The Economic History

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The Pennsylvania Technical Assistance Program (PENNTAP), a public service of the Pennsylvania State University and the Commonwealth of Pennsylvania, under a contract from the U.S. Small Business Administration's Office of Advocacy, has managed this economic project to analyze the past and current status of and to make recommendations for the future welfare of small businesses in Region III.
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"History of Small Business in Region III"

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THE ECONOMIC HISTORY

ABSTRACT

NAME: United States of America BIRTHPLACE: Region III
CHILDREN: Small Business USA BIRTHPLACE: Region III
GRANDCHILDREN: Big Business USA ACCOMPLISHMENTS: (See Attachments)
ACCOMPLISHMENTS OF CHILDREN: Data N/A to adequately show real contributions.
(Grandchildren have monopolized most attention)

Small Business was a natural child of the first settlers. Along the Eastern seaboard, small business grew step-by-step with new arrivals and sprouted wherever settlements appeared. In Region III territory, the settlements around harbors and through farming country soon opened new opportunities for the early merchants as storekeepers, tavern and innkeepers, cobblers, lumbermen, fishermen, boat and shipbuilders provided needed services.

On their heels came the brick and iron plants and small industry was becoming the focal point for more new settlements. Before long, Philadelphia and Baltimore were the major hubs of trade...and the early American entrepreneurs were on a path that would take them to the top of the world's economy. They achieved those heights by crossing mountains, prairies and oceans, venturing willingly with their wealth, creating new capital and new horizons. Within that framework is the hint of the dilemma.

Region III territory was the birthplace of the business revolution and provided the atmosphere for growth and expansion. It was here and, to some extent, in southern New England, that the spirit of free enterprise found ways and means to carry the U.S. to the forefront in development and adoption of machinery, management technique and mass production. Hard work was not a social stigma. It was a rung in the social ladder.

It was here that the agriculture revolution moved from the farming for self-subsistence status into the grow-for-sale era, adding workers to the market. Economic stability spread as government became a participant rather than a passive observer.

Business initiative is responsive to market forces. Thus, just as when the westward movement began and goods and services were exported from the region, skill and entrepreneurial technology have been drained in the more recent period, eroding its economic base relative to the rest of the country, spawning alternative economic centers. These trends have continued to the point that Region III small business today needs restoration in an environment conducive to private initiative.
SECTION I - AN OVERVIEW OF HISTORY

The history of small business in the United States is the story of individual initiative, or entrepreneurship, enhanced by the availability of the factors of production. Nowhere is this more obvious than in Region III. This area was the birthplace of the business revolution in America. And, throughout much of America's history, Region III has provided a fertile environment for business growth and expansion. As such the region has been a bellwether for American small business development. This may be the case in the contemporary period as well. Region III small business has progressed through a growth cycle that in a biological sense we might refer to as a life cycle. Small business has moved from a period of vibrant growth within the American economy to a period of mature economic activity and on to one of decline. In the modern era the region has seen a steady erosion of its economic base relative to the rest of the country. The direction of small business in Region III may continue to point the way for American business in general. Whether this is the case depends upon public policy decisions which restore or create an environment conducive to private business initiative.

The economic history of small business in Region III is to a large extent a charting of the course of economic development in the area. This is partly because it is difficult, in an historical context, to distinguish "small business" from business in general. The application, for example, of the employee standard, so often used to distinguish small businesses from large, results in the inclusion of virtually all manufacturing establishments in the pre-Civil War period and most establishments until well into the 20th century. Another difficulty, highlighted by the Select Committee on Small Business of the U. S. Congress in 1958, and still applicable today, is that "the most serious handicap to developing thoughtful and appropriate definitions and discussions of 'small' business is that the requisite information is not available." (Congress, 1958, p. 151)

The same realities that create problems for the economic historian present unusual opportunities. In reviewing the economic history of small business in this region, one is able to explore the role of the market and
the entrepreneur in their formative periods. The evolution of the entrepreneur within the changing conditions of the marketplace can shed light on the problems and prospects for small business in the contemporary period.

This study of Region III provides a brief profile of the economic growth of the region within a national context. More importantly, it concentrates on the business revolution in the Middle Atlantic States, especially in and around Philadelphia and Baltimore, to illustrate the forces behind the development of business and the entrepreneur. An analysis of trends in small business and growth provides further discussion of the role of the entrepreneur. A presentation of data on what is happening to small business in the vital area of supplemental capital flows highlights a key area for policy considerations.

Briefly, what is demonstrated in this paper is that Region III served as the birthplace for the business revolution and provided the atmosphere for business growth and expansion. The characteristics so essential to successful entrepreneurship were blended to achieve tremendous economic growth. But business in general, especially Region III small business, in addition to following the vacillations of the business cycle, has also demonstrated a downward shift in the relative level of economic activity. Just as goods and services were exported from the region in the early period, skill and entrepreneurial technology have been drained in the more recent period. The region has seen a steady erosion of its economic base relative to the rest of the country. The concentrations of people, ideas, capital, and technology which distinguished this area in the early period and created centers of entrepreneurial initiative have been diminished, at least in a relative sense.

