The Economic History of Small Business in Region VI

by

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THE ECONOMIC HISTORY OF SMALL BUSINESS IN REGION VI

PURPOSE OF STUDY AND PREVIEW OF FINDINGS

This paper is about the historical development of small versus large business in Region VI of the U.S. Small Business Administration, which consists of the southwestern states of Arkansas, Louisiana, New Mexico, Oklahoma, and Texas. The broadest definition of small business used in the paper included all business units having less than 500 employees. Although a definition based on company size was preferred, the generally available data were for individual establishments or similar units rather than companies. Other criteria and size classifications also were used where possible to provide a better understanding of the nature of small business in the region.

The main purposes of the study done for this report were to trace the relative importance of small business in the region, identify the outstanding economic and social contributions of the region's small business sector, and identify the major influences which have fostered or discouraged small business in the economic development of this region, hereafter referred to as the "Southwest."

Small business in the Southwest appears to be relatively more important than in the nation as a whole, but its economic importance has shown a long-run decline. During the development of the region, small business has provided special economic and social contributions, such as: a livelihood for a significant share of the population; economic services for isolated, small, or specialized markets; a more-
efficient scale of operation in some industries; increased competition; greater independence and flexibility for the large number of small business entrepreneurs; and a general reinforcement for the strong traditions of economic independence, business entrepreneurship, personal freedom, and political democracy in the region.

Factors which appear to have encouraged small business in the Southwest include: strong economic growth trends; the basic climate and geography of the region, which has favored a low-density and wide dispersion of population; periodic tendencies for the population to avoid large central cities and their economic and social problems for the economic and personal "breathing room" found in the suburbs and non-metropolitan areas; a changing structure of economic demands which has given increasing emphasis, in both the region and the nation, to trade and services, which are industries with a high incidence of small business firms; and the economic and social traditions of personal liberty which are both nurtured by and supportive of the small business sector.

Tending to overcome these supporting factors are: the growing advantages of large scale production in many industries; transportation improvements and a general increase of the population in metropolitan area clusters, both developments which make a larger share of the market accessible to the larger-scale producers; and capital shortages and similar problems which tend to have especially discouraging effects on small business.

THE REGION: CHARACTERISTICS AND EARLY SETTLEMENT

The Southwest is a large region, extending at some points more than 1,000 miles east to west and nearly 800 miles north to south and it has wide variations in climate and density of settlement. Much of the region
to the north and west of its heavily populated coastal areas is characterized by a relatively arid climate, limited water supplies, limited access to the nation's major market centers, and a low density of settlement. This is especially true of the western sections but lower than average population densities also extend into the Ozarks area of Oklahoma and Arkansas. In these inland sections, and especially to the west, the agriculture is typically extensive in character, for example, livestock grazing and grain production, population centers are relatively small and widely distributed, and production and distribution activities for local markets are generally small scale. These less densely settled sections represent a large share of the region's total area and have a strong influence on the various economic and demographic averages for the region. Thus, we find that all of the states in the region, except for Lousiana, have population densities lower than the national average, and the average density for the region is one-third below that of the nation.

A large share of the specialized production of the region that is for sale to outside markets is primary production or otherwise closely related to the natural resources of the region—livestock and products, grains, cotton, petroleum and petroleum products, chemicals, and copper and other primary metals. Still other export-type production is oriented to the region's labor resources, to low-cost labor in the case of clothing manufacturing and to highly-skilled labor in the case of the region's aircraft and electronics industries. These specialized exporting industries represent a mix of large and small employers, with the farms and ranches and the crude oil and gas producers generally being fairly small in terms of employment, even though they might be
large in terms of area of operation, capital investment, or sales. On the other hand, many of the other specialized minerals producers and manufacturers who sell to outside markets are relatively large employers.

Some of the earliest settlements by Europeans in the United States were in the Southwest. The Spaniards established settlements in the early 1600's around Santa Fe, New Mexico, and later in that century in the vicinity of El Paso, Texas. Permanent settlements had been made by the French in Louisiana by about 1700. The areas of Arkansas, Louisiana, and Oklahoma became part of the nation with the Louisiana Purchase of 1803, while Texas and New Mexico were added to the nation in 1845 and 1846. Statehood, a rough indicator of the achievement of the first stages of settlement and economic development by U.S. citizens in the areas of the states, was granted in the first half of the 1800's to Louisiana, Arkansas, and Texas, and in the early part of the present century to Oklahoma (the 46th state) and New Mexico (the 47th). As of 1850, the population of the Southwest was a million people, with over one-half of that number in Louisiana.

