

**September 2010**

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## **SMALL BUSINESS EMPLOYMENT: BANK LENDING RESTRAINS JOB CREATION**

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This report shows that small business hiring remains flat and has even continued to decline within the smallest establishments. The report updates a May Joint Economic Committee report<sup>1</sup> analyzing small business hiring between January 2001 and March 2010, using an unpublished data series provided by the Bureau of Labor Statistics.

The original report found that as a result of tight lending standards facing small businesses, hiring at small firms continued to decline in 2009 and in the early part of 2010, while hiring by larger establishments, which have wider access to credit, began to pick up in mid-2009.

In this update, using data through May 2010, the JEC again finds that small business hiring remains flat, while large and mid-sized firms have continued to increase hiring. Further, this update shows for the smallest establishments – those fewer than 50 employees – the rate of hiring has declined. The new data provide a compelling argument for additional actions to spur lending to small businesses, enabling them to create jobs and reduce unemployment.

**Report by the U.S. Congress Joint Economic Committee  
Representative Carolyn B. Maloney, Chair  
Senator Charles E. Schumer, Vice Chairman**

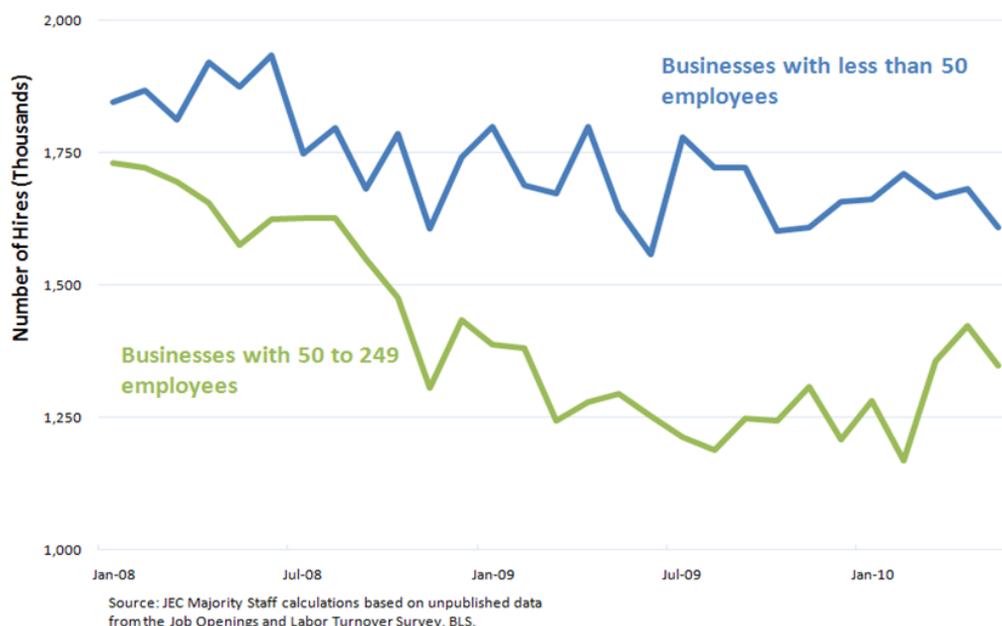
*Prepared by the Majority Staff of the Joint Economic Committee*

## Small Business Employment: Bank Lending Restrains Job Creation

Three out of every four workers in the United States are hired by a firm with fewer than 250 employees.<sup>2</sup> These small businesses are at the center of the economy. Yet, today, many small businesses are still unable to access credit. Banks, which small businesses rely on for loans, have largely left in place the tighter credit standards they introduced after the financial crisis.<sup>3</sup> The restrictive lending environment continues to impair the ability of small businesses to obtain credit needed for workforce expansion. The House of Representatives has passed legislation easing credit to small businesses, and the Senate is expected to pass its small business jobs bill this week. This unpublished Job Openings and Labor Turnover Survey data (JOLTS) from the Bureau of Labor Statistics, combined with recent data from the Federal Deposit Insurance Corporation, underscores the need for further actions to boost lending to small businesses and to unlock their job-creating potential.

