How to end the slaughter of small businesses

Saving Wall Street in the 2008 crash didn't save Main Street. We can't let that happen again.

By Roger Lowenstein



GARY CORONADO Los Angeles Times

ACROSS THE United States, small businesses have had to close during the coronavirus crisis.

THE LAST TIME America suffered an economic meltdown, in 2008, we came out of it poorly.

Yes, the economy and the stock market recovered. So did the banks, with a big assist from Uncle Sam. But millions of homeowners were left with mortgage debts that squeezed their disposable incomes to the vanishing point.

The unshared recovery proved a downer in two ways. First, the recovery was unusually sluggish. Second, it gave rise to simmering class resentments. Arguably, it led to the election of Donald Trump.

How can we avoid a similar shock this time?

Every depression is distinct, but I'd argue that the victims of the COVID-19 depression — this year's version of households drowning in mortgage debt — are America's small businesses. This time, the economist Ken Rogoff says, "the small businesses are getting slaughtered."

A decade ago, the subprime crisis blew up the entire economy. This time, the shock to small business has led to a vicious multiplier effect: Those shuttered hair salons aren't ordering supplies or investing in new hair dryers.

The federal government recently enacted a small-business rescue package in the CARES Act. But it's already exhausted and beset with bureaucratic problems. Relatively few mom-and-pop businesses got loans. By contrast, the Federal Reserve's emergency measures such as buying debt have immediately propped up large corporations. Government aid aside, larger firms are naturally better suited to weathering the storm. Larger companies can tap capital markets, which are used to translating future prospects into current dollars. Even if McDonald's isn't selling as many hamburgers today as it did before, investors know that eventually its business will recover.

Small businesses, however, are on their own. The corner pizzeria cannot borrow against the future, because by the time the recovery arrives it may not exist.

There are some 30 million such businesses in the U.S. (41,000 do sell pizza). Most are tiny, but cumulatively they employ 60 million people.

Since these firms account for 44% of the gross domestic product, to lose even a sizable fraction would be an economic catastrophe. Millions of employees would lose their jobs. Thousands of ideas would go up in smoke. Small business is the laboratory for big ideas.

The cultural fallout would be just as serious. If every coffee shop were rebranded a Starbucks, the caffeine would still be there, but it wouldn't taste or feel the same.

Reports from the tapestry of small business around the country — a grocer in New Orleans, newspapers from Oregon to West Virginia, an art gallery in my home city of Boston — suggest that small businesses everywhere are fighting for their lives. In Camden, Maine, the lone bookstore shut its doors for good.

Each of these businesses represents the savings, the sweat and the dreams of an entrepreneur or family. On average, their proprietors earn only about $50,000 a year. But they symbolize something larger — call it the dream of plausible opportunity.

Part of that dream got destroyed or badly damaged in the mortgage crisis. But we don't have to repeat the mistakes of 2008.

As part of the $2.2-trillion CARES legislation, Congress authorized $349 billion in federally guaranteed loans for firms with fewer than 500 employees. Importantly, firms that retain their pre-crisis payroll for workers will have these loans forgiven.

This is a big improvement from 2008, when neither regulators nor Congress was willing to endorse a full-scale bailout for mortgage owners. The fear then was that undeserving homeowners would benefit. And it was true: If you want to help a lot of people in a hurry, fraud and waste will be a cost of doing business.

The same trade-off is true today. The good news is that Congress, recognizing the scale of this crisis, was willing to allocate much more money so that small-business borrowers would emerge from the crisis with healthy balance sheets.

But in its eagerness to build in safeguards, it wrapped the program in red tape. Businesses had to apply for the loans through banks. The banks have been uncertain about the criteria to qualify for the federal guarantee, which has gummed the works.

Law firms, accountants and tech companies figured out the rules and qualified. But many of the smallest businesses were late to the party, because they didn't have working relationships with banks beyond making their weekly cash deposits. Some opted out because the criteria for loan forgiveness was unclear. Moreover, the loans only cover eight weeks of payroll plus limited expenses for rent and utilities. Many firms need assistance for more than eight weeks. What happens if after eight weeks a company has to lay off staff? Will the loan still be forgiven?

