The Importance of Small Business in Urban Development and the Revitalization of Central Cities in Region VI

by

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Since over 90% of the businesses in the country are "small businesses" and since these companies generate approximately 50% of the economy's jobs, it is evident that what is good for small businesses is good for the economy, and vice versa. It is just as obvious that the health of our cities and of small businesses are closely related. Policies which promote the economic growth of a city are going to help indirectly most of the businesses of all sizes in that city. On the other hand, aiding small business to develop will certainly improve the general economic climate of a city's growth. Two approaches, therefore exist: 1) concentrate on aggregate city growth and let the improved position of small businesses be an indirect result; or 2) emphasize the promotion of small businesses with the end product a healthier, more attractive, and faster growing city. In some cases these two approaches are complementary; in others they are redundant. It is even possible that they are counter productive. The purpose of this study is to identify the policy courses that cities in Region VI have taken, to suggest policy that could be adopted, and to further suggest the best areas of participation on the part of the S.B.A.1

I. Concepts of Urban Growth and Development

In order to analyze the importance of small business to urban development, it is necessary to establish some fundamentals of urban growth.
If one were to write a handbook on urban growth for city policy-makers, the most obvious point to be made is that a city's ability to generate jobs and economic activity is primarily tied to enterprises which, although located in the city, produce for markets that lie outside the city. These firms make up a city's "economic base" and export to nearby regional, and national markets located beyond the city limits. The intermediate purchases of goods and services by these firms plus the consumer demand financed by the firms' payments of wages, rents, interest, and profits generate a great deal of economic activity and a large number of jobs. Every dollar's worth of income earned by an export base firm generates two to five more dollars' worth of and growth prospects for nonbasic income throughout the city. The general economic health and growth prospects of the nonbasic enterprises and the city as a whole are tied to the prosperity of the economic base firms.

In a town or small city, the economic base can be comprised of very small businesses serving a relatively small local market. The larger the city, however, the wider is its market area, and the larger will be the firms that make up its economic base. Small businesses are likely to be represented only in the nonbasic sector in large cities since the economic base firms are either large scale firms or branches of major companies. Take away small non-basic firms and the export base firms survive, but the former cannot survive without the latter.

All of which brings us to an essential consideration in the study of small business and urban growth and development. The importance of small businesses to a city's growth varies inversely with the size of the city. The growth of the larger firms generates small business growth. The economic development of a city, however, is much more
encompassing. While the economic base of larger cities is made up of large firms, the ratio of nonbasic to basic income tends to rise as a city grows. The overwhelmingly major portion of the nonbasic production occurs in small firms. Small firms may lose importance in a city's growth performance as the city grows, but these firms are crucial to a city's overall economic environment regardless of the size of the city. Therefore, policy directed at promoting small business will directly stimulate the growth of only relatively small cities whose economic base includes small businesses. That same policy, however, will have a positive impact on the hopes for the economy of cities of all sizes and will aid in their growth—albeit indirectly.

A similar assessment could be made of the significance of small businesses in the revitalization of central cities. The larger is the city, the less important are small businesses. In small cities, all of the businesses in the "downtown" area are small businesses. Their health fully determines the appearance of that city's only major retail center. As a city grows, though, the rise of alternative retail centers and the movement of residents away from the city's center reduces the relative stature of the downtown area as a retail center. At the same time, the downtown develops into a corporate headquarter center. Small shops are replaced by major office buildings. Speeding this turnover is the rise of land prices and rents which accompanies the population growth. It becomes increasingly difficult for small businesses to survive in the central city in the face of this climbing cost. Small businesses are still needed in a reduced capacity to serve the offices and their employees, but the well-being of the "central business district" (CBD) is primarily determined by the large firms and financial institutions headquartered there.
It can be said, however, that regardless of the size of a city or the nature of its downtown area, any policy that stimulates city growth and/or central city revitalization will benefit small businesses located there. A growing city offers profit opportunities for businesses of all sizes. Even a revitalization plan which emphasizes larger businesses will generate small business expansion. Helping small businesses in general or particularly in the downtown area is a considerably simpler task in a thriving city where the promotion of one group of businesses or location need not come at the expense of other groups or locations.

