

Ep #374: Carol Roth - The War on Small Business
(Part 2)



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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, David here. I am the CEO and the founder of The Freedom Founders Mastermind Community and the Dentist Freedom Blueprint Podcast.

David Phelps: Today, we were jumping into interview number two with bestselling author, Carol Roth, talking to her about her recent book, published and titled, The War on Small Business. Last week, we had interview number one, so if you haven't caught that one, you'll wanna go back and catch that because she really lays out the aspects of what's happening in America, to small businesses, the consolidation, the violation of their interests, and the reason why. But more importantly, this week on what we can do about it, as small business entrepreneurs, how we can forge ahead and take advantage of the disruptions in the marketplace that many of our competitors are not gonna be able to handle. I know you'll enjoy this interview. Talk to you soon.

David Phelps: Now we went from, "Too big to fail, to too small to matter." Your words in the book, right? That's exactly what we're looking at. And today, particularly going through COVID and the last two years, with the government saying, "Well, here, small business owner, here's some PPP loans. Have at it. Here's some bread crumbs." Right? "Oh, and by the way, we're gonna give extra unemployment to your workers, so they're probably

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not gonna wanna come back to work. So good luck with that." Right? So now we have this wage and hike... Wage and labor hike. We have the great resignation, as we're calling it today. And then we have inflation. So here again, I am the small business owner and I'm trying to find staff and people to help run my business, and I've got still, all these odds against me today. This is, again, a creation of the overreaction of funneling money to the crony elitists in bread crumbs. But talk about... You talk about PPP loans being like eminent domain compensation, which is what the government's supposed to do, when they take away your right to create a livelihood through your business. Usually, that's with property, "We'll take your property so we'll pay you something to compensate." But this really didn't happen, did it?

Carol Roth: No. I hate lawsuits, and the whole idea of suing, it's just not who I am. But in this particular case, the rights of small business owners were violated in a way that was not constitutional. The government has no right to take away your private property and if they do get a Fifth Amendment, like you said, Eminent Domain, then you are due just compensation. So saying, "We're going to only close down certain businesses. You cannot use your property in is "for the good of society." They were owned a lot more than what was given to small businesses, in terms of PPP. So, just from that factor alone, there should be additional compensation. And the amount of money... We've spent more than six trillion dollars on COVID relief, and not even a trillion of that has gone to small businesses, when frankly, they could have spent about a trillion or a little bit more upfront, kept people employed at those small businesses, kept those small businesses afloat and gotten people back to work after a few months when they figured out a risk mitigation strategy. So, this was all entirely avoidable, but again, it doesn't benefit those who are wealthy and well-connected, so they frankly, don't really care about it.

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Carol Roth: And that is the tragedy. And then the series of decisions, as you alluded to, that were made, is what has caused all of this long-tail effect, and unfortunately, the book had to go to publication before I could get all these things in there. But, if I were to write a follow-up or if I'd had a few more months, like you said, it was... Some of the stuff is alluded to but we didn't see the effects. So the Fed printing trillions of dollars and the trillions of dollars in stimulus, that in itself was going to drive inflation. It was very obvious from day one, just in terms of the increase of the money supply.

Carol Roth: Then, you had, as you said, this disruption of the labor force and that came in many different flavors. It was the paying people to stay home instead of paying them to stay on the payroll and giving them kind of the flexibility, in some cases, more money, so a lot of people shifted out of jobs and said, "I'm just not gonna go back to that." It was the uncertainty of school closures. If you were a parent and you had a child that was in school, and they kept closing down these schools, and you had to stay home and take care of your child, you can't commit to going and starting a new job, if you think that there's a possibility that in two or three weeks, that everything could be closed down again. Who wants to do that?

