How to Help American Businesses Endure and Jobs Survive

By Steven Hamilton (GWU) and Stan Veuger (AEI)

The scale of the crisis facing small- and medium-sized businesses in America is unprecedented. Consumer demand is collapsing to protect the health of all Americans. State and local governments across the US have forced the immediate closure of hundreds of thousands of American businesses. These closures will cost millions of Americans their jobs and livelihoods.

The basis of our plan is straightforward. **If every small- and medium-sized business in America was supported by the federal government to retain their workforce through the crisis, much of its economic impact would disappear.** The government should provide immediate funding for emergency loans to any small- and medium-sized business in America. These loans would:

- be **offered through private lenders** with the infrastructure necessary to originate and administer the loans, and **facilitated by the Federal Reserve** which is in a position to bear the risk of repayment of the loans;
- **cover any fall in revenue experienced by a participating business** relative to previous years (with a benchmark determined for new businesses);
- be paired with **tax credits from the federal government** equal to the full loan amount including interest, provided that the participating business **maintains its full-time-equivalent (FTE) payroll through the duration of the crisis** (this could be proportional so that if FTE is halved, the government would repay only 50%);
- **cap the net income (after tax credits) of participating businesses** during the crisis at a given percentage of previous years' net income, with the percentage potentially varying by industry (e.g., those forced to shut down by state and local governments could receive more generous treatment), preventing firms from inflating their profits by cutting variable costs;
- be available to **cover this shortfall for a prespecified period**, tied to an objective timeframe such as the end of the national emergency declaration period; and
- include provisions to **ensure borrower behavior is consistent with the intent of the loans**, especially in relation to payments to third parties and to changes in wages paid to individual employees**.**

The economic crisis stems from a large fall in business revenues due to a contraction in demand and restrictions on supply. This plan fills the gap in those revenues. By requiring businesses to maintain FTEs, they are incentivized to use the loans to pay their workers through the crisis. By capping net income, the plan prevents businesses from being overcompensated due to a fall in their non-labor costs. By preventing the failure of firms and discouraging the detachment of workers from firms, it will reinforce the fabric of the American economy so that we can bounce back as quickly as possible once the pandemic has subsided.

This plan would play an important role in a wide-ranging government response to the crisis. The federal government should be prepared to expand testing and treatment resources dramatically to manage the contagion. Federal support for state and local government is crucial in times of unexpected new spending and significant revenue losses. Direct cash payments and expansions to targeted welfare programs can serve as a backstop for any vulnerable households affected by the crisis but not covered by our plan. The Federal Reserve should stand ready to support the financial system in any way necesary, and its steps to date have been encouraging.