Central business districts throughout the country have suffered over the last twenty-five years from the flight of residents and economic activity out of the inner city to the suburban fringe. Firms and households have moved outward seeking cheaper land. As jobs and people have decentralized, so too have retail establishments. Much of the retail market is served by suburban trade centers, leaving the small retail establishments in the city center without a market.

Accelerating this decline of the downtown has been the rise of the suburban shopping mall. Suburban retail centers obviously hold advantages of proximity for the downtowns but the preferences of shoppers for the suburban malls goes far beyond travel time. Mall shopping is easier first and foremost because of free and easy parking. One of the downtown's biggest problems is the difficulty a shopper faces finding a parking space and the expense of paying for one. Second, traffic congestion is far less a problem at the suburban malls. The inconvenience of fighting traffic is enough to discourage downtown shoppers. Third, downtown shops have been slow to modernize and compare
very badly to the slick mall stores. Add to this the unattractive, decayed neighborhood surrounding the downtown area, and it is not difficult to see that downtown shopping can be quite unpleasant. One-stop and comparison shopping is also much easier and more enjoyable at the suburban malls where pedestrian and vehicular traffic are separated. A lengthier discussion of suburban malls versus downtown is unnecessary here. Suffice it to say that there exists a strong bias against the downtown area and against revitalization programs aimed at stimulating retail trade.

Once a city has grown in population and area size to the extent that suburban malls are economically feasible, the downtown can no longer expect to be the dominant retail center. The biases that favor the choice of the suburban mall as a place to shop will draw business away from the downtown. The attraction will grow as the city grows. With the proper efforts, the downtown can continue to be (or can be rejuvenated to serve as) the city's leading retail center. The larger the city, the greater the competition generated by suburban retail centers, and the greater must be the efforts to support the downtown. Those efforts may be beyond the financial capabilities of the city. If that is the case, city planners would be best advised to concentrate on making or keeping the downtown as the dominant service and cultural center with retail activity being only a secondary concern.

Programs can be enacted which attempt to duplicate the shopping conditions in the suburbs by turning a portion of the downtown area into a pedestrian mall with ample parking nearby. As long as land prices are decidedly higher and traffic more congested downtown, such malls will not compete well with suburban malls for retail activity.
If it were economical to locate malls downtown, the private sector probably would have done so already. Even if it is economical with a little public assistance, the downtown mall will still suffer from the locational disadvantages relative to the suburban malls. Therefore extensive programs designed to re-establish downtown dominance would probably be wastes of resources in cities with populations over 50,000. Less ambitious projects meant to maintain a downtown retail environment would be a better idea. This kind of program could very well emphasize the promotion of small businesses in the city center by improved parking and pedestrian conditions.

II. Urbanization in Region VI

Region VI is an area of sharp contrasts in terms of the degree of urbanization displayed by its states, as Table 1 indicates. Texas, in spite of its vast size, boasts a city system rivaling the Northeast in its number of cities and percent of urbanization. Twenty-two of Region VI's thirty-six SMSAs are located in Texas, and over 70% of Texas' population resides in these major cities. Texas exceeds the national average in all three measures of urbanization shown in the table. This makes the state one of our country's most urban, despite general opinion to the contrary. The cities of Texas are certainly more widely spaced than cities in the Northeast, but they are just as large and numerous.

On the other hand, the states of New Mexico and Arkansas show a relatively low level of urbanization with only 30% of each state's population living in SMSAs. New Mexico has only one SMSA—Albuquerque. While Arkansas has three SMSAs, Little Rock is the only city with a
<table>
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<th>STATE</th>
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<th>% IN URBAN AREAS</th>
<th>% IN CENTRAL CITY</th>
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population over 100,000. Its second largest city, Fort Smith, would be considered a "small town" by many. With only one half of its population living in urban areas, Arkansas is one of the most rural states in the country.

In between the extremes of Texas and Arkansas lie the moderately urbanized states of Louisiana and Oklahoma. Both states show a below average percent urbanized figure. That is not so surprising considering the agricultural nature of the states' economies. Oklahoma possesses two major cities in Oklahoma City and Tulsa, while Louisiana's urban figures are dominated by New Orleans. The other SMSAs in these two states are relatively small.

