Terminating the Small Business Administration

by Veronique de Rugy* and Tad DeHaven

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Overview

The Small Business Administration (SBA) was created by the Small Business Act of 1953.[1] The primary purpose of the SBA is to encourage lending to small businesses through government loan guarantees. Other SBA activities include offering direct loans for disaster recovery and helping small businesses gain government contracts.

The SBA will cost taxpayers about $6.2 billion in 2011.[2] Annual outlays are typically closer to $1 billion, but the SBA has suffered higher than usual losses on its guaranteed loans in recent years, so the costs imposed on taxpayers have soared. The SBA will guarantee almost $24 billion in new loans in 2011.[3] The share of guaranteed loans outstanding that the SBA—and ultimately federal taxpayers—are on the hook for is about $70 billion.[4]

More than 99.7 percent of all businesses in the United States are considered "small" by the SBA.[5] The Congressional Research Service calculates that these businesses account for about half of the nation's gross domestic product and employment.[6] This large economic impact has unfortunately encouraged bipartisan support for government subsidies to small businesses.[7]

One area of concern for policymakers is whether small businesses have sufficient access to credit. Growing firms need capital, but smaller firms may have a harder time obtaining loans if they have less of a credit history. Lenders may also be reluctant to lend to small and relatively young firms because it might be difficult to accurately gauge the potential for the success of such firms.

These factors are cited by policymakers to justify government intervention in credit markets assisting small businesses. Policymakers argue that market-driven lending denies credit to worthy small businesses, and so they have tasked the Small Business Administration with correcting this alleged "market failure."

This essay challenges the belief that the federal government needs to intervene in credit markets to assist small businesses. It concludes that there is no "market failure" to justify the SBA's lending programs. The SBA benefits a relatively tiny number of small businesses at the expense of the vast majority of small business that do not receive government assistance. SBA subsidies also represent a form of corporate welfare for the banking industry.

Brief History of the SBA

The Small Business Administration was established in 1953 after the demise of the Depression-era Reconstruction Finance Corporation, which lent money to financially distressed banks and corporations. The RFC lost support after allegations of influence peddling during the Truman administration. President Dwight Eisenhower was against creating the SBA in principle, but he signed the legislation as a politically expedient measure to counter criticisms that the Republicans were beholden to "big business."

As an example of government intervention, the SBA's creation was atypical because the interest groups that it was intended to benefit were either ambivalent or opposed to it. The U.S. Chamber of Commerce, the National Association of Manufacturers, and the American Bankers Association *opposed* the federal government's involvement in business lending. Indeed, support for creating the SBA was confined primarily to politicians of both parties who saw an opportunity to seduce the unorganized small business community into active political support.

Once the SBA seed was planted, it grew. SBA lending quadrupled between 1954 and 1960, and its staff jumped from 550 to 2,200 employees.[8] In 1958, Eisenhower's Budget Bureau warned that the SBA was "an uncontrollable program," but both parties wanted to signal that they supported the "little fellow."[9] Also, members of Congress enjoyed using the SBA to distribute money and favors to their constituents. Members sometimes leaned on the agency to declare a particular business "small" or to have a constituent's competitor declared "not small."[10]

The 1960s and 1970s were marked by numerous scandals and failures at the SBA, including the reported use of government loans to establish "front" companies for the mafia.[11] By the mid-70s, the agency had earned the nickname "Small Scandal Administration."[12]

The SBA also became one of the government's chief instruments for pursuing "affirmative action," which has led to many abuses. Successive administrations have used the SBA to direct lending and federal contracts to minority-owned firms. Although stamping out discrimination is a laudable goal, the SBA's contract set-asides have instead bred corruption and abuse. For example, President Ronald Reagan supported an expansion of SBA federal contract set-asides to minority-owned firms. That decision contributed to the "Wedtech Scandal" in which government officials knowingly assisted a corrupt defense contractor that had fraudulently obtained contracts through SBA minority set-asides.[13]

In his second term, Reagan supported an effort by his budget director, David Stockman, to abolish the SBA. Stockman referred to the SBA as a "billion dollar waste—a rat hole" that benefited few small businesses, while distorting credit markets.[14] However, Congress—led by the two small business committees—saved the SBA. Most business lobby groups at the time were either supportive of, or ambivalent toward, abolishing the SBA.