Worst of all, the program is far too small. The Trump administration announced on Thursday that the entire fund was committed. (Due to red tape, only a fraction of the money has been disbursed.) It took fewer than two million businesses out of 30 million nationwide to claim all of the money.

Congress is considering expanding the loan program by adding another $250 billion. It needs to add even more since that amount will also fall short. And it needs to move fast to get money to the most desperate businesses before they fail.

For the smallest businesses — those with a dozen or fewer employees — a non-bank funding mechanism is needed. Banks gave priority to preexisting clients, and they processed larger applications first. That left out many of the most desperate firms. Amanda Ballantyne, director of the Main Street Alliance, an advocacy group, suggests giving the smallest businesses direct grants from the Treasury.

The program needs more funds and at least a partial redesign. In 2008, many homeowners did share the blame for borrowing beyond their means. Even then, the fallout from letting so many fail was catastrophic. This time, small businesses are completely blameless.

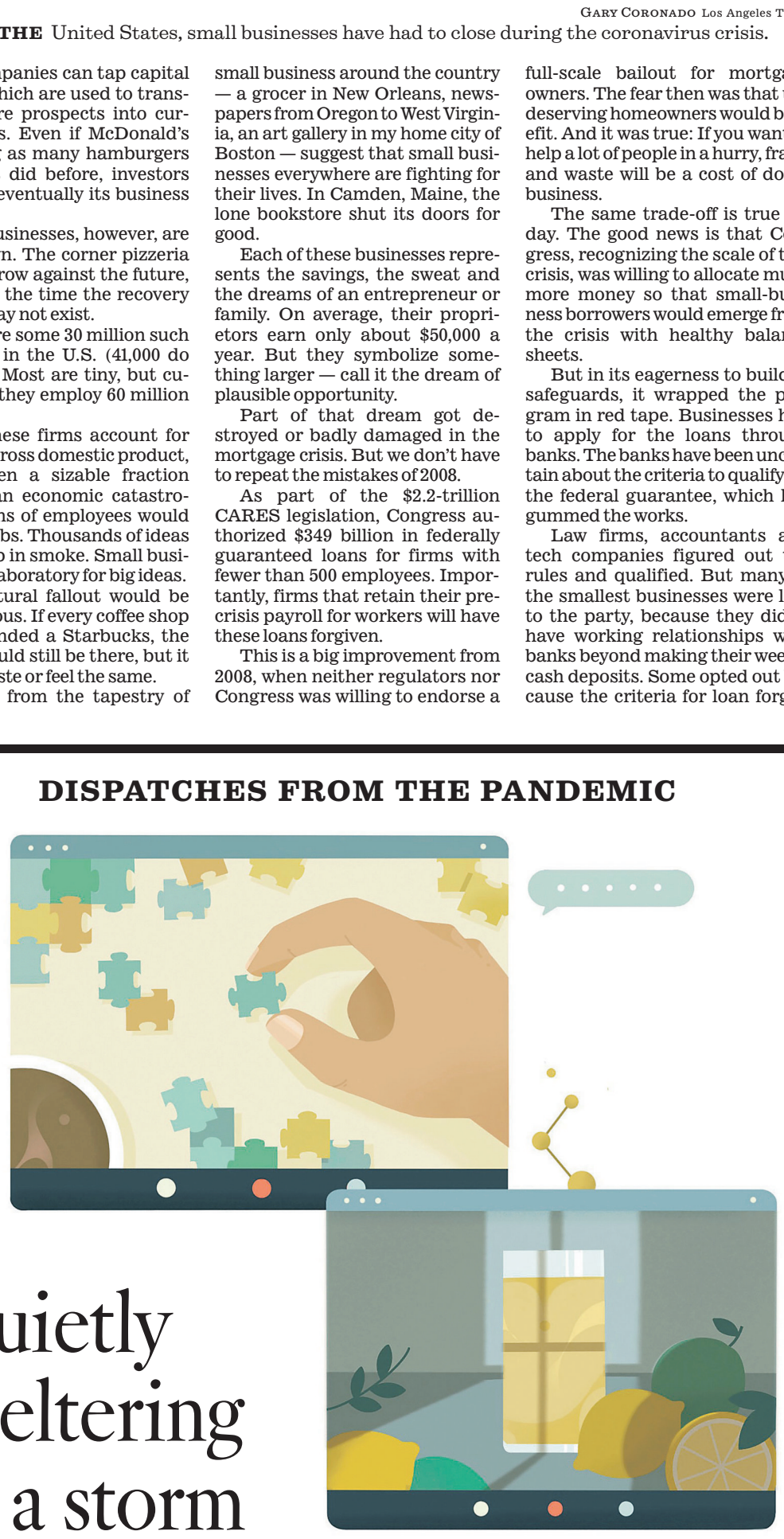
Sheila Bair, former head of Federal Deposit Insurance Corp., who pushed hard for more help for homeowners in 2008, told me, "One lesson from the last crash is that saving Wall Street doesn't save Main Street."

