

Ep #373: Carol Roth - The War on Small Business
(Part 1)



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Dr. David Phelps

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Welcome to the Dentist Freedom Blueprint, a podcast about freedom—freedom from expectations of society and the traditional path to success that has been ingrained in us from our early years, I'm joined by mavericks, renegades, and non-conformers to discuss an anti-traditional path to financial freedom, freedom of time, relationships, health, and ultimately freedom of purpose. My name is Dr. David Phelps. Let's get started.

David Phelps: Hi everyone. David here. I am the CEO and founder of the Freedom Founder's mastermind group and the Dentist Freedom Blueprint podcast. Today, in actually two segments, I've got a great interview with bestselling author, Carol Roth. We're going to be discussing her latest book, which was published just last year in 2021, *The War on Small Business: How the Government Used the Pandemic to Crush the Backbone of America*. We saw firsthand exactly what happened with the COVID panic of 2021, 2020, and this year, 2022. The government actually came out and determined which businesses would be called essential and which would be non-essential, in other words, picking winners from losers. We're finding out more and more that capitalism, which is what this country was based on, free market enterprise, has been changed to cronyism or corporatism today, with the government very much wanting to consolidate as many industries as possible, because why? Because the power is in the hands of those who have the dollars.

Look at Amazon. Look at Walmart. Look at the big corporations that were able to stay open during the pandemic, yet small business owners were told, "You're not essential. You need to close. We'll get back to you

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when we get back to you." Carol Roth is a recovering investment banker. She has a BS degree from Wharton School of Business. She has always been in the realm of helping smaller businesses raise capital. So she is very much in tune with the entrepreneur, in this case, that is the small business owner. Her insights and where she sees things going and what we as small business owners must be aware of and how to navigate the waters ahead is very much on top of everybody's mind today. And I think you'll really enjoy this interview. Again, this is the first segment of two weeks back to back with author Carol Roth. I know you'll enjoy it.

Carol, so great to have you with us today. Thanks for being with us.

Carol Roth: Thank you so much for inviting me.

David Phelps: Carol, before we dig into the topic today, which is going to be your topic of your book, *The War on Small Business*, I do want to jump into your background because it really is very novel in my opinion, recovering investment baker, of course. You have a BS from Wharton, but you also studied with Second City there in Chicago. Tell us just a little bit about that, because I'm thinking Belushi, Aykroyd, Steve Martin, I mean Martin Short, just a whole myriad. Why did you do that and where did that come from?

Carol Roth: Yes. So as you noted, I started in investment banking, and I call myself recovering because you never really leave deal making once you've been a deal maker, or somebody always wants you involved in something. And I still sit on boards and do a lot in the business realm, but once I had sort of financial flexibility for myself, I decided I wanted to be more entrepreneurial and explore some of

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the things that I enjoyed doing. And one of those is media. And people were always like, Oh, you should be on TV. You're so funny, blah, blah, blah." And I'm like, "I don't know what to do there," but as I started my media appearances and I started ... I actually did some pilots for reality series and all that kind of thing. Some of the people I was working with said, "You know so much, but you're always so focused on the content. It would be really good to let go of the content and just kind of keep your focus elsewhere. Why don't you try doing improv?"

And obviously being in Chicago and Second City being Second City with all those great names, it was an obvious choice. I did something a little different, because I never followed the rules, that's sort of my entrepreneurial streak, is I didn't want to take the standard classes and have to work at the level of sort of the slowest person in the room and have that big slog. So I actually did private training with them. So my teachers were all comedians and people who graduated from the program. Some of them you've seen on other TV shows, and I was the only student working with the masters and that allowed me to kind of flex those muscles in a way that was a little bit more accelerated and a little bit more speed.

David Phelps: So do you ever see you on Saturday Night Live? Is that a possibility?

Carol Roth: My husband's running joke is that I should have been a standup comedian and we call a lot of the things that I do comedy, for one because I really amuse myself all day long and just kind of if anybody else thinks it's funny, it's gravy, but that's kind of how I move through each day.

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David Phelps: Excellent. Well your most recent book, the New York bestseller, *The War on Small Business: How the Government Used the Pandemic to Crush the Backbone of America ...* by the way, you have your other book, which I also have that one here, which is excellent, *The Entrepreneur Equation*. So my curiosity is investment banking, deal making, Wall Street, -

Carol Roth: Yes.