However, the banking industry had become a key supporter of the SBA, even though it was originally opposed to the agency's creation in the 1950s. The banking industry's change of heart resulted from the SBA's shift from direct business lending to guaranteeing loans to businesses issued by banks. Loans guaranteed by the SBA are largely risk-free to the banks and highly profitable for them. Today, the banking lobby is strongly supportive of the agency, as are the congressional small businesses committees, whose main focus is the SBA.

The Republican Party's rise to congressional power in the 1994 election on a platform of smaller government did not translate into a serious threat to the SBA. Indeed, the SBA thrived under the budgets of President Bill Clinton and the congressional Republicans during the 1990s. In 2000, Clinton proposed a budget that authorized small business lending at a level almost five times higher than when Reagan left office.[15]

Despite some skirmishes with the congressional small business committees over minor funding issues, the administration of George W. Bush supported the SBA, and its lending volume increased further. Interestingly, Bush's fiscal 2003 budget proposal acknowledged: "Historically, SBA's lending programs served less than one-tenth of one percent of the nation's small businesses annually and provided less than one percent of annual small business lending."[16] The administration was admitting that the agency's efforts were insignificant in the overall economy, yet it still supported spending taxpayer money on it.

In 2009, President Barack Obama employed the SBA's lending programs as part of his failed attempt to stimulate the recessionary economy. The American Recovery and Reinvestment Act that year temporarily increased the maximum SBA loan guarantee percentage to 90 percent and it covered the costs of borrower and lender fees.[17] These provisions were extended twice in subsequent legislation, but expired in 2011.

Loan Guarantees

The SBA's 7(a) loan guarantee program is the agency's flagship lending program. Under the program, the government backs loans issued by private lenders, rather than lending directly to businesses.[18] An applicant must be a for-profit enterprise, must be able to demonstrate the capacity to repay the loan, and must be a "small" business. Under the SBA's definition, more than 99.7 percent of all U.S. businesses are considered small.[19]

The 7(a) program includes targeted assistance for certain favored businesses, including those that export, those located in "underserved" and rural areas, and those that are negatively affected by the North American Free Trade Agreement. The SBA also has a microloan program of small loans for short periods, and it runs the CDC/504 program, which backs long-term loans for business purchases of major fixed assets.

The SBA guarantees loans issued by private lenders for up to 85 percent of losses in the event that loan recipients default. As a result of the guarantee, lenders are more willing to lend money to riskier applicants because the SBA is ultimately responsible for the bulk of any losses. To offset the costs of the SBA's loan programs, the SBA charges lenders a guaranty fee and a servicing fee for each loan approved and disbursed. While these fees are higher than commercial loan fees, SBA loans have easier credit terms and longer repayment periods than most commercial loans.

The SBA is supposed to charge fees sufficient to require no annual appropriations from Congress. However, that has not been the case, and the program continues to rely on taxpayer subsidies. The recent recession led to an increase in loan defaults, which forced the SBA to increase its purchases of defaulted guaranteed loans from $1 billion in 2006 and 2007, to $3.9 billion in 2009, and to $4.8 billion in 2010.[20] Taxpayers have gotten hit with further costs in recent years as Congress has passed multiple increases in loan subsidies in an attempt to goose small business lending.

The purpose of the 7(a) program is to incentivize lenders to provide loans to small businesses that cannot obtain "credit elsewhere."[21] That sounds like SBA loans only go to borrowers who literally cannot obtain credit elsewhere, but the law defines "credit elsewhere" as "the availability of credit from non-federal sources on reasonable terms and conditions."[22] That definition provides for a lot of discretion, and audits reveal that many businesses that receive SBA loans could have obtained unsubsidized loans from banks.

