PART I

The Economics of Local

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CHAPTER 1

Motherhood, Apple Pie, and Political Theatre

How We Are Failing Our Small Businesses

If we've learned anything from our near economic collapse and its aftermath, it's that small business is right up there with motherhood and apple pie in the pantheon of American ideals. Just ask any politician, from either side of the divide.

President Obama preached the gospel of small business as he crisscrossed the country in 2010 pushing his $30 billion small business stimulus package. A typical venue was the Tastee Sub Shop in Edison, New Jersey—a town, the president noted, that was "named after somebody who was not only one of history's greatest inventors but also a pretty savvy small business owner." Addressing a crowd that included local business owners, he intoned: "Helping small businesses, cutting taxes, making credit available. This is as American as apple pie. Small businesses are the backbone of our economy. They are central to our identity as a nation. They are going to lead this recovery."[1]

Just two months later, ahead of the midterm elections, a dozen House Republicans took to Tart Hardware ("Everything to Build Anything") in a suburban Virginia industrial park to unveil their "Pledge to America," a 45-page glossy pamphlet brimming with lofty promises to cut taxes and regulation that read like a Big Business wish list. "We are here to listen to the small-business people who are facing the same kind of uncertainty that small-business people all over the country are dealing with," declared then-minority leader John Boehner, who likes to remind folks that he is just a small business guy himself who "stumbled into politics."[2]

The rush to the nearest mom-and-pop store, camera crews in tow, in times of economic adversity is a political tradition. If we had a dollar for every time a politician delivered small-business bromides against the backdrop of a patriotic banner, we could retire the national debt. No doubt some genuinely hold this view, but politicians are nothing if not savvy. They are playing to the deeply held belief in small business that is central to how we view ourselves as a nation—less a melting pot than an audacious mashup of immigrants, commerce, and ambition.

From its earliest days, the country relied on and admired its independent business people—the merchants, farmers, and artisans that plied their trades in the colonies. Benjamin Franklin, the son of a soap maker turned eclectic entrepreneur and patriot, so valued independence and self-reliance that he bequeathed 2,000 pounds sterling (a small fortune in those days) to the cities of Boston and Philadelphia to establish loan funds that would help young artisans and apprentices start their own businesses. He specified a fixed interest rate of 5 percent to deter excessive profit making from the loans. In his will, Franklin explained his motive, noting that he had been trained as a printer in Philadelphia and that "kind loans of money from two friends" served as "the foundation of my fortune, and all the utility in life that may be ascribed to me."[3] (This generous act led one observer to dub Franklin "the inventor of microfinance."[4])

Many of us are descended from self-made businesspeople and entrepreneurs. My grandfather Ralph arrived at Ellis Island as a young boy in 1906, just one family among a wave from southern

Italy looking for better economic opportunity. He never went to college, but like many of his generation, he was a tinkerer, experimenting with new electrode technology in his basement. After working at Westinghouse, in 1930 he founded his own company, Engineering Glass Laboratories. EGL built a thriving business producing electrodes, tubing, and other components for neon signs—a French innovation introduced to the United States in 1923. The company became the market leader, with a significant export business, and continues today.

My maternal great-great-grandmother, Mary Moore, serves as a reminder that American entrepreneurship is open to all. She ran a boarding house in rough-and-tumble New York for the scores of young men arriving from Ireland in the late 1800s through the turn of the century, becoming something of a local powerhouse with her ability to deliver the vote among that fast-growing population.

We all have stories like this to tell. And many of us aspire to someday, perhaps, unchain ourselves from our corporate overlords and go into business for ourselves. That impulse is what led Sagar Sheth and Kory Weiber, two young engineers with promising careers at General Motors, to strike out on their own. Their company, Moebius Technologies, manufactures high-tech medical equipment in a plant in Lansing, Michigan. "It's one of these things where you realize you have to try, or you'll always wonder what could have been," Sheth, whose parents were born in India, told me. "To a large extent the American Dream is about entrepreneurs. What's beautiful about this country is that anyone can be an entrepreneur—that's very different from most places in the world." Indeed, business ownership has been the escalator to the middle class for generations of ambitious immigrants.