Just before the Civil War, Texas had become the most populous part of the Southwest, accounting for nearly one-half the region's population total of 1.8 million in 1860. This and the fact that it was geographically the largest and most central part of the region made its development experiences fairly representative of the overall development process of the Southwest in the subsequent years. Pre-Civil War Texas was predominantly a rural society, with nearly 90 percent of the population in rural areas and about 60 percent of the employment in agriculture, mainly on small self-sufficient farms. Only 10 percent was in manufacturing, and these plants were typically very small, averaging no more than four workers
in addition to a manager. Major Texas manufacturing industries of the time were grain mills and sawmills.

POST CIVIL WAR DEVELOPMENTS TO 1900

The modern economic development of the Southwest began after the Civil War. The early part of this era was a period of political and economic reconstruction plus the spread of railroad lines to supplement the use of coastal waters, rivers, and overland wagon and cattle trails as important arteries of passenger and freight transportation. By 1880 a transcontinental rail line had reached Albuquerque, New Mexico, going toward California, and by the 1890's rail lines had extended into most areas. Reported railroad mileage in Texas increased from an initial 20 miles in 1853, and only about 500 miles during the Civil War, to nearly 10,000 miles by 1900. Between 1890 and 1900, the population of the region surpassed 5 million people, or five times the number at mid-century.

Manufacturing production during the Civil War had been stimulated in Texas and Louisiana by war needs and by state government incentive payments and cost-plus contracts, but several of these factories closed after the war. Agricultural production, especially of cotton and cattle, and associated manufacturing, were important industries in the Southwest in the years immediately following the Civil War. Coastal cities, such as New Orleans, Louisiana, and Galveston, Texas, were the principal manufacturing centers for the Southwest, although small manufacturing establishments were found in many of the inland communities throughout the region.

In the early post-Civil War period, there already were indications of
emerging economies of scale and bigness in some of the region's industries and at least one notable instance of monopoly power which influenced the pace and course of the region's economic development. The lumber industry, unlike the important grain-milling industry in this period, was developing along the lines of big business, and the sawmills were becoming larger. The monopoly was of the Galveston wharf facilities, a monopoly which had been created with the organization of the Galveston Wharf and Cotton Press Company (popularly known as the "Octopus of the Gulf") in the 1850's. By 1880, meat packing and other manufacturing in the Galveston area were losing in importance to other areas, and the high transportation costs associated with the wharf monopoly may have been a contributing factor. The Galveston wharf monopoly also led Houston shippers to look for ways to avoid the port, and this ultimately led to a further check on Galveston's growth.

In the final three decades of the 19th century, manufacturing in the Southwest, and especially the new manufacturing industry that was developing in Texas, changed from one which was dominated by small local shops serving isolated self-contained frontier villages to one in which more and more factories were producing for the wider markets which could be reached by the growing railroad system. The lumber industry continued to lead the way in this regard with its transformation from small local lumber mills to large organizations supplying world markets, and at the same time it surpassed the grain-milling industry in overall importance in the region. The largest sawmills were established near navigable water and shipped much of their lumber by water, but the industry grew in a symbiotic relationship with the spread of the railroads. The railroads used lumber for rail ties, cars, and fuel, and
hauled lumber to market, especially to the growing population centers in the western part of the region.

Flour milling also changed in the last three decades of the 19th century. Texas flour mills decreased 50 percent in number, while their investments quadrupled and their production rose six times. Again, it was a matter of small mills serving local markets being replaced by large mills serving large markets. The same sort of change occurred to some extent in bakeries as well. Beginning in the 1870's, the spread of the railroad system and the development of refrigerated railroad cars also helped transform the beef slaughtering industry in the Southwest from local small slaughterhouses and canneries to large centralized meat packing plants shipping dressed beef to distant markets. The small plants—with the help of the railroads, which had earned more on the shipment of live animals—campaigned against this trend. The railroads raised rates on dressed beef and in some instances refused to provide refrigerated cars, but they finally gave in to the change in the character of the industry.

Despite the rapid growth of Southwestern manufacturing and the dramatic changes in its nature in some of the industries, by 1900 the typical manufacturing plant in the region was still oriented to a small local market and was still very small in size, employing only about a half-dozen workers on average. In addition, the value of total manufacturing production in the Southwest was still significantly less than the gross farm income of the region.

