



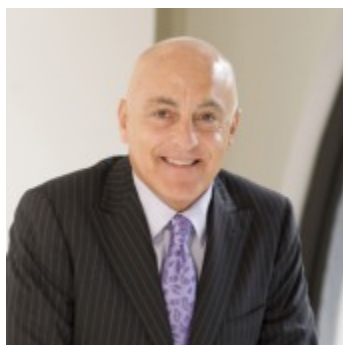
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Entrepreneurs

They Call This A Stimulus For Small Biz? Pshaw!

[Chris Carey](#), 03.25.10, 06:21 PM EDT

Here's a real plan for revving up economic growth.



Chris Carey

OK, 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 50% of the Gross National Product and employ over 50% of the workforce, and Washington figures \$30 billion in loan support and some tax credits will get things done.

What's that, \$1,400 per company? Wow, where do we sign up!

Our fearful leaders gave \$50 billion to General Motors, and \$185 billion to [AIG](#) ([AIG - news - people](#)). According to the Congressional Budget Office publication, *The Budget & Economic Outlook: An Update August 2009*, big business has been showered with more than \$10 trillion (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](#) ([C - news - people](#)), [Bank of America](#) ([BAC - news - people](#)), Bear Stearns); \$800 billion from the Treasury, with \$3.6 trillion committed (including guarantees for Money Market Funds and TARP); and over \$2.1 trillion committed by the FDIC (including increased depositor insurance and more Citigroup guarantees).

Um, does \$30 billion to small business make a difference?

Small businesses continue to struggle mightily in the latest, tenacious downturn. As customer demand shrank, terrified banks loaned to only the best of credits, if they loaned to anyone at all. (This while the federal government showered credit on busted banks, mortgage providers and auto companies.) [Tax credits](#) for new hires? 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 and can be saddled with [interest rates](#) in the 20-25% range. Some of the only choices available are pretty ugly (See "[Here's How To Raise Cash--Now!](#)").

Let's increase the capital available to smaller banks--that is, funds dedicated to small-business loans--**by \$300 billion**. Wrap them with federal guarantee equal to 90% of the loan amount and charge 2% for the backstop. Maximum company size: \$100 million in revenue, but double the amount guaranteed to \$4 million. (Perhaps throw in some help for CIT, the large 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 repair, the majority of these loans will get repaid. (Personal guarantees, as required now by the [SBA](#), should still be required. Hey, how many executives at GM or Chrysler were prepared to put their personal net worth on the line?)

New-Hire Incentive

The goal here is to stimulate hiring instead of extending hours for existing employees. Maybe, just maybe, we can add another 1 million jobs to the market.

Assuming that the average [unemployment insurance](#) is about \$250 a week, any new employee hired by a small business will save \$6,500 in 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 work week is a heck of a lot more than on [unemployment benefits](#). That's a trade we should be willing to make all day long. Estimated cost of this piece: **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.

Small Business Investment Funds

There are 338 Small Business Investment Companies in the U.S., with approximately \$17 billion capital. SBICs offer venture capital financing (raised from private sources) to higher-risk small businesses, and SBIC loans are guaranteed by the SBA.

The [SBA](#) currently limits their matching funds to three times the equity invested in the SBIC fund. We should increase the leverage on private capital from three times to 10 times, and lower the minimum [capital investment](#) to \$2 million. The recent Recovery and Reinvestment Act improved the SBA funding limits to \$150 million for each fund, with further limits on multiple funds within the same SBIC. The SBA should increase it again to a minimum of \$250 million without any limitation on multiple funds.

[In Depth: Nine Alternative Ways To Raise Cash Now](#)

To be fair, it's hard to tell how effective this shot in the arm would be. Then, too, there's the risk to taxpayers, in the form of defaults by the SBICs--which are on the hook for their portion of the equity--if the investments don't pay off. In the worse case scenario, say defaults run up to **a few billion dollars**.

Small Business Advocacy

All in, then, this plan would cost: \$300 billion for loans and guarantees; nada for the new-hire program; \$1 billion for training programs; and maybe \$200 billion for additional loans to the SBICs (roughly 10 times the \$17 billion in equity that these funds currently put up), covered by [interest rates](#) and probably paid back. **That's \$500 billion**--no wee sum, but positively paltry when compared with 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 can count on one hand the number of state-level or higher elected officials who've been ousted by a small business coalition. Worse, the recent tweaks to campaign finance rules only strengthen the influence of "big business." The list of white knights isn't just short--it's virtually blank.

Then again, having to pound through an inhospitable Congress would be a happy problem to have. First we need a better plan--one that might have a real chance to stimulate small business.

Chris Carey is president of [Chris Carey Advisors](#), which works with small and mid-sized companies to increase profits and improve performance.

