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Ideas & Opinions

On My Mind

You Call That a Stimulus? Give Small Biz Something Real

The \$30 billion aimed at small employers falls short of what's needed. By Chris Carey

OKAY, LET ME GET THIS STRAIGHT: THE SMALL Business Administration's Office of Advocacy reports that 27 million small businesses in the U.S. account for half of the gross national product and employ more than half of the workforce, and Washington figures \$30 billion in loan support and some tax credits will get things done.

What's that, \$1,100 per company? Wow, where do we sign up!

Our fearful leaders gave \$50 billion to General Motors, \$185 billion to AIG and an as yet untold amount to Fannie and Freddie. According to the Congressional Budget Office's *The Budget & Economic Outlook: An Update August 2009*, big business has been showered with \$10 trillion (yeah, that's a "t") in funding and commitments, including \$1.3 trillion disbursed by the Federal Reserve, with another \$2.8 trillion committed (including aid to AIG, Citigroup and Bank of America); \$800 billion from the Treasury, with \$3.6 trillion committed (including guarantees for money market funds and Tarp); and \$2.1 trillion committed by the FDIC (including increased depositor insurance and more Citigroup guarantees).

How is \$30 billion for small business supposed to make a difference?

Small businesses continue to struggle mightily in the downturn. As customer demand shrank, terrified banks loaned to only the most creditworthy, if they loaned at all. Tax credits for new hires? Great, but those don't plug holes in working capital. In short: The Obama Administration's small-business stimulus plan is like dumping a cup of water on a forest fire.

We can do better. We have to. Let's get creative. Here are some ideas and their price tags:

Small Business Fund Many small businesses have been forced to borrow from fringe lenders at interest rates in the 20% to 25% range.

Let's increase the capital available to smaller banks—that is, funds dedicated to small-business loans—by \$300 billion. Wrap them with a federal guarantee equal to 90% of the loan amount and charge 2% for the backstop. Limit applicants to those with less than \$100 million in revenue but double the maximum amount the government guarantees to \$4 million. (Perhaps



A \$5,000 new-hire incentive could add 1 million jobs to the economy.

throw in some help for CIT, the asset-based lender to thousands of small businesses.)

Set aside 2% of the \$300 billion to cover the 1.9% loan default rate for small businesses, as reported by the FDIC in September 2009. As the economy continues to recover, the majority of these loans will get repaid.

New-Hire Incentive The goal here is to stimulate hiring instead of extending hours for existing employees. We could maybe add 1 million jobs to the market.

Assuming that average unemployment pay is \$250 a week, any new employee hired by a small business will save the taxpayer \$6,500 over a six-month period. Let's offer small businesses \$5,000 for every new hire continuously employed for a minimum of six months. This will save \$1,500 for the first six months and \$3,250 for the 13 weeks of extended unemployment coverage. Better yet, the tax rate on a full workweek is a heck of a lot more than on unemployment benefits. Estimated cost? It's a net gain.

Training Programs You can't put people to work without giving them the tools to do the job.

Federal and state governments should reimburse small businesses up to 50% of the wages earned for up to four weeks of training. This is an average of \$1,000 per person. If small business can use this program to add 1 million workers over the next year, that \$1 billion investment will be worth every penny.

This plan would put taxpayers on the hook for \$300 billion of lending, but the losses here would be roughly covered by the guarantee fees. The new-hire program would cost nothing. The training would cost \$1 billion. All these numbers are paltry next to the \$10 trillion the big boys got and clearly more commensurate with small business' contribution to the overall economy.

So who's going to push a program like this through? You never hear about a small-business coalition tipping the balance in an election. The recent court decision on campaign finance only strengthens the influence of big business. But here's hoping that will change—that some white knight will step out of the shadows to be an advocate for this country's job creators.

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