Bill 5, a law that drastically changed the employment arrangements for at least one million independent contractors across the state. The law, which took effect on January 1, 2020, requires that employers prove they meet the **ABC test** for their workers to be lawfully classified as independent contractors. Proponents assumed that businesses will simply hire their contracted workforce as employees and offer them all the benefits of salaried workers. This ignored the substantial costs to businesses, as well as the preferences of workers. AB5's passage and enactment spawned the loss of income, contracts, and livelihoods of **thousands** of workers across the state.

Efforts to reclassify independent work nationally would have sweeping impacts on freelancers and the companies that hire them. A **study** by the American Action Forum estimates that the costs of reclassifying independent contractors as employees under a more stringent test could produce between \$18.4 and \$61.4 billion in additional weekly employment costs for businesses. A national version of AB5 could risk up to 8.5% (**\$2.2 trillion**) of the U.S. GDP.

Congress and regulators should not nationalize labor policy that could destroy income-generating entrepreneurial pursuits for enterprising men and women.

Child Care

The flexibility that entrepreneurship offers can help women balance caregiving responsibilities. However, even with flexibility, child care can be a challenge for some women.

Policymakers should find ways to make childcare options more affordable, plentiful, and diverse. Diverse is key. Most parents do not prefer formal daycare settings according to a **2022 report** by the Bipartisan Policy Center and Morning Consult. Nearly six in ten parents preferred informal child care over formal childcare centers, even if formal care was free and in a convenient location.

Eliminating unnecessary red tape that especially burdens home-based care facilities is a good place to start. A **Mercatus Center study** found that costs of care could be reduced by between \$850 and \$1,890 per child per year by eliminating regulations not related to the quality of care. Such efforts do not have to sacrifice safety and quality but will ensure that providers, especially smaller and at-home providers, can enter the marketplace giving parents more and better options.

In addition, Congress can consider opening up to nonprofit childcare providers the funding programs that for-profit providers have access to at the Small Business Administration (SBA). Presently, nonprofit childcare providers are ineligible for certain types of Small Business Administration (SBA) loan programs that are available to for-profits. While nonprofit providers can apply for the SBA microloan program which is capped at \$50,000 and limits how the money can be spent, for-profit providers have the option to apply for more flexible programs that can provide loans up to \$5.5 million and can be used for a variety of purposes.

If enacted, the Small Business Child Care Investment Act would allow qualified nonprofit childcare providers to access these same types of SBA loans to finance the startup and operational costs necessary to provide high-quality care.

Opportunities

Protecting independent contracting from sweeping reclassification through federal law or regulation is an important step that Congress must be committed to if it wants to ensure that women's entrepreneurship thrives. Most female entrepreneurs are self-employed and unnecessarily reclassifying millions of independent contractors would destroy their income-generating livelihoods and side hustles.

Congress should also consider reducing the regulatory burdens placed on small businesses. **Analysis** by the U.S. Chamber of Commerce finds that regulatory costs amount to on average \$11,700 per employee each year. Businesses with 50 or fewer employees incur regulatory costs that are nearly 20% higher than for the average firm. Cumulatively, economically significant federal rules for small businesses amount to over \$40 billion per year in regulatory costs. This is overwhelming for small businesses, especially if they are solo enterprises.

The Small Business Administration (SBA) is the one agency of government devoted to the preservation of our nation's small businesses. At minimum, Congress should consider directing the SBA to quantify and monitor federal regulatory costs on small businesses.

The SBA also has dedicated programs and efforts for women-owned small businesses including funding, counseling, and federal contracting. It is important to assess if these programs are meeting their goals, being effective, and truly expanding access and opportunity for women.

Congress can employ greater oversight of the SBA and understand areas of improvement by reauthorizing the agency as it does other agencies. The SBA has not been reauthorized in two decades.

Congress can also consider how private nonprofit organizations that receive federal funding are helping women start and grow their businesses.

Conclusion

Women-owned businesses must continue to thrive. The government serves a critical role in ensuring that it does not squelch the entrepreneurial spirit through heavy-handed, costly, and opportunity-killing regulations or ineffective programs.

Thank you for your time.