If we've canonized small business entrepreneurs, it's for good reason: They provide real economic benefits. What Franklin and his Revolutionary peers no doubt understood, and what our contemporary leaders intimate, is the value that local businesses bring to a community. They are engaged in the community's civic life and add to its diversity, identity, and independence. They contribute to the community's prosperity by employing local workers and

spending profits locally, allowing that money to recirculate in the community—what is known by economists as the multiplier effect. Studies have shown that a dollar spent at a locally owned enterprise generates three times more direct, local economic activity than the same dollar spent at a corporate-owned peer.[5] And their tax contributions help pay for local services. (It's a pretty good bet that the owner of your local hardware store isn't stashing his profits in a tax shelter in the Cayman Islands.)

While Wall Street has increasingly chosen fast, speculative profits over productive investment, small businesses are the engine of the *real* economy, the firmly on-the-ground Main Street. Broadly defined by the Small Business Administration as firms with 500 or fewer employees, small businesses make up 99 percent of all U.S. companies. They range from sole proprietors and mom-and-pop shops to established, locally owned companies that employ hundreds of workers. Also among their ranks are high-growth startups that have the potential to become corporate powerhouses themselves someday. Collectively, these 27.5 million companies employ half of all private sector employees and contribute half of private GDP—about $5.5 trillion annually. That's more than the entire economic output of Germany and the United Kingdom combined. They're innovative, producing 16 times more patents than their larger counterparts. And, most significantly in these days of high unemployment, they are responsible for more than two out of every three jobs created.[6] From 1990 to 2003, small firms with fewer than 20 employees generated 80 percent of net new jobs.[7]

A study by Harvard professor Edward L. Glaeser highlights the link between firm size and employment growth. Analyzing census data from 1977 to 2007, Glaeser found that the U.S. counties with the smallest firms experienced job growth of 150 percent. As average firm size increased, job growth decreased almost in lockstep. Counties in the middle quintile had 90 percent employment growth, while those with the largest companies added just 50 percent more jobs.[8]

Large corporations create a lot of jobs, to be sure, but they eliminate more—at least domestically—making them net job destroyers.[9] Indeed, in their drive to cut costs and boost margins, some of our biggest and most iconic corporations seem locked in

a cycle of job destruction. In June 2010, Hershey Foods shuttered its historic chocolate plant in the Pennsylvania town that bears its name and moved production to Mexico. IBM abandoned its birthplace of Endicott, New York, earlier in the decade. And, like many Silicon Valley firms, Apple employs 10 times more workers in China than it employs at home. Big corporations moved quickly to cut jobs during the recession. Citigroup shed nearly 60,000 workers. In January 2009 alone, America's largest public companies, including Caterpillar, Pfizer, Home Depot, and Sprint Nextel, sent pink slips to more than 160,000 employees. Even before then, the trend was clear. Collectively, U.S. multinational corporations shed 2 million domestic jobs from 1999 to 2008, an 8 percent decrease. Over the same period, their overseas hiring swelled by 30 percent, aided in part by tax breaks that encourage them to keep profits and investment overseas. The 1.4 million jobs that domestic corporations added overseas in 2010 would have lowered the U.S. unemployment rate to 8.9 percent, according to the Economic Policy Institute.[10]

Benjamin Franklin, or my grandfather for that matter, could hardly have imagined the vast scale of the multinationals that rule global commerce today. But small enterprises are still the underpinning of our towns, communities, and nation, enriching us culturally and economically. So it's no wonder politicians and special-interest peddlers want to wrap themselves in small business' warm glow.

Sticking Up for the Local Butcher

The problem is that for all of the flag-waving rhetoric, we have treated our small businesses dismally. Everything from federal tax policy to investment allocation to local development initiatives has favored the largest, most powerful enterprises—at the expense of the small entrepreneur. The photo op at the mom-and-pop has become a hollow ritual.

For a vivid illustration of where our national priorities lie, look no further than the bailout of Too Big to Fail financial institutions engineered in late 2008 by then-Treasury secretary Henry Paulson. As we know, hundreds of billions of taxpayer dollars went to prop up megabanks and those that enabled them, such as

insurance giant AIG. All told, with federal lending programs, debt purchases, and guarantees factored in, the total assistance reached $3 trillion by July 2009, according to Neil Barofsky, inspector general for the Troubled Asset Relief Program (TARP).[11]

That bailout likely averted disaster. But rather than stimulate lending and economic activity, as hoped, it seems to have served mainly to fuel the record trading profits of its recipients and leave them larger and more systemically important than ever. Prominent critics, such as Nobel Prize–winning economist Joseph Stiglitz, have argued that TARP money would have been better spent supporting smaller financial institutions that did not engage in the reckless behavior that precipitated the crisis and might have actually used the money to make loans. It wasn't until September 2010—after a protracted battle with some of Congress' self-professed champions of small business—that President Obama signed the Small Business Jobs Act, establishing a $30 billion fund to spur local bank lending to small business as well as a smattering of tax breaks to aid struggling entrepreneurs. It was a welcome boost. But that's tens of billions for small business, trillions for Too Big to Fail business.