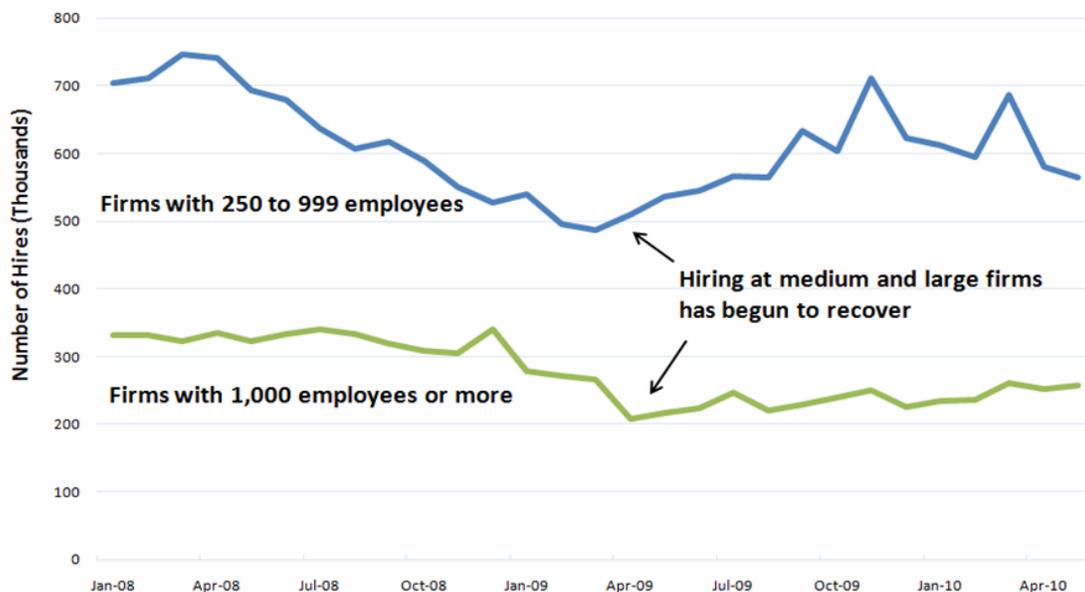
The updated JOLTS data show that, despite a recent uptick, hiring by small businesses has been flat and remains well below its pre-recession level. For those businesses with fewer than 50 employees, many of them job-creating start-ups, hiring continues to decline. (See Figure 1) As a result, overall job creation has been dampened in the second half of 2009 and the start of 2010. Between 2001 and 2007, before the onset of the recession, small businesses, those with fewer than 250 employees, hired an average of 44.4 million employees per year, reaching a peak of 46.5 million hires in 2006.<sup>4</sup> But since 2007, small business hiring has fallen significantly, to 40.6 million workers in 2008 and 35.5 million workers in 2009. The updated data suggest that small business hiring in 2010 could remain dampened.

**Figure 1. Hiring By Smaller Businesses Continues To Contract**



The plight of small business hiring contrasts with hiring by their larger-sized peers. Despite a recent decline in hiring by medium-sized firms, both medium and large firms have continued hiring at levels above their trough in the second quarter of 2009. (See Figure 2) The continued increase in hiring at larger firms is partly attributable to a sustained improvement in the functioning of credit markets which has allowed these firms to access credit at a reasonable cost. Meanwhile, small businesses, which are much more dependent on bank lending to meet their financing needs, are still experiencing problems accessing credit due to the continued tight lending standards at banks and have been unable to increase hiring.