It must be understood from the outset that none of these states or cities can be characterized as industrial. Even the major metropolises of Dallas, Houston, and New Orleans are non-industrial, trade and service centers. The early urbanization that occurred in all these states revolved around agriculture production. Many of the small and intermediate sized cities in this region experienced their first surge of growth during the 1880 to 1930 period—close to fifty years after similar sized cities blossomed in the northeastern and north central states. The main force behind this early stage of growth was the cotton industry. Most of the cities in Texas, Louisiana, and Arkansas (and some of the cities in Oklahoma and New Mexico as well) were cotton trade centers with numerous cotton gins, compresses, storehouses, and cotton-seed mills.

Most of the growth impetus provided by the cotton industry ran its course by 1930. The majority of the cities in this region were relatively stagnant until close to 1960 when a surge in economic growth began
throughout the South. The source of this prosperity and increased urban activity was the sudden attraction that the Sun Belt held, and has continued to hold, over new firms, firms previously located in the North, or branches of major northern firms.

The timing of growth in most of the cities in this region is an important consideration. A high percentage of the cities in Region VI are new cities—i.e., cities whose most important period of growth has come during the automobile age rather than the railroad and streetcar era. New cities are quite different from the older northeastern cities; they are less densely populated and less downtown-oriented from their beginnings. Unlike the nineteenth-century eastern cities, southwestern cities never have had as great a concentration of manufacturing jobs in the central city. As a result, the flight from city centers which has left eastern downtowns barren and blighted, has not been as serious a problem in the cities of Region VI.

Although no city has been left unaffected by the postwar suburbanization movement, the cities of Region VI have felt the impact as little as any in the country. Since their primary growth came at or after the turn of the century, they were never very mononuclear to begin with. And since they have enjoyed such rapid growth during the postwar period, there has been a sufficient level of economic activity to support both suburbanization and relatively healthy city centers. City planners in this region have been fortunate; they have not had to face the problems of shrinking central cities and expanding suburbs. Both areas have been expanding rapidly in most cases, with a little bit of direction usually needed for the central cities.
III. The Big City Experience in Region VI

In Houston and Dallas, this region possesses two of the country's most prosperous and dynamic cities. Both, and particularly Houston, are experiencing exceptional rates of growth. It is commonly stated that Houston's population grows by 1,000 families a week. Economic opportunities at all levels abound in both cities, making the establishment of profit making small businesses a rather simple matter. Along with Albuquerque and Los Angles, these cities are among the best examples of large cities with low population density and vast area size. The freeway and the automobile rule intracity location decisions in both Dallas and Houston.

A small business in these cities deserves attention because so much emphasis is placed on large corporate growth that the small business person can be lost in the shuffle. This is especially the case in the downtown region. Both cities are architectural meccas with elaborate downtown building plans. These ambitious schemes concentrate on the construction of corporate headquarter and hotel skyscrapers. The height of the many glass towers is a manifestation and measure of the dearth of land in the city center. That expense is an enormous burden on small businesses, pushing them away from the center of the central business districts. But there is no reason to try to stop this rearrangement. Both cities have several major retail market centers, making it unnecessary to force the central city to be anything other than a center of equal importance.

A much more interesting story exists in Fort Worth. Not as vast as her sister cities, Fort Worth is, nevertheless, highly prosperous and growing rapidly. The city has drawn major industrial as well as
financial corporations to locate there. For example, American Airlines and AMF have moved to Fort Worth, joining Tandy Corporation; among others, as major national firms whose headquarters and plants are located in Fort Worth. It would be difficult to use the old handle of "Cowtown" seriously to describe this boomtown, even though its roots do go back to cattle and oil.