Commercial farming in the Southwest had been delayed by the depletion of farm machinery that resulted from the Civil War and the impoverished condition of the region's farms during the Reconstruction period. While
the average farm remained relatively small in the postwar period, the 
extension of railroads after 1870 encouraged cotton farming in the South-
west as a commercial industry serving outside markets, with an attendant 
growth in relatively large-scale cotton seed mills. Cattle ranching was 
already oriented to outside markets as a consequence of the cattle drives 
to the North during the years immediately following the Civil War. 
Larger-than-average farming operations, in terms of both acreage and 
labor, were to be found in the eastern parts of the region in a special 
plantation type of farming based on tenant sharecropping and producing 
cotton and other field crops for cash sales. This system developed as 
an interim step between slavery and free labor which permitted a 
continuation of plantation style farming when cash and credit for payment 
of wages by landowners and for purchase of land and equipment by poor 
farmers were not available. The system became entrenched, however, and 
remained an important form of agricultural production in parts of the 
region for one hundred years after the Civil War.

In the latter part of the 19th century, mining production began to 
grow in the Southwest. First the production comprised a variety of 
minerals including limited amounts of coal, like that produced from Texas 
supplies to serve the local railroad industry. Oil began to increase in 
importance, however, and soon it largely replaced the local coal supplies 
as a fuel for the region's locomotives. Communication and utility 
services also were being developed. Telegraph lines were built by the 
military across Texas to El Paso and to New Mexico by 1880. Telephone 
service also had begun by 1880 and electric power companies were organized 
in the 1880's in a few of the region's cities.

Economic depressions in the 1870's and 1890's had their impact on
the Southwest, with the earlier depression especially affecting non-farm commercial activities and slowing railroad building; the latter in turn severely depressed agriculture in the region. Agriculture in the Southwest was generally depressed during most of the last half of the 19th century, as a consequence of falling farm prices, the scarcity of labor following the abolition of slavery, and a crop-lien credit system which increased farm debts and risks of foreclosures. These economic problems, along with a growth in the use of labor-displacing machinery in farming and a gradual increase in farm size, helped to create a persistent long-run migration from the farms to the cities, a movement which has continued throughout most of the 20th century. Such migration has now made the Southwest, as well as the nation, a predominantly urban society with larger market concentrations favoring the growth of large-scale businesses.

Political movements in the region and the nation during the growth of bigness in some important lines of business in the second half of the 19th century gave emphasis to the issue of monopoly, or "trusts." For example, in Texas, the new constitution of 1876 included anti-trust provisions. Anti-trust legislation was adopted by the state's legislature in 1889 and Governor James Hogg campaigned for his election in 1890 on a platform demanding more regulation of big business and especially of railroads. The Peoples (Populist) party in the region and the nation during the last decade of the century seriously challenged the established political parties by demanding more vigorous regulation of business, public ownership of the railroads, and more abundant and cheaper supplies of credit.

The political unrest and the protests against big business during
this period were strongest in the economically-depressed farming sector. The farmers believed that prevailing market practices were responsible for holding down their prices and raising their costs; they thought they were being "fleeced" by middlemen and monopolists. Meanwhile, political groups representing small farmers attacked the large land and cattle companies that were acquiring large amounts of land previously in the public domain. Small farmers generally supported the concept of self-sufficient farms, control of monopoly, and the organization of cooperatives as a means of circumventing the middlemen and monopolists. Farmers' groups specifically attacked the railroads, the banking and credit system, farm product processors, and the large land companies, among others, for what they regarded as monopolistic practices detrimental to their interests.

DEVELOPMENTS FROM 1900 TO 1950

During the 20th century, until the end of World War II, the transformation of the Southwestern economy into its present structure was largely completed. The region's total population more than doubled, from less than 7 million in 1900 to over 15 million in 1950; the urban proportion of its population went from 16 percent to over 50 percent. The degree of urbanization and average population density continued below national levels, however, with density at the mid-20th century mark still less than 30 people per square mile and more than one-third below the national average. And, unlike today's, the region's agricultural employment still exceeded its industrial employment at mid-century.

The railroad network in the Southwest expanded further during the first half of the 20th century, and after World War I motorized highway
transportation began its great expansion to further knit together regional markets and to encourage economies of scale and growth in the size of business units. Indicative of these changes, railroad mileage in Texas increased from around 10,000 miles in 1900 to a 1932 peak of over 17,000 before consolidation of rail service reduced this to its present total of around 15,000 miles. Motor vehicles registered in Texas rose from around 200,000 vehicles during World War I to over 3 million by 1950. Highways under State maintenance in Texas already amounted to more than 18,000 miles by 1929, and this was almost doubled by 1950 to about 35,000 miles. Including the locally maintained roads, highways in the state totaled close to 200,000 miles by 1950.

