Since the size classes of loans are stated in nominal terms, inflation distorts their usefulness. Accounting for the effect of inflation suggests that the provision of loans to small business was even greater than the figures we used first indicate. For example, a firm with a borrowing requirement of $200,000 in 1973 would now require in the neighbourhood of $414,000 if the size of the firm, measured in terms of real output or employment, did not change. This is simply the effect of inflation which increases the dollar values of a firm's inputs and outputs. An attempt to account for this phenomenon, in a manner equivalent to adjusting the nominal amounts of loan classes in accordance with inflation, has estimated that the amount of bank financing available to the smallest of business borrowers grew at a real inflation adjusted[12] rate of 7.9 per cent per annum over the period 1974-1980.[13] This rate exceeded the growth of the banks' business loans in general, as well as the growth in their Canadian dollar assets. This rate does not differ significantly from the real adjusted growth in the outstanding value of business loans under authorizations in excess of $5 million, which was 8.9 per cent over this period. These data do not, however, take into account what happened in 1981. On the basis of our earlier discussion, it is clear that this longer-term relationship did not hold true in 1981 and, therefore, in that year, the real value of funding employed by the smallest of borrowers fell in relation to that employed by the largest of borrowers.

On the basis of these figures, there is no evidence to confirm that small business borrowers were receiving inadequate financing from the banking system. No systematic restriction of small loans is in evidence; rather, as we have said, the pattern of loans by size class seem to be determined by demand. Nevertheless, we recognize that problems do exist for the small business borrower. The bureaucratic nature of large organizations, such as the banking system, may itself work against small firms. Their dealings with branch managers who have low discretionary loan limits impose a number of potential barriers to the acquisition of bank loans. As such, a system which may have served the small business sector well over the longer period, could very well react differently during a period of high and volatile interest rates and economic recession, as is currently the case. We know, for example, that the corporate liquidity problem is more severe for the small firm than for the large firm. If this situation causes bank managers to become excessively conservative in their lending practices in order to minimize their bank's risk exposure, a potentially serious problem could arise for the small business sector.

Another indication of the extent to which the banks finance smaller firms is their provision of loans under the Small Business Loans Act (SBLA) by which the Federal Government guarantees loans to small businesses obtained from the chartered banks. In the testimony before the Committee, a number of complaints were raised concerning the difficulty of obtaining loans under this Act. These loans are restricted to small firms (annual sales less than $1.5 million) and the borrower cannot be charged more than prime plus 1 for the loan. Loans guaranteed under the SBLA cannot exceed $100,000 (until 1979 this limit was $75,000).

In October 1973, the banks held $96 million in loans under the SBLA. By October 1981, this figure had risen to $785 million, representing a compound annual rate of growth of 30 per cent. For the latest year, the growth of this type of financing continued to be strong, with outstanding loans increasing by 29 per cent.