A recent Government Accountability Office report found that a third of the lenders it sampled "failed to consistently document that borrowers met the credit elsewhere requirement or personal resources test."[23] The GAO noted that for approximately 20 percent of lenders that did provide documentation, "the explanations they provided were generally not specific enough to reasonably support the lender's conclusion that borrowers could not obtain credit elsewhere."[24]

After offering qualifying evidence to a private lender that it cannot obtain a loan under "reasonable terms and conditions," an applicant can apply for a loan guaranteed by the SBA. After the bank reviews the application, the SBA determines whether the business should receive a loan. Under the SBA's 7(a) Preferred Lenders Program, the final loan decision and most servicing responsibilities are handled by the lender.

According to the SBA's inspector general, "more than 68 percent of loan dollars guaranteed by SBA are made by lenders using delegated authorities with limited oversight."[25] The inspector general has repeatedly found deficiencies in the SBA's oversight of lenders. Ominously, the inspector general notes that "high risk lenders now account for more than 80 percent of SBA's 7(a) outstanding portfolio."[26]

With the SBA outsourcing loan decisions to lenders who have guarantees, it's not surprising that the inspector general has identified a long-standing problem with fraud in the 7(a) program:

> For more than a decade, OIG investigations have revealed a pattern of fraud in the 7(a) business loan guaranty program by loan packagers and other for-fee agents. Fraudulent schemes have involved hundreds of millions of dollars, yet SBA oversight of loan agents has been limited, putting taxpayer dollars at risk.[27]

Inspector general audits have identified "high percentages" of loans to borrowers who were "ineligible, lacked repayment ability, or did not provide the required support for loan disbursement."[28]

The inspector general also notes that the SBA "has not aggressively pursued recovery of improper payments."[29] Worse, the SBA appears to be intentionally understating its improper payments problem. For example, the SBA reported an improper payment rate in 2008 of 0.53 percent, but an inspector general audit found that it was actually 27 percent.[30] The audit called the SBA's figure "statistically invalid," and stated that the high improper payment rate resulted from the agency's failure to review documentation related to issues such as a borrower's credit worthiness, repayment ability, and eligibility.

The Credit Unavailability Myth

The SBA's 7(a) loan guarantee program rests on the premise that some small businesses are unduly denied adequate credit by private lenders, which in theory would hinder business growth and job creation. SBA loan guarantees attempt to solve this alleged problem by inducing lenders to support small businesses that they would otherwise reject.

The most-cited cause of the market's supposed failure to provide sufficient credit is the asymmetry of information between lenders and borrowers.[31] According to the theory, because banks cannot distinguish between high-risk and low-risk borrowers, the demand for credit may exceed the supply. Instead of raising the price of loans by increasing interest rates, banks simply ration credit, thus denying loans to otherwise worthy businesses.

However, the asymmetry in information between lenders and borrowers does not in itself prove that private capital markets are providing insufficient credit. In fact, capital markets have developed effective private solutions to bridging the information gap.

One mechanism that has emerged to address the information problem in capital markets is the development of "lending relationships." Lenders are less likely to ration credit to borrowers who have a history with the lender. When evaluating established clients, lenders not only consider the client's immediate creditworthiness, but also the potential for foregone profits by prematurely severing a relationship.

Lending relationships enable lenders to accumulate information. Repeated interactions with clients for different purposes give lenders information about a client's creditworthiness, including both financial information and "soft information" about the client's character. This accumulation of information lowers lending risks and thus increases the availability of credit.

Another market mechanism to reduce information problems is credit scoring. Financial information provided by a credit applicant is used to generate a numeric score that will provide a strong indication of an applicant's propensity to default or become delinquent on a loan. Credit scoring not only greatly reduces the cost of information gathering, but, by improving a bank's ability to predict default, helps banks make more effective lending decisions.

Evidence suggests that credit scoring has increased the availability of credit to small firms. For example, research by Allen Berger, Scott Frame, and Nathan Miller found that credit scoring increases credit availability for riskier borrowers.[32] Lenders simply require those borrowers to pay higher interest rates on their loans in order to compensate for the risk they represent.