Entrepreneurial initiative is responsive to market forces. As evolutionary growth of additional regional economies has occurred, entrepreneurial, or small business, activity has flowed to alternative economic centers. The critical core of entrepreneurial activity has been threatened. Spin-off establishments have found greater certainty in returns in other geographic areas. Small business has responded to market forces.
A review of the statistics on the entry of new firms and of business failures shows little indication that trends are being halted or reversed. The life cycle of small business in the region has to a certain extent been hastened by supplemental capital flows. Investment capital, particularly that from public sources, has tended to support rather than counteract the relative downward shift of small business activity.

This study illustrates the essential nature of entrepreneurship in the success of small business by concentrating on the role of the entrepreneur in an historical context. Whether the economic climate in Region III will be such that it continues to support individual business initiatives is a question of vital concern to the business sector and to policymakers alike. Government agencies must become actively supportive of small business development. The history of small business in this region includes supportive government involvement. This support has taken the form of a political and legal environment conducive to entrepreneurial initiative as well as the more active support evidenced by the generation of public venture capital to stimulate small business development. At this point in history small business in Region III needs just such encouragement to revitalize an essential sector of the American economy.
SECTION II - A TECHNICAL DISCUSSION

THE LIFE CYCLE PATTERN
OF SMALL BUSINESS DEVELOPMENT

PROFILE OF GROWTH AND DEVELOPMENT, REGION III

Region III has traditionally been in the forefront of economic growth in the United States. This position has altered somewhat over the period under discussion but the region continues to play an important role in the country's economic activity.

Population -- In terms of total population the region has grown throughout the country's history but the region's share of total U. S. population has steadily declined. In 1790 the population of Region III was 1.56 million, representing forty percent of the nation's total. By the eve of the Civil War the region's total population had grown to almost 5.4 million but this was only thirteen percent of the nation's total. This trend has continued into the 1970s when the region's population surpassed 23.4 million but its share of the U. S. total dropped below twelve percent.
Personal Income—Personal income has grown remarkably from the late 19th century to the present. The region's total personal income as a percent of total U.S. personal income has not dropped off as rapidly as has population. In 1880 the region's personal income was $1.2 billion (14.5% of the nation's total personal income). By 1900 regional income had risen to $2.18 billion and was still 14.1% of the total. In the 1919-21 period regional income reached $9.4 billion and was still 13.6% of the nation's total. Annual personal income for Region III surpassed $25.8 billion for the 1949-51 period but this now represented under 12% of the total U.S. personal income. U.S. Department of Commerce data for 1976 indicate that regional income reached $156 billion, 11.3% of the U.S. total.

Regional/National Product—As is discussed in more detail later, Region III, especially Pennsylvania and Maryland spearheaded the business revolution in America. In the first half of the 19th century, Region III businesses contributed as much as forty percent of national output by value of product. In 1850 the region was generating $225 million from its mechanical and manufacturing industries—22% of the national total. By the end of the Civil War the regional value of product had surpassed $877 million, over 20% of the nation's total. At the turn of the century the region still accounted for 17% of the U.S. value of product; this was an output of almost $2.4 billion. Just prior to the Great Depression this region's output had risen to almost $10.1 billion or 14.7% of the national total.

Throughout the 19th and 20th centuries the region generated a diverse industrial base. According to Niemi prominent industrial groupings and their contribution to the nation's 1900 total value added figure were: leather goods (8.8%), food products (12.6%), apparel (13.0%), lumber and wood products (13.5%), paper goods (14.0%), instruments (15.0%), textiles (18.3%) and stone, clay and glass production (21.8%) (Niemi, 1974, pp. 14-15).

Employment—In Region III employment has, of course, grown in absolute numbers and maintained a strong share of the national total. When the first census data was assembled in 1850 212,546 gainful workers were employed in the region, representing 22.2% of the total number of workers.
in the U. S. By 1880 the region's total had jumped to 2.6 million, but only 14.8% of the national total. In 1900 the figures were 4.1 million and 14.1% just after World War I employment had risen to 5.6 million and this represented 13.8% of the national figure. As late as 1950 when 8.3 million workers made up the region's experienced labor force, they still accounted for 13.8% of the U. S. total. See Table 1.

Wages--Wages paid within the manufacturing sector of Region III indicate the relative well being of its work force. In 1869 total wages paid by the region's manufacturers exceeded $140.2 million, almost 20% of the nation's total. By 1889 wages rose to $274.4 million or 18.3% of the nation's total. In 1904 the figures were $426.7 million and 17.5%. At the end of World War I wages paid reached $1.6 billion which marked 16.9% of the total manufacturing wages paid in the U. S. In 1949 wages amounted to $4.2 billion and 13.9% of the total.