Facilitating economic development in the Southwest during this period was the growth of the region's banks and other financial institutions. Consolidation and concentration occurred within the financial system during the 1920's and early part of the Great Depression of the 1930's. What effect this may have had on the flow of credit to large versus small borrowers is uncertain, but it seems likely that a consolidation of the financial system into fewer and larger units would tend to favor an allocation of credit toward the larger borrowers. In Texas, the number of commercial banks rose from less than 500 in 1905 to a high of nearly 1,600 in 1920. Then, consolidations and bank failures reduced the number to under 900 by 1950. Financial institutions other than commercial banks increased in number and importance, however, beginning in the 1930's. State-chartered commercial banks, which are generally smaller than the nationally-chartered banks, rose to nearly two-thirds of the total number of banks in Texas in 1920 and then fell to only about one-half the number by 1950. The average size of all banks in Texas,
both nationally and state chartered, increased in terms of the price-adjusted value of their financial resources at a rate of nearly 5 percent per year from 1905 to 1950.

Manufacturing continued to show strong relative growth in the Southwest, with growth in the average employment size of the manufacturing plants as well; by the end of World War II, the latter was up to over five times the 1900 average, to around 40 employees in both Texas and the region as a whole. Lumber production and meat packing continued to be regional examples of industrial concentration and economies of scale, but several other industries were added to this list in the first half of the 20th century—petroleum refining, petrochemicals, primary metals (copper, aluminum, steel), apparel manufacturing, aircraft production, and electronic components manufacturing. World War II provided a major stimulus to the industrialization of the region, but the foundation for most of this was created earlier with the development of the region's oil industry following the discovery of the large Spindletop field near Beaumont, Texas, in 1901. Oil and gas production provided the basis for the region's petrochemicals, synthetics, plastics, and oilfield machinery industries and many of the capital and consumer demands that encouraged the development of other industries.

The impact of the Spindletop discovery was sudden and dramatic. In 1901, Texas chartered 491 oil companies and the Houston Oil Corporation, chartered for $30 million in that year, became the largest industrial corporation in the state. The great amount of oil from Spindletop quickly encouraged further conversion of locomotives to oil; the construction of tank cars, tanker ships, and the pipelines to transport oil; and the manufacture of oil field equipment. In a few years the use
of gasoline-powered automobiles began the expansion which would create large new industries in the nation and would transform not only the economy but the social patterns of the country.

Although Texas anti-monopoly laws delayed the entrance of Standard Oil into the state after Spindletop and gave other companies an opportunity to break its monopoly control of the industry, the large supplies of oil from this and later fields in the region helped to create other very big and powerful oil companies, such as Gulf, Texaco, Humble, and Mobil. During the first two decades of the 20th century, successful anti-trust suits were entered against several large oil companies by the State of Texas.

In Southwestern agriculture during the first half of this century, ranching and cotton farming continued as outstanding examples of expansion in the average acreage of the region's farms, but they and the region's agricultural operations in general remained relatively small in terms of average employment per farm. In fact, the average size of Texas farms, in terms of acreage and apparently in terms of workers as well, decreased from 1900 to 1930 as the number of farms in the state increased. Then, the numbers of Texas farms began to decrease and their average size began to rise again, until in 1950 the average size was significantly larger than it was at the start of the century. However, the average employment per farm throughout the Southwest was still very small. According to the agricultural census for 1950, the average number of regular hired workers (working 150 days or more in the year) per commercial farm in the region that hired regular workers was only 2.5 workers, and only about 3 percent of all the commercial farms in the region reported hiring 10 or more regular workers during the year.
A persistent exception to the typical small farm in the region was the previously mentioned plantation type production of cotton and other field crops in the eastern part of the region, which was founded on a sharecropping tenancy system and which represented a carry-over from practices developed in the 19th century. The general economic problems for the region's agriculture, which reached their most serious level in the Depression of the 1930's when cotton prices dropped to one-third their pre-depression level, and the carry-over of the tenancy system, especially in Arkansas and parts of Louisiana and East Texas, helped keep alive Populist, anti-big business attitudes in the region. In 1930, two-thirds of all Arkansas farmers were working someone else's land, and the ill-fated attempt by Socialist Norman Thomas during the Depression to organize tenants into a tenants' union was centered in Arkansas. A State-sponsored study commission in Arkansas in 1936 demanded legislation to discourage the plantation type tenancy system in the state. However, it was not legislation but farm mechanization, which began to have a major effect in this part of the region; in the 1940's and 1950's, mechanization changed the system by eliminating the need for the tenant farmer as he had existed in the period of hand labor and by encouraging his resettlement in towns and cities. Largely as a consequence of this change, Arkansas became more urban than rural in the early 1970's, the last state in the region to make this transition.