Carol Roth: So there was a lot of uncertainty, and then the increase in asset prices in terms of home values and 401Ks pushed three million plus baby boomers to retire early from the workforce. The restrictions on visas, because we didn't want other people to come in and bring COVID into the country, meant that not only are we down in terms of legal immigrants, in terms of kind of where we were, pre-COVID, but based on the growth trajectory, we're actually about two million behind the projection of where we would have been, had all these decisions not been made. And then you had a lot of people who decided to become day traders and crypto traders from all of these decisions, and I don't think...

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Carol Roth: Here's the sad part. They keep talking about, "Oh, well, this is all gonna go back to normal." These Baby Boomers aren't coming back. They're not gonna put two million immigrants back any time soon. People who love to do something else, it's gonna take a while before they perhaps give up on that. So I don't see where the labor is gonna get restored, in earnest, any time soon. And that also adds to inflation, because if you have to pay workers more just to attract anybody, and you also don't have enough workers, which means you can't produce as many goods and services, and there's more dollars chasing fewer goods and services, all of those things also drive inflation. So, I see a very tough road for small businesses, ahead, and again, this is all government mandated. So, the small Businesses are very resilient, you wouldn't be an entrepreneur if you weren't a problem solver and somebody who is willing to work through these things. But, it just adds more risk to the equation, in terms of what you're putting out and what you're getting back, in terms of your own wealth creation opportunity.

David Phelps: Yeah great insights, Carol. Because I know you are such an advocate for small business because you've obviously been advocating for many, many years, and this is your love for free market capitalism, which is... We're seeing that go by the wayside with centralized planning. I'm curious about other ideas, tips you can give to small businesses, and you mentioned collaboration, which I think that's huge. I'm glad you said that collaboration, not looking at the landscape as being all your competition. No, you've got to learn to collaborate. In terms of where we are in the marketplace today, asset bubbles, wall street, real estate, housing, etcetera, and the inflationary factors that you've already alluded to and the labor situation. Is this a time when small business, if they feel like they have capacity to increase size or expand, is this a time they should do that? I know it's gonna be different for everybody, I know it's hard to generalize, but is it... I'm saying is... Should we stay nimble? 'Cause that's where small

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business has the advantage over large business. We can be nimble and better, I think, if we have to keep margins in place and watch overhead and keep a tight consumer communication, know our consumers, our client's, patients whomever they be...

David Phelps: But, speak to that a little bit, because I know that with your consulting and helping raise capital, that's gotta be part of what you do, is help them decide, "Do I expand now with low interest rates, or is it... What am I getting into?"

Carol Roth: Yeah, so I think that the first thing is, if you haven't learned this in the last couple of years, I'm going to tell it to you now, but I think most of you probably figured it out. You need to have a bigger cash cushion than you... You always needed one, and small businesses notoriously don't have one, but you need to have that flexibility, because at this point, there are new risks that we never imagine would happen. Nobody would have ever said, "Hey, the government's just gonna come and shut you down at will and keep everybody else around you open." Nobody guessed that, was not on anybody's radar, I did not hear that from anyone. And that presents a really big new risk factor, so you need to have that scenario. The debt question is a challenge because debt is still very cheap and is probably gonna start increasing in price. With inflation, the real cost of debt is negative, so if you have that investment that can pay off, you can definitely take advantage of that debt, in a way that... The same way that the big guys are.

Carol Roth: The challenges, and I'm gonna be really frank about this as a small business owner, you're probably personally on the hook for that, so there is definitely more risk and in terms of the growth, even though you think you may be able to grow, there may be these stumbling blocks, in

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terms of you're getting enough workers or getting some of the supplies and the supply chain, and you really need to take that into account when you're running the numbers, to see if you have enough margin of error for that to be worthwhile. So, I think for those who are well-positioned and are in a potentially an area, there're gonna be a lot of your competitors that are going out of business, so you may have the opportunity to pick up clients or maybe there's a merger opportunity, where there's more strength and scale that that makes sense for. But you need to weigh those risks and rewards, and obviously, it's very different for every small business owner, depending on if they have co-investors, if they have kids, if they have a family, what their financial situation is and the specific issues that relate to labor and supply chain, where they are. So those are the things that I would weigh against each other.