What sets Fort Worth apart from Dallas is that the former is an older city with downtown problems similar to those of eastern cities. How it has dealt with those problems is worth discussing. In the mid-1950's, concerned about Fort Worth's traffic congestion and faltering downtown growth, the city commissioned a master plan which became a national standard of revitalization. By 1970, the plan would rebuild the heart of Fort Worth into "a mile-square, traffic-free shopping and business oasis, rimmed by a depressed loop highway feeding shoppers' and commuters' cars into six perimeter garages..." Pedestrian malls and shoppers' plazas would dominate this area. This was the ultimate plan for revitalizing an old and decaying downtown. It would create an atmosphere similar to that of a suburban mall.

This was an ambitious plan, and necessarily so. As was outlined earlier, what must be done to remake the downtown of a city of Fort Worth's size into the dominant retail center is far too vast a project for most cities to afford. Voters refused to pay the public price. What occurred instead was Charles Tandy's adoption of parts of the plan; he built the eight-block Tandy Center, a complex of office buildings and a three-level galleria mall. The accompanying construction of neighboring public buildings has created a vital market area for small retail establishments downtown--vital but by no means dominant.
New Orleans's experience is basically an exception. The tourist trade of the French Quarter with its many small shops has kept downtown New Orleans alive. The city has taken several steps to encourage this development, but the city is blessed with a downtown advantage. San Antonio has taken a lead from New Orleans and artificially made a downtown attraction. By renovating over a mile of the banks of the small San Antonio River, the city has created its "Paseo del Rio." In doing so, San Antonio has made its downtown an attraction for both tourists and city residents. The river is lined with small business establishments catering to this tourist, entertainment trade.

Small businesses are very active participants in San Antonio's revitalization. Two major projects soon to be built are a two block mall and a hotel complex. The small shop owners can get a package of loans from the city, local banks, and the SBA. The city funds are directed toward physical storefront renovation while working capital comes from the SBA loans. In addition the Mexican American Unity Council is actively recruiting minority (and other) small business entrepreneurs to locate in the hotel complex. No one in San Antonio is foolish enough to believe that the downtown area can compete with the several suburban malls, but with the proper stimulation the downtown is fast becoming a showplace of coordinated policy to keep that area prosperous. San Antonio city government has also shown that it can support small business expansion throughout the city by favoring minority small businesses in its purchasing policies. Care must be taken to insure that these favors are distributed fairly, but making the city a small business customer greatly encourages young small businesses.

San Antonio has been a model for smaller cities to follow in
accentuating some downtown attraction, and we will discuss that below. A city's encouragement of small businesses and the city development that it generates is even better exemplified by Oklahoma City. Early in the 1950's, the city's Chamber of Commerce acquired a strategically located piece of property only three miles from the center of the city for the purpose of developing a modern industrial park. The purchase was arranged by a group of Chamber members subscribing to term notes to buy and develop the land. Financing for building and facilities was arranged through a local nonprofit trust. Numerous small to medium size firms took advantage of this package financing to build new plants or to expand existing ones. Several of those small firms have since grown into large regional-national enterprises which employ hundreds of people and which show sales revenues in the millions of dollars. Three have produced annual sales figures in excess of a billion dollars.

The Oklahoma City experience shows that a city can stimulate urban growth by encouraging small businesses if that encouragement is great enough eventually to lead to those businesses growing into export base firms. It is truly a hit and miss project, however, since by no means every firm will be so fortunate as to develop into a major export supplier.

IV. Small and Medium Size Cities in Region VI

In the smaller cities it is considerably easier to see the role small businesses have played in the recent past and to foresee their involvement in the future growth and development of the urban economies. Very manageable projects can be implemented to encourage small-time
entrepreneurs in order to stimulate growth and to maintain the vitality of the city center. There is much to be learned from the varied experiences of the cities in this region.

Beaumont provides an excellent example of what an intermediate size city can do to revitalize its downtown, primarily through the efforts of the private business sector. In 1971, a nonprofit development corporation was established comprised of over 100 businesses of all sizes. By 1973, they had developed a master plan which devised a $150 million program for central business district revitalization. A dramatic capital investment program began which led to a new city hall, new office buildings, transportation improvements, and major store front renewal. Most of the financing of this program came from conventional sources, and there was little difficulty for even the smallest firms in getting funds since it was such a concerted effort.

