



DIALOGUE ON DIVERSITY

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THE NEW COURTSHIP OF SMALL BUSINESS: WILL IT LAST PAST VALENTINE'S

SMALL BUSINESS ROARS BACK TO CENTER ON THE PUBLIC POLICY AGENDA

The Administration has charged into the lists with the banner of small business held firmly aloft. The President, within the last ten days, has announced several initiatives, of which more below, designed to propel the country's small entrepreneurs into a renewed vitality, implicitly locating the key to the much desired economic recovery in the performance of that segment of the U.S. economy.

Small business, while flattered by a constant chorus of lip-service among the political élite, has seen its actual regard in the public policy arena flagging for the last decade. A symptom was the declining appropriations for the Small Business Administration, a decline which the first two budget years of the now reigning Administration have reversed. The total budget of the Agency, as now being proposed, is near \$1 billion. This represents a rise of some 20 % over the figure for the previous budgeting year. These figures are for the SBA's own budget, while the quantity of loans made under the SBA's aegis is some \$15-20 billion a year – which at that is a very small fraction of the volume of economic output that is being missed because of the recession in the multi-trillion U.S. economy.

What are the specific changes now being urged? Which can be put into action swiftly? Which face instead a perhaps long and anguishing legislative struggle? And what will any of these initiatives mean for the decision matrix of the entrepreneurs owning small business enterprises in cities, large and small, around the country? It is a matter of great uncertainty to essay answers to any of these questions, but the questions will necessarily persist, and they do direct attention to the important factors that entrepreneurs themselves and persons interested in public policy outcomes must keep a sharp lookout for.

The Administration in recent days has set in motion a series of initiatives, some under its own administrative powers, others requiring action by the Congress, to prompt small business enterprises around the country to a greater degree of vitality and vigor, this with the hope of ending the lingering unemployment effects of the present recession, and in the longer run of building a solid source of innovation and flexibility, a robust capability drawing into the mainstream of economic activity the diverse ethnic groups whose gravitation to the world of small business has been one of the most notable social and economic phenomena of recent decades.

Administrative action, that is, initiatives launched by the executive without a need for action by the Congress, are limited in their range and amounts. The main show is of necessity to be in the Congress. The suggestions advanced by the Administration – and others – include: taking some \$30 billion in TARP moneys returned by the large banks, sending the funds as capital infusions to small town banks of modest size by way of very low-interest loans, thus permitting those banks to expand their own lending to business firms. The political opposition wishes instead to send the \$30 bill. to the treasury for reduction of the public debt, and the banks would rather not have to handle the money tainted by the TARP schema. Other suggestions – clearly the

most important in magnitude – call for a series of revisions of SBA loan limits, increasing these several fold, with the SBA guarantee to the lending banks following. Still other ideas are tax credits (\$5,000 is mentioned) per new worker hired by small business. Again, capital gains taxes on small enterprises might be dropped. Each of these expedients, it appears, would move the diverse economic actors in the right direction, but by how much it is hard to say. And at this time, in any event, it is a matter of great uncertainty whether any of these notions will see the light of day as enacted statutes, and if so in what form and at what amounts.

The moment of truth, in any case, is to be found in the response of the targeted small, “community” banks to any enlarged availability of capital – that is, funds of their own on which to base their extension of loans in a multiple for the promising projects of promising enterprises. On this count, first, the amount by which bank capital is being increased is at best a meager sum seen against the volume of small business financing that would make a large dent in the bulk of unemployment. What the banks would do with the infused funds is the next question. The banks in question cultivate a clientele for the most part of small firms (the very large firms are not likely to use small town banks). By the latest reports, the banks at which the present initiatives are aimed are in some cases beginning, or fixing to begin (like the second half of 2010, perilously close to the elections, one may be reminded) making loans more plentifully to small and mid-sized business enterprises, while other banks, those that, not quite so careful in the run up to the collapse, had loaded up their loan inventories with very dubious paper, are glumly stating that the loosening of the loan purse strings, even given the infusion, is still nowhere in sight. Something of a mixed picture, with the tendency toward more ample funding marginally predominant. One report states that lending standards have been slightly relaxed at a number of banks, while the same measure for the year previous had found only a dismal series of successive tightenings – if not the Glorious Summer of prosperity, at least a modest break in the clouds of this Winter of Discontent.

One does observe, however, at these early stages of the small-business initiatives, the introduction in the Senate of a bill effecting the SBA loan limit increases described above, co-sponsored, remarkably, by the Democratic Chair of the Small Business and Entrepreneurship Committee, Sen. Mary Landrieu of Louisiana, and Sen. Olympia Snowe of Maine, the Committee’s Ranking Member – a spark of the much praised bi-partisanship, seldom seen in the district – whether the spark can ignite a blaze of brotherly love in the Senate, which was at one time known as the World’s Greatest Deliberative Body, remains to be seen. We will keep readers informed of progress on these as yet unrealized initiatives. It can be relied on, however, that the political steam behind some form of assault on the massive unemployment still bedeviling the country is of probably irresistible force. It will be an interesting Spring.

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