



*The Tenth Grapevine*

## Terminating the Small Business Administration



Written by: [Tad DeHaven](#)

An essay on terminating the [Small Business Administration](#) has been added to Cato's [Downsizing Government](#) website.

Some highlights:

- Established in 1953, the agency had earned the nickname “Small Scandal Administration” by the mid-70s. President Reagan’s budget director, David Stockman, called it a “billion dollar waste—a rat hole” that benefited few small businesses, while distorting credit markets. Unfortunately, both Republicans and Democrats have continued to support it.
- The SBA guarantees loans issued by private lenders for up to 85 percent of losses in the event that loan recipients default. As a result of the guarantee, lenders are more willing to lend money to riskier applicants because the SBA is ultimately responsible for the bulk of any losses. The SBA is supposed to charge fees sufficient to require no annual appropriations from Congress. However, that has not been the case, and its lending programs continue to rely on taxpayer subsidies.
- Policymakers argue that market-driven lending denies credit to worthy small businesses, and so the Small Business Administration must correct this alleged “market failure.” The essay explains that there is no “market failure” to justify the SBA’s lending programs.
- Only small shares of small businesses get started with a loan from a commercial lender. Furthermore, loans issued by commercial lenders that are backed by the SBA represent only a very small share of total commercial loans to small businesses.

- The SBA's lending programs benefit a powerful special interest group: the banking industry. The banking industry was originally opposed to the creation of the SBA on the grounds that the federal government should not be involved in commercial lending. However, when the SBA switched from direct lending to backing loans issued by private lenders, the banking industry became a key supporter of the SBA.

[Terminating the Small Business Administration](#) is a post from [Cato @ Liberty – Cato Institute Blog](#)

*Tad DeHaven is a budget analyst on federal and state budget issues for the Cato Institute. Previously he was a deputy director of the Indiana Office of Management and Budget and a policy analyst with the National Taxpayers Union. DeHaven also worked as a budget policy advisor to Senators Jeff Sessions (R-AL) and Tom Coburn (R-OK). His articles have been published in the Washington Post, Washington Times, and National Review.*