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**SMALL BUSINESSES MAY BE ESPECIALLY VULNERABLE TO CASH FLOW
SQUEEZE IF ECONOMY SLOWS**

**A Slowdown Might Compound Difficulties Already Caused by Modest Sales
Expectations and Limited Access to Bank Credit, According to Levy Institute Small
Business Survey**

ANNANDALE-ON-HUDSON, N.Y.--If the vibrant U.S. economy should slow, small businesses could be especially hard hit, according to a new study from the Jerome Levy Economics Institute.

As Jamee K. Moudud, a resident scholar at the Jerome Levy Economics Institute, writes in the Levy Institute Policy Note, *1999 Levy Institute Survey of Small Business: An Impending Cash Flow Squeeze?*, "In the event of an economic slowdown, with its attendant collapse of consumer demand and general reduction of available financing, small business could find it considerably more difficult than large business to secure needed financing."

"Although all firms will have to deal with problems of finance if the economy slows, those problems will be particularly difficult for small businesses, whose product diversity, technological flexibility, markets, and sales revenues tend to be limited compared to large firms," Moudud said. "Unlike investors who supply equity capital to large companies and who are willing to wait for a return, banks will not wait to receive their interest payments from the small companies they deal with."

According to Moudud, small businesses may already be feeling a credit squeeze caused by recent financial innovations and changes in bank regulations that have made banks less willing to lend to small firms. In addition, the tumultuous wave of mergers in recent years has sharply reduced the number of small banks, which typically specialize in small business lending, Moudud said.

"Although the current expansion has led to an increase in the supply of credit and to an easing of the conditions under which it is granted, a slowdown could accelerate the disappearance of more small business lenders and thereby increase the liquidity squeeze faced by borrowers," he said.

Moudud noted that the *1999 Levy Institute Survey of Small Business* revealed that sales

expectations for the current year for most small businesses are modest. "This suggests that a large proportion of small businesses expect to face some internal cash flow constraint in the coming year. One may surmise that their expectation of securing external finance, especially bank credit, is not likely to be high since credit is granted largely on the strength of sales and the amount of retained earnings," he said.

Thus, Moudud says, when an economic slowdown does occur, small businesses will likely need some government assistance.

"Programs that provide credit at interest rates not otherwise available, such as the Small Business Administration's 504 loan program or Community Express program, might help," Moudud said. "But also, because the survey shows that many small businesses are not aware of the government programs that do exist, any new programs should be accompanied by improved means of disseminating information about them."

Policy Note 1999/9, [1999 Levy Institute Survey of Small Business: An Impending Cash Flow Squeeze?](#)

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