THE RESURRECTION OF THE AMERICAN DREAM

Craig Hall, with Linden Gross

Not everyone's career path can be traced back to a single moment in time, but mine can. It all started when I was just sixteen years old and decided to run for "Mayor for a Day" in Ann Arbor, Michigan. All of the high school seniors were encouraged to vote for one person to lead the City Council for a day, and like any politician, I decided I needed a platform and a campaign to give the other students a reason for vote for me. I had seen the escalating housing complaints made to the City Council by University of Michigan students. The students formed a tenant union and even held rent strikes, where they put money into escrow accounts in Canada. They collectively wanted to bargain for better maintenance. I decided that I would run on this platform. It was an incredible surprise when I found out I had won. During my 24-hour term as mayor, I would find out that solving the housing problem facing our community was much more complicated than campaigning on the issue.

Winning was the good news, but as it would turn out, also the bad news. I had a fun day where I experienced the Mayor's day-to-day schedule firsthand. I was even able to help run the City Council session. However, at the end of the day, despite all of my best efforts, the housing issues remained just as troubling as when I started my short mayoral career. While a lot of people would be mayor for a day and then never look back, I did the opposite. I didn't let this experience discourage me and instead, I decided to take matters into my own hands.

I decided that I would prove that "good guy" landlords could both turn a profit and do a great job maintaining their properties. About a year after my brief political stint, I became the youngest landlord in Ann Arbor after purchasing a rooming house on the University of Michigan campus at the age of eighteen. I had saved money from small ventures between the ages of eight and seventeen, stockpiling every penny I could get working odd jobs and starting paper routes and the like. This left me with a little over $4,000. It wasn't an easy road, as the process of finding a building that I could afford with the down payment I had was difficult. The process took over a year, but ultimately, in October 1968, I bought 427 Hamilton Place. There were eight bedrooms on the second and third floors, and a four-bedroom apartment on the first floor and basement. I thought I was the luckiest man alive.

During this time, it had never occurred to me that I wouldn't be able to start a business of my own. In fact, when I decided to buy the rooming house, getting a lawyer and going through all of the paperwork was surprisingly easy. Shortly thereafter, I found out that the seller of the rooming house had lied to me about certain terms and I ended up retaining my lawyer for what became my first lawsuit. The case was settled quickly and with reasonable legal costs, as my lawyer, unlike today where everyone is a specialist, was the same one who handled the real estate closing. Today, the process would require litigation specialists and cost a fortune.

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I enjoyed the process of being an entrepreneur a lot more than I thought I would. I originally planned on only buying one building and keeping it for a couple of years, but I was really getting hooked and wanted to start growing. In the beginning, all I wanted to do was prove that I could be a good landlord while also turning a reasonable profit, but I found out that it was a lot of fun. I wanted to share my ideas on how you can manage a building responsibly and profitably while at the same time keeping tenants happy, the same concept I had tried to advance when I was elected mayor for the day.

I had the ambition to buy a second building, but I didn't have the money, so I came up with a new approach. I went around and asked other students at the University of Michigan if they would each give me $200 to own a percentage of a building that required a $3,000 down payment. Ironically, I ended up using this same approach to buy around 100,000 apartment units over the next 18 years, raising over a billion dollars in equity that ending up including several hundred partnerships.

My business career has had its ups and downs, and by no means has it been easy, but I did have opportunities. I had the ability to start my own business and it is something I will always be grateful for. I believe that every American deserves this opportunity.

That is why I was so alarmed when, in 2011, I attended a speech given by Moody Analytics' chief economist Mark Zandi on the topic of entrepreneurship, and learned how it had been in decline for the better part of three decades. At first, I couldn't believe what I was hearing. How could entrepreneurship be in decline when all I was hearing about in the news was about the incredible technology startups coming out of Silicon Valley? At the time I heard this speech, I was living in and running my business in Dallas, where the economy was vibrant despite being on the heels of the Great Recession.

My initial disbelief evolved into curiosity. I decided to further investigate Mark's claims. The statistics and research were clear—over the course of the last several decades, the number of new startups in the U.S. has been on a steady decline. In fact, from 2008 to 2011, more U.S. businesses died annually than new ones were started for the first time in recorded history. Add to this that, according to the Economic Innovation Group, only twenty counties—out of 3,149—generated half of the net new businesses between 2010 and 2014. Additionally, 75 percent of venture capital in the U.S. goes to only three areas—Silicon Valley, New York, and Boston. This has left much of the United States a waste land in terms of entrepreneurial activity.

And the punches keep on coming. The main challenges facing entrepreneurs today are significantly worse for women and people of color. Morgan Stanley reports that women and minority-owned businesses receive 80 percent less investment than the median investment in businesses overall. Inequality in our country has been further aggravated by a system that favors white male entrepreneurs, and this is clearly evidenced when you look at entrepreneurship.

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Currently, women employ just eight percent of the total private sector workforce. Additionally, a Biz2Credit study showed that female-owned businesses receive loan approvals 33 percent less often than male-owned businesses. Pitchbook also reports that if women had parity with men, the GDP would grow by 10 to 12 percent in just ten years. By creating barriers for women to start businesses, we are in fact deteriorating potential growth for our country's economy. In the Kauffman Foundation's Annual Survey of Entrepreneurs, they revealed that people of color are put at a significant disadvantage in terms of starting new businesses. Among firms that started with at least $100,000 in capital, 82 percent are owned by all-white teams, 13 percent are Asian-owned, 4 percent are owned by Hispanics, and just 1 percent are owned by all-black teams. Access to capital is a critical factor in launching a business, and just 1 percent of American venture capital-backed founders are black, leaving them out of potential early stage funding. As the Center for Global Policy Solutions reports, our country is losing out on over 1.1 million minority-owned businesses, 9 million potential jobs and $300 billion in national income by not addressing this growing opportunity gap.

