THE REGIONAL ENVIRONMENT FOR SMALL BUSINESS AND ENTREPRENEURSHIP

REGION VII

Prepared for the
Office of Economic Research
U.S. Small Business Administration
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EXISTING SOURCES OF SMALL BUSINESS INFORMATION AND FUTURE RESOURCE NEEDS: ENTREPRENEURSHIP AND SMALL BUSINESS INFORMATION BANK . . . . . . . . . . . . . 321
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The small business man or woman in Region VII is in trouble today--plagued by capital shortages, energy shortages, unreasonably high product liability insurance premiums, inadequate or expensive transportation facilities, rising double-digit inflation, excessive taxation and the ever-increasing burden of government regulations and paperwork. These external (environmental) conditions or forces crush the enterprising spirit on which new, small businesses in the region (and in the nation at large) are founded, and seriously threaten the survival of existing small firms.

This volume is a compilation of 14 studies undertaken during the past year by various researchers who have explored these and other issues of critical importance to small businesses in the region. In preparing this summary of the authors' conclusions and government policy recommendations, the editors have divided the papers into four groups or sections, as follows: The Economic Environment; The Legislative and Legal Environment; Resources: Opportunities and Limitations; and Government Aid and Other Sources of Assistance.

The Economic Environment

A long range view of small business and entrepreneurship should include consideration of its past and current role in the region's economy and its probable status under changing economic conditions. Thus, David M. Ambrose's "Economic History of Small Business in the Region" and Clifford M. Baumback's "Economic Profile of Small Business in the Region" comprise the lead-off papers in this volume. Related papers include "The Importance of Small Business in the Rural Development of the Region," by Roger F. Riefler and Charles Lamphere, and "An Analysis of the Outmigration of Retail Sales From Rural Areas in the Region," by Kenneth E. Stone. Inevitably, there was some redundancy in results and conclusions, and for this reason the conclusions listed below are not attributed to one or the other of the authors. Where calculations varied, the difference--attributable to the use of different data sources and time frames--are not substantive.

Results and Conclusions

Region VII is undergoing a social and economic transition as a consequence of economic growth. Fewer people are employed in farming and more in nonfarm occupations.

Both wholesale trade and retail trade in the region are intimately related to agriculture. The importance of agriculture in the region's wholesaling sector is evidenced by the relatively large number of merchant wholesalers who distribute farm equipment and supplies; petroleum bulk stations which service farmers' demand for gas and oil; commodity brokers; and assemblers, buyers and associations engaged in the cooperative marketing of farm products.
The importance of agriculture in the region's retailing sector is evidenced by the relatively heavy concentration of lumber, building materials, hardware and farm equipment dealers, and of feed, seed and fertilizer stores in the region.

In other types of retailing, however, where selection is a prime factor in buying, rural towns have been losing retail trade to the larger cities and metropolitan areas. Rural areas experience their greatest "leakage" of trade in general merchandise, apparel, jewelry, home furnishings and other types of "shopping goods."

Many of the region's service trades (such as the grinding and mixing of feed and the repair of farm equipment) and manufacturing establishments (such as meat packing plants and those engaged in the production of farm equipment, fertilizer, insecticides and pharmaceuticals) are also tied to the region's agricultural "base."

Approximately 59 percent of the business establishments in Region VII employ fewer than 5 workers; 90 percent employ fewer than 20 workers; and 98 percent, fewer than 100. The proportionate number of businesses in each of these size categories, furthermore, is greater in the region than in the nation as a whole.

Though individually, business establishments in the region are of relatively small size, collectively they account for a significant portion of total private-sector nonagricultural employment and income in the region. Establishments with fewer than 100 workers, for example, employ more than 52 percent of the region's labor force and generate about 61 percent of the sales income in the private, nonagricultural sector of the economy. Here, also, the percentage distributions are higher in the region than in the nation at large.

Younger and smaller business enterprises, however, have a high failure rate, with the probability of survival in the region improving as a business firm grows older and larger. The mortality rate among smaller and younger business establishments, however, is higher in the region than in the nation as a whole.

The average age of business establishments is higher in all states of Region VII in all size categories than in the nation as a whole. This may be explained, as noted above, by the region's higher mortality rate among the smaller and younger establishments. It may also suggest that perhaps the rate of new business formation is not as high in the region as in the nation at large; no reliable data are currently available, however, to determine this.

Though newer (younger and smaller) firms are less likely to survive in the region, those that do survive are likely to grow rapidly until they reach maturity.

Retail establishments are more prone to fail than any other type of business, in any geographic area. Between 1969 and 1972, for example, retailers accounted for more than 52 percent of the total number of
establishments that went out of business in the region; a similarly high proportion of retail business failures also occurred in the nation at large.

Poor management is the cause of most business failures, and smaller firms are less likely to have adequate management talent. Poor management was cited as the underlying cause in more than 90 percent of the business fatalities recorded by Dun & Bradstreet in 1977.

The relative importance of small business in the region's economy has remained remarkably stable over the years, reflecting the interdependence of all business, large and small, and suggesting that as the region's economy grows, so also on balance will the small business sector of the economy expand.

GOVERNMENT POLICY RECOMMENDATIONS

The authors of the four papers in this section all commented on the lack of an adequate data base for the analysis of the region's economic environment, and particularly of the role of "small" business in the economy. Statistics on the number of business firms in the economy, it was generally noted, must be used with caution, for no government process records all firms, nor do the various governmental agencies define a "business firm" in the same way. Thus, David L. Birch's estimate of 3,706,763 business firms in the U.S. in 1976 (used by Baumberg in his study) is considerably less than the 1975 estimate of 10,640,800 business firms by the Small Business Administration (SBA), which based its estimate on income tax data reported by the Internal Revenue Service (IRS). The disparity in these estimates is largely accounted for by the fact that IRS data include all persons with specified minimums of self-employment income during the taxable year, and thus include farmers and professional men and women, as well as business owners, and those who are in business for themselves only on a part-time basis; the IRS total of businesses may also be overstated for the reason that some businesses file more than one tax return, and some file tax returns but may not have any income at all, because the business is dormant.

Estimates based on data published by the Social Security Administration in County Business Patterns (used in the Ambrose and Rieffler/Lamphere studies), on the other hand, are understated because business firms with no employees are not reported at all (and these "Mom 'n Pop" establishments comprise a significantly large proportion of the total number of business enterprises), and are overstated because a firm with three branch manufacturing or sales outlets located in three different counties, for example, is counted three times (once in each county).

The usefulness of the latter data source is further lessened because, starting in 1974, OASDI statistics are reported on an "establishment" basis, replacing the "reporting unit" basis used in prior years. The effect of this change is to limit seriously the use of this data base in time-series analysis. In any case, data tabulated in terms of "establishments" or "reporting units" are inconsistent with the
recommended definition of a business "firm" as described below. Another often-used data source—the various publications of the U.S. Bureau of the Census—was not used by the authors of the papers in the economic environment section of this volume because census reports are published only periodically and at irregular intervals, 1972 being the latest year for which such data were available at the time this research was undertaken.

The lack of statistics of the small business population based on a consistent criterion or definition over a period of years poses a serious problem for those engaged in small business research; when a statistician or economist has a variety of figures to choose from, differences in conclusions are inevitable.

This problem can and should be resolved by the SBA. It has already been empowered by Congress as the ultimate authority in defining what is meant by a "small" business. There are three facets to this definitional problem: (1) defining what is meant by a business "firm" or "enterprise"; (2) defining the "market" or types of enterprises to be served; and (3) specifying the maximum employment level of enterprises of this type. The first three of the recommendations enumerated below are addressed to these aspects of the problem:

The SBA should limit its financial, management, technical and other "aid" programs to owner-managed manufacturing firms employing fewer than 100 workers, and firms in other industries employing fewer than 50 workers.

As noted in the authors' "Conclusions," about 98 percent of all nonfarm businesses in the United States and in Region VII employ fewer than 100 workers. Applying SBA's current size standards, the proportion of firms eligible to participate in the agency's various aid programs approaches 100 percent and the term "small business" seems somewhat of a misnomer. By reducing the maximum employment size of manufacturers to "under 100," the proportion of eligible manufacturing firms is reduced to a more manageable 90 percent. By reducing the maximum employment size of all other nonfarm industries to "under 50," the proportion of eligible firms also approaches an estimated 90 percent. And by thus reducing the number of firms qualifying for government aid, SBA's limited resources become more readily available to those enterprises who most need government assistance and who can profit most from it. Again, as noted in the above conclusions, the smaller the firm the greater its risk of failure.

The SBA should define a business "firm" as a business organization "under one management." Thus a business enterprise with one or more branch plants, or with one or more branch sales or service outlets, would be counted as a single firm.

The SBA should define a "business" so as to exclude farms and professional services and part-time enterprises whose other sources of income exceed 50 percent of their total income, as well as self-employed persons who have neither one or more employees nor an established place of business. The latter qualification is necessary to eliminate
from the small business universe the large number of "invisible" businesses—people who work out of their homes, such as seamstresses or carpenters who moonlight.

Adoption of this recommendation would seem to be merely a matter of administrative action, except for the fact that Congress has placed responsibility on the SBA for administering the farm disaster loan program, and more recently required the SBA to extend its regular business loan program to include farmers and ranchers, so as to make them eligible for SBA's Economic Opportunity Loan program. These lending activities properly should be the responsibility of the Department of Agriculture, not the SBA. Thus, adoption of this recommendation would require that Congress rescind its actions embracing farmers and ranchers within the scope of SBA's responsibilities.

The first three of the recommendations listed above can be implemented by SBA merely by selectively tapping existing data banks (except for some restrictions protecting the confidentiality of IRS data). This may only be a matter for administrative action, but if not accomplished, then it is further recommended that Congress enact legislation empowering and requiring the SBA to compile statistics on the small business population and granting it access to the data banks of other government agencies or departments.

Remaining policy recommendations relate to SBA's "management assistance" program, which many feel should be improved and upgraded. These recommendations are offered in light of the authors' conclusion that poor management is the cause of most small business failures, and in view of SBA's "track record" of putting too much money and effort into its loan program instead of teaching small business men and women how to succeed.

All business firms (as defined above) should be brought within the scope of the Small Business Institute (SBI) program, regardless of whether or not they are in the SBA loan portfolio.

Initially, in getting the SBI program started, only those firms which were at least 60 days delinquent in their loan payments and were owned by socially and economically disadvantaged persons were recruited for student management-counseling assistance. By definition this group has been outside the business mainstream, weak in management capabilities. Since then, the program has been expanded to include other small companies which have received SBA financial assistance. It bears mention, here, that the SBA is prohibited by law from extending financial assistance to firms that can obtain this assistance from private banking sources on "reasonable" terms; thus it is the more risky business enterprises that need to seek government financial assistance. Under current SBA operating rules, the less risky, more viable, more successful small businesses with a greater probability of survival or growth are not entitled to government-supported management counseling assistance. This governmental policy, it is felt, is short-sighted and fundamentally wrong.
The SBI student counseling program should be augmented by a student small business intern program—or alternatively, the SBA should fund a pilot study to determine the feasibility of such a program. The essence of this proposal is that the federal government (SBA) pay a percentage of the salary cost of student "assistants" hired by a small business for a specified period (one semester, or perhaps an academic year) up to a certain ceiling. Participating students would be senior-level or graduate students who have had or who are currently matriculating in an approved university or college course in small business management.