One kind of political movement against big business and monopoly during this period was the national movement against chain stores, begun in the South in the 1920's and 1930's. This campaign was largely the result of small merchants' fears, and it produced some state laws against the chains. However, groups who were expected to be allies in the
campaign—farm groups, cooperatives, and unions—often opposed chain store legislation, and consumers seemed to be largely indifferent.

ECONOMIC DEVELOPMENTS AND THE IMPORTANCE OF SMALL BUSINESS
IN THE REGION'S ECONOMY SINCE WORLD WAR II

As the Southwestern economy developed during the third quarter of the 20th century to reach a total of 22 million people, a nearly 75 percent urban composition, and a work force more than one-fifth industrial and less than 5 percent agricultural, it became increasingly like the national economy in its urban and industrial character. However, the region remained about one-third less densely settled than the nation and somewhat less industrial in employment, and—although various measures suggest that the average size of its businesses were continuing to grow and that their various size characteristics were approaching the national norms—small business appeared to be still relatively more important in the Southwest than in the nation as a whole. In 1976, average employment per business unit was 14 persons in the Southwest and 15 in the nation, while the percentage of total employment in units with less than 500 workers was 82 percent in the southwest and 77 percent in the nation, according to the covered employment data from the Old Age and Survivors Insurance (OASI) program reported in the Country Business Patterns series.¹ If we consider smaller size business units, such as those with less than 50 employees, the percentages of total employment in those units were 47 percent in the region and 42 percent in the nation, based on the 1976 OASI data.

The relative numbers of business units which might be classified as small business are very large and have not changed greatly during the
period since World War II. In both 1947 and 1976, units with less than 500 employees were 99.8 percent of all units in the Southwest and 99.7 percent in the nation, according to the OASI reports. The absolute number of units in this small business category in the region was more than 445,000, or 10.8 percent of the corresponding national total, according to the most recent figures. The smaller units with less than 50 employees did show a small relative decline over the 1947-1976 period, from 96.9 percent to 95.7 percent of all units in the Southwest and from 96.3 to 95.5 percent in the nation.

Among the states of the Southwest, the relative importance of small business during the post-World War II period—based on the share of employment in units with less than 500 employees, and based on most of the other measures of small business used in the study as well—was greatest in New Mexico. Relative importance decreased in a clockwise direction through the states of Oklahoma, Arkansas, Louisiana, and Texas. The relative importance of small business tended to decrease slightly over the postwar years in every one of the Southwestern states.

Among the region's industries, small business units generally have been relatively more important during the postwar period in the various categories of the trades and services. Also, the largest absolute numbers of small business units have been in those industry groups. The gradual decline in relative importance of small business in the Southwest during the postwar period has been fairly general across all the major industry groups. For example, the proportion of manufacturing employment in the region in establishments with less than 500 workers dropped from about three-fourths just before World War II to less than two-thirds in 1976. In addition, commercial farms in the
region showed increases in their typical employment sizes between the 1947 and the 1974 census reports. In fact, practically all of the region's industry groups registered decreases in the relative numbers of units with fewer than 500 employees between 1947 and 1976, according to the OASI reports. Small changes in the opposite direction for the transportation and public utility and the contract construction industry groups were the only exceptions.

Indicators of the importance of very small business operations include the numbers of establishments without payrolls, proprietorship and partnership types of business organizations, and self-employed individuals. Partially complete statistical reports covering various periods and industries generally show that the region also has relatively more of these very small business operators than does the nation as a whole. The importance of very small businesses also has been declining over the years in both the region and the nation. In the Southwest, the number of self-employed individuals as a proportion of total employment fell sharply from 32 percent in 1940 and 22 percent in 1950 to only 9 percent in 1970, but much of this decrease was in agriculture. Considering only nonfarm employment, the decrease was much less dramatic, from about 11 percent in both 1940 and 1950 to 8.5 percent in 1970.