One result of this rebuilding was that the decline in downtown retail trade was halted, and a modest comeback was achieved. A condition of increased rentals has replaced a glut of retail space, and strong, viable businesses are pushing out marginal ones. Employment has doubled in the downtown area. The entire image of the downtown has been changed. An important point should be noted, however. While the increase in activity has been dramatic, the increase in retail trade has been only modest. Much of the earlier glut of retail space has given way to non-retail enterprises such as office and government buildings. No attempt was made to re-establish the downtown as the dominant retail center. The idea, and a successful one it was, was simply to stimulate activity through group planning. This is an example of concerted effort using the positive spillovers that are so often lost in individual actions. Many
small businesses have been able to share in the growth and revitalization that was generated.

A similar project put a new face on Denison, Texas' downtown. The Downtown Denison Association, another nonprofit private cooperative, was formed to counteract the decline that had occurred in the downtown after the opening of a suburban mall. From 1963-1968, Denison rebuilt a major strip of the central business district, turning it into a restricted-traffic, serpentine mall. Lots were purchased behind the stores that fronted on the mall, free parking was provided, and back entrances were built into the stores. Large buildings were also subdivided and turned into mini-malls. All of this was done without any federal funds, 90% coming from the storeowners themselves and 10% through donations from local citizens. Just as in Beaumont, the goal was simply to bring vitality back to the downtown. The goal was achieved through cooperative private effort aimed at making the small businesses in the downtown area a bit more competitive with those in the suburbs by eliminating some of the differences.

Another interesting example is the city of Waco, Texas, which tried to do exactly what Dennison did but failed miserably—at first. Five blocks of Waco's main avenue were closed to traffic, but by the mid 1970s, there were 42 vacant buildings in that area. All retail business had moved to the suburbs. Under new direction, the Chamber of Commerce has completely turned that situation around to the point that there are only eight vacancies left including the old vacated department store buildings. The key to Waco's turnaround was San Antonio's example. Waco, too, turned its river into a downtown focal point by building a small lake and park. Restaurants have sprouted along the shores and
new hotels have been located near this newly vital area. The SBA has been helpful; several of the small firms have acquired SBA loans. Other firms are "hoping to get an SBA loan so (they) can remodel." As a result of these efforts, Waco's downtown, although still a secondary retail center, has achieved a healthy appearance thought impossible just four or five years ago. Waco is a rapidly expanding city enjoying multi-nuclear growth. Through the efforts of a private association, some of the growth has been channeled downtown.

Other growing cities have not had such downtown success, but neither have they tried to do what cities such as Waco, Denison, Beaumont, Corpus Christi, Austin, Lake Charles, and Little Rock have done. Lubbock, Texas is a fast growing city thriving on agricultural activity and expanding light industry. Much of this growth has been manifested in the thriving environment for small business but not in the downtown area. Most retail business has moved to the suburbs, leaving the downtown off center both geographically and economically. The downtown of Amarillo, Texas has suffered a similar fate. Suburban malls drew business from the central business district in the 1950s and 1960s. Downtown revitalization has been limited to new bank buildings and a few local retailers who never moved out. The CBD of Amarillo will never again be the major retail center it once was; it is now only a minor retail center serving the personnel working downtown.

What is apparent about small and medium size cities in this region is that they are almost all experiencing healthy, and in many cases robust, growth. The source of that growth is the immigration of new export base firms into the region. Unemployment rates are remarkably low—as low as or lower than 3%—in such varied cities as Tulsa, Fort Smith,
Lubbock, and Albuquerque. Region VI is a city planner's paradise since it is considerably easier to plan for a growing city than for a stagnant one. It is also relatively easy to direct economic growth toward the downtown area in a city whose market is steadily expanding. And in all cases, even if they have not been the primary source of growth, small businesses have performed an integral role—a role that has been encouraged by the private sector and the SBA.

V. The Role of the SBA in Urban Growth and Development

From the many experiences, varied though they may be, of the cities in Region VI, one can see that the SBA has greatly contributed to the establishment of small businesses and, therefore, to urban growth. In a few cases SBA policy has also been an important aid to downtown renewal plans. Unfortunately, in many other cases, the efforts of the local SBA office have not shown results commensurate with the time and resources expended. It is to that problem that we now turn.

