Clampdown on SBA

By Frederic W. Collins
Special Correspondent of The Christian Science Monitor

Washington

An intense internal debate, with implications as to the whole political-economic philosophy of the Kennedy administration, is occurring between the Business Bureau and the Small Business Administration.

The Budget Bureau has told the SBA to trim its sails. The SBA believed it had instructions from the White House to let out all sail.

The instruction to SBA from the Budget Bureau is of such a nature that it raises a question whether President Kennedy is pulling back from the kind of philosophy of government the SBA represents.

Curtailment Sought

The question appears to have all the more validity because the kind of SBA outlay the Budget Bureau wishes to curtail is intended to be, and in practice is, largely self-liquidating. Unless the Budget Bureau is wildly misinformed about what SBA is doing, the purpose of the bureau's instruction must be considered to be not the saving of money, but a curtailment of federal aid to small business—and better care and feeding of the private sources of capital.

Whatever the merits of that kind of argument may be, the new policy certainly represents a point of view which has not been popularly attributed to the Kennedy administration.

John E. Horne, administrator of the Small Business Administration, has been told to stop his agency from trying to promote loans.

Volume Rises

Mr. Horne for many years was assistant to Senator John J. Sparkman (D) of Alabama, chairman of the Senate Small Business Committee. Mr. Horne may be presumed to know his field inside and out.

When he became administrator by appointment from President Kennedy, he thought he had a license to take the agency off the ground. In the course of nine months, the volume of loan applications, the volume of loan approvals, and all the other activities of the SBA have shown almost vertical take-off in comparison with the cautious, gradual curves of the Eisenhower administration.

Now, Mr. Horne has been told not only to dampen his efforts to help, but he has been told quite a few other things, like these:

SBA should stop expanding its size standards (the definitions of a small business) and in fact ought to consider contracting them.

The agency should not only be more careful in the future to make sure that applicants have been unable to get loans from private sources, but in fact should go to the private sources and try to get more action out of them.

The agency has been too liberal in depressed areas. It ought to apply the same size standards and require the same interest rate, and the same requirements as to the availability of private capital, as elsewhere. (This seems to fly in the face of the intent of the area-redevelopment legislation passed this year.)

Financing Urged

The agency is loaning too much of its money to too few firms, too large in size, and ought to require heavier bank financing for the big ones.

The agency is being too kind to firms in disaster areas and had better be pretty strict. The SBA's efforts to help firms hit by hurricane Carla are specifically criticized.

The agency has been too kind to firms displaced by federal public works, such as urban development. The contention is quite explicitly made that some of them really had no good economic reason for existence anyway, or were run by people so old that they might prefer to retire.

Because too many small business investment companies have been formed in New York, California, and Texas, in proportion to the national total, no further licenses should be granted by the SBA in those states except in case of demonstrated urgency.

The SBA ought to jump its interest rate on loans to SBIC's from 5 to 6-1/2 per cent, and on the "subordinated debentures" of those outfits to perhaps 8 per cent.

The present 5 per cent interest rate on SBA loans to state development companies should not be lowered, the 4 per cent charged to local development companies in depressed areas should be raised to 5 or 6 per cent, and the agency ought to stop trying to promote the state and local development programs.

This is really an amazing point of view for a Democratic administration to take toward a self-liquidating loan agency. That is, the assumptions are all against the federal role and in favor of the private role. There seems little question that it is stated with the approval of David E. Bell, President Kennedy's budget director. There is at least circumstantial evidence that President Kennedy knows about it.

It is not the sort of thing that proponents of help to small business take lightly. Quite a fight is in prospect.