A good job with decent wages and benefits used to be the surest way to secure a spot in the middle class. For some, starting a business was a promising alternative, allowing people to create their own jobs, provide employment opportunities to others in their community and build an asset that could be passed down to future generations. While this year’s Scorecard reveals growth in both employment and business ownership, many of those opportunities no longer provide a ticket to financial stability, wealth and prosperity. Policies need to acknowledge this new reality and help ensure that a steady job and business ownership translate into economic security.

Many features of job quality have eroded, including essential benefits like health insurance. The percentage of employers offering health insurance to their employees (45.7%) has plummeted by more than 10 percentage points since 2008. In only nine states and the District of Columbia do more than half of all employers offer health insurance. This was primarily driven by decreases in the rate of small employers—those with fewer than 50 employees—providing health insurance. Meanwhile, declines in this important employment benefit were not offset by a related increase in compensation. Average annual pay did increase marginally at the national level ($52,942 in this year’s Scorecard compared to $51,425 in the 2016 edition) after remaining relatively stagnant since 2006. But the percentage of jobs in occupations paying below the poverty threshold was unchanged at nearly a quarter (24.2%). This estimate of low-wage jobs is based on median pay, which may suggest that the increases in state estimates of average annual pay are driven by gains at the higher end of the income distribution.

When there aren’t quality job opportunities, workers may turn to entrepreneurship. Microbusinesses (businesses with fewer than five employees) comprise over 90% of all enterprises and are responsible for 31% of all private-sector employment in the US. Yet, for all the talk nationally and at the state level about economic growth and an improving climate for small business, the microbusinesses that power our national economy remain under-resourced and undercapitalized.

The national microbusiness ownership rate increased from last year’s Scorecard from 16.6% to 18.2% of the labor force. However, this growth occurred entirely among businesses without paid employees. This suggests that growth in new
business development is having a minimal effect on reducing unemployment, especially considering that the average value of a business without employees is $46,914*—less than the average household income, and certainly not enough to serve as a wealth-generating vehicle for the owner, let alone the community. In fact, only 14 states saw growth in the total number of microbusinesses with paid employees, even as all 50 states and the District of Columbia experienced growth in non-employer firms.

This pattern was also borne out across racial lines: business ownership has increased among workers of color relative to white workers, but the value of White-owned businesses has increased by more than double the rate experienced by businesses owned by people of color (22.6% and 10.8%, respectively). This is driven largely by the percentage of firms without paid employees: 96% of Black-owned businesses and 91% of Latino-owned businesses have no paid employees, compared to 79% of White-owned businesses. White-owned businesses have an average value of over $656,000—nearly three times the average value of a business owned by people of color ($224,530).

STATE POLICY RESPONSES

Without targeted investments at the state and local level, including financial and technical assistance, microbusinesses and their employees will continue to be squeezed out. States can support these entrepreneurs by leveraging federal funding received through the Community Development Block Grant (CDBG), the Workforce Innovation and Opportunity Act (WIOA) or Temporary Assistance for Needy Families (TANF). Twenty states currently use CDBG dollars to support low-income entrepreneurs and microbusiness development. Eleven states use funding from WIOA, TANF or both sources to support these goals. Unfortunately, five states—Hawaii, Maryland, Minnesota, Ohio and Utah—chose to withdraw CDBG funding for microbusiness in 2016, placing vulnerable entrepreneurs in a precarious position and leaving others without ample opportunity to grow their enterprises. Federal grants are expected to become increasingly scarce in future federal appropriations, so states must remain vigilant in defending such funding sources. CDBG funds, when used for microenterprise development in particular, are estimated to generate 183 jobs for every million dollars invested, demonstrating a true return on investment through economic growth and job creation.*

To support the growth of quality jobs, states should continue to show leadership at a time when the federal government has demonstrated little interest in increasing the minimum wage or indexing it to inflation, or in guaranteeing paid leave for workers facing the birth or adoption of a child, unforeseen long-term illness and the like. Fourteen states and the District of Columbia have surpassed the federal government by guaranteeing workers are paid at least $15 per hour by 2022 or by indexing their minimum wages to inflation to ensure the value of wages do not decrease over time. Ten states and the District of Columbia require employers to offer paid medical, family or sick leave. Twelve states and DC have also expanded the benefits guaranteed under the federal Family Medical Leave Act by covering employees of businesses with fewer than 50 workers, by covering employees who have less tenure or have worked fewer than 1,250 hours in the year, and by including employees’ domestic partners, siblings, grandparents and grandchildren in the definition of family.

* For a version of this essay with references and citations, download the Main Findings report at http://scorecard.prosperitynow.org/findings.