SOME SPECIAL ECONOMIC AND SOCIAL CONTRIBUTIONS OF SMALL BUSINESS

Besides providing a livelihood for large numbers of entrepreneurs, professionals, and workers, small businesses have made several other kinds of economic and social contributions to the region and the nation. One of these contributions is the service they provide for small and isolated markets that are not economically accessible to larger
businesses. This has been evident throughout the history of the South-
west and is shown again in an analysis of the role of small business
in the non-metropolitan areas of Texas based on OASI data for 1970.
The analysis shows that the average size of business units was smaller
and the numbers of small business units were relatively greater in the
non-metropolitan areas than in the metropolitan areas by significant
margins. For example, the average employment size of units in the non-
metropolitan areas was only one-half that of units in the metropolitan
areas. A similar positive relationship is observable between the
importance of small business and low population densities and low urban
population shares in both the available time series data for the South-
west and in cross-sectional comparisons of the different states in the
region and between the region and the nation.

Small businesses also seem to be generally more efficient in partic-
cular industries. This is suggested by their persistent importance in
certain industries, such as the trades and services. The possibility of
comparatively high efficiency and high labor productivity for small
business in particular industries is also suggested by the presence of
comparatively high average wages for the small businesses in these
industries. According to available OASI data for the region, crude oil
and natural gas extraction; plumbing, heating and airconditioning
contractors; metal working machinery manufacturing; trucking and ware-
housing; pipeline transportation; and nonbank financial institutions were
industry groups in the Southwest in which small business units with fewer
than 500 employees were especially important in recent years and which
at the same time had relatively high wages. In a somewhat different type
of comparison, national business census data on total business receipts
per worker (rather than wages per worker) by company size classifications revealed that companies with fewer than 500 employees had higher average receipts per worker in 1972 than did larger companies in the following industry groups which are especially important in the Southwest: plumbing, heating, and airconditioning contractors; meat packing; oil refining; minerals and materials handling equipment manufacturing; retail trade; and selected services. Industries important in the Southwest in which companies with fewer than 50 employees had receipts per worker higher than the industry average included miscellaneous men's and boy's clothing manufacturing, mining and materials handling equipment manufacturing, and selected services. It is also interesting to note that for the all-industries totals in this national report, both the companies with fewer than 500 employees and those with less than 50 had higher-than-average receipts per employee.

The presence of large numbers of small business firms in an industry cannot prevent all forms of monopoly, but it can help prevent the concentration of the industry in the hands of a few large firms which can then dominate and control the industry's supplies and markets. This prevention of domination by large firms can benefit other business firms as well as consumers. Industry groups in the Southwest in which small business units with fewer than 500 employees accounted for a very high proportion of the industry's total employment, payrolls, etc. during the postwar period, and which presumably were less likely to have been dominated by a few very large firms, include most of the same industries which have just been identified as industries in which small business units appear to have had high levels of efficiency. Some additional industries in which small rather than large business units were dominant in the Southwest during this period include building materials and farm equipment,
retail stores, insurance agents and brokers, the real estate industry, 
the personal services industry, automobile repair services and garages, 
medical and other health services, and legal services.

The contributions of small businesses in the Southwest to entrepreneurial independence and flexibility and to the tradition of personal freedom and political democracy cannot be easily supported by available statistics. However, frontier attitudes of optimism, independence, and a willingness to take a chance on new opportunities are traditional in the Southwest; it seems reasonable that the maintenance of these attitudes would both encourage and be encouraged by the continuing existence of large numbers of small independent businesses in the region.  

The Jeffersonian view that the traditions of a liberal democracy with protections and opportunities for the individual would be encouraged by the existence of relatively large numbers of independent economic units and independent people seems equally reasonable. The opportunities and good morale implied by the large number of small businesses in the region represent a healthy environment for the functioning of such a democracy.

**INFLUENCES ON THE GROWTH PATTERNS OF SMALL BUSINESS IN THE REGION**

The numbers of small business organizations have varied more or less in direct relation to population totals in the region, with the nature of this relationship clearly shown by the relatively comprehensive data on small business units which have become available since World War II from the Census Bureau's *County Business Patterns* reports based on data from the government's OASI program.

The low population density of the region—which is reflected also in various other measures, such as relatively small population shares in
metropolitan areas, in large cities, and in all types of urban centers—as we have seen, helps to explain the high importance of small businesses in the region (as opposed to big business which depends on large market concentrations to exploit their economies of scale). As population density has increased in the region, the relative importance of its small business sector has tended to decline.

