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On Focus and In Depth

Viewpoint: Put Tarp Money to Work for Small Businesses

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Credit to small businesses has been substantially curtailed since 2008, yet these businesses are far more responsible for domestic job creation than the banking industry or corporate America as a whole.

The national unemployment rate is officially 9.8%. But the real unemployment rate, including discouraged and part-time workers who want full-time jobs, is moving closer to 20%, according to [The New York Times](#) and [The Wall Street Journal](#). And for our nation's 91 million Latinos and African-Americans, the real unemployment rate in some states exceeds 30%.

To date, the secretary of the Treasury's solutions to the economic crisis have too often focused on assisting "too-big-to-fail" banking companies. Often, these are the banks that continually lay off workers and reduce credit opportunities for small and "micro" businesses.

Both our organizations, the Latino Business Chamber of Greater Los Angeles and California's microbusiness association, Cameo, have offered solutions that are more in tune with President Obama's focus on creating jobs. The Latino Business Chamber has proposed that up to \$100 billion of the \$134 billion in unused funds from the Troubled Asset Relief Program be allocated to assist small businesses that are likely to create millions of jobs and employ hundreds of thousands of recently laid off workers.

Cameo, on behalf of the 25,000 California microbusinesses it serves, has also urged that unused Tarp funds be allocated to fund loans of up to \$35,000 and for technical assistance and capacity building to benefit microbusinesses (one to five employees) that are likely to create jobs.

To date, the job training programs of the past and present have not prevented unemployment from rising. Some analysts believe that, without an alternative focus, the unemployment rate will continue to exceed our 5% prerecession rate for the next decade.

Job training programs in their conventional sense work best when the demand for labor is high and the supply low. As [Alan Greenspan](#) recently pointed out, 5.4 million workers have been unemployed for more than six months and are unlikely to move back into the traditional work force. For far less cost than conventional job training and with the probability of a higher success rate, the focus for the Obama administration should be on bolstering the ability of small businesses to grow and hire.

Before President Obama thinks about a second-round economic stimulus plan, he should consider tapping the unused Tarp money to fund small-business expansion.

Cameo, for example, has estimated that, for as little as \$15,000 per loan and \$3,000 in well-placed technical assistance and capacity building, many microbusinesses could hire at least one additional worker. If even 5% of the 24 million microbusinesses did so, we would create at least 1.2 million domestic jobs.

Many financial institutions have a commendable record of strong philanthropic support of microbusiness programs. This is because they have recognized these businesses' beneficial impact on both employment and inner-city stability. We would urge the secretary of the Treasury to bring together leaders of minority, women's and microbusiness associations, along with the leaders of the major financial institutions that have played roles in promoting the growth of microbusiness programs.

Recently, the administration decided to assist small and microbusinesses through a \$1 billion loan program, America's [Recovery Capital](#), run by the [Small Business Administration](#). This program was designed to provide government-guaranteed, no-interest loans of up to \$35,000, with repayment in five years. Unfortunately, financial institutions that appreciate its importance have failed to actively or effectively participate.

Their reason for not participating is not that they fail to see a need for such loans. Instead, many financial institutions that support small businesses believe the heavy paperwork burden makes even small, government-guaranteed loans a financial negative; they also note that the loans are not designed specifically to help their present customers or to attract and retain new ones.

We have been discussing with Congress the use of Tarp funds to directly aid small businesses in creating jobs and opportunities for a new group of entrepreneurs among the millions of unemployed workers, including those who have lost jobs in the financial industry. This could lead to the creation of hundreds of thousands of businesses and jobs.

Our conclusion is that many financial institutions, including those that have not yet returned their Tarp funds, would be pleased to be part of a Treasury-led effort that tapped unused or about to be repaid Tarp money. This would be a major boost to new entrepreneurs who, through self-employment and the creation of additional job opportunities, could help substantially reduce the unemployment rate. And imagine the indirect benefits to the banks, including a very substantial reduction in home foreclosures attributable to unemployment.

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