Entrepreneurship today is a tale of two cities. Silicon Valley mega-startups are often able to raise $500 million or $1 billion more easily than entrepreneurs looking for $10 million in more rural communities. This is largely due to consolidation. The consolidation of big businesses in many industries has left little room for competition, as these companies largely influence public policy and are able to out-spend and out-last any startups that threaten their market share. Because of the influence these large corporations have in Washington, public policy has largely benefited big business versus smaller, emerging startups. Additionally, the geographic consolidation of entrepreneurial ecosystems to just a few U.S. cities has left rural America behind. According to the Kauffman Foundation, in the 1980s, 20 percent of U.S. companies started in rural areas. This shrunk to just 12.2 percent in 2017.

Millennials also face many challenges as potential entrepreneurs. Since 2004, the number of students with debt has increased by 89 percent, while the average amount of debt held by student borrowers has grown by 77 percent. These massive amounts of debt make it difficult—or near impossible—for millennials to save money for home ownership, let alone a new business venture. This lack of home equity causes millennials to lose out on a key source of capital for many entrepreneurial ventures. Additionally, millennials who entered the workforce at the height of the Great Recession and witnessed the shuttering of countless business are left with heightened risk aversion to entrepreneurship.

So why should all of this matter to us? Statistically speaking, unemployment numbers today are low, and the economy is strong. But for many in the middle-class living paycheck-to-paycheck, this is still a very tough time. And what happens ten, twenty, thirty years from now if we don't address this issue? What happens when our economy feels the impact of new technology breakthroughs eliminating more and more existing jobs? Startups account for the majority of new net job growth in the U.S., strengthen the middle class, improve our standard of living and are the greatest source of industry innovation. The same opportunities that allowed me to start my business at eighteen-years-old with $4,000 in my name are not available today for most Americans. This is a fundamental component of the American Dream, and it is under attack today from overbearing regulations, lack of access to capital, increased debt, and public policies that favor big business over startups.

So, if this is important to us and it's in trouble, what can we do to solve it? There are many great nonprofit organizations and other initiatives taking place throughout the U.S. today to address this same issue, but we have seen that it is going to take a lot more to solve this complex problem. The first step to solving this issue is recognizing that there is a problem and creating a national dialogue. Many people are passionate about entrepreneurship, and together we can make strides in the right direction.

From a policy standpoint, here are some of the changes I propose to get entrepreneurship back on track.

As we've established, entrepreneurs can only start businesses if they have capital. We should offer tax incentives to individual U.S. taxpayers to promote investment in qualifying startups—particularly ventures with $10M or less in capital. Today, our government provides a great deal of incentives for real estate and other industries, and direct tax incentives of this nature for traditional startups (not just the "unicorns") could make a huge difference. To further incentivize investment, capital gains on successful investments could be deferred if reinvested in qualifying startups within a one-year period.

Now, how can we narrow this focus to better serve women and minority-owned businesses? I propose implementing a 100 percent tax deduction on investments made in women and minority-owned businesses while keeping the tax basis at the full investment level, lowering investment risk and providing for a second write-off if the deal fails. In addition, we can and should create new and expanded government programs to address and alleviate the specific obstacles preventing women and minorities from starting new businesses, such as an expansion of the State Small Business Credit Initiative (SSBCI) and New Markets Tax Credit to focus their applications on minority- and women-owned small businesses.

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To encourage millennials to start businesses, I suggest that we implement debt relief policies for millennial entrepreneurs burdened by student debt, including a suspension on payments or government subsidization during the period in which a business is being started. For each year of active entrepreneurial efforts, a portion of this debt should also be written off.

Last but not least, we need to streamline our regulatory process. According to the World Bank, the U.S. currently ranks 53rd in terms of ease of starting a new business. It is critical that we pursue regulatory reforms at the federal, state and local level that could be brought into packages of legislation to help alleviate the red tape and encourage new startups. For example, a startup regulatory program should exist for companies less than five years old that only requires the most essential regulations, as determined by the government.

The time is now to come together to solve this growing problem. We need to make entrepreneurial opportunities accessible to all Americans and level our country's playing field if we want to remain a world superpower. **I am optimistic that if the right steps are taken, we can create a bright future for entrepreneurship in our country and resurrect the American Dream for future generations to come.**

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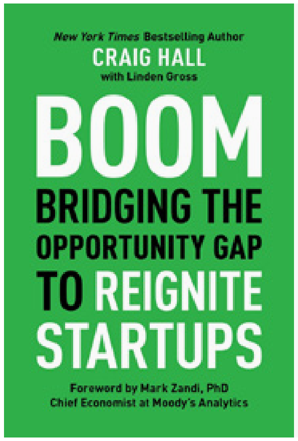

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About the author

Craig Hall is an entrepreneur, civic leader, *New York Times* bestselling author and philanthropist. He formed HALL Group in 1968 in Ann Arbor, Michigan and today the company controls billions of dollars in assets and is made up of several subsidiary brands, with interests ranging from real estate development, ownership and management to financial lending and HALL Wines and other winery operations. Hall actively supports entrepreneurs and start-ups and, together with his wife Ambassador Kathryn Hall, funded the Fulbright Kathryn and Craig Hall Distinguished Chair for Entrepreneurship in Eastern Europe. Hall also founded the Dallas Regional Office of NFTE (Network for Teaching Entrepreneurship). He has received a number of awards and honors, including being named a lifetime member of the Horatio Alger Association for Distinguished Americans in 2007.

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