Business Establishments--Output and wages were being generated by a manufacturing sector which declined not only in the number of establishments relative to the national total but, more importantly, in absolute numbers. In 1869 there were over 42,000 establishments in Region III accounting for over one-fifth of the nation's total. By 1889 the absolute number had declined to 40,000 which was still about 20% of the national total. By 1904 the number of firms had dropped to about 39,000 or 18.6% of the total. The trend continued with less than 36,000 or 17.3% in 1919 and less than 27,000 or 14.6% in 1939. During World War II the number of establishments rose to about 31,000 but this was only 12.9% of the nation's total.

The total number of business concerns rose throughout much of the 20th century, although the past fifteen years have seen a decline in absolute numbers. The decline in manufacturing establishments in light of the increase in total business concerns demonstrates the rise of retail trade and service related businesses. Table 2 reveals that the number of Region III businesses has increased but that the region's share of total businesses in the country has declined in the years since 1900. In 1908 there were just under 212,000 businesses in Region III which represented nearly fifteen percent of the total in the country. By 1965 the 285,000 Region III business concerns accounted for just over eleven percent of
the U. S. total.

Region III has experienced continued economic growth from the post Revolutionary War era until the post World War II era. This growth has been, especially recently, overshadowed by economic advancement in other geographic regions. As is discussed later, this provides a particular problem for the small business sector.

ORIGINS OF THE BUSINESS REVOLUTION

The American Entrepreneurial Spirit-- The characteristics and unique qualities of small business have their roots in the development of business in the late 18th and early 19th centuries. This is a particularly appropriate starting point for a discussion of small business in Region III since along with portions of the northern Middle Atlantic and southern New England regions this area was the birthplace of business in America. What made Region III so fertile for the development of business? Part of the answer to that question also lends insight into the motivation of small businesspeople in the contemporary period.

Following the lead of Thomas C. Cochran, prominent business historian, one can describe the small businessperson, or "modal entrepreneur" and discuss the societal conditions so prominent in Region III in the earlier period which bore upon his activities (Cochran, 1965). The situation from which American entrepreneurship was born had European, or more specifically English, origins, but was distinct in important ways. The society of Region III, and to an almost equal extent of much of Colonial America, represented by the tolerance of Maryland and the openness of Pennsylvania, possessed a relatively horizontal social structure. There was mobility within the society and society itself was mobile. Prompted by this open, mobile, horizontal social structure, individuals were competitive and driven to achieve material success. Increasingly America encouraged these characteristics with its egalitarian laws and values. The motivation for individuals was the ever present vision of material achievement, or perceived opportunity. There was individual freedom in control of property and the legal system favored the active developer rather than the passive land owner. The factors meshed together to promote and encourage entrepreneurship. Ultimately the spirit and the opportunities became identified
as American free enterprise.

While other conditions are vital for economic development, the uniquely American entrepreneurial spirit was the motivating force in the growth of the American economy. Inherent within this growth was the ability of the American business leader to develop, promote, expand and adjust. American business leaders have been in the forefront in the adoption of machinery, refinement of management techniques and the acceptance of mass production. While the atmosphere was important in these developments, the character of the entrepreneur was essential. The society of the Middle States region instilled the idea that work was a duty and should be pursued vigorously. Work, especially in trade or manufacturing, carried no social stigma. In fact, the financial success associated with work could carry the young entrepreneur to the top of the American social ladder. As in New England, education received widespread support in the Middle States region. These factors promoted mercantile and commercial advances.

While the region under study was early to develop, geographic mobility continued. This tended to encourage self-help, the necessity to adapt to unique situations, innovation, and a willingness to relate to new people. These individual characteristics would prove useful to the entrepreneur. The social bases of enterprise were extremely important in promoting the rise of business.

In addition to the social bases of entrepreneurship and the business revolution, a number of other forces, some specific to Region III and some more national in scope, contributed to the business revolution.

Contributions of Agriculture-- While this study does not include the agricultural sector, one must not overlook the contribution of farming. It was not until agriculture was well into its revolution that the business sector could successfully "take off." The movement away from subsistence farming to production of agricultural commodities for sale created a number of essential preconditions to the business revolution. First, improvements in production freed workers who were essential to manufacturing endeavors. Not only was it no longer necessary for all members of the family to remain

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on the farm to allow the family to subsist, but it was not even necessary for all workers to remain in agriculture for the economy to exist. Furthermore, concentration on "for sale" agricultural production created new markets for manufactured goods. Diane Lindstrom points out that home production dropped from $3.10 per capita in 1810 to only $.66 per capita in 1840. This reliance on agricultural rather than nonagricultural production guaranteed food for city dwellers at low prices relative to family income. This allowed additional amounts of money to be used for alternative expenditures. (Lindstrom, 1978, p. 146)

**Government as an Active Participant**— In addition to the changes in agriculture which hastened the rise of business, the relative political stability and social cohesion of the late 18th and early 19th centuries further promoted economic change. And government, both state and federal, supported in principle and in reality the expansion of a business society. States encouraged private economic activity through subsidies to businesses as well as through the chartered business corporation. Government was an active participant rather than a passive observer in the creation of an environment supportive of business and in the stimulation of individual initiative.