It is of interest to note that last year Canada committed $5.4 million in support of a program under which the government pays 50 percent of the first year's salary of a university or college graduate hired by a small business (up to a specified maximum). The difference between this program and the authors' proposal is the objective of creating permanent jobs with Canadian firms.

Many European countries, it is observed, have similar programs under which a portion of a small business' cost of hiring a professional consultant are reimbursed.

It should also be noted that in a small business intern program, the student essentially maintains his or her role as a student, the small business owner-manager assuming the role of a teacher. This is in contrast with the SBI program, in which these roles are reversed, often to the consternation or resentment of the small business owner.

The SBA should rely more heavily than it currently does on a continuing education program as a form of management assistance. In developing a management assistance program, government-supported or otherwise, an important goal or objective is to assist small business owner-managers to help themselves. Management assistance, based largely on different forms of management education and training, will be of increasing importance in the decades ahead for the viability and success of small business enterprises. In contrast with the counseling form of management assistance, which is remedial in nature, education and training is a preventive form of aid. The direct, private or one-on-one counseling approach requires a considerable outlay of time and money. Much more effective is the missionary method of education.

The authors' sentiments, or philosophy of small business management assistance, is best summed or expressed by the following quotation (source unknown): "If you give a man a fish, you feed him for one day. Teach that man how to fish, and you feed him for a lifetime."

Realistically, small business owners cannot maintain themselves indefinitely on counseling assistance. To have a long-range and important impact, management assistance must be viewed as an education and training method. This is particularly important in a world of rapid change.

Participation in small business continuing education program, whether cosponsored by SBA or not, should be encouraged by a system
of tax credits awarded on the basis of the number of CEUs (Continuing Education Units) earned during the taxable year. Another operating rule of an effective management assistance program is to create a desire on the part of small business owner-managers for self-improvement. Small business proprietors are something of an enigma. Their business ventures are extremely risky, yet with various opportunities available to reduce risk, they often fail to take advantage of them.

A study of adult education, night school and correspondence courses probably would reveal that it is employees who are taking regular courses under the pressure of advancement and demands by employers. Employees will study a particular subject in depth, such as salesmanship and accounting, because they want "to get ahead." Unfortunately, many small business proprietors (unlike many of their employees) display a limited perception of the value of education as a means of personal achievement and success, an attitude which tends to reduce their motivation to learn.

Technological and social change and the increasing pressures of a more enlightened competition will cause a relatively larger proportion of the small business population to avail themselves of opportunities to improve managerial competence in order to increase their probability of success. But far too many will still have not overcome their resistance to change, their reluctance to accept management training and assistance. The bulk of them will need to be motivated in more direct, more immediate and more concrete or tangible ways.

As a practical matter, it is believed that this motivation can be generated quickly and effectively by using the nation's taxing system. Tax credits have long been used to provide incentives for the achievement of desired economic and social goals, such as greater capital investment, employment of the handicapped or economically disadvantaged, and home insulation to encourage energy conservation. The granting of tax credits to owner-managers of enterprises qualifying as "small" businesses, who complete successfully approved seminars or short courses in various aspects of small business management, should (it is felt) be an integral part of any government-inspired management assistance program.

The amount of tax credit would vary with the number of "continuing education units" (CEUs) earned during the taxable year. The CEU is a unit of measurement being used throughout the United States by educational institutions to record participation in noncredit (nondegree) education programs. One CEU is awarded for each "ten hours of participation in an organized continuing education experience under responsible sponsorship, capable direction and qualified instruction."

Thus there already exists, among the nation's colleges and universities, a built-in administrative structure for a program of this kind. The only costs would be direct costs, in the form of tax credits to the small business participants; CEU certificates could be attached to income tax returns, serving the same function as the W-2.
THE LEGISLATIVE AND LEGAL ENVIRONMENT

Business in the United States operates in a broader social context than the economic environment described in the first section of this volume. Another equally important aspect of the environment is "government." In response to social evils highlighted by the muckrakers at the turn of the century, the federal government began developing an elaborate fabric of legislation with regulation as the "woof" and taxes as the "warp." The Great Depression further stimulated development of restrictive legislation ranging from legalization of labor unions (and strikes) through fairness of prices. The Depression also pressured state political bodies into serious action, in many cases for the first time. During this period, branch banking restrictions were imposed in all four Region VII states, as were "fair trade" laws. A major goal of these state laws was protection of local business from abuse by "big business" which shouldered heavy blame for the economic depression. State efforts in Region VII to protect "local" business necessarily meant protection of small business since most local business is small business.

The Federal Government began to recognize the special nature and needs of small business after World War II; this recognition eventually led to legislation forming the Small Business Administration (SBA) in 1953. Formation of the SBA was proactive legislation designed to assist small business. Yet, the legislative mood of the 1960s overshadowed small business. The spotlight fell on consumers and 15 consumer protection laws were passed between 1966 and 1968. Add to that major impacts from such thrusts as antidiscrimination and occupational safety, and it is understandable why small business feels overwhelmed by government in the 70s.

This brief history merely provides perspective on the length of time over which government has been actively involved in shaping business activities. It is not a recent phenomenon and only the elders among us today can remember the relatively "free enterprise system" which existed prior to the Depression. And few among us, critics and proponents, have the willingness to perceive the disadvantages along with the advantages of that system. Nostalgia, although not rational, is a normal human trait.

FEDERAL REGULATIONS

And, so it is no surprise to read in Judith Johnson Kirchhoff’s survey in her paper "Attitudes of Small Business Managers Toward Federal Regulations and the Business/Federal Government Relationship," that small business managers yearn for less government. Yet, she takes a closer look and surprises us by noting that intensity of their feeling has increased above that ever recorded. Nostalgia fails to adequately explain this increase in animosity towards government.

Johnson Kirchhoff’s research pays careful attention to the question of validity by using a broad based mail survey in Nebraska to validate part of her results from a telephone survey in the remaining three states. Even when allowing for the lower level of feeling expressed in
telephone interviews, her survey still reveals a higher level of ani-
mosity towards government at all levels. She examines two aspects of
business manager attitudes towards government: (1) impact of federal
regulations, and (2) relationships with federal bureaucracies.

The impact of federal regulations, she finds, has been unequiv-
locally negative in complexity of regulations, irregularities of enforce-
ment and mass of paperwork required. The majority also feel that
information disclosure requirements, OSHA regulations and minimum
wage laws have negative impact. But there is an identifiable minority
who hold an opposite view on these latter three points.

Small businesses' relationships with the federal bureaucracy are
also negative, but, she notes, this is at least partially due to small
businesses' lack of knowledge about regulations and bureaucracy. By
tracing the available information sources, Johnson Kirchhoff identifies
the imponderable difficulty the typical business manager faces when
trying to gain information. In 1978, the Code of Federal Regualtions
(CFR), the primary source of information, was over 60,000 pages long!
The CFR obviously shows no potential for bridging the knowledge gap.

Policy recommendations flow directly from survey results. The
federal government should reduce the number and complexity of regula-
tions. OSHA especially should do more, perhaps emulating techniques
used by the Law Enforcement Assistance Administration. And state
governments should institute some form of legislative veto over their
bureaucrats' tendency for more regulations. Finally, governments
should consider consolidating data collection efforts, for most business
managers prefer this risk of privacy to duplication of data reporting
now required.

TAXATION

All that government regulation small business managers detest is
financially supported by an equally despised tax system. In their
survey of Region VII Chambers of Commerce, "Impact of Tax Laws on
Small Business in Region VII," David Hinton and John Kerrigan
confirm the expected animosity towards taxes. But their results also
identify business attitudes towards state and local taxes separately from
federal taxes.

State and local government tax systems, they found, are perceived
as more conducive to small business operations. Some variance is found
from state to state within Region VII, but when asked which level of
government most needs tax revisions, the unanimous choice is the
Federal Government. On the other hand, respondents see Federal
Government as least likely to change.

The survey inquired more specifically about state and local taxes,
and most respondents focused on state taxes. Inventory taxes are the
major complaint about state tax systems. Yet, many respondents felt
that reduction or elimination of state taxes for the first several years of
operation of a new business would provide meaningful incentive to small
business growth and development.
Hinton and Kerrigan recommend that state governments examine their tax systems for possible revisions to encourage small business. This is especially true for Kansas and Nebraska wherein the survey revealed the most dissatisfaction.

**STATE AND LOCAL POLICIES**

Government's influence upon small business is not restricted to taxes and regulations. Government tentacles stretch throughout the small business environment as a maze of legislative actions, many directly designed to do so and others only inadvertently so. Nonetheless, a group of students from the Law School at the University of Iowa submitted "A Review of State and Local Policies on Small Business in the Region." They canvassed legislative records of the four states and identified five major areas of impact: (1) capital financing; (2) trade regulation; (3) corporate income tax structure; (4) crimes against small business; and (5) product liability.

**Financing**

Within the subject of capital financing the authors separate the problems of equity financing from debt acquisition. Federal and state laws strictly control the issuance and sale of equity in the form of stock. The costs of registering stock issues for public offering at the federal and state level are prohibitively high, virtually barring small business from this source of funding. Private stock offerings are less expensive but still require substantial legal assistance and are less attractive to investors. These negative aspects of equity markets make debt financing the main source for small business.

The discussion of debt financing focuses upon the SBA loan assistance program noting that, rather than the lender of last resort, SBA is the common lending source. This, the authors say, allows businesses with good credit ratings to deplete SBA funds leaving little for the truly needy borrower. They recommend more stringent application of SBA loan policy.

**Trade Regulation**

The Federal Government is not the sole regulator of trade. All four Region VII states have laws prohibiting restraint of trade or antitrust activities. Some of these are relatively new laws enacted when the states became dissatisfied with enforcement of federal laws. The small business manager faces problems of uneven enforcement because of limited state resources and ambiguities about what kinds of behavior are prohibited. Small businesses are likely targets for legal action since they are local and visible. And they are easy prey for politically ambitious prosecutors.

The authors stop short of condemning states for this spurt of antitrust activity, but they caution the states to avoid pressuring small business. Johnson Kirchhoff's recommendation for establishing legislative veto power over such bureaucratic activity is a strong possibility for avoiding small business decimation by ambitious bureaucrats.
Corporate Income Tax

All four states in Region VII impose income tax on corporate earnings. All except Missouri have a graduated income tax. Inflation has driven many small businesses into the higher tax rates even where real earnings have not grown. Also, a higher placement within state tax rates can cause lower profitability for the local business than for competitive businesses located elsewhere. Finally, the authors suggest that since the progressivity of tax is relatively narrow, small business pays as large a tax on earnings as big business.

The authors recommend indexing tax rates to inflation in order to lessen the impact of inflation on corporate earnings. Such indexing has been adopted in Arizona and discussed in Iowa although not with reference to corporate income tax. To counter the nonuniformity of tax rates among states they note that Kansas, Nebraska and Missouri have adopted tax equalization formulas. They recommend that Iowa do the same. Finally, they recommend increasing the progressive tax rate structure to coincide with the widely accepted philosophy of progressive tax rates.