As outrageous as the bailout was for many Americans, it's just the tip of the iceberg. Each year, a staggering amount of subsidies, grants, and tax breaks go to our most profitable and politically connected corporations—an estimated $125 billion—with little economic or social payoff. There are farm subsidies to Big Agriculture ($10 billion to $30 billion a year, paid mostly to industrial-scale and absentee farmers); tax breaks for oil and gas companies (more than $17 billion a year); and tens of billions more proffered by state and local officials to woo large corporations to set up plants, offices, and stores within their borders.

Policy debates (or what passes for them these days) concerning everything from health care to financial reform to tax cuts, have been framed in terms of what is good or bad for small business owners. All too often, though, Joe the Small Business Owner is simply a prop, providing cover for an entirely different agenda driven by big business interests. The Chamber of Commerce, for example, actually claimed in a $2 million ad campaign that the creation of a Consumer Financial Protection Bureau intended

to protect the public from abusive credit card and loan products would have a chilling effect on the local butcher.[12] And the few programs aimed at giving smaller firms a fair shake often end up being perversely exploited by big corporations.

It hardly matches the rhetoric.

Sadly, this is not a new phenomenon. As a delegate to a 1980 White House Small Business summit told the *New York Times:* "Our problem is small business has always been a 'motherhood' issue—everybody is for it, but everybody ignores it."[13] And Republicans since Ronald Reagan have been trying to kill the Small Business Administration, the one government agency dedicated to helping the nation's entrepreneurs.

Indeed, the crisis has simply illuminated what has been going on quietly for 30 years: federal economic, tax, and fiscal policy is crafted by and for the largest corporations, which are increasingly disconnected from any U.S. locale. This unholy alliance is bound by campaign contributions, lobbying muscle, and a revolving door among powerful corporations and the government agencies that oversee them. (Consider that the cost of winning a House seat has risen more than threefold since 1986, to $1.3 million in 2008, while senators in 2008 spent an average of $7.5 million.)[14] In this cozy pay-for-play system, the little guy doesn't stand a chance.

A Growing Capital Gap

It's more than politics working against small business. As investors, we have let them down as well. The link between investors and businesses has largely been severed, with Wall Street acting as the intermediating force, extracting fees—or rent, in economic jargon—every step of the way. More and more small business owners are falling through the widening cracks of our financial system. Without access to capital, products go undeveloped, expansion is put on hold, hiring is snuffed out, and innovation suffers. A lack of capital is a key reason why half of new businesses don't last more than five years.

Entrepreneurs have always scrambled to raise funds, bootstrapping their ventures by tapping credit cards, personal savings, and home mortgages, hitting up rich relatives, and eventually

securing bank loans and lines of credit. High-growth ventures batting for the fences have been able to seek equity infusions from angel or venture capital investors. But those customary sources of early funding, never ideal, have all but dried up since the financial crisis. And the long-term trends are not promising.

Venture capital, for example, has always been reserved for a rarified category of companies—tech-savvy startups with game-changing potential. Think Google, Apple, and Facebook. Fewer than 2 percent of all entrepreneurs seeking funding from VCs or angel investors get it.[15]

But even for high-growth startups, venture capital has become scarce. VC firms from Silicon Valley to Boston retreated during the recession. Venture investments plunged 37 percent in 2009, to $17.7 billion, the lowest level in a dozen years. And despite a brief spike, investment fell again in 2010.[16] When they did invest, VCs preferred less risky, later-stage companies with proven potential, continuing a pattern started well before the crisis. The move upstream is, in part, a reflection of the ballooning size of venture funds. As $1 billion funds have become common, venture capitalists need to do larger deals, often investing tens of millions of dollars at a time. (In January 2011, the two-year-old online coupon site Groupon raised $950 million from about 10 venture firms).

