

High Interest Hurting Small Business

CONSUMERS using revolving charge accounts were the first to feel the crunch of 18 percent interest rates. They didn't like it, but paid.

New small business operators are paying close to that rate for operating capital and inventory loans. They don't like it either, because such rates erase profits and sometimes wipe out businesses.

It means that the business can earn up to \$18,000 on a loan of \$100,000 before the operator can begin to pay overhead, employees, taxes, rent or even begin to think about something for himself.

Frequently, owners slash prices drastically in frantic sales promotions to raise enough cash just to stay in business.

Many of them don't make it. Surveys show that about half of all small-business concerns die during the first five years. Of course, high interest rates aren't the only cause, but it may be assumed that they intensify effects of whatever other weaknesses may exist.

Small businesses make up 95 per-

cent of all commercial and industrial entities in the United States, employing 60 percent of the labor force. What happens to small business happens to all of us.

Small businesses are important because they provide opportunities for operators to do something for themselves, to try their products and skills in the competitive market of public demand.

"Small business is what really makes our free enterprise system work, keeping it lean, tough and competitive," says Harold C. Gordon, well known business writer. "Small business serves as an effective counterweight to the power of large corporations, and helps to keep our system democratic."

High interest rates and tight credit policies are tough on businesses of all kinds, but hit hardest at small, independent firms.

Every order of merchandise or supplies costs more, due to inflation. Small firms normally pay from 1 to 5 percent higher rates on loans than are paid by larger, preferred customers.

"Banks won't make one of those 18 percent loans to a new business unless it seems likely to survive and prosper," says an article in *The Wall Street Journal*. "But its chances of surviving and prospering are lower if it has to pay 18 percent for its money."

Besides higher interest rates, small businesses also may suffer more than big businesses from inflation, rising taxes, minimum wage laws and federal regulations, because they have less room to spread costs.

There are those who may regard these trends as desirable.

"Socialists, by and large, seem to feel more comfortable with big business, big labor and, of course, big government than they do with a broadly based, highly individualistic petite bourgeoisie, whose prosperity gives it a stake in the established system," said a writer in *Forbes* magazine this month.

It is a tragedy whenever a business dies, for whatever reason. The death rate seems to be rising, due to the cancer of high interest rates.