In light of Hinton and Kerrigan's findings of animosity towards tax systems, this latter recommendation seems impossible. However, increased progressivity can be achieved by reducing tax rates in lower income brackets without raising rates in higher income brackets. This action will be totally negated, however, unless tax rates are indexed to inflation.

Business Crime

Shoplifting, employee theft, bad checks and credit card fraud are common small business problems. Unfortunately, state laws lack necessary provisions to encourage enforcement and penalties stiff enough to discourage offenders.

There are successful programs operating in other states to deal with these problems and the authors' recommendations derive from these. First, they suggest focusing crime detection and apprehension on middlemen for stolen property. Disrupting the distribution network for stolen goods and thereby reducing the thief's incentive is a second recommendation. Third, state laws can be modified to make prosecution easier, and fourth, maintenance of accurate and reliable crime statistics is essential.

Product Liability

Legal actions on product liability cases have been erratic and unpredictable. Society clearly expects manufacturers to be liable for dangerous product flaws, but the tort system has failed to clarify upper limits of liability so insurance costs have skyrocketed. The tort system is slow in resolving cases, erratic in its judgments and awards and expensive for both parties.
The authors suggest that the states look at workmen's compensation systems for a guide to solve the inadequacy of the tort system. By establishing a schedule of standard consumer compensation for various "injuries," the speed and uniformity of compensation would be improved while expenses of litigation would be greatly reduced. The authors note, however, that the interstate character of such liability requires federal legislation to develop or enable development of such consumer compensation systems in the states.

OVERVIEW

In examining the recommendations offered by the authors of these three papers, one must be careful not to initiate a rash of corrective legislation. Small business managers do perceive governments as antagonists and they prefer less government, not more. Efforts to meet the needs of small business through new legislation or additional regulation will be rebuffed. And yet, small business has need for more government assistance in tax relief, business crime reduction and product liability. How can this apparent contradiction ever take place? Perhaps by organizing small business into political activism not only to impact on government but also to become more knowledgeable about government. Johnson Kirchhoff notes that farmers had little political clout until the federal government passed legislation designed to organize them into a combined political force. Is there a "small business grange" in our future?

RESOURCES: OPPORTUNITIES AND LIMITATIONS

A third aspect of small business environment is resources. By this, the focus is not upon Region VII's natural resources such as water or fertile soil. In a complex economic environment, natural resources are less important determinants of small business growth and development than the resources contrived by man. Money, as capital for machines, inventory or just as payment for bills, is a vital resource to develop and maintain a business. People with a spirit of innovation are essential ingredients to growth and improvement of business and society. Energy, of course, to run machines and light the offices is a basic resource. Transportation to carry the products from the factory and to the consumer is another essential resource.

These four resources, capital, innovation, energy and transportation are in varying degrees under the control of humans rather than gifts of nature. Since they can be manipulated, they are worthy of attention to determine how they can be improved to benefit small business.

Three of the four resources are closely entwined with federal, state and local government. Energy and transportation are subject to complex, rigorous regulation. Capital is the pawn in the greater game of economics played through federal fiscal and monetary policy. Thus the previous section on government has already directed attention to some aspects of these three resources. The fourth, innovation, is not subject to direct manipulation. However, the environment can be adjusted so as to encourage or discourage innovative behavior.
A necessary ingredient to every business, capital enters a business either as equity or debt. Carl Schweser points out in "Cost and Availability of Credit and Venture Capital in Region VII" that small business has been more dependent upon debt than large business, especially upon bank credit. In fact, most businesses he contacted reported that bank borrowing was their only source of long term funds. He explains this bank debt dependence by small business' lack of access to public and private placement markets for debt or equity. Reasons for the lack of access are high costs of federal registration of a public offering of new shares of stock or bonds, low price to earnings ratios in today's stock market and the reluctance of institutional fund managers to loan money to risky small business ventures.

Another source of equity funds are Small Business Investment Corporations (SBICs). There are only five active SBICs in Region VII, a small number compared to Eastern and Western States. He recommends that the SBI more actively promote SBIC formation in this region.

Retained earnings, he notes, is a third source of equity. But these are after tax earnings and small corporations' effective income tax rate is 39.5 percent, while large corporations pay only 21.5 percent. Small proprietorships may pay even more depending upon their personal tax bracket.

Thus, bank borrowing stands out as the primary source of capital for Region VII small business. Pursuing this, Schweser sent a mail survey to 200 bankers in Region VII requesting information about loans to small business. In fact, most business loans are to small business; 78 percent of the responding banks indicate none of their loans are to businesses with over 500 employees.

Tight credit effects have been felt by 86 percent of the banks; they are either restricting credit or soon plan to. They also feel that restrictions will hurt small new businesses most. Banks also indicate that state usury laws have affected their restriction of credit to proprietorships. The problem is most acute in Missouri, and least mentioned in Kansas. But banks in all but Kansas expect usury laws will soon be major sources of lending problems.

SBA guaranteed loans are issued by 86 percent of the responding banks. Half of these actively pursue such loans and most banks felt their interactions with the SBA were favorable. But few banks have pursued the secondary market for resale of the guaranteed portion of these loans.

Schweser's recommendations are relatively general and reflect the frustration of dealing with regional results of federal fiscal and monetary policy and regulation. Repeal of state usury laws will help expand credit conditions. But, as noted in the University of Iowa law School paper, major federal changes are necessary to open equity markets to small business.
INNOVATION

The innovative entrepreneur, as Robert Brockhaus notes in "The Role of Small Business in Research and Development, Technical Change and Innovation in the Region," is often cited as the American dream of the selfmade man. Entrepreneurs such as Robert Fulton, Eli Whitney and the Wright Brothers are as much a part of American history as Abraham Lincoln and Teddy Roosevelt. Today, however, technology is very complex and innovation largely emerges from highly educated individuals often stimulated by actions of others in their field.

Brockhaus combines library research with interviews of business managers and government officials to develop a picture of technological innovation in Region VII. He finds the region has few high technology industries, i.e., those operating on the thresholds of scientific development. Most small businesses operate with medium or low technology, e.g., electronic equipment and farm equipment, respectively. The vast majority of these are located near the major cities.

He finds a shockingly low level of business manager knowledge concerning technical assistance programs available to them. He lists the major programs business managers should know about and recommends that the National Science Foundation establish regional offices to educate managers. The states should also exert more effort to educate technology oriented entrepreneurs (TOEs).

TOEs, he notes, tend to emerge from existing firms in technology industries. Thus, an electronics firm might spawn several small electronics businesses from among its former employees or its suppliers' employees. Efforts to attract TOEs with research parks or other gestures will be (and have been) fruitless unless the core industry is already located there.

On the other hand, state and local governments should be alert to the TOEs emerging from existing industry, especially those with "home roots" in the area. Such people can and should be identified and assisted.

Nationally, federal government and private business funding for research and development has declined during the last ten years. Increased government taxes and regulation of technical innovation products partially explains the decline in private business funding. Decline in space research and defense research explains the decline in federal spending.

Since it is unlikely that consumer product safety attitudes are going to change, Brockhaus urges tax policy be changed to directly stimulate innovation. Such incentives should be broad based and not restricted to specific industries or types of products. He suggests increased depreciation allowances for special plant and equipment used in research and development, early write-off of costs for externally acquired patents or knowhow; or even allowing 120 percent of actual research and development costs as a deduction from income.
Brockhaus also notes the special problems TOEs have in raising capital. These problems are especially acute in Region VII where an agriculturally oriented banking system has difficulty accurately assessing the special needs of high technology industry. There are, as noted by Schweser, SBICs in the region, several of which have successfully funded many manufacturing firms. But more funding is necessary if TOEs are to emerge and grow.

Finally, he praises Kansas' program for using university engineering students to assist TOEs. The University of Missouri at Rolla and Iowa State University also provide technical assistance. Nonetheless, as Brockhaus noted earlier, knowledge about these and other assistance programs is not widespread but should be. He finds too much apathy among government officials towards the special needs of TOEs.

ENERGY

Whereas other resources discussed in this part have been concerns of small business for a long time, energy is a relative newcomer. Once a widely available, cheap natural resource, energy has become a critical political and social issue. But to what extent does it impact on business? Not surprisingly, the newness of energy shortages is accompanied by a lack of useful information to answer obvious questions. Energy intensity/dependency of various businesses simply was not important when energy was a surplus resource.

James Joy and William Dinkelacker make an ambitious attempt in "Measuring the Energy Vulnerability of Small Manufacturing Businesses" to define energy intensities of small business and relate these to historical growth to determine the importance of energy intensity/dependency. As with so many research efforts reported herein, data availability is a major constraint. Joy and Dinkelacker focus upon manufacturing businesses because of their complex and vital energy dependence but are unable to obtain any useful data for the years after the energy crisis begins. Only one Census of Manufactures has been conducted since 1973 and it still is not published.

Nonetheless, the authors use input-output analysis combined with energy cost estimates to compute the cost of coal, natural gas and oil necessary to produce a dollar's worth of output for each of 280 industries. The more cents of energy per dollar of output an industry requires, the more energy intensive it is.

Joy and Dinkelacker then use these industrial energy intensities to determine if industry growth in the nation or region is influenced positively or negatively by energy intensity. Data availability limit this and their other tests to the 1963-1972 period, but their results show no relationship. Similarly, they tested the importance of energy intensity upon small manufacturers using the percent change in number of small manufacturers and the percent change in value added by small manufacturers both nationally and in Region VII. No relationship was found here either.
Joy and Dinkelacker feel the research must be updated with 1977 data in order to identify the underlying impact of energy since energy prices were not important factors during the 1963-1972 period. Yet, they overlook a very real price decline in energy during 1963-1972. For, as prices of other factors of production increased over these ten years, energy prices remained constant or even declined. Given that these relative price declines could have stimulated energy intensive industries, absence of correlation in their tests reinforces their logical analysis. They argue that energy is such a small part of total costs that its price changes will not provide much incentive (price decreases) or disincentive (price increase) to business. In other words, energy price is not a significant factor in determining growth of small or large manufacturing firms nationally or in Region VII.

Obviously, their recommendation for further testing is vital. But more important is their recommendation that government avoid any energy allocation schemes offered under the guise of helping small manufacturers. Since energy requirements are very complex, allocating energy from big firms to small firms could cause industrial strangulation, something akin to the confusion of gasoline allocations in the summer of 1979. Small manufacturers, their analysis says, can cope with even massive energy price increases, but allocation systems might terminate their existence.

TRANSPORTATION

Ever since the pioneers first wound their way west along the Santa Fe and Oregon Trail, Region VII has been a transportation hub. Even today, transportation is critical for the smooth collection, distribution and exportation of the region's major product, food. But, strangely, small business in Region VII functions on a totally different transportation base; it uses trucks, not trains or barges. It is almost as if the railroads serve agriculture and trucks serve small business. But, as noted by Riefler and Lamphear, service to small business in rural Region VII is also service to agriculture.

