

**Ensuring the Small Business Paycheck Protection Program Works:
Lessons Learned from Gulf Coast SMEs post-Katrina**

April 6th, 2020

The COVID-19 pandemic is first and foremost a health crisis. The responses needed to stymie the rate of infections is producing an economic crisis, devastating small businesses, driving mass unemployment, and requiring a large, proactive, and effective response by government.

The size and suddenness of the economic shock in some ways resembles a large-scale natural disaster such as Hurricane Katrina, which also morphed into a long-lasting economic disaster by destroying both supply and demand. There are key differences too. Hurricane Katrina physically destroyed homes, businesses and infrastructure, and was more local than national or global in scope.

Between 2007 and 2011 PERC carried out small business surveys, business owner interviews, aid provider interviews, and credit data analysis in Gulf Coast FEMA declared disaster areas. In that work we found that in getting aid/relief to small business owners: (1) speed matters; (2) grants are preferred to loans, (3) program complexity and bureaucracy can act as a real barrier to program use; and (4) the effectiveness of programs as well as small business owner attitudes need to be monitored.

Both the swift passage of the CARES Act and the fact that the Small Business Relief program known as the Paycheck Protection Program (PPP) began operations on April 3rd, with the first lender Bank of America accepting applications that day, speaks well of achieving initial speed. But we will need to see application volumes, how fast applications get processed, how fast money gets sent to businesses, and how many jobs are saved or restored.

The relief utilizes loans that can be forgiven (when funds are used for payrolls, rent, and utilities), thus acting like grants in a way that saves jobs with funding covering two-and-a-half months of payroll. PERC documented the relative efficacy of grants over loans for keeping small businesses afloat, even very modest grants. In this sense, then, the Paycheck Protection Program is promising.

The PPP seems fairly simple, but this is ultimately something that can really only be judged by the small business owners. To the extent that paperwork requirements are exhaustive—as they often are with SBA loans that prioritize fraud prevention over credit granting—or partner banks requirements are too onerous, many small businesses will be deterred, rejected, or will fail to qualify for desperately needed funds.

This takes us to the fourth lesson learned; small business owner attitudes and program effectiveness statistics (volume of applications, volume of approvals, time to funds reaching small business, and the like) need to be monitored and reported in near real-time so that details of the programs or outreach can be retooled quickly if necessary. A non-trivial population of small business owners are hanging by a thread. They are best positioned to provide real-time feedback on whether the PPP is working—that is, whether funds are quickly and easily available while eligibility requirements are reasonable.

Importantly, this monitoring should not only include statistics and attitudes of those who applied or were approved (all of which are important), but should also focus upon small business owners in general. This could gauge need, financial well-being, and determine how many are not applying for relief that should be. If they are not applying, why not? And what program or outreach changes should be made?

For instance, it will be important to determine if the smallest of small business are sufficiently utilizing the relief program. If they are not, perhaps the SBA could look to greater use of non-profit community organizations, if not making loans directly, then assisting in the process. Small business owners are typically experts in their line of business but not government relief programs.

Beyond the initial small business relief, there is likely going to be medium- and longer-term relief and stimulus needs, the details of which will depend on how the COVID-19 health crisis and economic crisis co-evolve. Other relevant lessons from disaster recovery in the Gulf Coast include: (1) small business survival will depend to some extent on the financial well-being of the small business owner prior to the crisis, which could result in disparate impacts in business survival; (2) since the types of businesses more vulnerable to the current crisis and rates of infection are not uniformly distributed geographically, there will likely be geographic differences in both the economic impact of COVID-19 and the recovery; and, (3) as time passes, more emphasis should be placed on new small business creation and startups. In the longer-run there also may be important economic structural changes accelerated or laid bare by the current crisis that will need to be addressed.

We are in the most crucial period of how the COVID-19 economic story unfolds. This will determine whether millions of jobs are maintained or restored during the initial shock. It is imperative that we get this part right. The best way to ensure this is through a comprehensive, near real-time monitoring of the small business relief program and by making adjustments quickly if they are needed.

Michael Turner, Ph.D. is the President and Founder of the Policy and Economic Research Council (PERC) and Patrick Walker is the V.P. and Director of Research at PERC. PERC's website is www.perc.net.

Recent PERC paper on lessons for the COVID-19 economic recovery efforts from PERC research on past disaster recovery efforts in the Gulf Coast.

- PERC Research Findings for COVID-19 Economic Recovery Efforts (March, 2020)
<https://www.perc.net/publications/perc-findings-covid-19-economic-recovery/>

Initial PERC disaster recovery studies from 2007 to 2011:

- Recovery, Renewal, and Resiliency: Gulf Coast Small Businesses Two Years Later (August 2007)
https://www.perc.net/wp-content/uploads/2013/09/Gulf_Coast.pdf
- Recovering But Not Recovered: Gulf Coast Businesses Three Years Later (August 2008)
<https://www.perc.net/wp-content/uploads/2013/09/WEB-GCSB.pdf>
- Credit and Financial Impacts of Disaster: What Can We Learn from Credit File Data (August 2008)
<https://www.perc.net/wp-content/uploads/2008/08/Financial-Impacts-of-Disaster1.pdf>
- Louisiana Small Businesses Five Years Post-Katrina: Assessing LDRF Program Impacts and Measuring Existing Needs (March 2011)
https://www.perc.net/wp-content/uploads/2013/09/LDRF_stat_report.pdf
- Assessment of Small Business Aid and Needs in Louisiana Five Years After Hurricane Katrina: Overview of Case Studies (March 2011)
<https://www.perc.net/wp-content/uploads/2013/09/LDRF-Case-Studies-Report.pdf>