A growing body of research challenges the belief that credit rationing is occurring and making it difficult for small businesses to obtain capital:

- Economists David de Meza and David Webb have published several studies showing that banks are not reluctant to lend money to small businesses outside of SBA programs.[33]
- A study by Alec Levenson and Kristen Willard found that while not every small business has unlimited access to affordable credit, there is no evidence that government intervention is necessary to foster small business formation.[34]
- The Federal Reserve Board's *Report to Congress on the Availability of Credit to Small Businesses* showed that the demand for small business financing closely tracked the pattern of debt growth between 2002 and 2007, which suggests a healthy correlation between the demand and supply of financing.[35]
- Studies reviewed by the Government Accountability office did find some disparities between different groups regarding their ability to access credit. However, evidence that the disparities were a result of discrimination was "inconclusive."[36]
- Surveys from the National Federation of Independent Business have repeatedly found that small businesses are more concerned with taxes and government regulations than credit availability. Even during the recent recession, the share of small businesses that reported financing as their "single most important problem" remained in the single digits.[37]

It is also important to note that bank loans are only one of many ways for small businesses to acquire financing. For example, the use of credit cards by small businesses increased from 70 percent in 1998 to 83 percent in 2009.[38] Usage of credit cards created specifically for small businesses increased from 37 percent to 64 percent during that period, which provides evidence of the private sector's ability to target small business needs.

Federal Reserve Board Governor Elizabeth A. Duke recently noted that the vast majority of small businesses are started with financing from personal savings and assets:

> For these small and nascent businesses, more than 70 percent were initiated using personal savings or assets, about 6 percent were initiated using a personal loan from a bank or savings institution, about 3 percent were initiated using a personal or business credit card, and just 3 percent were initiated using a business loan from a bank or savings institution. Even smaller percentages of start-up small businesses appear to have received funding from credit unions, other institutions, or investors. In short, our survey data suggest that the personal resources of entrepreneurs are the most important funding source for small business formation.[39]

The upshot is that policymakers interested in boosting small business formation should focus on policies that are conducive to saving and investment in general, rather than trying to improve on credit markets with unneeded micromanagement.

The SBA's Irrelevance

Only small shares of small businesses get started with a loan from a commercial lender. Furthermore, loans issued by commercial lenders that are backed by the SBA represent only a very small share of total commercial loans to small businesses. The GAO has calculated that SBA 7(a) loans only account for a little more than 1 percent of total small business loans outstanding.[40]

Table 1 lists the top 15 industries receiving the most SBA guaranteed loans over the past 10 years.[41] Only 0.5 percent of the small businesses that comprise these industries received loans backed by the SBA. Thus, rather than helping small businesses compete against big businesses, SBA's loan guarantees mainly help a tiny share of small businesses compete against other small businesses.

Table 1. Top 15 Industries Receiving SBA Loans, Average Loan Data, 2001 to 2010

Industry	Number of SBA Loans Per Year	SBA Loan Failure Rate	Number of Small Businesses in Industry	SBA Loan Ratio
Full-Service Restaurants	3,414	23.3%	195,163	1.7%
Limited-Service Restaurants	2,529	25.2%	145,189	1.7%
General Automotive Repair	1,107	18.8%	196,672	0.6%
Gasoline Stations w/ Stores	1,066	17.3%	52,795	2.0%
Beauty Salons	1,066	21.6%	582,976	0.2%
Offices of Dentists	1,041	5.6%	154,254	0.7%
Hotels and Motels	938	7.0%	65,586	1.4%
Offices of Physicians	934	7.5%	327,626	0.3%
Landscaping Services	891	19.1%	377,431	0.2%
Child Day Care Services	824	15.3%	749,647	0.1%
Offices of Chiropractors	731	14.6%	57,738	1.3%
Other Specialty Trade Contractors	688	21.8%	n/a	n/a
Other Misc Store Retailers	675	26.6%	96,115	0.7%
General Freight Trucking, Local	631	26.6%	214,140	0.3%
Offices of Lawyers	625	10.1%	386,258	0.2%
Total for Top 15 Industries	17,159	17.4%	3,601,590	0.5%
Total for All Industries	67,555	19.4%	28,255,244	0.2%

