The Role of the State in Small Businesses Struggles During Economic Downturns

The role of the state in the administration of policies that impact small businesses is promoted by policymakers and those who enforce them. When not properly implemented, actual outcomes may be different from policy objectives. Even when decision makers are likely to achieve policy objectives that purports to bring economic stability, some may have simplistic notions of how economies operate or may, “in Keynes’ term, be slave of the theories of defunct economist” (Perera, 2019, p. 190). Economist and governments have debated the merits of different economic thoughts and their implications in economic developments. Perera (2019) further makes the point that “the best, and most useful, economic theories are those that draw clear causal links from a specific set of contextual assumptions to predicted outcomes” (p. 190).

During economic downturn, the state’s role could be that of a facilitator to funds, or a direct provider of funds for small business as the Paycheck Protection Program (PPP) illustrates. The PPP was a U.S. government program designed as a result of the economic downturn caused by the 2020 COVID-19 pandemic to incentivize small businesses to retain workers at their pre-pandemic level. The program was setup to support small businesses by fully forgiving the loan if at least 60% of the funds received were used for payroll. The CARES (Coronavirus Aid, Relief, and Economic Security) Act, allocated a total of $659 billion of relief funds to the PPP program with the original tranche of $359 billion approved on March 27, 2020, and the second tranche of $310 billion from the second stimulus bill on April 24, 2020 (U.S. Small Business Administration [SBA], n.d.). The implementation of the PPP rolled out by the U.S. government is to be looked at in the context of what works for the state. It is evident that the PPP was implemented to help avert the throes of the COVID-19 pandemic on small businesses. As Keynesian theory advocates; the state is to spend, offer bail-outs and act in the best interest of the public in downturns (Keynes, 1937).

The reality on the ground from several reports indicate that the program faced many challenges due to "improper" roll-out and administration of the program. The bail-outs in the form of forgiveness loans intended to inject much-needed liquidity into small businesses may not have reached the intended recipients at the level at which policy makers envisioned. Implementation challenges in accessing the program, bureaucratic hassles, and difficulties establishing eligibility may have deterred small businesses from applying for the relief program offered by the government. Recent studies have found that the smaller firms were less likely informed of the PPP compared to larger firms. Available literature suggests that the smallest businesses with revenue less than $250,000 were significantly less likely to apply for the PPP, making the program more appealing to start-up firms, smaller firms, and firms with more employees but fewer investment opportunities. These findings provide a basis for investigating social, political and historical factors such as bureaucratic hassles, establishing eligibility and scale of operation.

The challenges highlighted by the implementation of the PPP program amplifies the fact that small businesses are plagued by problems of access to government funding. It is a well-documented fact that small businesses create jobs, generate wealth, and foster economic growth. For instance, according to the Small Business Administration (SBA), small and medium sized businesses (SMEs) drive innovation and competitiveness and account for 44% of U.S. economic activity. These facts support the need for the state to support small businesses during pandemics and economic downturns in order to revive failing economic conditions. However, if and when governments make funding available to small businesses, the process tends to be cumbersome and complicated. Governments can resolve these challenges by introducing practical intervention strategies that meet the needs of small businesses; such as mitigating the process of finance funding and offering a more stable and diversified financial support.

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