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Help Small Businesses Hire Again

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THE Great Recession is over. The nation's gross domestic product expanded at an annual rate of 3.5 percent during the third quarter, proving that the longest, broadest and most severe American downturn since the 1930s has finally given way to recovery. It is no accident that the recession ended just as Washington’s fiscal stimulus program began providing its maximum impetus to the economy. If the financial crisis had been allowed to continue unchecked by aggressive government action, we would not yet have reached a turning point.

Still, the recovery remains fragile. No doubt, there will be moments in the coming months when the economy appears liable to falter again. In order to ensure that today’s tentative recovery becomes a lasting expansion, the government must now make it a priority to deal with employment — particularly among small businesses.

Small businesses are especially vital to job growth. Establishments with fewer than 20 employees account for 25 percent of all jobs, but these same-sized companies generated 40 percent of the job growth in the last economic expansion, from 2003 to 2007. In their recent efforts to recharge the economy, policy makers have all but forgotten small business, finding it both easier and more visible to help large multinational firms. Unfortunately, though, big business can’t provide the jobs needed to power the economy forward.

Businesses may not be shedding jobs as aggressively as they were earlier this year, but they still aren’t hiring. Unless they start doing so soon, consumers won’t have the wherewithal to keep spending, and the economy could slip back into recession. A cycle of falling wages and prices would likely begin, adding to the danger and giving the Fed and Congress fewer options and resources to respond.

It is conceivable that businesses will resume hiring soon. Employment growth historically lags a pickup in gross domestic product. But firms typically increase production by first increasing workers' hours and adding temporary help. Neither has happened so far: working hours remain stuck at a record low of 33 hours a week, and the number of temporary jobs is still in decline (nearly a million have been lost in the past three years).

Small firms are now struggling to obtain credit; their principal lenders, small banks, are under intense pressure, and hundreds more are set to be taken over by the Federal Deposit Insurance Corporation. Credit card lenders, another key source of loans to small business, have aggressively raised their underwriting standards. Policy makers could offer quick relief by empowering the Small Business Administration to provide more credit.

The Small Business Administration guarantees bank loans to small businesses, but banks aren't making very many because the loan's interest rates are capped at less than 6 percent — not enough to compensate for their risks at a time when business bankruptcies are high and rising. Creditworthy small firms would gladly pay somewhat higher rates to obtain credit. Increasing the maximum size of an S.B.A. loan and temporarily raising the percentage of the loan guarantees to as high as 97.5 percent, from 90 percent, would also prompt much more lending.

To help small companies with cash flow, policy makers should also extend provisions in the current stimulus bill that allow money-losing firms to receive refunds of taxes paid on profits earned in previous years. (In return, they agree to pay higher taxes in the future.) Rules permitting such refunds are scheduled to expire at the end of this year; an extension through next year would provide quick cash for many firms that might otherwise be forced to close. Given the tens of thousands of bankruptcies in the works by businesses of all sizes, expanding this tax benefit to bigger firms than are now permitted in the stimulus package would be a plus. Allowing companies with as many as 250 employees to take advantage of the benefit could potentially help well more than a quarter-million firms.

Finally, the government could help minimize the number of new job losses by promoting work-share programs. Nothing damages morale at a company more than layoffs; the experience not only is crushing for those who lose their jobs, but also weighs on those who remain, including managers. Layoffs are also costly, given severance expenses and the costs of rehiring or training new employees when business picks up again. Seventeen states offer effective work-share programs. Under these arrangements, employers cut workers' hours — not their jobs — and states make up a portion of workers' lost wages with unemployment insurance payments. Congress should provide financing to expand such programs nationwide.

These policy steps would not be free, but they could be surprisingly economical. Most of the credit and cash provided by taxpayers up front would come back; loans would be repaid and businesses that are given tax refunds would pay higher taxes on their future profits. This kind of help from Washington could help sustain the new signs of recovery and firmly put the recession behind us.

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