Sufi Nazem examines the problems of small business managers by surveying them with a mail questionnaire. This, he finds, is required because transportation data are neither collected nor published in suitable form for Region VII analysis. His survey "Transportation and Small Business" reveals information on type of transportation used, adequacy and cost of service and attitudes towards deregulation.

The vast majority, 110 of 128 respondents, use trucks as their primary transportation method. This does not vary by business size or type. And these truck users find the service generally adequate. There is, however, greater satisfaction expressed by manufacturers than retailer/wholesalers and other service businesses. The reasons for this difference are not clear but it may be that manufacturers, as shippers, experience less delay and annoyance from service failures than do retailers who, as recipients, directly experience delays and must file claims for damaged shipments.
As to cost of service, 53 percent of the respondents believe costs are proper for services rendered but 30 percent felt they are not. Retailers and wholesalers are the most dissatisfied type of businesses. This may be because they must add freight costs to customer prices, while manufacturers typically do not include freight in their prices.

Responses to questions about deregulation of trucking show a lack of concern about the subject by more than a quarter of the small businesses. Those that express opinions differ depending upon whether or not they rely upon regulated trucks. Thirty-seven of the 52 respondents (71%) believe regulation is necessary. But, of the 28 who currently use unregulated trucks, 16 (57%) believe deregulation is desirable. Thus, no agreement about deregulation emerges from the survey.

Next, Nazem examines the patterns of small shipments by trucks nationally to shed light on characteristics of the services evaluated in his survey. Evidence indicates that numbers of small shipments are increasing and so is their average size. On the supply side, trucking firms are becoming more and more reluctant to handle small shipments because costs of handling exceed revenues generated. Deregulation offers potential for reduced costs through reduction of interlining (transfer from one carrier to another) presently required because of regulations on routes. Paperwork should also be reduced contributing to cost savings.

Nazem sees a need for more and better regional data on small shipments so small business' transportation needs can be more clearly identified. The SBA should begin to educate small business managers about trucking deregulation and seek their input into this major question.

OVERVIEW

Not surprisingly, the policy recommendations emerging from these four studies are similar to the previous three: no more government legislation or regulation is desired. Reduction in regulation of capital markets, i.e., eliminate usury laws, and reduce regulation of trucking are recommended. Potential addition of regulation/allocation of energy strikes fear in the heart of the energy analysts. Brockhaus recommends additional government action, and then publication of present assistance programs, not adding more.

In some ways, these analysts seem to be saying that Region VII is not abundantly endowed with resources for growth of small business. Yet none are extremely scarce; and small businesses have overcome greater obstacles to survive. The Region VII business environment is not hostile; small business growth is slower here simply because of population decline, a result of decline in farm population. Brockhaus notes that entrepreneurs begin businesses where they live or want to live. Thus, to encourage business growth, one must encourage people to live in Region VII.
GOVERNMENT AID AND OTHER SOURCES OF ASSISTANCE

As noted elsewhere in this overview, a new, positive approach to the problems of growing business power was taken in 1953 with the passage of the Small Business Act which, among other things, set up a new department of government—the Small Business Administration. The purpose of this act is to slow down the growing concentration of business power, not by dissolving the giant firms, but by aiding the smaller ones.

The most often sought form of government aid to small business is SBA's financial assistance program, noted in a preceding section. Equally familiar but less commonly appreciated, and perhaps the most helpful form of aid, is SBA's management assistance program, noted in the first section.

This section presents an overview of government aid for certain special-interest groups, such as minorities and women and those small businesses engaged in or contemplating export trade. Also included is a summary of existing sources of small business information and one writer's proposal for making this information more readily available to small business owner/managers.

GOVERNMENT AID FOR WOMEN AND MINORITIES

Gerald Rose and Arthur Brief, in "The Status of and Opportunities for Minorities, Women, Aged, and Other Special Interest Groups in Small Business" have noted the increase in the number of women entrepreneurs in recent years—abetted in part, at least, by President Carter's appointment of an Interagency Committee on Women's Business Enterprise, with an executive director and staff support provided by the Small Business Administration. Conceivably this development may help to reduce or eliminate the double-wage standard—at least for the better qualified women.

Also noted by Rose and Brief is the increase in the number of minority entrepreneurs, who have looked upon self-employment as desirable for quite a different reason—as one of the ways of bringing themselves into the economic mainstream of American life. The development and growth of minority-owned businesses was abetted by the establishment in 1969, within the Department of Commerce, of the Office of Minority Business Enterprise.

Conclusions

In their evaluation of the status and future prospects for minorities and women in small business in Region VII, Rose and Brief arrived at the following conclusions.

Both minority group members and females are substantially underrepresented among owners of business firms, in both the region and the nation at large, based on their proportions in the population of these areas. However, both minorities and females fare worse in Region VII than in the nation as a whole.
Women-owned businesses have received proportionately greater numbers and amounts of SBA loans in Region VII than in the nation, and SBA's Region VII has devoted proportionately more of its resources to women-owned firms than has been true in the nation at large.

The major obstacles to minority ownership in the region (as in the nation) remain the lack of business experience, and the lack of capital and necessary contacts with financing institutions.

The short-run opportunities for the improved status of minority ownership in the region are dismal due to the lack of sufficient efforts to overcome the aforementioned obstacles.

Recommendations

No specific recommendations or new approaches toward overcoming these obstacles to minority business enterprise, or toward improvement of the status of women in entrepreneurial business activity, were offered by the authors. Increased allocations of funds for these purposes, however, were strongly advocated.

GOVERNMENT ASSISTANCE IN EXPORT TRADE

"One way to aid small business is to expand the market for its products and services to the rest of the world," says Barbara Fisher in "The Status and Opportunities for Small Business and Foreign Trade." "Increasing small business exports," she continues, "will make positive contributions to some of our most important economic problems by (1) decreasing unemployment, (2) strengthening and stabilizing the dollar, (3) decreasing imported inflation, and (4) revitalizing the entrepreneurial spirit." Fisher evaluates the current status of export trade in Region VII, and suggests how export trade in the region (as well as in the nation) can be effectively increased by certain changes in government policy.

Current Status of Foreign Trade In The Region

Export trade in the four states of Region VII has grown tremendously since the mid-1960s. The industry and product categories which account for the greatest portions of the region's exports and export growth are summarized by Fisher. Manufacturing exports increased by an average of 442 percent in the 1966-1976 decade. Agricultural exports matched manufacturing exports during this decade with a growth rate of 439 percent. The nonfarm (manufactured) product groups with the greatest export growth in this decade were rubber and plastic products, 853 percent; petroleum and coal products, 750 percent; leather and leather products, 700 percent; instruments (for measuring, analyzing, controlling), 683 percent; and transportation equipment, 609 percent. Exports of feed grains, soybeans, protein meal and meat all grew between 550 and 600 percent during the 1966-1976 decade. Although the four states in Region VII are often considered primarily agricultural states, manufactured goods accounted for close to half (46%) of the total value of the region's exports in 1976. Iowa and Missouri, in that order, are in the top half of the states in exports of both agricultural and manufactured goods.
Based on a survey of exporters in the region, and on her experiences in her family-owned export management firm, Fisher makes 55 recommendations for improving the potential for export trade in the region. Among these are proposals for organizational change, redefinition of duties and staff recruitment and training, and conflict-of-interest regulations within the Bureau of International Commerce. Enumerated and discussed below are only those recommendations for major policy changes requiring executive or legislative action.

The federal government should establish a pool of funds to support small, new-to-market companies who want to attend trade shows. Companies who participate in international trade shows are aware of the difference in financial support other nations give their company participants. Some governments pay for all expenses of their participating companies (equipment, transportation, travel/living expenses of sales representatives and show participation fees) plus an incentive paid directly to the company. U.S. companies, in contrast, must pay all their costs except the return freight on unsold equipment. Most small businesses in this country find these costs too high to allow them to participate in these shows, and are envious (if not resentful) of the export sales encouragement given to their foreign competitors by their governments.

A cooperative marketing program should be created for manufacturers and service industries similar to the agricultural commodities promotion programs established through PL480.

Industry associations and state development organizations should be able to establish nonprofit international market development subsidiaries with matching funds from the Department of Commerce. In emulation of the highly successful efforts in behalf of agricultural exporters, these subsidiaries would use these funds to establish offices in various countries to supply marketing assistance to small companies.

The approach to establishing normal trading relationships with other countries should be reversed. Instead of granting trade as a special favor (that is, Most Favored Nation status), trade should be assumed and only denied after serious consideration.

Since MFN status actually represents normal trading relations, perhaps it should be renamed and granted automatically as part of normalized diplomatic relations. This would force the emphasis to be placed on denial of any aspects and the reasons for them. In reversing this approach, normal trading relations will automatically have top priority, and advocates of other foreign policy objectives, such as the Human Rights Policy, will need to present a strong case to justify revocation of trade relations.

Hinderances to trade must be considered extreme measures with long term effects. Reversing the debate from "why trade?" to "why not trade?" will help give it the proper priority.
The developing country designation procedure should be reviewed to see if the concept of preferential access to the U.S. market is valid, and if the list should be revised more frequently to adjust for progress in the economies of these countries.

The entire idea of encouraging other countries to sell in the U.S. market while U.S. manufacturers are prohibited from selling in their markets is difficult for U.S. exporters to understand. This is especially true for companies who find that the U.S. market is dominated by products from a developing country to which they are not allowed to sell.

The Arab boycott legislations should be replaced by an addition to the Multinational Trade Negotiations (MTN) trading rules prohibiting any company from signing a third-party boycott agreement. Third-party boycotts should be handled by all nations working together. As long as a country trying to enforce a third-party boycott can obtain goods and services from countries which allow the signing of such agreements, those countries--and their companies--will get the sales.

Forcing a company to take sides in a dispute between two sovereign nations is repulsive to the U.S. philosophy, as it should be to its major trading partners.

The Foreign Corrupt Practices Act should be replaced with an addition to the MTN trading rules. The same problem exists with the Foreign Corrupt Practices Act as with the Arab-boycott legislation. The act does not define closely enough such terms as "favors" which are and are not legal to give to an employee who is a foreign national. The United States is the only nation which penalizes its business men and women by imposing its rules of business conduct on the customs of other countries.

In many countries the officials are expected to accept "favors" for expediting paperwork, etc. Their salaries, like those of waiters and waitresses in this country, assume additional income from the "customers." It is as absurd for the U.S. to penalize its citizens for following the local customs as it would be for Belgium to penalize its business people for leaving tips in U.S. restaurants. (In Belgium, a service charge is automatically included in the food bill and it is considered an insult to leave a tip.)

The United States should negotiate internationally accepted definitions as to what constitutes undue influence on a business associate or government official and enforce common standards.

The lending authorization of the Export/Import Bank (Exim) should not be classified as a current expenditure in the Congressional budget. One of the key problems holding down the Exim Bank support levels is the way Congress accounts for it in the budget. The total amount of Exim lending authorization is considered a cash outlay, just as money appropriated for welfare payments. Since Exim is self-supporting on its loans, this is completely inaccurate. Exim should be able to retain its receipts for the year as loanable funds for the next year, rather than
returning all of its receipts to the Treasury. Many of the Bank's activities involve loan guarantees which become liabilities only when the principal is unable to repay the loan. A formula should be developed to estimate the actual cash outlay for grant funds, administrative expenses, and an allowance for bad debts; this is the amount which should be charged to the budget.