In economic depressions, population growth and the pace of urbanization has tended to slow, while the opposite tendency has been observed during recent major wars and the early postwar periods of prosperity. These tendencies can be clearly seen for both the region and the nation as a whole during the depression of the 1930's and the war and post-war years of the 1940's and 1950's. Historical reports suggest that the long-term trends toward larger business units have slowed and accelerated in direct relationship to the changing pace of urbanization during these periods. Some new trends appear to be developing in the 1970's. Although detailed data are not yet available and the apparent changes are small, it appears that in both the region and the nation as a whole the population is not only continuing its postwar pattern of moving away from the central cities of large metropolitan areas but has begun to move away from metropolitan areas completely. If this movement continues, it could help slow the regional and national trends from small to large business units as more people move to smaller population centers.

Transportation system expansions have improved market access in the Southwest, and this appears to have encouraged the trend toward larger businesses in the region. Extensions and improvements of highways and sharp increases in motor vehicle registrations have been
### TABLE 1

NUMBER OF SMALL BUSINESS UNITS AND POPULATION
SOUTHWEST AND UNITED STATES

<table>
<thead>
<tr>
<th>Area</th>
<th>Units (000)</th>
<th>Population (000)</th>
<th>Percentage Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1970</td>
<td></td>
<td>Units 1951-76</td>
</tr>
<tr>
<td>Texas</td>
<td>257.1</td>
<td>12,487</td>
<td>71.2</td>
</tr>
<tr>
<td>Louisiana</td>
<td>68.3</td>
<td>3,841</td>
<td>76.0</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>57.6</td>
<td>2,766</td>
<td>47.7</td>
</tr>
<tr>
<td>Arkansas</td>
<td>40.1</td>
<td>2,109</td>
<td>62.3</td>
</tr>
<tr>
<td>New Mexico</td>
<td>23.8</td>
<td>1,168</td>
<td>98.3</td>
</tr>
<tr>
<td>SOUTHWEST</td>
<td>446.9</td>
<td>22,372</td>
<td>68.8</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>4,131.4</td>
<td>214,700</td>
<td>43.5</td>
</tr>
</tbody>
</table>

aRanked by absolute number of small business units.
bUnits with fewer than 500 employees, based on OASI data.

### TABLE 2

RELATIVE IMPORTANCE OF SMALL BUSINESS AND INFLUENCES
SOUTHWEST AND UNITED STATES, 1976

<table>
<thead>
<tr>
<th>Area</th>
<th>Workers per unit</th>
<th>Workers in small units (%)</th>
<th>Population per square mile of land (%)</th>
<th>Employment shares</th>
<th>Manufacturing</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Mexico</td>
<td>11.0</td>
<td>69.1</td>
<td>9.6</td>
<td>33.6</td>
<td>10.8</td>
<td>27.2</td>
</tr>
<tr>
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<td>22.5</td>
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<td>38.7</td>
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<td>62.9</td>
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<tr>
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<td>47.6</td>
<td>77.6</td>
<td>23.0</td>
<td>21.9</td>
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<td>66.7</td>
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<td>60.7</td>
<td>72.7</td>
<td>30.3</td>
<td>20.7</td>
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</table>

\(a\) Ranked by relative importance of small business.
\(b\) Average for all reporting units.
\(c\) Units with fewer than 500 employees.
\(d\) For 1975.

**Source:** U.S. Bureau of the Census, *County Business Patterns* (OASI) reports and population estimates.
especially important in the region since World War II. Aviation facilities and their use also have developed rapidly in the region. Various indexes of per capita and per area capacity can be developed for the region's highway, air, and water transportation systems which indicate that the capacity levels of these systems are high and rising relative to national levels. The long-run effect of a continuation of the current energy crisis on transportation and on small business opportunities in the region are difficult to foresee, but some reversal of historical trends toward market expansion and larger units to serve larger markets seems a plausible scenario.

Shifts in industrial patterns in response to changes in both technology and tastes have had a major impact on the trends toward larger businesses in the region. Farm mechanization and improvements in mass production and marketing methods in industry are reflected in the region's growing industrialization. Also, the average size of manufacturing units has consistently increased in relation to other kinds of business, so that in the Southwest it is now about 55 workers compared with 10 workers in the retail trades and an average of 14 workers for all types of business in the region. On the other hand, the growth in the importance of the trade and service industries in recent years, which is especially evident at the national level, is providing increasing opportunities for the smaller business firms which are particularly suitable in these industries (because of their smaller, more specialized markets and the smaller amounts of capital needed to serve them).

