U.S. Treasury to Offer Small Business Owners “Forgivable” Bridge Loans

https://media.blubrry.com/1462062/mcdn.podbean.com/mf/web/ymbx6a/US_Treasury_to_Offer_Small_Business_Owners_Forgivable.mp3

Podcast: Play in new window | Download ()

Subscribe: Android | RSS | More

In an interview with CNBC on Monday morning, Treasury Secretary Steven Mnuchin urged small business owners — the most important driver of job creation and economic growth in the U.S. economy — to keep paying their people even while their businesses are shut down: “If you’re a small business [owner], we ask that you not lay people off.”

The Federal Reserve is working closely with his agency to create a Main Street Business Lending Program that would give those owners an unsecured “bridge loan” to allow them to continue to pay their employees during the economic shutdown — a loan that would later on be forgiven once the threat of the virus has ended and their businesses have reopened.

The initial amount intended for the program is $300 billion — an enormous amount in absolute terms, but tiny in terms of the size of the U.S. economy. It could be, and likely will be, extended and expanded as officials such as Mnuchin begin to understand the damage the shutdown has already caused to the economy.

Thousands of small businesses are already on the brink of insolvency, with bankruptcy for many of them just around the corner.

The ripple effect of just one coffee shop shutting its doors is enormous. With the owner and his former employees no longer getting a paycheck, their families hunker down, spending only what they need to for the necessities of life (including toilet paper). But the shop’s suppliers are also affected, from the lease holder to the supplier of coffee beans and restaurant supplies. Those suppliers depend upon transportation services for their orders, which are also affected.

At the city level, that shop’s one-percent sales tax revenue stream has ended.

How long can this continue? Tomorrow is the end of the 15-day lockdown period the president announced on March 9, at the end of which he said the country should “know more” about the extent and seriousness of the virus.

The human body can go for weeks without food; days without water; but only four to six minutes without oxygen. Although that analogy is flawed, it is useful. Most small businesses (this writer owned one) are desperately underfunded, struggling often just to meet payroll before the owner sees a dime. A minority operate without debt. A still smaller number have a “rainy day” fund set aside for emergencies.

Under duress, the small business owner has few options, as he is likely to have all his available capital tied up in the business. He might be able to raid his IRA or his 401(k), if he has one. He might be able to go back to the bank to ask for more help or at least an extension on his existing line of credit. He might be able to obtain a second mortgage on his home if he could find a lender willing to lend to someone whose business is in trouble.

He might be able to get some help from the leaseholder, but time runs out and patience wears thin during a crisis.

In a word, without oxygen — daily cash flow from paying customers — the small business owner is just weeks away from insolvency and then bankruptcy.

That’s why calls to restart the economy are beginning to be heard. The argument is simple: The cure is killing the patient. Geoffrey Hunt, writing for the American Thinker, is demanding “Reopen America now!” John Cochrane (“The Grumpy Economist”) wrote that what is needed is a “reopening plan. Fast!” Chris Edwards at Cato said, “if this continues, there will be a massive plunge in incomes, and tens of millions of people will not be able to meet basic expenses such as rent and food.”

The New York Times is slightly more optimistic, suggesting that there’s still time to implement measures that ensure that the economy experiences a “V-shaped” recovery instead of an “L-shaped” one.

If the virus peaks soon, the patient — the millions of small businesses that make up the bulk of the economy — is likely to recover without permanent damage.

But time is running out.

Image: wutwhanfoto via iStock / Getty Images Plus

An Ivy League graduate and former investment advisor, Bob is a regular contributor to The New American, *writing primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*