Looking at Table 1, it is not clear why the industries that benefit most from SBA loan guarantees should warrant special attention from the government. Industries such as restaurants are characterized by a large number of firms and robust competition. There is no obvious failure in such markets. Besides, the vast majority of restaurants, beauty salons, child daycare centers, and other businesses meet their credit needs in the market without SBA subsidies. Giving a credit market advantage to a small, favored subset of businesses is unfair and unneeded federal meddling in the economy.

Small businesses with sound business plans and solid prospects should be able to raise debt and equity capital through private means. If a small business has shaky finances and questionable prospects, it would be proper if it was denied private capital because that would be economically wasteful. Indeed, the large failure rates on SBA-backed loans indicated in Table 1 illustrate that the government's credit market interventions often misallocate capital toward wasteful ends.

Banking on the SBA

The SBA's loan guarantees benefit a small number of favored businesses for no good economic reason. But politically, SBA programs benefit a powerful special interest group: the banking industry. The banking industry was originally opposed to the creation of the SBA on the grounds that the federal government should not be involved in commercial lending. However, when the SBA switched from direct lending to backing loans issued by private lenders, the banking industry became a key supporter of the SBA.

The banking industry benefits from SBA loan programs in several ways. First, when a small business defaults on its obligation to repay an SBA loan, the bank does not bear most of the cost. Thus, even though SBA borrowers are riskier than other borrowers, a bank's exposure can be as little as 15 percent of the value of the loan.

Second, small business loans backed by the SBA are profitable to banks. The chairman of the National Association of Government Guaranteed Lenders (NAGGL), which is a trade organization comprised primarily of lenders participating in the 7(a) guaranteed loan program, acknowledged in congressional testimony that "we can be as profitable in a 7(a) loan program as we are in our conventional lending if done correctly."[42]

Third, the SBA's Secondary Market Program enables lenders to further reduce their risks while increasing their lending capacity. Lenders can pool the guaranteed portions of SBA loans and then sell trust certificates to investors. In other words, banks can "securitize" the guaranteed portions of the loans. The SBA guarantees that payments on the trust certificates will be paid on time. Lenders are not charged a fee for the secondary market guarantee. Only if the loan is sold for more than 110 percent of the outstanding principal balance is half of the excess paid to SBA.

The NAGGL has acknowledged that the return on equity for SBA loans can exceed 70 percent, which is remarkably high.[43] Who are the recipients of these returns? Table 2 shows that the top 10 lenders out of 2,600 total lenders accounted for close to one-quarter of the SBA 7(a) program's loan volume in 2009.[44]

Table 2. SBA 7(a) Lender Loan Volume, 2009

Lenders	Loans Approved	Share
Top 5	$1,416,012,582	15.2%
Top 10	$2,102,539,282	22.6%
Top 25	$3,303,832,757	35.5%
Top 50	$4,296,621,012	46.1%
Top 100	$5,340,004,367	57.3%

Wells Fargo & Co. alone accounted for 7.3 percent of the total 7(a) loan volume. Other large banks in the top ten include J.P. Morgan Chase, U.S. Bancorp, and PNC Financial Services Group. Although lawmakers portray the SBA's programs as a boost for small businesses, the programs are actually a form of corporate welfare for some of America's largest banks. The banks reap profits from the program, but taxpayers are liable for the losses.

Conclusions

The SBA retains political support because it is a tool for policymakers to signal their support of small businesses. At the same time, SBA supporters have cultivated a myth that being against the agency is equivalent to being against small businesses. In reality, the great majority of American small businesses have thrived without government subsidies. The SBA's lending programs benefit a relatively tiny number of businesses at the expense of taxpayers and the vast majority of businesses that do not receive government support.

