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The SBA needs reforming

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Long ago, in an election year far, far away, President Obama had a pretty good idea for streamlining government. In 2012 he proposed consolidating six agencies that focus primarily on business and trade — including the Small Business Administration (SBA) — into one new department.

Obama argued this would enable small businesses to navigate the dizzying array of programs supposedly designed to help them. Alas, the idea went nowhere, amid opposition from the small business lobby and the small business committees in the House and Senate with which that interest group enjoys a symbiotic relationship.

We recall this forgotten episode only to note that President-elect Donald Trump's pick to head the SBA, former World Wrestling Entertainment chief executive Linda McMahon, supported Mr. Obama's notion during her (unsuccessful) campaign for the Senate that year — and to point out that, given what little else is known about her policy views, this history is a modest point in her favor.

Federal support for small business in general, and the SBA in particular, could use some fresh thinking. We admit that, politically, continuing such programs is a no-brainer, since 96 percent of the public has a “positive” view of it, according to a Gallup poll.

Economically, however, the case for guaranteeing a \$79 billion portfolio of small business loans in fiscal year 2016 is less clear.

Banking-sector discrimination against small firms, due to their assumed riskiness and lack of collateral, is, in theory, a market failure that argues for government intervention. So it seemed in 1953, when Congress established the SBA.

In more modern practice, innovations such as credit scoring make it more likely that banks will lend objectively. Meanwhile, the SBA's mission creeps: 98 percent of all U.S. businesses now fit its large definition of “small.”

SBA-backed loans go to firms “that might not otherwise obtain financing on reasonable terms” — a loose standard that permits the government to allocate capital according to a decidedly vague definition of the public interest.

A 2011 study by the libertarian Cato Institute found that the biggest recipients of SBA-backed loans in 2009 were restaurants (including fast-food franchises), gas stations, dentists, beauty salons and motels. In each case, borrowers represented 2 percent or less of the total industry: Why was taxpayer money risked for these lucky few rather than their thousands of competitors?

In the process, certain very big businesses profited handsomely. Banks such as Wells Fargo and JPMorgan Chase are among the largest SBA lenders. They pay a fee for the government guarantee, but it's worth it, in return for knowing that Uncle Sam will pay them back if the client cannot. Sweet deal.

Small business is only slightly less popular than motherhood, so it's probably too much to hope that Ms. McMahon or any one else can bring radical reform. If the incoming Trump administration is serious about changing Washington, though, the small-business lobby and bureaucracy should be on its list.