

Testimony of

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“The Impact of the Credit Crunch on Small Business”

Chairman Kerry, Ranking Member Snowe, and distinguished Members of the Committee, I thank you for inviting me here today to testify about the impact of the credit crunch on small business.

My name is Carolyn Kirk. I am the Mayor of the city of Gloucester, Massachusetts. You may know of Gloucester. The city of about 30,000 residents is located north of Boston, and we are America's oldest fishing port. Chartered in 1623, the city has a long and storied history of providing fresh fish throughout this country and beyond. In our 385-year history, Gloucester has lost over 10,000 men to the Atlantic Ocean. The names of those known as lost at sea are painted on a mural in the main staircase at City Hall, and also on a memorial on Stacy Boulevard. I invite you all to come and visit our beautiful city if you haven't already.

In Gloucester, the fishing industry has sustained the community, and its backbone has been small business – from the ice company that supplies ice to the fishing boats to preserve their catch to the shoreside services that perform boat repair, provide fuel or dockage, small business is the engine that has driven our economy.

With the drastic measures taken by the Federal government in an effort to rebuild fish stocks, the economy in Gloucester is at a cross-roads, but it is still driven by small business.

To give a city like Gloucester, or any American working-class city whose economy is in transition, a fighting chance to survive and thrive, we need your help. Today, I am here to testify about the impact of the credit crunch on small business. The impact is significant, and appears in many different forms throughout small businesses in Gloucester.

In preparation for my testimony, I asked small business owners in Gloucester to contact me with examples of how the credit crunch is impacting them, and this is a sampling of what I heard:

A lawyer in private practice observes that with the price of homes falling, normally he would see an upswing in real estate closings. However, underwriting standards have tightened so much that many buyers don't qualify so there hasn't been the increase in business that he would normally see in this type of cycle.

A number of small business owners state that their customers pay more slowly. An owner of an oil delivery company reports that the vendors that supply oil to him demand immediate electronic payment. However, the homeowners to whom he delivers the oil are slow to pay, leaving him with a cash flow issue making it difficult to keep enough money in the bank to keep the business going.

A small business owner just starting out financed equipment and materials for the business on credit cards, and the credit card companies are shortening their payment cycles to 22 days. But her clients are slow to pay, or even if they are on a 30-day term, it makes the business owner late in her credit card payments. She says, "it is a constant battle with the credit card companies, and they are the only ones making any money."

Another small business owner cites other factors which are impacting his business such as inflation. Three years ago an egg cost 7cents. Now eggs cost 21cents which is a 300% increase. His monthly electric bill runs an average of \$1000 per month. The impact of his higher costs ultimately results in higher retail prices to the consumer.

Across the board, small business owners are feeling the effects of not only the credit crunch, but increases in costs such as utilities, health insurance for their employees, or in my city, the cost of water and sewer services which are skyrocketing.

As I said, Gloucester was chartered 385 years ago. Today, when my engineers replace water lines underground, many of the pipes they pull up are stamped 1902. My city has an aging infrastructure. A catastrophic failure in our drinking water system, or our sewage treatment plant could cripple the city, and bankrupt our citizens. And we are under a Federal Consent Order to separate our sewage from the storm water. This project is costing the city tens of millions of dollars, and the ratepayers who are also our small businesses are footing the bill. This is simply not sustainable for our local economy.

Gloucester is committed to the Clean Water Act but we need Federal relief in the form of direct grants. It bothers me to hear about the infrastructure investments our country is making around the world when my own city is crumbling around me, and my residents and small businesses are completely tapped out.

I ask that when you deliberate about how to address the impact of the credit crunch on small business, that you look at all of the factors that are making it difficult for small businesses to survive.

When the Congress passes a mandate that is unfunded, it is the small business owner and the taxpayer who picks up the slack nevertheless. Unfunded mandates in education, for example, have caused my city to divert spending to mandated education programs. We do not spend one dime out of the operating budget on athletic programs as a result. Instead, students and parents turn to the small business community for donations, as one strategy.

Successful small businesses are resilient. Many could survive the credit crunch. But they are also dealing with inflation. They are dealing with more expensive municipal services because of

spending on infrastructure, and increased costs for delivering those municipal services. They are dealing with schools who have their hand out, always looking for an item to be auctioned, or money. It seems to me that in this country we are creating private wealth and public squalor with small business owners, many of modest means, caught in between.

We need to create wealth, jobs and opportunities for our small businesses, and reinvest and rebuild the domestic economy. I applaud the work of the Senate Committee on Small Business and Entrepreneurship, and I support the \$100 million increase for the Small Business Administration in the FY09 Federal budget. I urge you to continue your dedicated work towards reinvesting in America's economy, and to keep in mind the impact of the overall fiscal picture when making your decisions in this 110th Congress.

Thank you for the opportunity to address you today.