David Phelps: A little nuance about my industry, dentistry and it's probably not that different from many others but a lot us went into medicine or dentistry because we wanted to be independent and have our own clinic, our own practice. But we are in a time today, where collaborating, partnering, joint venturing, some form or fashion is really necessary on some level. And it's so hard to get independent dentists to drop that and say, "You know, I can't actually compromise some things for the better... For the synergy of the good." It's so hard to get them to think about that. Yet, I think, to your point, we've got to start learning how to do that better. We just didn't grow up that way. We didn't grow up learning how to share, share in the sand boxes. Like, nope.

Carol Roth: It's a brave new world out there. And so, one of the things you may just wanna have within the industry is, have a mastermind dinner. Have a bunch of people that you respect, sit around, go to a nice steak house, have some wine, if that's your thing, or bread, if you're like me, and sift through these things and find out where are these places where you

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may be able... Maybe things like equipment that is under-utilized, where... Do we all really need to make this investment or is there a way to kind of share the love? Is there somebody that's not in the room, that maybe we could all approach and divide up their client? Whatever it is, but you should be having those discussions and you shouldn't worry about the demand side. In fact, I think, particularly in dentistry, and I would say this for anything that's more of an elective medical, really any medical thing that wasn't COVID, there is pent up demand, because there are people that put off doing these things during the last couple of years. And, the shift in spending that we're going to see, is going to move from goods, which is what was really hot when everybody was cooped in their house and they couldn't utilize services, to, probably in the back half of this year, very service heavy.

Carol Roth: And so, I would be really thinking about how you can capitalize on that now, while you have the opportunity, be thinking about your staff. That's the other thing is, have an off-site with your staff or have a dinner with your staff. They're the ones that are out there, talking to patients in a different manner, right? You're really focused on their care, but they're having a different level of interaction with them. What are things that they think you guys could do, whether it's on the labor side, whether it's on issues that you're having with operations, clients, to be able to boost your practice? That's really important, to set up discussions, that I think that particularly in a situation like a practice, doesn't happen enough.

David Phelps: Yeah, very true. And I was just thinking when you were talking about the movement from goods to services and... Yeah, we're all paying a price, and I think my wife and I, we're not traveling internationally, no cruise ships. So, maybe I go back and get my teeth and my hair done and just might as well just put some on myself. I'm being a little bit sarcastic here, but you're right, that's a tendency. If we're gonna pay a price and

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we've got this capital, if you got the stimulus money or whatever you're sitting on right now, the pent-up demand is there for sure, for those companies, those businesses that can serve that. Carol, something you mentioned also is, you mentioned that small businesses and individuals who are very vulnerable bore substantial costs, extra substantial costs due the government's economic and civil injustices. You said, "Vulnerable communities may take a decade or more, to recover." Can you give us a little bit insight about that, what kind of communities and what are they gonna have to do to overcome what's been done to them by this pandemic response?

Carol Roth: Yeah, this has been just an epic failure, in terms of... The government likes to tout inequality, which normally drives me crazy because merit-based inequality is part of life. But, this is inequality that's driven by government mandates, and as you alluded to in the beginning, and I underscored, this was the biggest driver of inequality in history and all done at the government's expense. So, if you think about our most vulnerable communities, those that have more poverty, usually are in urban or more rural areas, the things that they endured in terms of the people who don't have a lot of access to capital to start with. They don't have customers and clientele that maybe, are in the best financial positions. If you look at unemployment now, even though we're at record low unemployment because people have opted out of the labor force, the under... The unemployment in the Black community, for example, is much, much higher than it is, for everybody else.

