Bottlenecks of State Planned Programs & Small Businesses

Businesses and the state are intertwined in a political-economy (Keynes, 1937 and Hayek, 1944). Even in capitalist economies, the state plays a role in business finance, especially in times of 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 recent Paycheck Protection Program (PPP) illustrates. Perceptions of bottlenecks in state planning during economic downturn are documented in the literature. 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. However, available data on the program suggest that it was plagued with significant bottlenecks; such as implementation of the program, inaccessibility of aid information to smaller businesses and lack of eligibility guidance.

The case of the PPP in the U.S.A. may be placed in the context of the classic debate between Keynes and Hayek on the role of the state. The central tenet of Keynesian theory is that government intervention can stabilize the economy. Keynes thought it essential for the government to play a significant role in curbing unemployment and the way to do that is to get involved in supporting the private sector and or bailing out failing businesses. Keynes argued for: "the State, which is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage, taking an ever-greater responsibility for directly organizing investment" (Keynes, 1971, p. 164). For him, deficit spending was the way to bring the economy out of a depression and to a point of higher employment that existed during the interwar period.

Hayek's argument is that Keynes' monetary policy is short lived (Hayek, 1944). This is because it drives down interest rates through increased money supply and regulates the economy by granting bail-outs to private businesses. It is of the thought that prosperity of society is driven by creativity, entrepreneurship and innovation which are possible only in society with free markets and no government intervention. Hayek contends that Keynes strategy of the government acting in the best interest of the public and spending now would increase inflation and ultimately lead to "malinvestment" as interest rates would be artificially low.

Circumstantial evidence suggests that large banks took a more cautious approach to PPP lending to minimize the legal and reputational risks that have been endemic to past government loan guarantee programs. The burden placed on lenders of collecting and certifying that borrowers meet the criterions set by the government, and the fact that the PPP has a proposed 0.5% interest which increased to 1%, coupled with the conflict on the initial guidance issued by the US Treasury and SBA created a bottleneck for borrowers (American Banker, 2020).

Additionally, the uncertainty with the eligibility requirement and the loan forgiveness criteria created a challenge for small businesses who may not be sophisticated (measured by years of education of the owner and the firm type), or have the human resources capability to put the loan application together in a timely manner or forge ahead in line for the loan all created a bottleneck too great for many small businesses to overcome. There have also been reports suggesting that the PPP was disproportionately allocated to the area less affected by the COVID pandemic, thus the intended outcome of the PPP program to bail-out businesses that are struggling due to the pandemic may not have been achieved. This suggests that the geographic location of a business (urban vs. rural vs. suburban; or east coast vs. midwest vs. south vs. plains vs. west coast) should not be ignored in understanding access to the PPP or other state funded programs.

Conclusion

There is a need for a comprehensive literature review of the factors inhibiting access to government funding and the policies that influence policy makers in decisions that affect small business owners. This should not just be for the PPP but should be set within the broader context of the role of the state in a political economy as exemplified by the debate between Keynes and Hayek. Policy implications by the government that favor regulations that support small business financing can help enhance the relationship between small businesses and banks as a way to foster flexible loan requirements. Policy in this area should focus on making loans accessible to small businesses during periods of economic recession and pandemics. Such policies should take cognizance of the demographic, economic, geographical, historical, institutional, political, and social milieu within which small businesses operate.

References

American Banker (2020, May, 6). 'PPP is a compliance minefield for banks', American Banker, 6th May, 2020, available at: https://www.americanbanker.com/opinion/ppp-is-a-compliance-minefield-forbanks

Bartik, A. W., Bertrand, M., Cullen, Z., Glaeser, E. L., Luca, M., & Stanton, C. (2020). The impact of COVID-19 on small business outcomes and expectations. *Proceedings of the National Academy of Sciences, 117*(30), 17656-17666.

Borio, C., Gambacorta, L., & Hofmann, B. (2017). The influence of monetary policy on bank profitability. *International Finance, 20*(1), 48-63. https://doi.org/10.1111/infi.12104

Dua, A., Mahajan, D., Millan, I., & Stewart, S. (2020). COVID-19's effect on minority-owned small businesses in the United States.

Driscoll, C. (2016, December, 4). Keynes vs Hayek – Sound Economics. https://blogs.pugetsound.edu/econ/2016/12/04/keynes-vs-hayek/

Gradisher, S. M., & Tassell-Getman, T. (2020). Paycheck Protection Program: Piecing Together the Loan-Forgiveness Phase. *Journal of Financial Service Professionals*, *74*(5).

Granja, J., Makridis, C., Yannelis, C., & Zwick, E. (2020). *Did the Paycheck Protection Program Hit the Target?* (No. w27095). National Bureau of Economic Research.

Hayek, F. A. von (1944). The Road to Serfdom, Chicago: University of Chicago Press

Humphries, J. E., Neilson, C. A., & Ulyssea, G. (2020). Information frictions and access to the Paycheck Protection Program. *Journal of public economics*, *190*, 104244. https://doi.org/10.1016/j.jpubeco.2020.104244

Keynes, J. M. (1937). The general theory of employment. *The quarterly journal of economics*, *51*(2), 209-223. https://doi.org/10.2307/1882087

Keynes, J. M., Moggridge, D. E., & Johnson, E. S. (1971). *The Collected Writings of John Maynard Keynes* (Vol. 30, pp. 1971-89). London: Macmillan.

Kupiec, P. H. (2021). Did prudent risk management practices or weak customer demand reduce PPP lending by the largest banks? *Journal of Risk Management in Financial Institutions*, *14*(2), 148-160.

Seccareccia, M. (2011). The role of public investment as principal macroeconomic tool to promote long-term growth: Keynes's Legacy. *International Journal of Political Economy*, *40*(4), 62-82. https://doi.org/10.2753/IJP0891-1916400403

*Seo, J. Y. (2017). a study of effective financial support for SMEs to improve economic and employment conditions: Evidence from OECD Countries. *Managerial and Decision Economics*, *38*(3), 432-442. https://doi.org/10.1002/mde.2838