Even though there are no substantial economic benefits of the SBA, the agency has remained politically entrenched. It gains particularly powerful support from the banking industry. However, with today's huge federal deficits, policymakers should begin eliminating unneeded business subsidies in the budget, including SBA spending.

The United States became the most prosperous country in the world by leaving business development to the private sector. America's amazing entrepreneurial history did not come about as a result of small business subsidies from Washington. The SBA is an unneeded agency that should be terminated to reduce the deficit and end business favoritism. Federal policymakers should instead focus on reducing tax and regulatory barriers to small business growth and providing a level playing field to all businesses of all size.

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*Veronique de Rugy is a senior research fellow at the Mercatus Center at George Mason University and is an adjunct scholar at the Cato Institute.

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[1] Public Law 83-163.

[2] *Budget of the United States Government, Fiscal Year 2012* (Washington: Government Printing Office, 2011), pp. 161–62.

[3] *Budget of the United States Government, Fiscal Year 2012* (Washington: Government Printing Office, 2011), p. 162.

[4] *Budget of the United States Government, Fiscal Year 2012*, *Appendix* (Washington: Government Printing Office, 2011), p. 1167.

[5] Oscar R. Gonzales, "Small Business Administration: A Primer on Programs," Congressional Research Service, February 23, 2011, p. 7.

[6] Oscar R. Gonzales, "Small Business Administration: A Primer on Programs," Congressional Research Service, February 23, 2011, p. 7.

[7] For a discussion of small businesses and growth, see Veronique de Rugy, "Are Small Businesses the Engine of Growth?" American Enterprise Institute, December 8, 2005.

[8] Jonathan J. Bean, *Big Government and Affirmative Action: The Scandalous History of the Small Business Administration* (Lexington, KY: University Press of Kentucky, 2001), p. 19.

[9] Jonathan J. Bean, *Big Government and Affirmative Action: The Scandalous History of the Small Business Administration* (Lexington, KY: University Press of Kentucky, 2001), p. 19.

[10] Jonathan J. Bean, *Big Government and Affirmative Action: The Scandalous History of the Small Business Administration* (Lexington, KY: University Press of Kentucky, 2001), p. 20.

[11] Jonathan J. Bean, Big Government and Affirmative Action: The Scandalous History of the Small Business Administration (Lexington, KY: University Press of Kentucky, 2001), pp. 73–74.

[12] Jonathan J. Bean, *Big Government and Affirmative Action: The Scandalous History of the Small Business Administration* (Lexington, KY: University Press of Kentucky, 2001), p. 89.

[13] Jonathan J. Bean, *Big Government and Affirmative Action: The Scandalous History of the Small Business Administration* (Lexington, KY: University Press of Kentucky, 2001), pp. 115–118.

[14] Jonathan J. Bean, *Big Government and Affirmative Action: The Scandalous History of the Small Business Administration* (Lexington, KY: University Press of Kentucky, 2001), pp. 119–120.

[15] Jonathan J. Bean, *Big Government and Affirmative Action: The Scandalous History of the Small Business Administration* (Lexington, KY: University Press of Kentucky, 2001), p. 139.

[16] *Budget of the United States Government, Fiscal Year 2003* (Washington: Government Printing Office, 2002), p. 350 .

[17] Public Law 111-5.

[18] Only the SBA's disaster loan program directly lends money to businesses.

[19] Oscar R. Gonzales, "Small Business Administration: A Primer on Programs," Congressional Research Service, February 23, 2011, p. 7.

[20] Small Business Administration, "Agency Financial Report: Fiscal Year 2010," November 15, 2010, p. 15.

[21] 15 USC 636(a)(1)(A).

[22] 15 USC 632(h).

[23] Government Accountability Office, "Small Business Administration: Additional Guidance on Documenting Credit Elsewhere Decisions Could Improve 7(a) Program Oversight," GAO-09-228, February 12, 2009, p. 4.

[24] Government Accountability Office, "Small Business Administration: Additional Guidance on Documenting Credit Elsewhere Decisions Could Improve 7(a) Program Oversight," GAO-09-228, February 12, 2009, p. 4.