**Abundant Labor and Natural Resources**— Coupled with the previously mentioned factors were a ready supply of labor and abundant natural resources. Immigrants who flowed into this country stimulated the expansion of the mercantile and manufacturing sectors. The natural resources of the land allowed this expansion to continue.

Thus with the agricultural sector providing the freedom for expanded business activity, a political and social environment conducive to business activity, and the abundance of labor and resources, the entrepreneur was in a position to provide the necessary impetus for business development.

**FERTILE BUSINESS ENVIRONMENT IN REGION III**

Perhaps at this point the business environment of Region III which distinguishes it from other regions needs exploration. Early economic and business development within Region III is really the story of the Philadelphia-Baltimore region. The "hinterlands," especially in
Pennsylvania took on importance in the latter stages of the region's economic development. But, in the early period, Philadelphia and Baltimore are of prime importance. And, their contribution in the early period has important implications for small business in the region during the contemporary period.

In 1800 when total U. S. population was almost 5.3 million, Philadelphia was the country's second largest city with just over 41,000 inhabitants and Baltimore was third with 26,500 inhabitants. By 1820, the U. S. total was up to 9.6 million while Philadelphians numbered 63,800 and Baltimore's population had risen to 62,700.

These cities were important not simply because of their size but because of the reasons for their size and the opportunities offered by an urban center. Significant rivalry between coastal seaports existed during this period. This competition stimulated economic development. State and local governments provided assistance in attracting capital and trade. The seaport was the center of business activity. The trade boom of the late 18th and early 19th centuries, occasioned by the need to provision the belligerents during the ongoing European wars not only generated trade, but prompted capital flows. This flow of capital combined with the available labor and natural resources and the all-important entrepreneurial ability to create the business revolution.

From this trade boom capital generated in the mercantile sphere became available for alternative entrepreneurial activities. Merchants such as the Browns of Baltimore and Girard of Philadelphia used their profits from trade to finance business expansion. American capital was becoming available.

For purposes of this study the supply of capital from mercantile activity is of central importance. It is not so much the origin of the money, but its use which is of interest in terms of the history of small business. Associated with the trade boom and the availability of capital was the origination of a myriad of auxiliary businesses. While all business activity during this period can be classified as "small business" it is these auxiliary or spin-off businesses which fit the spirit of this study.
The formation, and later the maintenance, of a pool of capital is essential for the promotion of small business activity. The Philadelphia-Baltimore area was one of two "hothouses" for entrepreneurial activity (the other being the New York--southern New England region). Within this region the concentration of population and the market for goods and services combined with capital, which now turned over at an increasing rate, to create a fertile atmosphere for business activity. Communication was good, allowing for improved entrepreneurial decisions based on sound market information. Knowledge of new technology became readily accessible through scientific associations such as the Franklin Institute in Philadelphia. Within this atmosphere patent applications were eight or nine times as high as for the rest of the nation (Pred, 1973). The business sector was expanding through a self-perpetuating process. A critical mass of people, ideas and capital had been reached within an atmosphere supportive of economic advances.

One of the classic cases of business growth in Region III is that of the village of Rockdale, just outside Philadelphia. Anthony C. Wallace graphically portrays the coming of age of the American business system in his book, Rockdale, which illuminates the contagious spirit of enterprise of this small mill town. He describes how men of foresight transformed this village into a thriving industrial center. There were hundreds of such industrial hamlets in the early stages of America's industrial revolution. These villages were brought to life by individual enterprise and know-how.

A brief look at the developing iron industry demonstrates the contribution of small business activity. It also illustrates the vitality of Region III within the American economy during the early period of industrialization.

The iron industry was geographically concentrated primarily because of the availability of raw materials (iron ore and coal). The Middle Atlantic States, consisting of New York and New Jersey as well as the Region III states, Pennsylvania, Delaware and Maryland, dominated in the production
of iron. In 1860 these states produced 736,869 of the 987,559 net tons of pig iron, or 74% of the total U. S. output. Pennsylvania was the leader. In this same year there were sixty-seven blast furnace establishments along the rivers of Eastern Pennsylvania. These firms employed nearly 5,000 men. The contribution to the American economy was enormous (Hogan, 1971, pp. 54-57).

Thus a variety of forces came together in this region in the early period of business development. Other factors came into play as the business revolution became truly national in scope. But the situation described above contains the ingredients for a viable and vibrant small business sector.

BUSINESS DEVELOPMENT—INNOVATIONS IN STRUCTURE AND PROCESSES

By the period just prior to the Civil War, most components necessary for full scale growth of American business were firmly in place. What remained to be developed was a national market to call forth the production and generate the income sufficient to propel the economy into the industrial age. The creation of a national market would not only provide for the evolution of the modern American corporation but it would provide the atmosphere in which small business would operate for the next century and a half.