We shouldn't make the same mistake again.

ROGER LOWENSTEIN is the author, most recently, of "America's Bank: The Epic Struggle to Create the Federal Reserve."

DISPATCHES FROM THE PANDEMIC

Quietly sheltering in a storm



CAMILY TSAI For The Times

When life gives lemons

I LIVE IN EL SERENO, in a neighborhood in Los Angeles where people blast cumbia music from opened living room windows on the weekends and a rooster wakes me daily at 5 a.m.

My partner and I bought our house three years ago, one of a few flipped houses on a block that's creeping toward gentrification.

Our next-door neighbors — an older Mexican couple named Gonzalo and Magueo — were close friends of the previous owner. When he died, his daughter inherited the house, installed new floors, recessed lighting and an updated kitchen. She didn't put effort into the landscaping, however, so the property's original roots show, especially in the backyard. There are broken slabs of concrete, a cracked retaining wall and an old fire pit gouged into the dirt. There's also a scraggly guava bush and a large lemon tree.

We don't spend much time back there except to pick lemons. One day, we were surveying the yard, making plans, envisioning gravel-paved walkways and beds of drought-tolerant plants, when we noticed a small silver crucifix, four inches long, nailed to a wooden post. We cracked jokes, accusing the other of tacking it there (we're both lapsed Catholics). After all, we'd been living in the house for a while and hadn't noticed it until then.

Since sheltering in place, I've been doing my part to keep an eye on Gonzalo and Magueo, trying to calm the feelings of fear and helplessness that color my days. Last week, I picked them some lemons, placed these in a used Target bag and hooked it over the edge of the cinder-block wall separating our lots.

"I'll stay back," I shouted to Magueo in Spanish.

"I make lemonade with chia seeds," she explained. "Chia's good for your health. I'll leave you some. How are the guavas doing?"

"Good."

A few months ago, before the coronavirus came to town, Magueo and Gonzalo had come by to ask if they could pick some guavas. They admitted that they were worried we'd get rid of the fruit trees when we moved in. "No," I said. "They remind me of my mother."

Magueo held a guava in her hand and pointed to the tattoo of Our Lady of Guadalupe on my forearm. The previous homeowner was a devotee of La Virgen, and every year on Dec. 12, her feast day, he'd open the gate to the yard and all the neighbors would bring food. He'd hire a mariachi band to sing to her, and they'd gather at the beautiful altar he'd construct.

"Where was it?" I looked around, unable to fathom where something so elaborate could fit in a small yard.

"Around there." Gonzalo pointed to the crucifix on the post. "It was always so pretty. All lit up."

"This backyard was like our church," Magueo said.

These sleepless nights, lying in bed, anxious and unsure, I imagine all the neighbors out there, singing and eating by the glowing light of hundreds of veladoras, all their hands touching, their faces full of reverence and hope.

The trees and the tiny crucifix remain.

— ALEX ESPINOZA
is the Tomás Rivera Endowed Chair of creative writing at UC Riverside. His latest book is "Cruising: An Intimate History of a Radical Pastime."