David Phelps: - why do you care about small business and entrepreneurs?

Carol Roth: So people always get very confused when they hear the phrase investment banking. And I think it means a lot of different things to people. The area that I was in was called corporate finance. And what we did is that we helped entrepreneurs and businesses raise money so that they could expand their businesses, as well as mergers and acquisitions and things like that. But on the capital raising side, if you think of brands like the Cheesecake Factory or Papa John's Pizza or Rain Forest Cafe back in the day, I worked with those companies, got them money so that they could expand to more locations, they could hire more people, we could all go there and get fat because we love all of their delicious food. And to me, that's a very value added exercise of helping entrepreneurs really be able to expand and deliver value and make an impact in the economy.

And one of the things that happened all the time when I was in investment banking is that I would get phone calls from small businesses who saw what we were doing for these sort of midsize businesses and say, "Could you help me? Could you provide that same level of advice?"

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And the reality was I couldn't, because they couldn't afford the retainers, they couldn't afford really spending an hour, probably, with the way that we charged. So when I left investment banking, that always made an impact on me because I was always entrepreneurial, I always believed in creating opportunities for wealth creation and economic freedom for everybody. So I said, "Well maybe the media is a way for me to put out information at scale to reach a whole slew of small business owners." And that's really what got me interested in small business. And as I got more and more entrenched, you obviously saw all the benefits of having a very strong set of small businesses in the economy.

David Phelps: So Carol, because America was founded on the principles of freedom, economic freedom, choices, property rights, why in the world would the government, in this case, and thus the tenants of your book, have a war on small business? And maybe give us a definition of what small business is versus big business. But why this war, when we think about small businesses being the backbone of free market and capitalism?

Carol Roth: Yeah. I mean it to anybody who's a rational thinker, it doesn't make a lot of sense, but then you kind of layer in human nature and you see where it goes. So to take a step back and answer your question, David, if you look at the economy as it stands today, was a little bit less when I wrote the book, but if you kind of divide it in half, the economy is almost split in half. So about half of the GDP and about half the jobs are in the hands of 31.7 million small businesses in the United States. A lot of them are solo businesses. Six million of them have employees. They're in every geography, every industry, so on and so

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forth. The other half of the economy is in the hands of about 20,000 or so big companies. So if you are a politician and you are looking for compliance and you are looking for campaign contributions, what's easier for you to sort of align yourself with? Is it 20,000 big businesses that have all this money, or is it 31.7 million really independent people who don't want to hear from you?

David Phelps: Exactly.

Carol Roth: And I think that's pretty straightforward. So when you go back and you look at what happened, there is this thought about, well, there were these broad lockdowns and we were all in this together. And the reality is that both of those are myths. The lockdowns disproportionately affected small businesses, and particularly consumer facing ones, ones like restaurants and gyms, and I would imagine to some extent dental practices as well.

David Phelps: Oh yes.

Carol Roth: And it didn't affect the big company that was down the street. One of the things that was my sort of favorite *wink wink* was the fact that weed dispensaries were considered "essential businesses", when in most jurisdictions they have not been legalized, except for within the last couple of years. So now all of a sudden it's very essential that you get your pot, but somebody who's trying to run a small business can't do that. By the way, you could take your dog to PetSmart and it could get groomed and it could get its nails done and a little hair cut, a little bow, but you couldn't, as a person, do that for yourself.

David Phelps: Right.

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Carol Roth: So it was very clear that these decisions weren't being made based on science, they were being made on political clout and connections. So only about a third of the economy ... I mean only a third, it's the biggest catastrophe all the time, but it was government mandated. They only focused on a third of the economy. If we had focused, if we were really in all this together and you had shut down Amazon's warehouse, you had shut down Walmart, you had shut down the grocery store ... and by the way, Wall Street hadn't gotten all the support from the federal reserve that it had and it continued to languish, as was happening in the February and early March timeframe of 2020, this probably doesn't last more than two weeks.