Before the market could fully develop the economic infrastructure needed completion. Essential to the completion of this infrastructure were the improvements in transporation and communication necessary to create an integrated national market. Region III was again one of the first areas for the transportation and communications systems to be completed. From the building of the Lancaster (to Philadelphia) Pike in the 1790s to the canal boom in the 1820s and 1830s and on to the integration of railroad lines throughout the region with the expanded Pennsylvania Railroad in the post Civil War period as just one example, improvements in transportation helped launch Region III business activity into the modern age. An efficient transportation network allowed rapid movement of raw materials to the point of production and finished products to the point of sale.
The evolution of a telegraph network allowed for the transmission of market data across a large geographic area. Information on supply and demand, prices and techniques produced a truly national market.

As Alfred Chandler points out in his book, The Visible Hand, railroad corporations, and particularly the Pennsylvania Railroad, were the first modern, multi-unit business enterprises. Such enterprises internalized the diverse economic activities formerly performed by a myriad of individual firms. Such multi-unit enterprises replaced the small, traditional enterprise in those areas of economic activity where administrative coordination permitted improved productivity, economies of scale and higher profits.

Evolving from these modern corporations were improvements in managerial, administrative, and accounting techniques as well as innovations in production, distribution and marketing. Such a revolution in American business could only occur once the economic infrastructure was complete and a national market created.

But the birth of these multi-unit enterprises did not replace the traditional business enterprise. The same forces which prompted the growth of big business stimulated entrepreneurial activity within the traditional enterprise. Furthermore, innovations in business activity which Chandler attributes to the multi-unit enterprise proved remarkably successful for the small business enterprise. In many cases, techniques implemented within relatively small firms became the basis for advances within the evolving multi-unit business enterprise. One such example is Frederich W. Taylor and his experimentation with managerial modeling at Bethlehem Steel Company, then a relatively small producer.

The factors which created the opportunity for the rise of big business and its innovations in structure and processes also created new challenges and opportunities for small business. Hollander underscores this point:

The continuous interplay of market and technological changes creates opportunities for small business in the interstices of the mass production, mass distribution economy, even in the face of the well-known concentration of economic resources and economic power in the giant
corporations. This is not to imply that the dominant position of a few firms has no effect on small business, but to recognize that in a dynamic economy with the comparative freedom of entry in many sectors, the bigness of big business in some sectors is not incompatible with the persistence of small business in others. (Hollander, 1967, p. 3)

ROLE OF THE ENTREPRENEUR

During the 19th and early 20th centuries, and even more so in the 1970s, the entrepreneur played the crucial role in the origination and development of small business. The entrepreneur must function as the innovator, the manufacturer, the capitalist, the manager and the merchant. This combination of roles continues to characterize the small businessperson as distinct from the managerial capitalist of the multi-unit corporations whose responsibilities are more narrowly defined.

The small business leader occupies the essential role of decision-maker and organizer of economic activity with the context of the market. Decision making within the small business sector of the economy has been and continues to be decentralized. A multitude of individual entrepreneurs function with Adam Smith's "invisible hand" as the coordinating force within the market place. The marketplace is not only decentralized but it is also impersonal. The entrepreneur must take the risk and work to survive and prosper.
SECTION III - DATA...THE HISTORICAL BASE

SMALL BUSINESS AT THE CROSSROADS

Small business development within Region III has shown vitality throughout most of the period under consideration. This vitality has exhibited itself in the region's contribution to national product and the generation of income for its citizens. But, as has been discussed above, the number of manufacturing firms within the region dropped off in absolute and relative terms and the number of businesses in general have declined relative to U.S. totals throughout the late 19th and most of the 20th centuries. The absolute change can be attributed to a national pattern of business consolidation and mergers. What is significant to this study is the relative decline in business establishments within Region III.

The recent experience of the region has been one of moderating growth in the small business sector, at best, and in some instances a real or proportionate decline. The entry and exit of firms from the marketplace is one indication of the business activity within a region. Business failures, while creating difficulties for individuals, are nevertheless one indicator of the vitality of the small business sector. This aspect of the overall economy is particularly susceptible to market forces.
Although Region III has historically been a leader in small business activity there are signs of entropy. For example, in 1908 over 2,000 businesses failed in this region; that was over fifteen percent of all business failures in the country. In 1940 just under 1,400 firms failed; this was less than ten percent of the national total. By 1950 fewer than 800 firms failed and this was approximately eight percent of the total failures in the country. In 1960 the figures were slightly higher, 836 firms representing ten and one-half percent of the total. Table 2 provides these data for selected years of this century.

Looking at business failures using another measure, business failure rate (the number of failures per 10,000 listed enterprises), one finds that Region III is consistently under the national average. The following table summarizes business failure rates for selected years.