Exim Bank loan authorizations should be raised to a level comparable to that of major trading partners. It is amazing to realize that the largest trading country in the world provides credit lines roughly equal to those of the Italian government. Exim credit support needs to be brought in line with that of the rest of the world and then encourage U.S. businesses to use credit availability as a sales tool to increase exports.

The philosophy behind an export tax incentive should be to offset the additional expenses of international market development. The approach of some exporters in the region toward export tax incentives is that some equalization is necessary for the additional expenses inherent in international marketing. Their thinking is that, ideally, a company deciding whether to expand its sales to a new area of the U.S. or to a new country, should make the choice based on the real demand for the product in both markets. The net costs, including taxes, should be equal.

On a pretax basis, the international market is inherently more complex and expensive. Some of the costs, such as more highly trained personnel, cannot be recovered in higher product prices. Other costs, like transportation, are simply added to the product price and recovered from the customer. All of these unique expenses make international marketing more expensive by nature.

Also, market potentials are more difficult to project than are costs; hence, if there is a significant cost difference, the company is likely to make the decision on expense alone. If it will cost $30,000 more to open a foreign market without any assurance of greater sales, the company will probably stay home. In order to force the decision into a marketing analysis, the government needs to provide a tax break to equalize the after-tax expenses.

At this level, a tax incentive is not an export subsidy as defined in the Multinational Trade Agreement. Its presence has no distortive effect on either the U.S. or foreign market. It will not affect the price of the product in either market, but may affect whether a product is offered in the foreign market. The foreign consumers will have a more equal voice in attracting products to their area if some of the market development barriers are equalized.

An export tax credit similar in structure to the investment tax credit should be considered as an alternative form of tax incentive. Such a tax might be structured in one of two ways. One suggestion is a tax credit on new export sales. This would eliminate one of the objections against DISC, which is that the companies who really benefited from DISC were those who had significant export sales before the
law went into effect. This would provide an incentive only to increases
in export sales. The large multinational companies already heavily
involved in foreign trade would not receive the same benefits as new or
rapidly expanding exporters.

A second suggestion is a two-tiered system—a tax credit of, say,
1 percent on all export sales, plus an additional credit of, say, 15
percent on new export sales. This would provide some compensation
for companies who are currently exporting, and discourage them from
"taking a bath" in their export sales one year so they could claim a
tremendous increase the next year. At the same time, it would provide
an extra incentive for new export sales.

Both of these suggestions assume that some of the basic provisions
of the investment tax credit, such as seven-year tax credit carry
forward, would be the same for export tax credit.

The taxation of expatriate income should be changed to coincide
with standard international practice. The Foreign Earned Income Act of
1978 made the United States the only country in the world which taxes
the incomes of persons living abroad as if they were at home. Since
the U.S. is currently one of the least expensive places to live, the
additional tax burden makes it impossible for U.S. companies to utilize
Americans in key positions.

PRINTED AND AUDIO-VISUAL SOURCES OF BUSINESS INFORMATION

Failures in the operation of a small business, as noted also by Ron
Christy in "Existing Sources of Small Business Information and Future
Resource Needs: Entrepreneurship and Small Business Information
Bank" are most often the consequence of poor management, which in
turn is often caused by lack of relevant, timely business information.

There are two types of business information that the owner/
manager of a small business can use to improve his managerial "track
record." They are (1) technical, legal and statistical information upon
which management decisions may be based, such as industry sales
figures and the various federal and state government census reports;
and (2) "how to" or instructional information to assist the business
owner in the efficient performance of various management functions such
as plant or store layout, employee relations, advertising layout and
sales promotion techniques, etc.

Most of this information is available in print form—books, mono-
graphs, and periodicals—and in audio-visual media, such as films and
cassette tapes. But, Christy says, these information sources are
widely dispersed and there exists no organized or central means of
retrieving this information, and of distributing it or generally making
the information available to those interested in or concerned with the
problems and welfare of small business.

Thus, Christy proposes, and is in the process of assembling, an
all-inclusive information bank at Wichita State University from which
relevant and timely information can be withdrawn by anyone desiring to
do so. In his paper, he has developed a taxonomy for coding and differentiating business information into mutually exclusive but cross-referenced categories.

The end result of the research described in his paper will be (1) a catalogue of information sources which do not require continuous or frequent updating, such as books, films, and tapes, and (2) a computer model for the automatic retrieval of information from sources requiring continuous updating, such as periodicals and journal entries.

Each citation in the catalogue will include the title, author, date, publisher or other source and a short abstract of the contents. The catalogue (expected to be completed by the end of the current year, 1979) will be distributed free of charge to interested parties, and quarterly supplements will be issued to list new books and audio-visual materials produced in the interim.

The computer information retrieval service (also expected to be available by the end of this year) will provide access to the proliferative number of journal and magazine articles written and published each month: the cost of this service to the user will be 5¢ per citation.
The historical evolution of small businesses in Region VII closely reflects the agricultural development of the four-state area. Both the numbers and types of business enterprises correspond to the growth and prosperity of the agricultural sectors of the economy. The major cities, St. Louis, Kansas City and Omaha, are located on the major rivers. These ports originally served as transportation routes for westward expansion and now serve as export centers for agricultural shipments. The region, however, is best described as rural with a preponderance of small communities with their complement of small businesses. As the economy of the region has been one of steady but undramatic growth, business has likewise reflected this same stability in its steadily increasing numbers.

The mutual dependency of agriculture and small business has given the region a profile of its own characteristics. Business enterprises which complement agriculture within widely dispersed communities are generally smaller in size and include fewer manufacturers than the national averages. Regional employment in commercial firms has been primarily among firms which are smaller in size as measured by number of employees. These employment opportunities have been significant to the social development and stability of the region.

Small businesses Region in VII have developed and interacted with other sections of the four-state area in a supportive partnership. Just as these businesses have largely derived their vitality from the agricultural community, they have been indispensable to the agricultural and economic development of the region. Likewise, the rural and small community profile of the region necessitates the presence of the smaller enterprise. The region can neither support nor economically employ the substitution of large corporate structures for the small business. The presence of small business is both an historical evaluation and an economic and sociological necessity to the region.

Small business in Region VII-Kansas, Nebraska, Iowa and Missouri reflects a composition which can be traced to historical circumstances and physical characteristics of the region. Economic and social development of Region VII, "the Midlands," has been directly interwoven with the appearance and growth of small business enterprises which have been an integral partner in the region's prosperity. This relationship is so interdependent that an appreciation and understanding of small business cannot be accomplished without a discussion of the nature of the environment and historical development of the region.

Small businesses dominate commercial activity in the region by their very numbers as well as the level of transactions. Furthermore,
those larger businesses which are present within the Midlands are primarily the product of the region and not immigrants into the four-state area. In fact, the region has an historical reputation for providing the beginnings of large corporate structures which have moved to larger population centers elsewhere as they outgrew the labor and markets of the Midlands. Two notable examples are Beatrice Foods, now headquartered in Chicago but which originated in Beatrice, Nebraska, and Fairmont Foods, now headquartered in Dallas which traces its origin to Fairmont, Nebraska. However, a strong work ethic and sound economic conditions also have made the area extremely attractive to larger corporations from other areas. Branch manufacturing plants are frequently encountered in smaller communities across the Midlands. In fact, Nebraska currently faces a labor shortage due to the proliferation of industrial development in rural communities.

POPULATION

The population distribution of the Midlands has followed patterns of agricultural, transportation and industrial development. Its largest cities, St. Louis, Kansas City and Omaha, are river cities which encouraged early population concentration to support trade activities when the rivers were primary transportation routes. These major cities became the focus of economic activities for the region. Initially, trade routes radiated from these economic centers by water, wagon, then rail and more recently truck transport into the rural reaches of the region. Materials, supplies and manufactured products moved outward into the smaller communities for eventual distribution. In return, agricultural commodities were transported into the major cities and assembled for processing and shipment to other sections of the U.S. and, in recent years, shipments have extended to world-wide markets. From their early origins as trade and transportation centers for material goods and agricultural commodities, these cities have become major centers for the other command activities, most notably banking and insurance.

Capital cities of Lincoln, Nebraska; Topeka, Kansas; Des Moines, Iowa; and Jefferson City, Missouri have become population centers because of governmental activity. Other cities of significant size are Wichita, Kansas and Davenport, Iowa. These concentrations of people, however, occupy a very small proportion of the total land area. There are only three cities of more than 400,000 population. Absence of population concentration is further amplified by the fact that neither Iowa nor Kansas have a major city.

AGRICULTURAL ECONOMY

The Midlands should be classified as an agricultural economy with characteristics of an agricultural structure. Large ranches, rich river bottom farms, rolling corn fields and broad wheat fields are terms which best describe the wide expanses of the region. Communities of relatively small size separated by substantial distances dot the countryside. Businesses which have emerged in these smaller communities are both supportive of and complementary to the characteristics of the agricultural economy. Concurrently, small communities are composed primarily of small businesses supported by local markets. The small community
characteristically is focused around a collection of individual businesses built as a business district. Sometimes these are town squares; in other instances they constitute several blocks along a "main street" on which individual businesses have been built. Less frequently, communities have clearly distinctive shopping malls or the presence of a large retailer or business firm. At most, the major national retailers are represented in these rural communities by catalog stores or small branch stores. Historically, these communities have not been attractive to large chain retailers. The sizes of the businesses have been predetermined by economic size of the markets. These markets are primarily an aggregation of personal incomes, so widely dispersed populations have encouraged development of smaller business while concurrently discouraging the presence of larger enterprises.

As noted above, larger business found in rural areas of the Midlands are usually manufacturers with broad geographic markets. Manufacturers have selected their location in response to at least one of two conditions: availability of raw materials or components for the manufacturing processes or presence of significant markets for their production. Midwestern manufacturing has been related to agricultural commodities or agricultural markets. There are instances in which economies exist for the local production of consumer goods such as in the case of modular homes, oil refining and automobile assembly plants of Kansas City. In more recent years, these patterns have been somewhat disrupted as major industries have been drawn into the region to gain the advantages of a more stable and better prepared labor market. A notable example is Bector Dickinson which manufactures medical supplies. Neither the markets nor the materials exist in the region but the attractiveness of low priced labor has made the region economically advantageous.

BUSINESS DIVERSITY

Although Midland businesses are unique in their size and concentrations, the region should not be considered an extreme for it falls between extremes. On one hand, dense areas of population such as around Chicago, the Great Lakes, the Eastern Seaboard metropolis, and the Californian cities of San Francisco and Los Angeles are characterized by large enterprises which are justified by selling to large numbers of people who also supply the large numbers of workers required. Traditionally, manufacturers have tended to concentrate in these more populous areas of the U.S. On the other hand very sparsely populated areas of the Mountain States and the Southwest have relatively low agricultural yields and are unable to support the activities of even small businesses. The Midlands has two major cities, St. Louis and Kansas City, which are industrial centers. Western Kansas and western Nebraska have the same characteristics as the Mountain States. However, the major portion of lands and people fall well between the two extremes. It is perhaps not surprising to find, therefore, that statistical data on the dimensions and characteristics of the businesses of the Midlands region appear to be very similar to the national averages. By size of business enterprises and by industrial classifications, the Midlands is in very close proximity to the national average. Therefore, possibly the Midlands constitute a good laboratory for the study of
U.S. business as it is all inclusive and yet avoids a domination of extremes.