[25] Small Business Administration, "Agency Financial Report, Fiscal Year 2010," November 15, 2010, p. 97.

[26] Small Business Administration, "Agency Financial Report, Fiscal Year 2010," November 15, 2010, p. 97.

[27] Small Business Administration, "Agency Financial Report, Fiscal Year 2010," November 15, 2010, p. 99.

[28] Small Business Administration, "Agency Financial Report, Fiscal Year 2010," November 15, 2010, p. 101.

[29] Small Business Administration, "Agency Financial Report, Fiscal Year 2010," November 15, 2010, p. 101.

[30] See Small Business Administration, Office of Inspector General, "The Small Business Administration's Fiscal Year 2008 Improper Payment Rate for the 7(A) Guaranty Loan Program," Report 9-16, July 10, 2009.

[31] See Joseph Stiglitz and Andrew Weiss, "Credit Rationing in Markets with Imperfect Information," *American Economic Review*71, no. 3 (1981): 393–410.

[32] Allen N. Berger, W. Scott Frame, and Nathan H. Miller, "Credit Scoring and the Availability, Price, and Risk of Small Business Credit," *Journal of Money, Credit, and Banking* 37, no. 2 (2005): 191-222.

[33] See David de Meza and David Webb, "Wealth, Enterprise, and Credit Policy," Economic Journal 109, no. 455 (1999): 153–63; and see

David de Meza and David Webb, "Does Credit Rationing Imply Insufficient Lending?" *Journal of Public Economics* 78, no. 3 (2000): 215–34.

[34] Alec R. Levenson and Kristen L. Willard, "Do Firms Get the Financing They Want? Measuring Credit Rationing Experienced by Small Businesses in the U.S.," *Small Business Economics* 14, no. 2 (2000): 83–94.

[35] Board of Governors of the Federal Reserve System, "Report to Congress on the Availability of Credit to Small Businesses," October 2007, p. 1.

[36] Government Accountability Office, "Small Business Administration: Additional Measures Needed to Assess 7(a) Loan Program's Performance," GAO-07-769, July 13, 2007, p. 20.

[37] See www.nfib.com.

[38] Board of Governors of the Federal Reserve System, "Report to the Congress on the Use of Credit Cards by Small Businesses and the Credit Card Market for Small Businesses," May 2010, p. 28.

[39] Elizabeth A. Duke, Governor, Federal Reserve Board, statement to the International Factoring Association Conference, Washington, April 11, 2011, www.federalreserve.gov/newsevents/speech/duke20110414a.htm.

[40] Government Accountability Office, "Small Business Administration: Additional Measures Needed to Assess 7(a) Loan Program's Performance," GAO-07-769, July 2007, p. 6.

[41] Sources for the table include the Small Business Administration and the U.S. Bureau of Census "Statistics of U.S. Businesses," 2007 and "Economic Census," 2007. Industries are defined according to six-digit NAICS code. The loan failure rate is the number of loans in liquidation and charged off divided by the number of loans disbursed. The number of small business establishments is comprised of establishments with less than 500 employees that operated for the entire year (2007), including businesses with no paid employees. The SBA Loan Ratio is equal to the average number of loans per year divided by the number of small business establishments. The overall averages in the table are simple averages.

[42] David Bartram, chairman, National Association of Government Guaranteed Lenders, testimony to Subcommittee on Federal Financial Management, Government Information, and International Security of the Senate Committee on Homeland Security and Governmental Affairs, April 6, 2006, p. 37.

[43] Sen. Tom Coburn, statement to Subcommittee on Federal Financial Management, Government Information, and International Security of the Senate Committee on Homeland Security and Governmental Affairs, April 6, 2006, p. 39.

[44] National Association of Government Guaranteed Lenders, www.naggl.org.

Cato Institute
1000 Massachusetts Avenue N.W.
Washington D.C. 20001-5403
Telephone (202) 842-0200
Fax (202) 842-3490