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>Region III</th>
</tr>
</thead>
<tbody>
<tr>
<td>1924</td>
<td>1</td>
<td>.76</td>
</tr>
<tr>
<td>1940</td>
<td>.63</td>
<td>.50</td>
</tr>
<tr>
<td>1950</td>
<td>.34</td>
<td>.24</td>
</tr>
<tr>
<td>1960</td>
<td>.57</td>
<td>.41</td>
</tr>
</tbody>
</table>

*Adapted from Table 2 and Historical Statistics of the United States, p. 912.
Entrepreneurial activity is subject to risk. The fluctuations of the marketplace dictate failure as well as success. When fewer individuals take the risk of beginning a business the level of overall economic activity is threatened. Region III has not seen a continuation of the high level of entrepreneurial activity which characterized this area in earlier periods.

The impact of business initiative on a region is demonstrated in Table B. With the exception of Virginia, Region III states have seen a dramatic negative change in manufacturing employment.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Delaware</td>
<td>31.2</td>
<td>-5.5</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>-19.3</td>
<td>-16.7</td>
</tr>
<tr>
<td>Maryland</td>
<td>.5</td>
<td>-13.7</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>-10.1</td>
<td>-12.7</td>
</tr>
<tr>
<td>Virginia</td>
<td>70.7</td>
<td>7.3</td>
</tr>
<tr>
<td>West Virginia</td>
<td>-4.2</td>
<td>-0.5</td>
</tr>
<tr>
<td>United States</td>
<td>25.2</td>
<td>-1.3</td>
</tr>
</tbody>
</table>

(Weinstein and Firestine, 1978, pp. 16-18)

Another point which is central to a discussion of small business is the availability of capital and the support of the public sector. The historical review indicated that individual initiative in the formative years of the American business revolution was supported by the government. Support took the form of an environment conducive to business growth and, just as importantly, the form of "seed money" or "venture capital." Such tangible demonstration of the public sector's support of private initiative is necessary today as much as it was a century and a half ago.

One vehicle for public support of small business is the Small Business Administration through its loan program. Table 3 reveals that S.B.A. loans to Region III businesses have not kept pace with the overall
support of small business in America. For example, in 1962 when Region III was generating eleven and one-half percent of the nation's income, small businesses in the region were receiving about ten percent of S.B.A. loans. In 1965 S.B.A. loans to Region III totaled slightly over $35.2 million but this was less than nine percent of total loans.

Government support of the private sector takes the form of more than just the generation of capital. It includes an environment which encourages private initiative. Table C below reveals that the New England and Middle Atlantic regions, including the states in Region III, do not receive an equitable share of federal spending relative to per capita taxes.

Table C

<table>
<thead>
<tr>
<th>Region</th>
<th>Ratio of Federal Spending to Federal Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>New England</td>
<td>.96</td>
</tr>
<tr>
<td>Middle Atlantic</td>
<td>.83</td>
</tr>
<tr>
<td>East North Central</td>
<td>.70</td>
</tr>
<tr>
<td>West North Central</td>
<td>.94</td>
</tr>
<tr>
<td>South Atlantic</td>
<td>1.12</td>
</tr>
<tr>
<td>East South Central</td>
<td>1.30</td>
</tr>
<tr>
<td>West South Central</td>
<td>1.09</td>
</tr>
<tr>
<td>Mountain</td>
<td>1.30</td>
</tr>
<tr>
<td>West</td>
<td>1.17</td>
</tr>
</tbody>
</table>

(Weinstein and Firestine, 1978, p.31)

Disproportionate spending to tax ratios highlight one contributing cause of the diminution of a stimulative business environment.

These data are presented to illustrate a regional economic decline, particularly within the small business sector. Earlier discussion stressed the importance of "centers of entrepreneurial activity" in the origins of the business revolution in the Middle Atlantic region. An evolving economy with changing technology continually generates new
opportunities for individual entrepreneurs to meet society's needs. But such entrepreneurial activity only takes place in an atmosphere conducive to risk-taking and individual initiative. Such activity needs the breeding ground of ideas and technologies. The environment must complement the individual business. Region III businesses historically have demonstrated what results when a fertile environment, individual initiative and a supportive political structure are combined. The necessity for renewed small business activity within Region III should be apparent. "One of the determining factors in the outlook for small business is the effectiveness of the government in maintaining an environment conducive to the mobility and profitability of small business..." (Hollander, 1967, p. 199).