AGRICULTURAL ORIGINS

Although select cities and areas of the region can trace their origins to the pre-Civil War period, notably St. Louis and Kansas City, the population and economic development for the four states did not commence any notable development until the late 1800s. St. Louis, Kansas City and Omaha have their specific origins as transportation centers. While Wichita became an aerospace center for reasons unrelated to its geography or transportation, the other cities of the Midlands regions are related to the agricultural economies which developed after the Civil War.

The opening of plains agriculture with the development of the steel plow share, McCormick's reaper, barbed wire and rail transportation brought people and business into previously unsettled areas. Cattle raising on the grasslands of western Kansas and Nebraska gave rise to packing houses and transportation industries providing beef to east coast markets. These early events were followed by homesteading, whereby farmers and ranchers developed an agricultural economy which has become the breadbasket of the world. As population in the Midlands increased and the agricultural economy prospered, commercial and trading businesses became stronger and more important partners. As agricultural production increased, there was a general increase in the level of agricultural commodities being shipped from the region. This increased production required additional support from commercial business and likewise increased personal expenditure patterns. These increases encouraged and supported both development of new business and expansion of existing enterprises. The economy and structure of the Midlands retains many of the original trappings and characteristics it had at the turn of the century.

Business, likewise, has evolved in an orderly progression well anchored in the strong agricultural foundation without the upheavals experienced in other industries of more dramatic histories. Small business in the Midlands has grown, developed, and prospered in concert with the maturity of the agricultural base, tempered by the cost of transportation across great distances. Select communities have developed in the region because of the increases in governmental activities. Lincoln, Nebraska; Des Moines, Iowa; Topeka, Kansas; and Jefferson City, Missouri as state capitals owe a large portion of their economic being and strength to the state governmental activities in each location.

The region has few major cities and an abundance of small, rural communities. There has evolved an intermediate group of communities which are of regional importance. These moderate sized communities include Davenport, Cedar Rapids, and Sioux City, Iowa; Springfield and Columbia, Missouri; Wichita, Kansas; and Grand Island, Nebraska. Their spheres of influence and importance exceed those of the very localized rural community, but do not match the national importance associated with the larger cities. Even though they have developed beyond the local rural market limitations, they continue to be populated primarily by smaller business enterprises. Thus, small business has
been an integral complement to the agricultural development and the establishment of even the larger communities of the region. Agriculture has been directly dependent on the business community for materials, capital and, to some degree, markets. Business has likewise been a stabilizing force for the agricultural economy and also the communities themselves. As a case in point, in the relocation of Niobrara, Nebraska in the 1970s it was a well recognized conclusion that relocation of residences would be futile without relocation of the business section. The community would not have survived without the compliment of business and employment opportunities. Health of communities is measured not only in terms of agricultural production but also in level of business activity, especially retail sales. The presence of businesses, especially small business enterprises, has provided rural communities with a focal point, a critical mass which has been important to the economic and social health of the area. This evolution should not be considered accidental. It has been fostered by a mix of demographic characteristics which also virtually guarantee the continued importance of small business in the region.

CONCENTRATION OF ECONOMIC ACTIVITY

Throughout the four-state region, there are 14 designated Standard Metropolitan Statistical Areas (SMSA) with six of them located in Iowa. SMSA is a designation given only to areas of population density. The immense size of St. Louis and Kansas City makes Missouri the state with the greatest number of retail businesses within the SMSAs. Yet, the relatively low average sales revenue per establishment places Missouri at the lowest average of the four states; while Nebraska with average retail sales of $193,800 per establishment has the highest average. This difference is possibly rooted in the historical evolution of the region. The large cities of Missouri have encouraged business development and increasing numbers of small retailers to compete within densely populated markets. On the other extreme, the sparse population of Nebraska has discouraged business development, therefore, creating more limited competition.

The growth rate of retail sales in SMSAs between 1963 and 1972 was rather dramatic. In these ten years total retail sales increased at an average rate of 7.5 percent per year. Using the number of retail establishments in Region VII and average retail sales, the aggregate retail sales in the region in 1976 were $30,500,000,000. Therefore, about two-thirds of all retail trade dollars is accounted for by establishments within the 14 SMSAs.

Generally, those retail establishments of the largest employment size are located in an SMSA. Approximately 20 percent of retail establishments are located in SMSAs while the smaller cities and communities account for 80 percent of the retail establishments. This same extrapolation when applied to all identical classifications concludes that 80 percent of the businesses in the Midlands are located in rural and small communities. These conclusions are further supported by the fact that SMSAs have attracted and continue to support larger establishments, while smaller firms have been predominant in rural areas. Exact data on the distribution of business between urban and rural areas are not
available. Published data tabulated in summarized form lack a degree of definitiveness and, therefore, obliterate the detail desired to statistically identify these differences.

RURAL SMALL BUSINESS DECLINE

The classification of urban/rural employed in the analysis includes considerably more of the population in the urban categorization than SMSA definitions allow. However, available statistics and computation of SMSA growth indicates that the growth of business establishments in Region VII has been heavily concentrated in large urban areas designated as SMSAs. The 1970 U.S. Census data shows that many smaller and medium sized communities in the Midlands have actually declined in population and business establishments since the 1950s. This accompanies a decline in farm population which in turn originates in increased farm labor productivity and average farm size. In other words, the population of the geographical market areas has declined and, thus, the communities that serve them have declined.

POPULATION SHIFTS

The best historical data available for Region VII are census information from ten-year surveys. While U.S. population has increased from 122,774,000 in 1930 to 203,212,000 in 1970 (65%), growth in the Midlands has been significantly less. At 20 percent growth over the 40-year period, the region recorded a high growth level of 28.9 percent in Missouri and a low of 7.6 percent in Nebraska.

<table>
<thead>
<tr>
<th></th>
<th>1930</th>
<th>1970</th>
<th>Percent Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iowa</td>
<td>2,471</td>
<td>2,824</td>
<td>14.3</td>
</tr>
<tr>
<td>Kansas</td>
<td>1,881</td>
<td>2,247</td>
<td>19.5</td>
</tr>
<tr>
<td>Missouri</td>
<td>3,629</td>
<td>4,677</td>
<td>28.9</td>
</tr>
<tr>
<td>Nebraska</td>
<td>1,378</td>
<td>1,483</td>
<td>7.6</td>
</tr>
<tr>
<td></td>
<td>9,359</td>
<td>11,231</td>
<td>20.0</td>
</tr>
</tbody>
</table>

SOURCE: Historical statistics of the United States.

The percentage of U.S. population classified as rural in 1930 was 43.8 percent, and by 1979 the figure had dropped to 26.5 percent, signifying considerable growth in urban centers. Rural areas remained nearly constant in total numbers. The shift in Region VII states was considerably less as shown in Table 2.

Region VII's urban growth was 79.9 percent between 1930 and 1970, which is lower than the national urban growth rate of 116.6
percent. However, while the national rural population held nearly constant, there was a 21.9 percent decline in the rural population in the region. Nebraska experienced a 42 percent decline in its rural population; while Iowa declined only 20 percent. Business establishments depend upon a relationship with numbers of people either as employees or as markets. Population figures are, therefore, very telling with regard to historical happenings in business enterprises. First, although there has been growth in Region VII business over the 40 years, it has been well behind the national rate of new businesses being formed. Likewise, the increase in numbers of businesses have occurred in the urban areas. But Region VII displays another fact which differs from national trends. Nationally rural populations have held about constant and numbers of businesses in rural areas have remained about the same. In Region VII, population statistics indicate a different set of circumstances and outcomes. With a 20 percent decline in the rural population, there has been a corresponding decline in number of rural businesses.

Exact data supportive of this statement are not available. The collection of statistical data definitive enough to provide an urban/rural distinction has been of recent origin. However, since business activity, especially the number of small businesses, occurs largely in relationship to size of population, conclusions about business growth can be drawn by examining census data. In this respect, the division of the numbers of businesses between urban and rural areas has been drawn from the split of population between urban and rural areas even though precise measurements of the numbers of businesses do not exist.

Although declines in rural population were more than compensated by growth in urban areas in Region VII, business transition is not as easily converted. There are many business enterprises which because of financial needs, capital requirements, technological limitations, market conditions, or even owner priorities cannot be relocated to an urban

| Table 2 |
| POPULATION SHIFTS--REGION VII |
| (in thousands) |
|  |
| 1930 | 1940 | 1950 | 1960 | 1970 |
| Urban | 4054 | 4313 | 5299 | 6435 | 7292 |
| Rural | 5305 | 5127 | 4508 | 4233 | 3886 |
| Total | 9359 | 9440 | 9807 | 10,668 | 11,178 |
| Urban (%) | 43.4 | 45.7 | 54.0 | 60.3 | 65.2 |
| Rural (%) | 56.7 | 54.3 | 46.0 | 39.7 | 34.8 |

SOURCE: Historical statistics of the United States.
center to follow population shifts. The institutional development of supermarkets, large scale shopping complexes, mass merchandising and discount retailers coupled with the disappearance of selected trades such as blacksmiths, ice merchants and merchants of extremely small scale have forced other changes in the composition and mixture of business enterprises. The net effect is the closing of many rural businesses and the requirement for establishing new and different urban businesses.

**URBAN SMALL BUSINESS GROWTH**

According to the 1970 census data, Region VII accounted for 11,231,000 people or 5.5 percent of the total U.S. population. However, while 73.5 percent of the U.S. population was classified as urban, only 66.2 percent of the Region VII population carried an urban designation. Iowa at 57.2 percent was the state in Region VII with the lowest percentage of its population classified as urban. However, while the total number of persons in the U.S. in rural areas has remained rather constant around 54 million since 1930, all four states (Iowa, Missouri, Kansas and Nebraska) have steadily lost population in rural areas. State populations increased through growth in urban centers. The growth of the urban areas has been a result of several distinct and well documented factors. Mechanization of agricultural production has limited rural employment opportunities while encouraging farm consolidations, which aggravate declining employment opportunities even further. Large corporations which recognized the qualities of a farm-trained labor force established assembly and production plants in the urban areas making them even greater magnets for a population shift from rural areas. Increasing transportation costs encouraged regional production in the urban areas rather than covering a national market from a single or distantly located production facility. In pursuit of the expanded market opportunities created by urban industrial development, small businesses, both manufacturing and retailing, increased in numbers in the urban areas. The combined result of a population shift and markets of increasing size was the continous growth of the urban areas in terms of the numbers of business enterprises and level of aggregate economic activity.