The situation is similar with angel investors—wealthy private investors who typically invest smaller sums in early stage companies ahead of VCs. In the first half of 2010, total angel investment was $8.5 billion, a 6.5 percent decline from the previous year, according to the Center for Venture Research at the University of New Hampshire. Seed- and startup-stage investing declined the most, hitting its lowest level in several years as angels followed VCs up the food chain. "Without a reversal of this trend in the near future, the dearth of seed and start-up capital may approach a critical stage, deepening the capital gap and impeding both new venture formation and job creation," warned Jeffrey Sohl, director of the Center.[17]

Venture investors may have lowered their ambitions, but not their profit targets. A 2010 study by Pepperdine University's Graziado School of Business Management found that venture capitalists expected a whopping 42 percent return on their money,

while private equity groups planned on a 25 percent profit.[18] A bigger obstacle for many entrepreneurs is the level of ownership and control that venture capitalists typically demand. It is said that one out of two founders of early stage venture-backed companies are fired within the first 12 months.[19]

And friends and family? Unless you've got relatives at Goldman Sachs, who's got any with tens of thousands of dollars to spare these days?

Left Behind

That leaves banks, the mainstay of small business funding, whose loans and lines of credit provide a crucial lifeline for growing firms. Yet here again, the story is grim. Stung by losses and scurrying to build up reserves, banks of all sizes cut back on lending after the subprime mortgage meltdown in 2008. Some $40 billion worth of small business loans evaporated from mid-2008 to mid-2010.[20]

Just 40 percent of small businesses that tried to borrow in 2009 had all of their needs satisfied, according to Federal Reserve Chairman Ben Bernanke.[21] The situation hadn't improved terribly in 2010: More than 75 percent of small businesses that applied for a loan during the first half of the year did not receive the credit they needed. After years of loose credit, financial institutions swung to the other extreme, tightening credit standards for small businesses every quarter from the start of 2007 through the first quarter of 2010. Standards began to ease a bit in mid-2010, but they are expected to remain tight compared to historical norms for some time.[22]

The biggest cutbacks came at the largest banks—the very ones that were bailed out by taxpayers and still benefit mightily from their ability to borrow virtually free money from the Fed. The 22 largest recipients of TARP funds collectively trimmed their small business lending by almost $2 billion each month from April 2009, when the government began requiring them to file monthly reports on their lending, to the end of the year. JPMorgan Chase, for example, reduced small business loans over the seven-month period by 3.7 percent, to $962 million. At the same time, it set aside nearly $30 billion for employee bonuses, an 18 percent increase.[23]

It calls to mind Robert Frost's observation that a bank is a place where they lend you an umbrella in fair weather—and ask for it back when it begins to rain.

Fully four out of five small business owners were hurt by the credit crunch, according to a 2010 midyear survey by the National Small Business Association (NSBA).[24] Economic uncertainty was by far their biggest challenge, but 29 percent of surveyed business owners cited a lack of available capital as their biggest worry. Nearly 60 percent were unable to obtain adequate financing to meet their needs. When we're expecting the nation's small businesses to pull the economy out of its slump, as they have in previous downturns, that is a problem. Among small business owners for whom capital availability has been a problem, 40 percent said they had been unable to expand their business, while 20 percent were forced to reduce staff.

"Since 1993, when we began asking these questions, there has been a direct correlation between access to capital and job growth—when capital flows more freely, small businesses add new jobs," the NSBA wrote.

For their part, banks counter that loan applications have dropped off and there is a dearth of creditworthy small business borrowers to lend to. They have a point. Small business owners have seen their credit standing hammered by the recession. Many use their homes or other property as collateral for loans, so plummeting real estate values hit them hard. And when banks decreased credit lines, as they did throughout the crisis, in a stroke, they inflated companies' debt ratios, further impairing their credit scores. Unlike their bigger brethren, small enterprises don't have the cash reserves, foreign divisions, or ready borrowing facilities to tide them over in hard times.

Banks are flush again, but economic growth is still restrained by a lack of credit, especially for the smallest firms. Private companies surveyed by Pepperdine University in early January 2011 identified increased access to capital as the policy most likely to spur both job creation and GDP growth, far ahead of tax incentives and regulatory reform. That was true across all size groups except for the largest: Private companies in excess of $1 billion favored tax incentives and regulatory reform over increased capital access.[25]

Beyond the crisis-induced credit freeze, a deeper and more worrisome trend threatens the long-term health of small business. A decades-long wave of bank consolidation, spurred by deregulation and accelerated in the recent financial crisis, is choking off community banks—the small, locally owned institutions that have traditionally served families and businesses in their regions.