Small business activity has been in the forefront of economic change in America. In order to provide for a continuation of this vital component of American economic activity, business leaders and government policy makers must together face the ultimate question: Can the entrepreneurial spirit which had its birth in this region be rekindled sufficiently to reverse the decline of small business? Once reversed, if history's lesson is accurate, the business environment will be self-perpetuating.
### Table 1

**REGION III EMPLOYMENT BY STATE**

**AND U. S. TOTAL EMPLOYMENT**

1900-1960

(employment shown in thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>DE</th>
<th>DC</th>
<th>MD</th>
<th>PA</th>
<th>VA</th>
<th>WV</th>
<th>III</th>
<th>USA</th>
<th>III USA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>73</td>
<td>127</td>
<td>459</td>
<td>2,449</td>
<td>662</td>
<td>326</td>
<td>4,095</td>
<td>29,073</td>
<td>14.1</td>
</tr>
<tr>
<td>1910</td>
<td>86</td>
<td>158</td>
<td>541</td>
<td>3,131</td>
<td>796</td>
<td>449</td>
<td>5,160</td>
<td>38,167</td>
<td>13.5</td>
</tr>
<tr>
<td>1920</td>
<td>91</td>
<td>236</td>
<td>604</td>
<td>3,426</td>
<td>834</td>
<td>491</td>
<td>5,682</td>
<td>41,614</td>
<td>13.6</td>
</tr>
<tr>
<td>1930</td>
<td>98</td>
<td>244</td>
<td>673</td>
<td>3,722</td>
<td>880</td>
<td>571</td>
<td>6,188</td>
<td>48,830</td>
<td>12.7</td>
</tr>
<tr>
<td>1940</td>
<td>103</td>
<td>309</td>
<td>691</td>
<td>3,230</td>
<td>933</td>
<td>519</td>
<td>5,785</td>
<td>45,166</td>
<td>12.8</td>
</tr>
<tr>
<td>1950</td>
<td>127</td>
<td>373</td>
<td>895</td>
<td>3,931</td>
<td>1,150</td>
<td>628</td>
<td>7,231</td>
<td>56,239</td>
<td>12.9</td>
</tr>
<tr>
<td>1960</td>
<td>163</td>
<td>352</td>
<td>1,134</td>
<td>4,127</td>
<td>1,341</td>
<td>538</td>
<td>7,655</td>
<td>64,639</td>
<td>11.8</td>
</tr>
</tbody>
</table>

Sources: 1900-1920, *14th Census of the United States*, p. 44.
### TABLE 2

**BUSINESS CONCERNS AND BUSINESS FAILURES FOR REGION III AND AS PERCENT OF U. S. TOTAL**

Selected Years
(concerns shown in thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>DE</th>
<th>DC</th>
<th>MD</th>
<th>PA</th>
<th>VA</th>
<th>WV</th>
<th>III</th>
<th>USA</th>
<th>III USA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1908</td>
<td>c 4.3</td>
<td>6.4</td>
<td>20.5</td>
<td>143.3</td>
<td>23.0</td>
<td>14.3</td>
<td>211.9</td>
<td>1425.0</td>
<td>14.9</td>
</tr>
<tr>
<td></td>
<td>f 24</td>
<td>58</td>
<td>266</td>
<td>1,601</td>
<td>311</td>
<td>150</td>
<td>2,410</td>
<td>15,690</td>
<td>15.4</td>
</tr>
<tr>
<td>1910</td>
<td>c 4.2</td>
<td>6.3</td>
<td>20.8</td>
<td>145.5</td>
<td>24.5</td>
<td>16.5</td>
<td>217.8</td>
<td>1515.0</td>
<td>14.4</td>
</tr>
<tr>
<td></td>
<td>f 21</td>
<td>46</td>
<td>216</td>
<td>1,268</td>
<td>296</td>
<td>110</td>
<td>1,957</td>
<td>12,652</td>
<td>15.5</td>
</tr>
<tr>
<td>1924</td>
<td>c 5.1</td>
<td>9.0</td>
<td>32.1</td>
<td>180.5</td>
<td>32.5</td>
<td>27.1</td>
<td>286.3</td>
<td>2047.3</td>
<td>14.0</td>
</tr>
<tr>
<td></td>
<td>f 60</td>
<td>115</td>
<td>271</td>
<td>1,120</td>
<td>379</td>
<td>242</td>
<td>2,187</td>
<td>20,615</td>
<td>10.6</td>
</tr>
<tr>
<td>1934</td>
<td>c 4.4</td>
<td>10.4</td>
<td>30.0</td>
<td>163.7</td>
<td>29.6</td>
<td>21.3</td>
<td>259.5</td>
<td>1973.9</td>
<td>13.1</td>
</tr>
<tr>
<td></td>
<td>f 7</td>
<td>70</td>
<td>182</td>
<td>680</td>
<td>153</td>
<td>140</td>
<td>1,232</td>
<td>12,185</td>
<td>10.1</td>
</tr>
<tr>
<td>1940</td>
<td>c 5.0</td>
<td>10.2</td>
<td>30.1</td>
<td>168.9</td>
<td>31.5</td>
<td>22.0</td>
<td>267.7</td>
<td>2156.5</td>
<td>12.4</td>
</tr>
<tr>
<td></td>
<td>f 17</td>
<td>22</td>
<td>114</td>
<td>930</td>
<td>200</td>
<td>59</td>
<td>1,342</td>
<td>13,619</td>
<td>9.9</td>
</tr>
<tr>
<td>1950</td>
<td>c 6.3</td>
<td>9.6</td>
<td>35.8</td>
<td>188.5</td>
<td>46.8</td>
<td>27.8</td>
<td>314.7</td>
<td>2686.8</td>
<td>11.7</td>
</tr>
<tr>
<td></td>
<td>f 3</td>
<td>18</td>
<td>152</td>
<td>420</td>
<td>97</td>
<td>51</td>
<td>714</td>
<td>9,162</td>
<td>8.1</td>
</tr>
<tr>
<td>1960</td>
<td>c 6.3</td>
<td>9.5</td>
<td>36.6</td>
<td>176.4</td>
<td>49.2</td>
<td>26.1</td>
<td>304.0</td>
<td>2707.5</td>
<td>11.2</td>
</tr>
<tr>
<td></td>
<td>f 18</td>
<td>30</td>
<td>160</td>
<td>802</td>
<td>143</td>
<td>85</td>
<td>1,238</td>
<td>15,445</td>
<td>8.0</td>
</tr>
<tr>
<td>1965</td>
<td>c 5.9</td>
<td>10.6</td>
<td>36.2</td>
<td>165.4</td>
<td>44.7</td>
<td>22.6</td>
<td>285.3</td>
<td>2527.4</td>
<td>11.3</td>
</tr>
<tr>
<td></td>
<td>f 6</td>
<td>14</td>
<td>218</td>
<td>594</td>
<td>119</td>
<td>105</td>
<td>1,056</td>
<td>13,514</td>
<td>7.8</td>
</tr>
</tbody>
</table>