**RELATIVE CHARACTERISTICS OF SMALL BUSINESS**

Although the four states are less densely populated than many other states, patterns of population and business have remained rather parallel. While 5.5 percent of the U.S. population live in Region VII, 5.95 percent of businesses, according to 1976 data, are located in the region. This is a modest deviation from population figures. However, the concentration of deviation appears to be among very small firms, with 6.18 percent of business having 1-4 employees, and 5.85 percent having 5-19 employees. There are correspondingly fewer businesses with employment over 100.

The region has its largest percentage of businesses classified as agricultural with 8.3 percent of the total national agricultural establishments. On the other end of the scale, only 4.6 percent of U.S. manufacturers are located in Region VII. While retailers account for
one-third of Region VII establishments, only 5.8 percent of total national retailers are located in the region. It is evident from this data that the region has developed its business enterprises to support its agricultural orientation rather than focusing on becoming a base for manufacturing.

The size of a Region VII firm tends to be slightly smaller than the U.S. average. While 58.8 percent of the firms employ 1-4 people, the same category for the U.S. is 56.6 percent. Differences according to industry are relatively small with several exceptions. Agriculture at 75.2 percent tends to be noticeably different than 64.7 percent at the national level. Mining likewise tended to be smaller sized in the Region VII states.

Aggregate average sales by size of firms for Region VII indicates little variation from national averages. However, upon closer examination, "agricultural services" holds the regional average up by being consistently greater in sales in all employment categories than the national average. Retailing, likewise, in smaller firms slightly exceeds the national average. However, other industry classifications generally produce lower sales per establishment than the national average.

EMPLOYMENT

Small businesses employ a substantial proportion of the population of the four states. There were 1,945,940 people employed in firms of less than 250 employees as of 1976. This accounted for 5.41 percent of the national aggregate of 35,941,600 in the same size of establishment. As the number of businesses in the region were 5.95 percent of the businesses located in the nation, the 5.41 percent figure indicates a slightly smaller number of employees per firm than nationwide.

Likewise, of the 11,231,000 people living in Region VII in 1970, 1,945,940 were employed in smaller businesses of less than 250 employees. This accounts for 17.3 percent of the people of Region VII.

The average number of employees in Region VII is considerably higher for manufacturers who employ an average of 21.96 persons. At the other extreme, agricultural service establishments employed only 3.69 persons on the average. The balance of industrial groupings tended to cluster around the average of 8.9 employees. Region VII data indicate only modest differences when broken out among the four states—-Iowa, Kansas, Missouri and Nebraska. Data compiled by the National Federation of Independent Businesses indicate that, generally, the distribution of businesses among industrial categories closely resembles the composite of the U.S. Likewise, distribution of firms according to their gross receipts in the region also looks very similar to the national average.

It is important to note that average number of employees per retail establishment in 1967 is considerably different than in 1976. The 4.7 employees per retail establishment in 1967 (representing a total of 555,101 employees) grew 30 percent to 6.1 average employees per establishment in 1976 for a total of 568,231 employees.
This growth in the size of employment is most significant. Thirty percent of the growth occurred in only nine years. There is no reason to believe that retail establishments are unique, but rather this data could be indicative of a general concentration of employment in all industry groupings. The rapid rate of concentration also indicates a decline in the number and importance of very small employment establishments.

This growth in business size is expected because of rural to urban shifts of population. Concentrations of people encourage larger establishments and a greater number of employees. Concurrently, migration away from rural areas has spelled the demise of many rural small businesses.

**NUMBER OF BUSINESSES**

Data specific to small business is extremely sparse, especially data of historical relevance. Detailed data reflective of small businesses is generally of recent origin with the majority of it appearing in the 1970s. One exception is the computation of statistics of firm size according to industry grouping which first appeared in the early 1950s. Although this data does not provide a complete profile, it does allow an understanding of the trend of business formations over the past 25 years.

Between 1953 and 1976, the number of businesses in the U.S. increased by 41.1 percent; while there was a considerably lower increase of 21.7 percent in the Midlands region. Iowa recorded an increase of only 18.8 percent over those 23 years, while Nebraska's increase was 26.7 percent. Growth generally was concentrated among firms with over 20 employees; while there was only a 11.3 percent growth in firms which were classified below 20 employees. Iowa actually declined slightly in number of very small firms. Nationally, the greatest percentage growth was among those categories of larger businesses.

There were distinctive industry growth differences in Region VII when compared to the national figures. There were actually fewer retailers in the Midlands in 1976 than in 1953; while nationally, retailers increased by 19.8 percent. As retailing is correlated very tightly with population statistics, the comparatively low increase in Region VII population largely explains the disparity with the national figures. The number of businesses classified as mining likewise declined nationally by 11 percent and by 31.3 percent in the Midlands. The number of wholesalers increased by 148.9 percent in Region VII compared to 49.6 percent nationally. Financing firms likewise increased by 133.6 percent; while nationally the increase was 61.3 percent. The differences in other industries groupings were not as dramatic. From the data, it is evident that Region VII is expanding its importance in wholesaling, distribution and financing while consolidating retail activities.

Over the 25 years from 1950 to 1974, productivity of employees had increased in all major sections. According to the data, these increases have been rather dramatic. Agricultural production per employee has more than tripled while trade, manufacturing, mining and
transportation nearly doubled. These data all indicate a broad improvement of economic production. However, the outstanding gains made in the agricultural sector indicate that the agriculturally related economy of Region VII may have made more substantial gains than other regions of the U.S. which are less tied to the agricultural sector.

CONCLUSIONS

Societal contributions of small business are perhaps best illustrated through the examination of several factors. As previously stated, the business community provides employment opportunities and careers for the citizens. These ultimately are transformed into wages and salaries which are a reflection of the economic importance and societal benefits of the presence of small business. The average weekly earnings of production workers for the four states from 1965 to 1977 have consistently exceeded the national averages. Although the Midlands have traditionally been less unionized than the balance of the U.S., the unweighted average earnings of the four states exceeds the U.S. average. Manufacturing as a major employment segment provides an excellent benchmark for comparison purposes. It can be concluded that wage rates among other occupational groupings in the Midlands have consistently exceeded national averages. Furthermore, when the earnings data is aggregated for the period of 1940 to 1975, it is concluded that there has been a steady and even dramatic growth in employment and wages in Region VII. These patterns as shown in 10-year data have been consistently growth-oriented and reflect an excellent economic and social prosperity in Region VII, and in turn a measurement of one dimension of the importance of the small business in the region.

The Midlands region has been extensively associated with the presence of small business. Small businesses have been both contributors to and beneficiaries of the economic progress of the region. Rural characteristics and the strong agricultural orientation of the region have been an encouragement to smaller businesses and, in fact, inhibitors of the larger business enterprise. Certainly the economic foundation of the region is agriculture. However, beyond agriculture, it is small businesses, the entrepreneurial enterprises that populate villages, towns and cities, which have contributed so significantly to the social and economic health of the Midlands.
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THE ECONOMIC PROFILE OF SMALL BUSINESS IN REGION VII

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Institute for Entrepreneurial Management
College of Business Administration
University of Iowa

The purpose of this paper is four-fold: (1) to analyze 1970-1977 trends in the production of economic goods and services in Region VII, and the consequence of these production activities in terms of local employment, income and population; (2) to evaluate the current role of small business in the region, and its "welfare;" (3) to predict the kinds of changes, if any, that might be expected in the structure of the small business sector in the region in the 1980s; and (4) on the basis of this analysis, to propose certain government policy changes, administrative or legislative in nature, that might serve to improve the vitality of existing small businesses as well as to increase the chances of survival of new businesses in the region.

RESULTS

THE REGIONAL ECONOMY

Region VII is undergoing a social and economic transition as a consequence of economic growth. This is not a new development. Since pioneer days the regional economy, like that of the nation as a whole, has been growing, developing, changing. Manufacturing, commerce, all kinds of service establishments are expanding. Fewer people are employed in farming and more in nonfarm occupations.

Trends in Industrial Output and Employment

Growth patterns within the region, however, vary considerably. The 1970-1977 rates of employment change in each of the major industry classifications, for each of the states in Region VII as well as for the nation as a whole, are shown in Table 1. Changes in government employment are also shown in the table.

An increase in output, it should be stressed, does not necessarily result in an increase in employment; nor would the increase in employment, if any, be of the same magnitude. In a given industry, increasing worker productivity is the primary reason for the differences in the direction and/or magnitude of output and employment trends. In Region VII this is most clearly evident in the case of agriculture, where employment decreases have occurred at the same time that farm production has increased. The increased production in agriculture with fewer farm workers, managers and operators is the result of the use of more and better farm machines, more fertilizer and better farming techniques.

In contrast with the trend of agricultural employment, nonfarm job opportunities for the residents of Region VII have increased in recent
<table>
<thead>
<tr>
<th>Percent of Change</th>
<th>United States</th>
<th>Region</th>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Employment</td>
<td>-8.2</td>
<td>-3.7</td>
<td>1.4</td>
<td>-9.3</td>
<td>-9.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>33.6</td>
<td>-16.0</td>
<td>-33.3</td>
<td>0.0</td>
<td>-22.2</td>
<td>-50.0</td>
</tr>
<tr>
<td>Contract Construction</td>
<td>14.8</td>
<td>23.1</td>
<td>31.7</td>
<td>45.2</td>
<td>6.9</td>
<td>28.0</td>
</tr>
<tr>
<td>Manufacturing</td>
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<td>13.1</td>
<td>27.6</td>
<td>-1.6</td>
<td>7.1</td>
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<td>Transportation, Communications and Public Utilities</td>
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<td>7.8</td>
<td>9.4</td>
<td>0.8</td>
<td>13.5</td>
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<td>Wholesale and Retail Trade</td>
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<td>24.7</td>
<td>29.7</td>
<td>30.6</td>
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<td>28.3</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate Services</td>
<td>22.5</td>
<td>21.2</td>
<td>26.8</td>
<td>43.3</td>
<td>7.9</td>
<td>31.0</td>
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<td>32.4</td>
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<td>28.1</td>
<td>44.2</td>
<td>29.2</td>
<td>23.2</td>
</tr>
<tr>
<td>Total Private-Sector Nonagricultural Employment</td>
<td>15.3</td>
<td>18.4</td>
<td>22.4</td>
<td>31.4</td>
<td>10.8</td>
<td>20.8</td>
</tr>
<tr>
<td>Government Employment</td>
<td>20.6</td>
<td>16.3</td>
<td>15.3</td>
<td>14.9</td>
<td>14.2</td>
<td>25.7</td>
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<tr>
<td>TOTAL EMPLOYMENT</td>
<td>14.8</td>
<td>14.9</td>
<td>17.2</td>
<td>22.5</td>
<td>9.2</td>
<td>18.2</td>
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<tr>
<td>Population</td>
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<td>3.0</td>
<td>1.9</td>
<td>3.5</td>
<td>2.7</td>
<td>5.3</td>
</tr>
</tbody>
</table>

**SOURCES:** U.S. Department of Agriculture, Statistical Reporting Service; U.S. Department of Labor, Bureau of Labor Statistics; and U.S. Department of Commerce, Bureau of Census
years. The 1970-1977 increase in nonfarm employment, as noted in Table 1, was more than enough to compensate for the decline in farm employment during this same period, with the result that total employment in all industries increased in both the region and the nation.

