sj-r.com
The State Journal-Register • Springfield, IL • The Oldest Newspaper In Illinois

Richard Judd: Small business recovery is lagging

Springfield Business News
Posted Nov 04, 2009 @ 12:00 AM

If the economic recovery touted as taking place right now seems weak and prepared to relapse, what might be the causes of a relapse?

Unemployment has crept above 10 percent and may stubbornly stay there if not rise higher for some time to come. Forty-nine states have lost employment over the past year with Michigan and New Jersey leading the race with more than 15 percent unemployment. Illinois' unemployment stands at 10 percent and may inch higher.

Lack of capital availability to small business for expansion and fear of regulatory changes in health care, energy costs and unionization leaves many small firms sitting on their hands — not hiring or risking expansion.

Concern that many banks may face failure due to lots of commercial real estate paper on their balance sheets. Commercial real estate values continue to decline, which may become a bubble/bust starting in 2010. Uncertainty or turbulence in banking can create difficulties for small business credit and plans for expansion.

The uncertainty of inflation and commodity prices, which determine the cost of inventories and food production, remain uncertain causing difficulties for small businesses to plan for or make resource commitments into the future.

Recovery from past recessions has been led by small business. Today, small business is not jumping to the lead and pulling the American economy along.

Why then do the efforts from Congress fundamentally ignore the sector that has proved to lead recovery?

High-tech start-ups, envisioned by the current federal administration, can not return the U.S. to 5 percent unemployment and improve consumer confidence. It's more jobs on Main Street that are needed.

Small business brings between 67 percent to 75 percent of net new jobs created in our economy — not government or big business. The small business sector should be valued, encouraged and stimulated to grow. According to federal records, 17 percent of the $787 billion stimulus ($134 billion) had been spent by September 2009. Most jobs affected by stimulus projects were retained in government, education and construction. Few net new jobs have been created as promoted/promised to the small business sector.

Most small business owners and operators are self starters, self reliant and motivated to serve their customer base. They don't want or need federal assistance. Instead, what they need is the freedom and independence promised in the Constitution, lesser tax burdens and relief from stifling regulation.

In addition, major concerns today are high cost legislation and constraining regulation planned by Congress that may come based on health care, energy and legislation to advance unionization at more workplaces.

The needs and concerns of the small business sector run counter to the major agenda and legislation promoted by the Obama Administration and Congress. The small business sector is in for a long siege. As the primary employment engine of the American economy — small business is hunkering down, not expanding or hiring.

One chief worry on The Street is a business owner's ability to obtain working capital. They and the banks are waiting for clear signs of improvement in the issues and conditions that will impact a business' ability to maintain and potentially thrive in a highly competitive marketplace.

Main Street used to be local. It is now in a global context of cut-throat competition.

Local business owners, as well as all of America, face a world in which East Asia is forecast to be the world's highest-growth region. By 2020, China is forecast to be the largest economy in the world, replacing the U.S. America will no longer be the world's consumer. China's Gross Domestic Product is estimated to be 9 percent for 2009. The U.S. GDP will likely come in at about 1.5 percent. Americans must — and likely will, reduce consumption and increase savings.

Larry Summers, director of the National Economic Council under President Obama for U.S. states that for exports to increase, the dollar will need to continue its slide in value. In contrast to 2000, as the base year, the dollar stands (October 2009) at $ .74. There is more to come.

The dollar is likely to slide further in value unless Washington, D.C., comes forth with dramatic fiscal and monetary policy changes in support of a positive environment for business development and growth.

The U.S. economic model is no longer the standard for the world for allocation of financial resources to produce the highest return on goods and services. There is too much debt. The dollar is under pressure to no longer be the international currency of exchange. China, India, Russia and Brazil are supporting the view that a future international currency be created to take over the role of the U.S. dollar. Replacement currencies under consideration are the euro, RMB (China) and the Japanese yen.

If American is unable or unwilling to remain as the most entrepreneurial and dynamic economy in the world, the dollar will likely be replaced in our intermediate future as the world's reserve currency without good consequences for America or the U.S. consumer. Our rate of GDP growth will increase only marginally while our costs of living will increase due to the continued slide in the value of the dollar.

Remember: A weak dollar equals a weak recovery.

There is a deep flaw in some Americans' thought processes that government itself can create wealth. It can't. Government can redistribute wealth, but it can not create it. Only the private sector can and does create wealth. Government's' task should be to create a rule of law that provides stability and a hospitable environment for economic activities and the right of private property. These basic values set the conditions for business to be business and entrepreneurs to take risks and invest in job creation.

In summary, small businesses aren't hiring yet. Why not? Congress and the current administration must make the health of small business a top priority. Otherwise, the recovery will die and unemployment will persist at 10 percent or higher into the foreseeable future.

Richard Judd is a National City Distinguished Professor Emeritus at the University of Illinois Springfield.