Small banks with less than $1 billion in assets hold just 15 percent of national deposits, down from 28 percent in 1995. The top four banks—each with greater than $100 billion in assets—have grown in the same timeframe from 7 percent of all deposits to 44 percent today.[26] Despite the painful lessons about what happens when the economy depends upon a few, systemically important institutions, the biggest banks emerged from the financial crisis even bigger and more powerful. These megabanks, with their computerized lending models and management from afar, aren't well suited for local lending and have all but abandoned it. Despite their smaller market share, small banks represent 34 percent of small business lending, compared to 28 percent for the 20 largest banks.[27] As a 2007 study concluded, "Credit access in markets dominated by big banks tends to be lower for small businesses than in markets with a relatively larger share of small banks."[28]

The net of all these trends is that more companies are falling into the capital gap—the no-man's-land between bootstrap funding (like credit cards) and higher-ticket investments (like venture capital)—just when they most need capital to grow. "The small business owner, and our innovation economy, are being left behind," says John Paglia, associate finance professor at Pepperdine University. "That doesn't bode well for our economic future."

A Massive Market Failure

Those lucky entrepreneurs who do make it through the early company-building years have typically looked forward to the ultimate prize: an initial public offering, or IPO. By selling shares to the public, companies are able to raise long-term equity capital to sustain their growth and reach new scale, while allowing early

investors to cash out. But the IPO is no longer the rite of passage it once was for generations of entrepreneurial firms.

Like other avenues of funding, the IPO window narrowed to a slit after the financial crisis. Just 61 companies went public in 2009, one of the lowest turnouts in four decades.[29] The number nearly doubled in 2010, but it was still less than half the typical volume and down from a peak of 756 IPOs in 1996. And the market debutantes in recent years tended toward mature companies like VISA, "re-IPOs" like General Motors, or foreign-based firms such as Spain's Banco Santander or Ming Yang Wind Power Group, one of dozens of Chinese startups to debut on U.S. exchanges. Young, high-growth domestic companies—the quintessential IPO candidates—were mostly missing in action. The lack of an important "exit" strategy is one reason that VC funding has suffered. Venture capitalists were forced to funnel more resources to existing portfolio companies, leaving them less for new investments.

IPO markets are cyclical, of course. And the pipeline was building for 2011, including the widely anticipated debuts of tech stars such as Groupon and Facebook. But there are longer-term forces at work leading to a decline in the total number of companies listed on U.S. public markets, especially among smaller firms, and a general decrease in the deployment of productive capital.

More private companies are eschewing the IPO route because of the public scrutiny, loss of control, and focus on short-term results that comes with it, as well as the increasing volatility of the markets. (Facebook, for example, has been reluctant to go public, but it may be forced into an IPO by its swelling ranks of private shareholders.)

At the same time, the hurdles to going public have risen. For many small businesses, the requirements and costs associated with listing on the New York Stock Exchange or NASDAQ are prohibitive.[30] The median IPO size 20 years ago was $10 million; in 2009, it was $140 million.[31] In recent years, the underwriting of IPOs has taken a back seat to more profitable activities such as high frequency trading and creating and selling derivatives at Wall Street investment banks, which now take on only the most lucrative IPOs. The IPO market is effectively closed to 80 percent of companies that need it, according to an alarming report by David Weild and

Edward Kim, capital markets advisors with Grant Thornton LLC. (Weild is a former vice chairman and executive vice president at NASDAQ.) "Capital formation in the U.S. is on life support," the authors write. The lack of new listings "is a severe dysfunction that affects the macro economy of the U.S.—with grave consequences for current and future generations."[32]

The dire assessment underscores a fundamental failing of our 21st-century financial system: the massive misallocation of capital away from its most productive uses and toward unproductive, even harmful, ones, such as speculative trading, subprime mortgages, and the latest bubble *du jour*.