And then you go to mitigation factors and we figure out how to work amongst the risk, which makes a lot of sense. But because it was these small businesses that didn't have the clout connections, the politicians could say, "Well look, we're doing something," but not actually impact the people who were their cronies. So whether you think it is an intentional, "Hey, these people don't do anything for us, so too hard to control," or they just are too small to matter, we know that they're not too big to fail, like in the last great recession financial crisis. So I think that's the real outcome of what happened over the last two years.

David Phelps: I think we've all heard the term never let a crisis go to waste. I think maybe Rahm Emanuel might have been the last one -

Carol Roth: Rahm Emanuel, yes.

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David Phelps: - to grab that one back in the day. And I think this is another case of the government using this opportunity to, as you said, call it a wealth transfer from Main Street to Wall Street. Why is decentralization, fragmentation, small independent business owners, why is that important, Carol? Why wouldn't central planning and consolidation and more Amazons and Walmarts ... it seems like some people say, "Well, that's efficiency, efficiency of the marketplace," but we know that's not true, but maybe explain to our listeners why it's more important to back small business and why this direction of central planning is so bad for what we know here in America as free enterprise.

Carol Roth: Yeah. So I think you glossed over a really important thing. You just kind of threw it out there, so I want to make sure that everybody heard what you said. This was the most historic wealth transfer in all of history. We're talking trillions of dollars from Main Street to Wall Street. So this was a time when small businesses ... and we know by June of 2020 it was 400,000 small businesses that were murdered by mandate. And at the same time, millions of people were unemployed, millions of more small businesses struggling to survive. And then Wall Street is reaching record highs. By the end of 2020, it had been a record year for capital raising, incredible gains in the market. So you had seven tech come companies that gained 3.4 trillion in value at the same time this was happening.

So I want to make sure that that point doesn't escape people and that wasn't capitalism, that was the government not only closing down the competitors of the big companies, but pumping trillions of dollars of support

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from the federal reserve into the market that increased the market values of these companies. Did not do anything, by the way, for small businesses. In fact, it made it harder for them to compete, because they didn't have the same capital, as well as in many cases, their doors open, that the big guys did. So with this, when you think about who makes the best decisions and the efficient allocation of resources, and this goes back to my economics training and resources, if you had the smartest people in the world with the best tools running our government ... pick out whoever your favorite smartest people are, if you had those people in, handful of people making decisions, they still wouldn't make the same good decisions as millions, if not hundreds of millions of people transacting freely in the marketplace, without coercion in a very transparent manner.

That creates the most transparency and the most efficient allocation of resources. That's if we had the best people. Now, regardless of where you sit on this political spectrum, I think we could all agree we do not attract the best people. In fact, there are a lot of people who have absolutely no idea what's even going on. You could just listen to anything from the interviews of the banks, to the tech companies to go, "Yeah, these people are way out of their realm." So now we have not the best people, not even probably the top half of the people making limited decisions on behalf of everyone. They're using force, they're using coercion, they're using control, and usually opacity. So that is a recipe, and we have all of history and time to show that does not produce better outcome than when we have something that is closer to that capitalism into that free market.

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So if you don't want the central power, if you don't want there to just be an Amazon and a Facebook and a handful of other choices, the way that you push back against that is you don't allow the power that grants special favors to these handful of companies. You diversify it so that no one entity has that outside power, but you also, as a consumer, you have more choice in terms of products, services, where you want to work, you get more innovation and it produces better outcomes for everyone. I mean, we're at a situation now ... crazy statistic, and I'm waiting for Amazon reports to update this, but as of July of last year, one in every 153 workers in America worked for Amazon.

David Phelps: Wow.

Carol Roth: That is crazy and it's a trajectory that is continuing. They're continuing to amass more space, go after more workers. And they certainly have the financial wherewithal to be able to do so. So we're getting to that point where they're locking other people out of the market, locking out the ability to pursue economic freedom, locking out the ability to create wealth independently and all those other things that I've talked about.

David Phelps: The stats for small business in general, Carol, we know that many fail, just because that's the market. And yet in this country, people want to own assets, businesses because that's how we create wealth. So there's always the desire and the intention in America that this is a great place to come. We have people that immigrate from other countries with nothing on their back and they have the opportunity here to rise up. It's getting much more difficult because of what we're talking about, this war that we've

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seen. So how do we, as small business entrepreneurs, continue to try to thrive, or at least even stay alive in an environment where big money, Wall Street, big money, corporatism, cronyism is driving the consolidation and creating more regulation, higher cost of compliance, getting license, I mean everything down to, as you mentioned, pet groomers and hair stylists. Everybody has to be licensed today.