Done with toilet paper

IT'S EASIER TO SCORE a delivery appointment on Amazon Fresh than a single, scratchy generic roll of toilet paper. But I'm not worried. I'm so over toilet paper.

Recently, I hooked up a device that I hope will help me kick the habit. It's a simple hose attachment that turns my Toto into a bidet at the turn of a switch.

I write about trash and its effects on the natural environment, though I've focused on the scourge of discarded plastic. So the innocuous white roll should have been on my radar long ago because of how it is made — with wood chips from logged forests, harsh chemicals, and lots and lots of water.

I turned to Google to figure out my options if I ran out of TP before the pandemic ended. They were numerous, all unpalatable or ridiculous. I could use newspaper pages, gathered leaves or a sponge on a stick. I could switch to reusable toilet wipes, which are called — for reasons I don't want to think about — "the family cloth."

Yeah, no.

I'm a relatively hard-core conservationist, but even I have my limits. That's why I was excited to stumble upon bidet attachments, which can sell for less than $100 and include under-the-seat and handheld versions.

Although bidet toilets are common in Europe and Japan, they've never caught on here, partly because of perceived cost. Many people are under the misconception that installing a bidet means shelling out hundreds, if not thousands, of dollars, according to the cheeky bidet attachment startup Tushy. (Motto: "For people who poop.")

One selling point is the claim that water cleans better than paper and is less abrasive on one's delicate parts. There's not much scientific data available on the topic, but common sense and my own limited experience support that conclusion.

Saving water is important in Southern California, so my only hesitation about taking the bidet plunge was water. Toilets account for the largest source of residential water use and a bidet attachment adds about a pint a pop. But the Los Angeles Department of Water and Power pointed out if a bidet tool was paired with a water-saving device such as a low-flow showerhead or a faucet aerator — both available at no cost from the DWP — the net water usage could be a wash.

That was good news. Two years ago I installed an ultra-low flush toilet, so I don't have to feel guilty about an extra pint per flush.

But having a jet of cool water spray your nether regions takes some getting used to. I still reflexively reach for the roll sometimes rather than the washcloth to dry off. I'm getting the hang of it, and I think that before long it will be as natural as, well, washing my hands.

— MARIEL GARZA
is a Los Angeles Times editorial writer.

Puzzling it out

WE GET A JIGSAW puzzle of performance cars and a barn, hot rods with engines that roar, ones meant to go like hell in a straight line. Ones that are trouble if you like curves.

The puzzle arrives in a box, dismembered into "one thousand pieces." On the coffee table it's a confusing kaleidoscope of colors and cuts, continuity and meaning lost.

If we ever need to pass time during another quarantine, we know not to cavalierly empty the box on a brown coffee table. The tree pieces blend with the wood. We are hunched over like the peasant women in the Jean-Francois Millet painting "The Gleaners." It's uncertain what will fail us first, our backs or our eyesight.

My wife, Kim, picks up a piece, carefully examines it, then asks, "What is this?"

"Looks like part of a grill," I say.

"This piece," she says, "reminds me of the first car we bought together." I squint, and see it.

The border takes us three days to construct.

"Nice work for a Tuesday," I say. "It's Wednesday," Kim replies, tossing me The Times' California section as evidence. I feel like I should hold the newspaper up like a kidnap victim showing proof of life, have Kim take a photo and send it to the kids.

We "saw" the grandkids last Sunday (maybe, who really knows?) when we donated our frozen package of orange chicken to them. We picked up some one Thursday at Costco. During the "special hours." These days, you take what you can get.

To the grandkids, any orange chicken is special.

They showed up with their parents, walking around to the backyard from the driveway. "Can you hear us?" Kim and I ask from one side of the sliding-glass door. Our granddaughter shakes her head and says, "No." Kim and I laugh. The girl's brother, three years younger, is focused on his toy monster truck.

Eventually both put their hands on the glass, spreading them to match ours. To them it's a curiosity, a diversion they will not remember. But Kim and I will never forget.

— PETER GERRARD
lives in Irvine. The jigsaw puzzle is still unfinished.