Figure 2. Hiring At Large and Medium Firms Continues to Improve

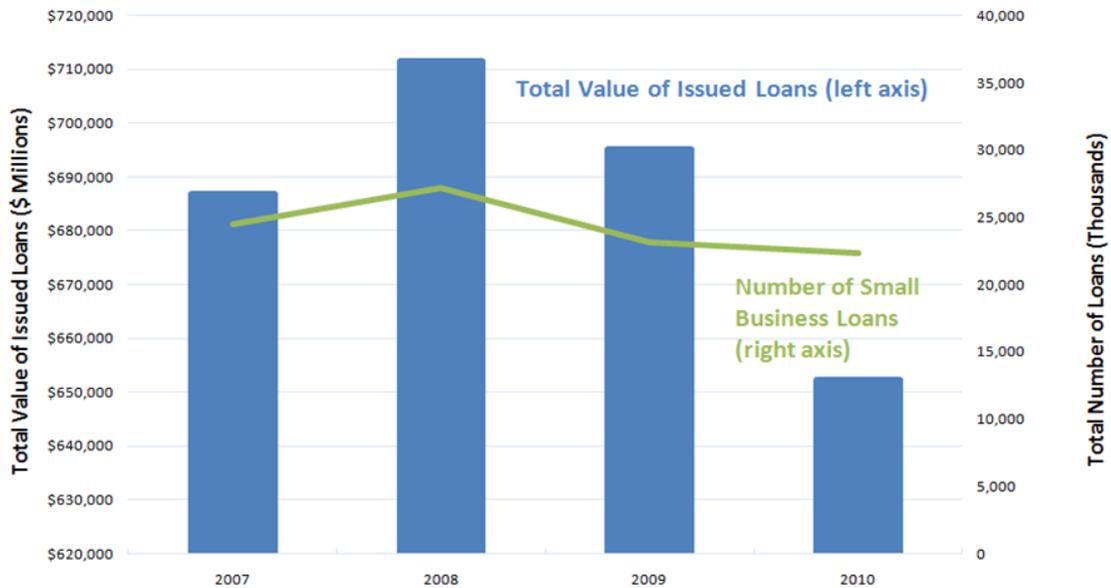


Source: JEC Majority Staff calculations based on data from the Job Openings and Labor Turnover Survey, BLS.

According to updated data from the FDIC's Federal Financial Institutions Examination Council (FFIEC), not only are fewer small businesses able to obtain loans, but the total value of loans issued to small businesses has also declined.<sup>5</sup> The number of loans made to small businesses, which peaked at 27.2 million in the second quarter of 2008, has fallen by over 4.8 million since then, a drop of 17.8 percent. (See Figure 3) At the same time, the total value of those loans fell by \$60 billion to approximately \$650 billion. The diminishing supply of these loans may curtail the growth of many small businesses on the verge of an expansion.

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**Figure 3. Bank Lending To Small Businesses Declines  
2007 Q2 to 2010 Q2**



Source: Federal Financial Institutions Examination Council (FFIEC) Consolidated Reports of Condition and Income, FDIC.

In response to the challenges continuing to face small businesses, the House of Representatives passed the Small Business Jobs and Credit Act in June 2010. That legislation included several provisions to increase small business lending and encourage investment in small firms. The bill would establish a \$30 billion small business lending fund to expand access to credit for small businesses. Community and small banks would receive capital from the Fund on terms that become more favorable as they make more loans to small businesses. Additionally, the legislation includes a 100 percent exclusion of capital gains for those who purchase equity in small businesses before January 1, 2012 and increases the tax deduction for small business start-up expenditures.

The Senate has been debating a similar small business jobs bill that is expected to pass this week.

1. Joint Economic Committee Majority Staff report. "Small Business Employment: Tight Credit Standards Slow Hiring." May 2010.
2. Joint Economic Committee Majority Staff calculations based on unpublished data from the Bureau of Labor Statistics' Job Opportunity and Labor Turnover Survey (JOLTS). JOLTS data was updated through May 2010 and includes a recalculation of seasonal factors.
3. Joint Economic Committee Majority Staff report. "Small Business Employment: Tight Credit Standards Slow Hiring." May 2010.
4. Bureau of Labor Statistics. Unpublished data from the JOLTS data.
5. Bernanke. "Addressing the Financing Needs of Small Businesses." Washington D.C. July 12, 2010. Bank lending to small businesses has since been updated to Q2 2010.