I'm thinking back to the 2008 great recession. I've got a lot of friends in real estate and there were many independent mortgage brokers back then. Where have they all gone now? So the money and the politics is so strong. Where do you see this going? I mean I'm just curious, I mean do you have a theory? I mean, does something break at some point? Is there a reset of some kind?

Carol Roth: So I always hate to try to predict the future because there are new variables that are introduced every day, but what I will say is there are a few things that need to happen. The important thing, as small business owners, is to engage first your customers, to let them know how important it is for you to continue to do business, see if they can help spread the word, get them to buy more frequently. I don't think that small businesses always leverage their number one competitive advantage, which is that ability to really know and build a relationship with the customer in a way that a bigger company never can. So really focus on that and fortify your relationships to make yourself an essential and important part of your customer's life. And then I think that small businesses really need to embrace the concept that collaboration is the new competition.

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You obviously are concerned about your own business, but you should be concerned about other small businesses. So to the extent that you can work together with other businesses, and it doesn't even have to be in the same industry, just have the same target customers, where you can find ways to add value and provide referrals to like-minded businesses. That is a huge thing. And when you shop with your own dollars, make the effort to shop locally. I mean, that's one of the things I did with this book, is I said, "Look, you can go to Amazon. This is capitalism. You can do whatever you want, but you can buy it from a local, small business retailer. And if yours has gone out of business in your local community, go to bookshop.org and they will fulfill this book, and by the way, a whole slew of others from local, small business resellers."

So every time you're doing things, I mean just my own behavior's change so much, even with these kind of intermediaries that deliver food. We try to go to the restaurant and pick up so that they're not getting that 30 plus percent hit from these intermediary delivery services. Really think about how you're spending your money, because that is a huge, huge impact for small business. But on the political spectrum, it definitely starts locally. So to the extent you can get involved politically, locally, and I know that a lot of small business owners do don't want to be vocal about it. You can still make phone calls behind the scenes. You can still find ways to quietly support great folks, because frankly, a lot of the regulation piece that falls upon small business actually happens at the local and state level, not at the national level.

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I know being in the "very business friendly" state of Illinois, we have some of the most ridiculous things that we have to contend with. And on their website, they brag about the fact that they have all these different ... the most out of any state places that you can go and get insurance for your employees, workers comp insurance. And I'm like, that's not a good thing to be bragging about.

David Phelps: No.

Carol Roth: So in my business, my employees work from home on the computer, and I have to spend thousands of dollars that could be going to them or could be going to other aspects of my business to keep them insured because that's a crony activity that doesn't really benefit things. So think that's important. And then also just to be aware at the national level, that the more power that gets consolidated in Washington DC, and it's something that there's been a very heavy push for lately, the worse off it's going to be for small business. And we've seen it. I mean, you hit the nail on the head with the great recession financial crisis.

Even something like the Dodd Frank rules that they put in place that were meant to be punishment for these big banks that took on too much risk and cause this financial crisis, well, they got not only a taxpayer bailout, but they crafted legislation that basically destroyed small business lenders. And then what it happens when there aren't as many small business lenders? Do you think the big banks want to lend to small businesses? No, it's not a meaningful part of their business. So small business lending fell off a cliff, and then it makes small businesses less competitive. So you really need to think through the implications. And if you're not sure, just run them by

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people who are talking about them all the time. But usually, I mean I haven't heard of any legislation that has been put out that was touted to help the little guy that actually didn't end up being anti-competitive and end up helping the big guy.

David Phelps: That concludes the first segment of the interview I did with author Carol Roth. Next week, we'll jump back in and begin with how we went from too small to matter, to too big to fail, how the rights of many small businesses were violated in the last two years, predictions on the labor force issues today, why you need strong cash margins, and what you are going to need to do when the cost of capital that is interest rates start going up. There are opportunities ahead for those who are positioned carefully in how you can collaborate as a small business owner to be positioned to take advantage of the disruption that's occurring right in front of us today. Catch you next week.

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