By one gross measure, of the trillions of dollars that flow through our stock markets, just 1 percent goes to industrious use—that is, to funding companies through initial and secondary offerings so they can innovate and expand. The other 99 percent is trading and speculation. For example, companies raised $8.8 billion in IPOs and $6 billion in secondary offerings on NASDAQ in 2010—a total of $14.8 billion. That represents just 1 percent of the $2.9 trillion in shares that traded on the exchange that year.[33] The situation is similar on the Big Board. The imbalance has worsened since 1996, when an SEC advisory committee warned that capital raising amounted to just 2 percent of total market activity.[34]

Not all trading is speculative. But the staggering rise in volume—to more than 6 billion shares traded per average day from a billion or so in 1997—has little to do with long-term investing (and a lot to do with high-frequency trading, in which sophisticated computer algorithms fire off thousands of trades per second to exploit fleeting price imbalances). Meanwhile, most of that 1 percent of productive capital flows to relatively large companies: Small and medium-sized enterprises with under $500 million in sales generate roughly 45 percent of the country's business revenues, but they account for less than 5 percent of total capital markets activity, according to Morgan Stanley. The percentage drops off to less than 1 percent of capital markets activity for companies under $25 million in sales.[35]

Just think about where your 401(k) or retirement account is invested. It's most likely in the stocks and bonds of big

corporations, with maybe some U.S. Treasuries or emerging market plays. Michael Shuman, an economist, author, and leading agitator in the local movement, notes that Americans collectively hold $26 trillion in stocks, bonds, mutual funds, pension funds, and life insurance. Yet, he says, "not a penny of that goes into local business."[36]

We've all been taught the efficient market theory—that markets allocate capital to its most productive use. But if that's the case, shouldn't we be allocating at least half of our investment dollars to the small companies that make up half of GDP and more than two-thirds of job creation? As Shuman puts it: "It amounts to a massive market failure."

Postcards from the Edge

Like Dante Hesse of Milk Thistle farms, entrepreneurs across the country are being held back by a lack of funding.

In Fort Meyers, Florida, locally owned Storm Industries has been a bright spot in a foreclosure-ravaged economy. Demand for the company's innovative weatherization and hurricane protection products for homes, such as its clear storm panels and cooling sun screens, has been strong. It employs more than 100 workers and does all of its manufacturing locally using domestically sourced materials. Storm Smart president Brian Rist wants to expand into energy-efficient products, such as thin solar film shades that collect energy while keeping homes cool. But despite his company's 16-year track record and healthy growth, local and national banks are reluctant or unable to lend, at least on reasonable terms, he says. "We have plans to hire people at good-paying jobs and develop new products, but it all takes capital—and that's where I'm up against a wall," says Rist. He doesn't want to dilute his family ownership with private equity investment, so he will probably plow his own savings into the company.

In Lancaster, Pennsylvania, Wolfgang Chocolates has been serving sweet tooths in the region for four generations. The company, which once peddled its chocolates strictly through fundraisers, operates a thriving retail and private label business that employs 150 people. Sales have grown by 30 percent a year, and Wolfgang is

developing seven new private label products for a major drugstore chain. But that requires an investment in new manufacturing lines, molds, and packaging, says Michael Schmid, Wolfgang's managing partner. While the company is in expansion and reinvestment mode, cash flow is tight. And credit is hard to come by. "Banks are not investors. They want to give you money based on assets and they want to know when they can get it back," says Schmid. "They don't care what you're going to do in the future." On the other hand, his company is too small for typical VCs and is not plugged into angel networks. Still, Schmid is determined to find a way. "This is what I know to be true: I don't believe the solution is to stop the growth or slow down the business," he says.

And then there's Sagar Sheth, the cofounder and president of Moebius Technologies in Lansing, Michigan. Sheth and his partner, Kory Weiber, bought an ailing auto racing supplier in 2007 and retooled it for the fast-growing medical device market, a welcome development in an area where two manufacturing plants had recently closed. Moebius' contract manufacturing business was growing and orders were flowing in, but Sheth and Weiber ran into a brick wall trying to obtain a loan for new equipment to fill the orders. The company's bank pulled its credit line, and more than a dozen other banks turned them down. They finally obtained a $237,000 loan from the Lansing Economic Development Corp., a local government-backed agency. "When we took this venture on, we knew it was going to be hard to get financing," says Sheth. But the pair figured they could use the collateral of the business they were buying to back a loan while they grew the business. "We were pretty well aware of the traditional methods of going after funding. What we weren't aware of was what was about to come, which is this whole industry and way of doing a startup falling apart. The financial environment has been changing almost constantly since we started."

It all seems so shortsighted. Some of our biggest and most successful corporations were established in difficult, recessionary environments, including companies as varied as Burger King, Hyatt Corp., CNN, MTV, FedEx, and General Electric. But things were different then. One can only wonder what great companies never got a chance to fulfill their potential for lack of funds in the Great Recession.