



Too Little Stimulus for Small Business?

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The federal government is spending billions to bail out Wall Street and to put more money in the hands of U.S. consumers through an economic stimulus plan. George Cloutier, who advises small businesses through his company, American Management Services, argues that 23 million small businesses in this country deserve the same attention. He says his company talks to about 300 small-business people a week from around the country and reports that many are predicting low profits and weak hiring this year. *U.S. News* spoke with Cloutier about why he thinks the current stimulus package doesn't do enough for small business and what entrepreneurs need to do to weather an economic slowdown. Excerpts:



George Cloutier

What's insufficient about Congress and the president's plan when it comes to small business?

It's a joke. Notice they have not said how much of the money would go to small businesses, but what they have said is that there will be tax breaks. The first thing is, as a small business, you have to be making money. If you're not making money, you don't get any benefit. It's probably safe to say that a quarter to a half of small businesses in this country don't make enough money to get a tax break.

Isn't the ability to write capital equipment purchases off of taxes, as the plan provides, a useful one for small businesses?

It's kind of mythical in the sense that it doesn't serve the market. If I buy a \$1,000 computer today, I can deduct it a year from April. Why do I care? I'm a small-business person. I'm not General Motors, [which] does 10-year planning. I wake up in the morning, and I'm worrying about my bank

being overdrawn, getting new credit, and making new sales. I'm not thinking about saving money next year. It's not going to stimulate me to do anything I wasn't going to do anyway.

What's your sense of how small-business people are doing as the economy stalls?

I was in Savannah last week doing seminars for small businesses with the U.S. Conference of Mayors. Only 10 or 15 percent of the 500 people there thought they were going to be hiring. Sixty percent of those 500 people expected a major recession this year. Most of them did not expect their profits to be up.

What's the problem with bailing out Wall Street?

You can make a case that they had to do something and couldn't let the whole thing go down the drain. But where do you draw the line to intervene and not to intervene? What about the 23 million small businesses, two thirds of whom aren't making much money and are going to make less money this year? We're not giving them any direct grants. So try this: What if I'm a small business, and I buy a new computer, and I send in a voucher, and [the government] sends me a check for a rebate? That's real stimulus.

What other steps do you propose?

They should reorganize the whole federal bureaucracy. There are over a hundred agencies in the government that have separate programs [for small business]. The most obvious example is the Agriculture Department, which has a \$6 billion-plus loan portfolio for small businesses, not just for farms. Why not put that all under one agency?

What do you think will happen if the federal government does not target small business in particular for stimulus?

It will increase prospects of an overall slowdown, because if I'm a small business and my sales are going down, I'm laying people off. I don't make the investments that I was making last year. Do I think it's going to cause a depression? I think there are factors that are well beyond the control of small business. I don't think there's going to be a depression, but there's a case to be made that a recession is already in place.

What can small-business people do to help themselves?

You have to assume the worst, plan for it, take the steps, and don't wait until August when you're out of money. We say: Assume sales are going down. Pick a number—say 20 percent. Do your budgets to conform to that so you can continue to keep your head above water. Cut your capital. Lay people off earlier rather than later. Focus on your sales, and change your sales compensation to pay for performance so that the bulk of your people are being paid to deliver productivity, rather than just being paid to stand there and take orders.