Carol Roth: And so, with the protests that burned down or looted or what not, in many urban areas, with the closures of these businesses, without the access to capital. Now, inflation, not being able to find workers, if you are a business owner, you're in one of these areas, it's already harder for you to be successful. That's an extra risk, and now basically, the

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government has just put their boot on your neck and made it almost impossible for you. And I cited some studies after different riots and things that have happened in the past, how long it can take for these communities to recover. So, we're gonna see that being a big issue. It is one thing that's very interesting, in terms of the labor force, so just to give a bright opportunity, is that it does give an opportunity for second chancers, those who have been formally incarcerated, to have a better chance of re-entering the workforce. And there are a lot of really great organizations.

Carol Roth: There's one here in Chicago that I support, called the North Lawndale Employment Network, but there are many across the country, that spend time training people who have formally been incarcerated, about financial literacy, but also with job skills, to help prep them. And then they give a heads up to employers and say, "These are the people that we really think are ready to get into the workforce, and these are the people that probably aren't gonna be the best employees," but to bring in and give that second chance at economic freedom of wealth creation and taking personal responsibility to people who may have been a kid and ended up in a bad situation because of where they grew up. I do think that that is one element, in terms of a positive place where people can turn to look for employees, that people probably aren't looking right now.

David Phelps: Yeah, there's a bright spot in the labor shortage right there, for sure. And we as a cultural society and small business owners, we need to be a part of that. Because again, this affects all of us. We can't just be... Salvation, look inside, you've already talked about that. Carol, let's end...

Carol Roth: And, by the way, and I'll just mention... So Jeff Korzenik's actually done really good research and has a great book out... The specific name, but if you look up Jeffrey Korzenik, he's Chief Investment Officer of

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Fifth Third Bank, but he's very involved in this. And they've actually shown that those people who were formally incarcerated, who do re-enter, end up being some of the company's best employees, because they actually really have that loyalty. They appreciate the opportunity, and so they're gonna take it more seriously in a way that somebody that feels like they had a slew of opportunities, or just doesn't really care, is in it for the money. It's a different dynamic.

David Phelps: Yeah, the appreciation for the opportunity is huge there. What... Can you spell the last name? Jeffrey's last name for us?

Carol Roth: Yeah, it's K-O-R-Z-E-N-I-K.

David Phelps: Perfect, good. Let's end here. Universal basic income, minimum wage going up. Where we... We're not gonna land on this, but it's moving forward, right? Where is this gonna go? In your opinion, because we've kinda let the horse out of the barn here, right? That's the way I look at it.

Carol Roth: Yeah. This was a de facto way to increase the minimum wage, and it was a de facto way to get people used to depending on the government and liking government checks. Although hopefully, people are starting to see that they traded a little bit of checks for this inflation, which now means that that check didn't go very far and the rest of it's coming out of my pocket. So I do think... Again, if there's any... Highlighting the bright spots, 'cause there aren't a lot of them. If there is any bright spot, I think some people are starting to make that connection. But, I do believe that these were all sort of de facto efforts. The minimum wage discussion is moot now, because the people who are fighting for \$15, we've got

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restaurants that can't hire for \$22 an hour, so that's gone by the wayside. And so, I feel like UBI, same kind of thing. It's... People really might not have been open to it, but they really liked getting their check, now they're paying the price for that, so we'll see if it's... If it really has that same cache, long term. But boy, that government's gonna keep trying to find ways to get you more hooked on government money, which again, isn't government money, it's either our money or it's printed money, which devalues your money.

Carol Roth: And at the end of the day, it doesn't create wealth. It's not a wealth creation. It's just a wealth redistribution activity. And the more people that could understand that, the better off they're going to be in the long-term.

David Phelps: Somebody told me a long time ago, there's no such thing as a free lunch, David. And there is not.

Carol Roth: Ain't that the truth? Ain't that the truth? You pay for everything.

David Phelps: There's always a price to be paid. Well, Carol Roth, such a pleasure to visit with you. Thanks for your insights. The War on Small Business: How the Government Used the Pandemic to Crush the Backbone of America. What a pleasure. Thank you for your time today.

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