Capital supply problems traditionally have discouraged the establishment and continuance of small business. It was previously noted that available Texas data show that during the first half of this century consolidations and failures reduced the number and increased the size
### TABLE 3

**CHANGES IN RELATIVE IMPORTANCE OF SMALL BUSINESS AND RELATED FACTORS, SOUTHWEST AND U.S.A.**

<table>
<thead>
<tr>
<th>Area</th>
<th>Small Units (%) 1951-76</th>
<th>Urban Population (%) 1950-70</th>
<th>Nonfarm employment: Manufacturing (%) 1950-76</th>
<th>Nonfarm employment: Retail trade (%) 1950-76</th>
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<tbody>
<tr>
<td>Arkansas</td>
<td>-1.3</td>
<td>17.0</td>
<td>15.6</td>
<td>-0.2</td>
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<td>17.0</td>
<td>6.8</td>
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<td>17.0</td>
<td>10.1</td>
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<td>Louisiana</td>
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<td>11.3</td>
<td>0.5</td>
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<td>SOUTHWEST</td>
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<td>1.6</td>
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<tr>
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<td>-1.1</td>
<td>9.5</td>
<td>1.0</td>
<td>3.6</td>
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</table>

**NOTE:** The data represent changes in percentage-point shares of corresponding totals.

*Ranked in approximate order of relative decline in small business.*

*Units with fewer than 50 employees, based on OASI data; used here to represent general trends in small business.*

*Based on census data for 1950 and OASI data for 1976.*

**SOURCE:** U.S. Bureau of the Census, *County Business Patterns (OASI)* reports and census reports.
size of the region's commercial banks, a type of institution especially suited to the financing needs of small business. It was supposed that these earlier changes in the banking industry tended to favor larger borrowers. Since World War II, some reversal of the earlier trends has occurred in the Texas banking statistics. Although the average size of the banks has continued to grow, their number has increased over 60 percent from pre-war levels, and the relative importance of the smaller state-chartered banks has reversed its earlier decline.

Small town bankers in the region also have been especially active in the postwar period in attempting to support industrialization and general economic development for the communities; and they have worked with larger city banks, utilities, transportation companies, local chambers of commerce and others in their areas in these efforts. In addition, state and local government programs of financial and tax assistance to industry have been especially important in the region since World War II and appear to have been particularly successful in Arkansas and Oklahoma. Although these programs have not been designed primarily for the direct encouragement of small local businesses, they have attempted to provide strong healthy economic conditions which would help reinforce other public programs specifically intended to assist small business, such as the postwar program of the U.S. Small Business Administration.

The relatively low overall totals of business failures in the region compared with the nation as of the mid-1970's suggest that the economic and financial climate for small business in the Southwest is for the present a relatively healthy one. While a complete reversal of the persistent long-run trends toward large business units does not appear
likely in the immediate future, the national traditions of independence, freedom, and entrepreneurship and the high value placed by American, and especially Southwestern, society on their preservation suggest that personal incentives and societal support will continue to work for the small business sector in the region and the nation as a way of maintaining these important economic and political values.
FOOTNOTES

AUTHOR'S NOTE: The research for this paper was supported by a grant from the U.S. Small Business Administration.

1 A reporting unit in the OASI reports may not represent an entire company. In the case of manufacturing, each individual establishment at a separate location is a reporting unit. In the case of other industries, all the activity of a particular employer in a given county comprises a reporting unit.

2 Of course, in some industries, these wage differentials may largely reflect the natural monopoly-type advantages enjoyed by the small businesses in their small isolated or specialized markets, and in other cases they may reflect institutional monopoly arrangements established by the companies or the labor unions in the industry.

3 For a paper that touches on the traditions of and opportunities for independent entrepreneurship in the region, see Larry Secrest, "Texas Entrepreneurship--An Analysis," in James W. Schreier and others, (eds.) Entrepreneurship and Enterprise Development: A Worldwide Perspective, Proceedings of Project ISEED, Summer, 1975 (Milwaukee, Wisconsin: Project ISEED and the Center for Venture Management, 1975), pp. 51-65. A type of study that might help answer questions about the independence, flexibility, and general performance and attitudes of small businessmen would be a detailed study of individual small businessmen and their counterparts in large business firms, such as was attempted, with some degree of success, in the United Kingdom by Boswell. See

BIBLIOGRAPHY


Encyclopaedia Britannica. Chicago: Encyclopaedia Britannica, Inc. (See especially the articles on small business and on each of the Southwestern states in Volume 20, 1968).