C = number of concerns  F = number of failures

<table>
<thead>
<tr>
<th>Year</th>
<th>DE</th>
<th>DC</th>
<th>MD</th>
<th>PA</th>
<th>VA</th>
<th>WV</th>
<th>III</th>
<th>USA</th>
<th>III USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962</td>
<td>13</td>
<td>11</td>
<td>55</td>
<td>233</td>
<td>54</td>
<td>47</td>
<td>387</td>
<td>5,953</td>
<td>6.5%</td>
</tr>
<tr>
<td></td>
<td>555</td>
<td>636</td>
<td>3,462</td>
<td>17,838</td>
<td>6,527</td>
<td>3,581</td>
<td>32,599</td>
<td>316,021</td>
<td>10.3%</td>
</tr>
<tr>
<td>1963</td>
<td>15</td>
<td>18</td>
<td>49</td>
<td>206</td>
<td>38</td>
<td>39</td>
<td>365</td>
<td>4,975</td>
<td>7.3%</td>
</tr>
<tr>
<td></td>
<td>366</td>
<td>1,037</td>
<td>4,448</td>
<td>14,810</td>
<td>4,227</td>
<td>2,294</td>
<td>27,182</td>
<td>278,202</td>
<td>9.8%</td>
</tr>
<tr>
<td>1965</td>
<td>15</td>
<td>101</td>
<td>336</td>
<td>307</td>
<td>229</td>
<td>238</td>
<td>1,226</td>
<td>13,506</td>
<td>9.1%</td>
</tr>
<tr>
<td></td>
<td>399</td>
<td>1,883</td>
<td>6,626</td>
<td>8,187</td>
<td>7,094</td>
<td>11,116</td>
<td>35,275</td>
<td>408,900</td>
<td>8.6%</td>
</tr>
<tr>
<td>1967</td>
<td>25</td>
<td>47</td>
<td>229</td>
<td>410</td>
<td>282</td>
<td>165</td>
<td>1,158</td>
<td>9,518</td>
<td>12.2%</td>
</tr>
<tr>
<td></td>
<td>682</td>
<td>1,417</td>
<td>10,138</td>
<td>21,691</td>
<td>18,759</td>
<td>7,731</td>
<td>60,418</td>
<td>482,700</td>
<td>12.5%</td>
</tr>
<tr>
<td>1969</td>
<td>12</td>
<td>60</td>
<td>174</td>
<td>428</td>
<td>229</td>
<td>166</td>
<td>1,069</td>
<td>8,677</td>
<td>12.3%</td>
</tr>
<tr>
<td></td>
<td>188</td>
<td>2,125</td>
<td>7,066</td>
<td>21,286</td>
<td>14,250</td>
<td>10,133</td>
<td>54,672</td>
<td>515,000</td>
<td>10.6%</td>
</tr>
<tr>
<td>1977</td>
<td>25</td>
<td>102</td>
<td>517</td>
<td>607</td>
<td>340</td>
<td>262</td>
<td>1,828</td>
<td>31,793</td>
<td>5.7%</td>
</tr>
<tr>
<td></td>
<td>2,477</td>
<td>8,329</td>
<td>42,718</td>
<td>61,329</td>
<td>31,993</td>
<td>30,434</td>
<td>177,280</td>
<td>3,050,000</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

SECTION IV - BIBLIOGRAPHY


Cochran, Thomas C., "The Entrepreneur in Economic Change", Explorations in Economic History, volume 3, #1, Fall 1965.


