A collective millions of small and medium-sized businesses across America like local bars, mom-and-pop stores, and restaurants are facing the fight of their lives due to the coronavirus pandemic. Many have either been instructed to close, or seen a sharp drop in business because their customers are staying at home to mitigate the spread of the virus. Though disgust with bailouts runs high in America, there’s no moral hazard in
Loosely defined, moral hazard is the idea that a person, or business, takes undue risks knowing that they are protected against the outcome and others will incur the costs of failure. It hardly applies here. Due to the pandemic, businesses are closed or at almost standstill activity through no fault of their own. Because America has essentially decide to go into an unprecedentedly sudden and deep recession as a way to stop the outbreak spread, these businesses are now looking wearily at upcoming rent and payroll checks, and struggling to see a way forward.

The crisis reveals that your sports bar, and your neighborhood Italian restaurant, and your local contractor are not Apple Computers. They don’t have the profit margins and the rainy day cash to survive a shutdown for weeks, or months, on end. These business don’t merit inclusion in 401k retirement savings plans, as Apple does, but they have an enormous benefit. They serve towns and cities and make neighborhoods more livable and valuable. And as a collective, they are the biggest employer in the country.

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Their cash flow crisis is very real and the government and private lenders may have the financial wherewithal to get them to the other side. It’s a time when support should be high for initiatives like temporary government-backed rescue funds, federal loan guarantees, tax relief, cash relief payments, fiscal stimulus, and other measures like loan forbearance.

“The issue of moral hazard isn’t there,” says Campbell Harvey, an economist and partner at $193 billion in assets Research Affiliates, who had been predicting a recession even before the coronavirus. “It makes a lot more economic sense to get businesses over the hump than to let them fail. If we do it with loan guarantees or partial guarantees, I am fine with that. This is not the result of small businesses doing a bad job.“

On Tuesday, U.S. Treasury Secretary Steven Mnuchin said at a press briefing the Treasury Department is considering sending checks directly to Americans, and deferring $300 billion in tax payments to the Internal Revenue Service. Separately, reports have
Already, there are many other efforts underway to mitigate the economic impact of the coronavirus.

This weekend, the House has passed a resolution opening new funds for Special Supplemental Nutrition Program for Women Infants and Children and the Emergency Food Assistance Program, and providing 25 million meals to low-income senior citizen. The bill reimburses Americans without health insurance for COVID-19 diagnostic testing and funds those costs for veterans. It opens new avenues for sick leave, and a bevy of other tax credits and assistance to impacted workers.

The Federal Reserve on Sunday began to embark on a crisis-time playbook, slashing short-term interest rates to zero, launching $700 billion of asset purchases, and openir a number of tools to boost liquidity. It broadened the availability of its so-called ‘discount window’ to banks, worked to stabilize short-term funding markets and, on Tuesday, opened new facilities aimed at commercial paper markets. The Fed also has suspended regulations on reserve requirements and asked banks to draw into their liquidity and capital buffers to extend credit to businesses.

If these measures aren’t enough to make a fiscal conservative faint, there’s more.

Talk in Washington indicates disaster loan guarantees by the Small Business Administration will rise to $250 billion. And business advocacy organizations like the influential Chamber of Commerce are taking a kitchen sink mentality to the problem.

The Chamber is calling for a total payroll tax cut for the months of March, April and May as a way to immediately conserve cash for businesses. Each month, these payments add up to $100 billion in total, or about 15% of the cost of emptying the average worker, it calculates. Furthermore, it wants the SBA’s disaster loan program to be immediately available nation-wide for businesses impacted, cutting through the red tape of state-by-state and county-by-county certifications. It also recommends the SBA approve disaster loans for all amounts below $350,000 on the basis of credit scores alone, and not burdensome loan documentation.
Treasury, Federal Reserve, Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) should work in combination with banks to establish a system of credit facilities, to provide loans and loan guarantees that can't be accessed by businesses with more than 500 employees to address disruptions created by the Coronavirus emergency,” it recently said.

On Wall Street, banks are studying additional ways to work with regulators to pump credit into the economy. In addition capital and liquidity easements, talk is centered on having regulators facilitate loan forbearance, or other types of modifications, which may help small businesses weather the storm.

Last week, Kelly King, the CEO of Truist Financial, said regulators are studying ways to help banks provide relief to troubled customers. Said King: “In the billing of businesses and consumers, they need help and a lot of times, they can pay the bill. They just need a little extension of terms or maybe we want to drop the rate for them a little bit, but the minute we do that, it becomes a TDR (or troubled debt restructuring),” he said at a conference last Wednesday. “So we are appealing to the regulators; they seem receptive.”

Collectively, these efforts have the potential to put trillions of dollars back in the hands of businesses and workers that need cash.

It does also rekindle memories of the 2008 financial crisis, when banks were bailed out and the phrase ‘moral hazard’ went mainstream. Many Americans, for good reason, too great pause at the idea of throwing cash at reckless lenders and borrowers as a way to solve the crunch. In this crisis, the economic problems seem potentially deeper and more troubling, but the assignment of blame is not nearly as clear. Should we really fat millions of businesses and their workers for operating enterprises that aren’t profitable enough to survive a total stoppage of a few months time?

“In the financial crisis, if you fixed the banks, you fixed the crisis. It was pretty repugnant, but it worked,” says Harvey of Research Affiliates. “This one is completely different. This is essentially a force majeure event. It’s like a natural disaster. There are
Washington and the banking system are kicking into action to stem the fallout of the pandemic. The hope is that the coronavirus is a temporary strain on business that can be solved with short-term liquidity and cashflow. But the reality is it could be far worse. A not very rosy scenario is that entire industries don’t make it, and a large percentage of small businesses close their doors. Could your neighborhood be less dynamic in the wake of the virus? Yes.

For now, there’s little reason to hold support, or noses, at the money being corralled to mitigate the economic impact of the pandemic and help businesses survive.

Businesses are doing the right thing by closing and shoppers are doing the right thing by staying home. It is more than fair, given these instructions, that large resources and creative solutions be committed to helping small businesses survive the coronavirus.

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