It is apparent from a consensus of comments from business people throughout the region that the SBA could be doing a better job of stimulating growth with improvements in staffing and operating procedures. The SBA is one of too many sources of voluminous paperwork for small business managers. The loan application process weakens the SBA's finest program by requiring such a lengthy and involved procedure that businesses complain of being broke by the time that the loan is finally approved. It is clear that in order for the SBA to have a more positive impact as a source of funds and information, it must get out of the paper shuffling business and into expediting their lending function. The creativity for economic growth exists
in the entrepreneurs; they simply need financing that is easily obtainable and cheap. Another often repeated complaint concerns the SBA's apparent penchant for seminars which for the most part are viewed as a poor use of resources. It is said that there is an excess of "pie in the sky" advice and a shortage of "down to earth" consultative services.

These shortcomings do affect the SBA's ability to promote growth and development through small businesses, but they are not completely germane to this study. Of greater interest is how the SBA can be a force which catalyzes successful programs such as were exemplified by the cities of Oklahoma City, Waco, Beaumont, and others. Correctly directed efforts by the SBA can determine whether a city experiences growth that is well-balanced sectorally and geographically. In the pursuit of this goal, an institution exists in every city that can be the vehicle for promoting this kind of growth—the local chamber of commerce. Although the quality of personnel varies from one extreme to another in the many chambers throughout this region, it is clear that many chambers have done a great deal to stimulate and direct small business growth. Several chambers maintain an active Small Business Council which helps sponsor business and professional meetings about accounting, financing, and marketing procedures, and labor and transportation problems encountered by small businesses. In many cases there is positive cooperation between the chamber and SBA offices, but in all too many cases the two offices are ignorant of each other's activities. This is a terrible waste of resources through duplication.

In addition to the chamber of commerce, several cities in the region have a nonprofit private development corporation directing small business
expansion in the city as a whole but especially in the downtown area. The cities whose success stories were reported earlier had a common trait, direction from the private sector. SBA programs are often redundant or conflicting with these associations. In order to save resources, the SBA should work through these cooperatives when at all possible. In fact, one of the goals of the SBA could be to help establish such associations or to encourage the chamber of commerce to perform a similar role. The SBA would be well advised to support rather than supplant the private sector in this case.

Given the few shortcomings of the SBA and the areas that have been generally praised, the following is a suggested course of operation for local SBA offices that will best help city growth and central city revitalization:

1) Identify the city's export base industries and their factor requirements. Encourage the development of businesses that supply the exporters in order to increase the city's export base multiplier. Encourage the development of business with external markets in order to increase the export base.

2) Establish through the Chamber of Commerce, or otherwise, an independent private development corporation that will generate and direct a large portion of the funds necessary to finance a downtown revitalization program.

3) Work with city planners as advisers on the special needs of small businesses in terms of transportation and parking improvements that will facilitate downtown facelifting.

4) Be an efficient source of capital for small businesses participating in group efforts.

In general, the SBA should act as a catalyst for private endeavors when at all possible. Properly directed liaison actions between the private and public sector could produce substantial economic results. The importance of the SBA is great, and it can have its most positive impact by concentrating its efforts.
## TABLE 2

### MAJOR CITIES IN REGION VI

#### SMSAs OF OVER 1,000,000 POPULATION
- Dallas
- Houston
- New Orleans

#### SMSAs OF OVER 500,000 POPULATION
- Fort Worth
- San Antonio
- Oklahoma City

#### SMSAs OF OVER 100,000 POPULATION
- Abilene
- Amarillo
- Galveston
- Waco
- Lawton
- Little Rock
- Lake Charles
- Austin
- Corpus Christi
- Lubbock
- Wichita Falls
- Albuquerque
- Baton Rouge
- Monroe
- Beaumont/Port Arthur
- El Paso
- Texarkana
- Tulsa
- Fort Smith
- Lafayette
- Shreveport

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If growth is not among the goals of a city's planners, the second approach is desirable since improving the standards of living in and the appearance of the city are likely goals even of no growth planning.