Riddle Me This, Small Business

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By MIKE RAINONE, Co-Founder, PCDworks

Many of you reading this column may work for a small business, or perhaps aspire to own one.

Congratulations. According to Henry Paulson, Alan Greenspan and seemingly everyone else along the beltway, small businesses are the key to this nation's recovery.

Small businesses account for 52 percent of all the jobs in this country, and conventional wisdom says that if we can just get them to hire more people we can turn this thing around. Unfortunately, no one really has a plan to make that happen.

On a recent Sunday morning program, Paulson and Greenspan talked about how small business would be generating jobs, but admitted they didn’t know how those jobs would be created. That's when it dawned on me; they don’t understand where the business of small business comes from.

It's like a cartoon scientist writing a complex formula on a board, but in the middle of the formula is a box that reads, “This is where the magic happens.” For economists, the magic is where the “orders” come from to feed the creation of jobs in small businesses. That’s the conundrum — small business owners seem to be an abstraction to those who govern our lives.

This should not surprise anyone. Paulson, for whom I have terrific respect — realizing that the collapse of Lehman Brother could actually provide a foretaste of the total collapse of the system — was the Chairman of Goldman Sachs, hardly a “small business.” Greenspan, the academic ideologue purveyor of gobbledygook and former Fed Chair, is the man who almost single-handedly dug the giant hole

we're trying to dig out from. He wouldn’t know a small business person if I came up and bit him on the backside.

Both of these men seem to believe small business owners would commit to hiring additional employees if they were more: a. taxes, b. healthcare, c. interest rates, d. financing, e. Jay vs. Dave, f. All of the above, g. None of the above.

In the interest of answering those towering questions, let’s go through these alleged impediments to investment by small business.

Do taxes keep me from hiring if I am a small business? Not on your life. If I have work, I will hire like a maniac to keep the customer happy. How about healthcare? I already pay an outrageous amount for healthcare for my employees; another employee to fulfill a contract is irrelevant. How about interest rates? Get a grip. I don’t care about interest rates as long as the work is coming in to keep my folks busy.

What are the economists missing? Small business grows when it has places to sell its goods, and when others demand its products. But, what produces the demand? In many cases, demand comes from big business. In fact, much of what small businesses produce is related to larger businesses outsourcing production or services. In nearly every industry, there are large numbers of small businesses that exist primarily to service major corporations.

You'll notice I've skipped financing for small business. Of all of the macroeconomic factors that restrict small business, financing may be the key. The excuse du jour for tight credit is “credit constrained,” a euphemism for the fact that banks are avoiding small business lending like we all had the plague.

In a recent column, I optimistically stated that one of the tenants for small business success was to get to know your banker. I told the happy story of a 10 year relationship with our banker who assured me his institution would be good for whatever was needed to help grow my newest company, Active Water Sciences (AWS).

Sadly, after passing nearly $2 million through that bank in the past year alone, I've been told even a small line of credit is impossible under "current constraints” — so much for perfect credit and long term relationships.

Clearly, the lemmings that run banks have stopped running off the cliff into the ocean, they are now running around in circles. That same bank's board of directors forecast that 2010 was going to be a down year, and now they're doing everything they can to help create that future for themselves and the rest of us.

That’s one reason small businesses are having a tough time creating jobs. The primary reason is that until there is an increase in demand, there is no reason to hire.

Until big business begins to purchase more goods and services, small business has

no reason to expand. It seems we are stuck in a pretty nasty loop. Perhaps, this is where the federal government can make a difference.

When the President begins to allocate $30 billion from the TARP funds to small business, he will be seeding the very ground that will bear the fruit that will drive this recovery. Unlike banks, we won't put the stimulus money in an account to strengthen our balance sheets.

Unlike banks, we'll hire people to produce goods and services. Whether it's through Small Business Innovation Research (SBIRs) funding, National Institutes of Health (NIH) grants, NASA, the Department of Energy (DOE), the Department of Defense (DOD) or congressional set asides, as long as money gets into the hands of small businesses it will get distributed to the people who need it.

As an example, I point to AWS, a new wastewater processing company that has already sold $2 million in units to the U.S. Army. This technology was the result from one of the best sources of funding for unfulfilled needs, our federal government.

The Air Force realized the need for wastewater processing on its temporary operating bases, so they funded early research. When money ran out, they worked hard to pass it to the Army. The Army understood the need and continued to fund the development. As is often the case with our wonderful military, they were visionary.

As it turned out, this technology has applications beyond servicing our troops; it offers promise for disaster cleanup in places like Haiti for third world survival, or even for routine waste processing in this country. And by the way, when I say the Air Force and the Army funded the technology, I mean that it was a congressional set aside. It was pork.

So, the next time someone starts yelling about pork, remind them of the clean water being produced in Afghanistan, and perhaps the third world. Remind them of the small business that employs 20 plus people in Texas that is producing a technology that offers the potential to save the vulnerable from water borne diseases. Remind them that the federal government has a rightful role in the development of hard-to-finance, but important technologies that neither banks nor venture capital lemmings will touch because they are not glamorous or sexy. Remind them that one person’s pork is another’s pork chop.

That, Mr. Paulsen and Mr. Greenspan, is what feeds the engine of small business. We will be happy to create jobs and restart this economy, if you will just dust off your checkbooks.

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