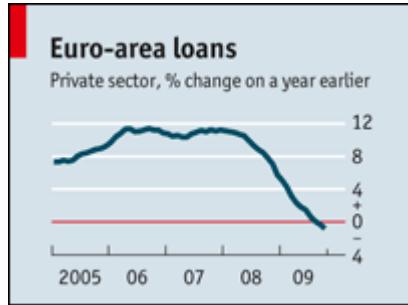


## Small business, big problem

*It is harder for smaller firms to raise money: the state can help a bit.*



Life has got easier for big firms this year. They now have access to several forms of credit. They have stampeded into the bond markets to take advantage of low borrowing costs and push out refinancing dates while they can. Record amounts of corporate bonds have been issued this year. The market for commercial paper is open again, too. Stockmarkets offer another avenue to capital.

Smaller firms have far fewer choices. Too puny to be able to tap capital markets, they are at the mercy of the banks. America's large firms get 30% of their financing from the banks; its smaller enterprises rely on them for 90% of their financing needs. In Europe small companies are in a similar bind. Bank lending to businesses in the euro zone fell by 1.2% year-on-year in October. True, lower lending volumes reflect weakening demand for bank credit as well as constrained supply. But hunger for bank credit has declined more among Europe's larger firms, thanks to their access to other sources of finance.

And when demand does pick up, there is a real risk that lenders will remain unforthcoming. Many small American firms depend on relationships with small local banks, which are being wiped out at an alarming pace. Six lenders were closed down on December 4th, bringing the total number of failures for the year to 130. Banks are being shut at the fastest rate since 1992, when America's savings-and-loans crisis claimed 179 lenders. The death toll could well be even worse next year. The Federal Deposit Insurance Corporation has its eye on 552 problem banks, many of them stuffed with rotten commercial-property loans.

Even if their banks are in decent shape, owners of small businesses face a tougher financing environment for other reasons. Plenty of entrepreneurs got used to borrowing on credit cards to keep their firms going: tighter lending standards and new rules designed to protect consumers threaten to squeeze the flow of finance. Small-business owners also used their properties as collateral for borrowing: that route is closed to homeowners who are sunk in negative equity. In Europe fears of further losses and uncertainty over tougher rules on capital will continue to hold lending back. The withdrawal of foreign banks has drained overall credit capacity.

All of this matters. Small businesses account for the majority of private-sector employment in America and Europe. Firms with fewer than 500 workers accounted for 64% of the net new jobs created in America between 1993 and the third quarter of 2008. Policymakers are now scrambling to forestall a crunch. In Germany the government held a summit earlier this month to discuss the problem. British officials are considering a public-private fund aimed at smaller firms. On December 8th Barack Obama proposed a raft of tax-breaks for small firms, along with other measures (see article).

Credit where it's due

Because they are vulnerable small businesses deserve special support, but the risk is that good money will be thrown after bad. Forcing banks to sign up to lending targets for small-business customers is little use. Targets set too low make no difference; targets set too high commit lenders to unwise bets. Appointing credit mediators to shuttle between banks and customers, as Germany has done, risks politicising lending.

It would be better to let the banks make the credit decisions but give them the means to follow through. German companies apply through their banks for access to a government pot; the banks take a first loss on any unpaid loans to keep them honest. Britain's loan-guarantee scheme for small firms, which has been extended because of enthusiastic take-up, works on similar principles. It also makes sense to offer relief on payroll taxes for firms that are vibrant enough to make new hires, as Sweden has done. Life will continue to be tough for small firms, but their sufferings can be alleviated.

**Fonte:** The Economist. Disponível em: <[www.economist.com](http://www.economist.com)>. Acesso em: 15 dez. 2009.

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