Employment increases are not occurring in all nonagricultural industries, however, and the rates of increase among the growing industries vary widely. Manufacturing, transportation, communications and public utilities, for example, have had only modest growth in employment, despite tremendous increases in output as a result (as in agriculture) of rapid technological change. All other nonagricultural industries show much higher rates of employment growth because they are less capital-oriented and more labor-oriented. The most rapid growth is in the service trades.

Industry employment patterns within the region also vary considerably. Intraregional comparisons can be most clearly summarized using a grid format to note the significant differences. Thus, for each of the major industry classifications except agriculture and mining (which experienced employment declines), the grid below ranks the four states in Region VII in terms of their 1970-1977 employment growth rates. Underlined rankings indicate growth rates that are higher than in the nation as a whole.

<table>
<thead>
<tr>
<th></th>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Construction</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2</td>
<td>1</td>
<td>(-)</td>
<td>3</td>
</tr>
<tr>
<td>Transportation, Communications and Public Utilities</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Wholesale and Retail Trade</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Services</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total Private Sector Nonagricultural Employment</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Total Employment (includes Government)</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

Industry Composition

Industry growth patterns affect different areas differently, since each is relatively dependent upon a particular industry as a source of local employment and income. As a percentage of its total industry employment and income, each of the four states in Region VII is more dependent upon agriculture and agricultural services and upon wholesale trade than is the nation as a whole for its economic well-being. Missouri and Nebraska, in addition, are highly dependent upon transportation, communications and public utilities and mining is an important
economic activity in Kansas. (Nebraska also relies heavily upon the finance and insurance industry.) These and other intraregional differences in industry composition are shown in Table 2.

Both wholesale trade and retail trade in the region are intimately related to agriculture. Basic, agriculture-supportive wholesaling functions are performed by merchant wholesalers who distribute farm equipment and supplies, petroleum bulk stations which serve the farmers' increasing demand for gas and oil, commodity brokers, and assemblers, buyers and associations engaged in the cooperative marketing of farm products. The importance of agriculture in the region's retailing sector is explained by the relatively heavy concentration of lumber, building materials, hardware and farm equipment dealers, and of feed, seed and fertilizer stores in the region.

Even some of the service trades, such as the grinding and mixing of feed and the repair of farm equipment, are tied to the region's agricultural "base."2

Using the same grid format and procedure as before, the four states in Region VII are ranked in terms of the relative importance of the respective industries in the state's economic structure, as measured by: (1) the number of business establishments, (2) total employment, and (3) total sales income per establishment. (Rankings in the latter two categories reflect differences in the employment size of establishments in the industry from state to state; employment-size considerations and the role of small business in the region's economy will be discussed in a subsequent section of this paper.) Underlined rankings indicate proportionate shares that are larger than in the nation as a whole. The rankings summarize the data in Tables 2 and 3.

The extent to which Region VII (or any other area) is more sensitive to economic changes in a particular industry than is the nation as a whole may also be determined by computing "localization coefficients." This is a measure of "basic" economic activity obtained by relating the value of products and services sold in a given industry and area to the total value of goods and services sold in that industry in the nation as a whole on a per capita basis. To illustrate, Region VII produced 9.9 percent of the nation's total output of agricultural services in 1976, though it accounted for only 5.3 percent of the nation's population. Thus, the per capita output of these services in the nation as a whole: 9.9 divided by 5.3. (See Table 12 which gives the localization coefficients for other industries in the region, as well as similar measurements for the individual states.) These measurements confirm the results and conclusions shown in Table 2.3

Income Consequences

Employment levels and the composition of industrial employment have a direct bearing on the level of income earned in the production of goods and services. "Industrial income" is the total of wages and salaries, other labor income and proprietors' income; it represents the earnings received by individuals, both employees and the self-employed,
### Table 2
**Nonfarm Industrial Composition, 1976,**
**As Measured in Terms of Numbers of Establishments,**
**Employment and Sales Income**

#### (A) Percent of Total Number of Establishments

<table>
<thead>
<tr>
<th>Industry</th>
<th>United States</th>
<th>Region</th>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
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<tbody>
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<td>3.5</td>
<td>3.3</td>
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<td>0.8</td>
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#### (B) Percent of Total Employment

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<td>4.5</td>
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<td>22.3</td>
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<tr>
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<td>Region</td>
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<td>Missouri</td>
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</tr>
<tr>
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<td>1.6</td>
<td>0.7</td>
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<td>7.8</td>
<td>7.0</td>
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<td>8.0</td>
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<tr>
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<td>5.6</td>
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<td>9.0</td>
<td>9.7</td>
</tr>
<tr>
<td>and Public Utilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
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<td>19.7</td>
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<td>13.6</td>
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<td>9.6</td>
<td>7.5</td>
<td>3.3</td>
</tr>
</tbody>
</table>

NOTE: Column detail may not add to 100.0 due to rounding.

SOURCE: Data prepared for the Small Business Administration by David L. Birch, MIT Program on Neighborhood and Regional Change, under Contract No. SBA 2608-0A-79.
### Table 3
AVERAGE EMPLOYMENT AND AVERAGE SALES PER ESTABLISHMENT
NONFARM INDUSTRIES, 1976

(A) Average Employment

<table>
<thead>
<tr>
<th>Industry</th>
<th>United States</th>
<th>Region</th>
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<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
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</thead>
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<tr>
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<tr>
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</table>

(B) Average Sales (000's)

<table>
<thead>
<tr>
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<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
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<tr>
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<td>$494</td>
<td>$763</td>
<td>$817</td>
<td>$641</td>
<td>$732</td>
<td>$898</td>
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<td>4,879</td>
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<td>513</td>
<td>466</td>
<td>491</td>
<td>500</td>
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<td>1,551</td>
<td>1,674</td>
<td>1,445</td>
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<td>979</td>
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<td>1,167</td>
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</tbody>
</table>

**SOURCE:** Data prepared for the Small Business Administration by David L. Birch, MIT Program on Neighborhood and Regional Change, under Contract No. SBA 2608-0A-79.
<table>
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<tr>
<th></th>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
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<td>Total Employment</td>
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</tr>
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<td>4</td>
<td>$\frac{1}{2}$</td>
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<tr>
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<td>1</td>
<td>1</td>
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<tr>
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<td>3</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
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</table>
for their efforts in current production. The way in which these earnings are distributed among industries (in terms of percentage shares) is shown in Table 4. These earnings shares, as expected, correlate highly with the sales-income shares shown for the nation and region in Table 2(C), and reconfirm the conclusions reached earlier in this paper concerning the relative importance of various industries to the economies of the region and its component states.

Income differences among industries are even more meaningful when expressed on a per capita basis, as was done in the last column in Table 4; the higher the index (income/employment), the higher the per capita income earned in employment in the industry. The extremely low index in agriculture (0.54), an industry of prime importance in Region VII, is particularly to be noted. It must be remembered, however, that many persons occupied in agriculture do not work a full week or a full year. This is also true of some persons employed in trade and services (other industries with low indexes shown in Table 4). Also, it is to be emphasized that in rural areas incomes are understated. The U.S. Bureau of the Census, for example, defines income as the sum of wages and salaries, self-employment income, and cash income from other sources; thus, two important categories of real income--value of home consumption and gross rental value of farm dwellings--are omitted from the Bureau's income statistics. The latter
Table 4
PERCENTAGE SHARES, INDUSTRIAL INCOME AND EMPLOYMENT
UNITED STATES, 1977

Percent of Total, All Sources

<table>
<thead>
<tr>
<th>Source of Income and Employment</th>
<th>Income</th>
<th>Employment</th>
<th>Income/Employment</th>
</tr>
</thead>
<tbody>
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<td>4.8</td>
<td>0.54</td>
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<td>27.2</td>
<td>22.7</td>
<td>1.20</td>
</tr>
<tr>
<td>Transportation, Communications and Public Utilities</td>
<td>8.2</td>
<td>5.3</td>
<td>1.55</td>
</tr>
<tr>
<td>Wholesale Trade and Retail Trade</td>
<td>15.7</td>
<td>21.2</td>
<td>0.74</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate</td>
<td>11.8</td>
<td>5.2</td>
<td>2.27</td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>12.4</td>
<td>17.8</td>
<td>0.70</td>
</tr>
<tr>
<td>Government</td>
<td>15.5</td>
<td>17.6</td>
<td>0.88</td>
</tr>
<tr>
<td>TOTAL PRIVATE-SECTOR</td>
<td>84.5</td>
<td>82.4</td>
<td>1.03</td>
</tr>
</tbody>
</table>

* Including agricultural services by nonfarm enterprises.


Table 5 shows per capita personal income (as opposed to industrial income) for 1977, for the states in Region VII as well as for the nation as a whole. "Personal" income includes—in addition to earnings and other income originating in business and government—other forms of income such as rental income, dividends, personal interest income and transfer payments (such as old age pensions, unemployment relief and social security). Here also, the relatively low per capita personal incomes of persons residing in the region's most agriculturized areas (Nebraska and Iowa) are noted.

Intraregional comparisons, however, are misleading because not all income earned in an area remains there. Some of this income is distributed to the residents of other areas. This happens when interest, dividends and rents are paid to the nonresidents of the state, or when taxes are collected by the federal government. Offsetting this are interest, dividends and rents received by the residents of a state for productive operations elsewhere, together with federal payments to the state. Depending upon whether payments made outside the state exceed payments received in the state, income is either larger or smaller than output suggests.
Table 5
PER CAPITA PERSONAL INCOME, 1977

<table>
<thead>
<tr>
<th>AREA</th>
<th>Dollars</th>
<th>% of U.S.</th>
<th>% of Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$7,019</td>
<td>-</td>
<td>103</td>
</tr>
<tr>
<td>Region VII</td>
<td>6,812</td>
<td>97</td>
<td>-</td>
</tr>
<tr>
<td>Iowa</td>
<td>6,878</td>
<td>98</td>
<td>101</td>
</tr>
<tr>
<td>Kansas</td>
<td>7,134</td>
<td>102</td>
<td>105</td>
</tr>
<tr>
<td>Missouri</td>
<td>6,654</td>
<td>95</td>
<td>98</td>
</tr>
<tr>
<td>Nebraska</td>
<td>6,720</td>
<td>96</td>
<td>99</td>
</tr>
</tbody>
</table>


Population Consequences

An area grows only to the extent that it affords employment and income opportunities for the people who live there. Though the 1970-1977 increase in nonagricultural employment was more than enough to absorb the labor released from farming during that period, it was not large enough to absorb, in addition, the increase in labor force resulting from natural population growth. The lack of jobs for all who wanted them resulted in the out-migration of some workers (and their families) who sought employment and income opportunities elsewhere. Thus, the population of Region VII increased by only 3.0 percent between 1970 and 1977, compared with a 6.5 percent increase in the nation. (See Table 1.)

Within the region, the largest percentage increase in population during this period occurred in Nebraska, though it was still somewhat below the average for the nation.

THE ROLE AND IMPORTANCE OF SMALL BUSINESS IN THE REGION

The regional economy consists of over 11 million people whose material needs and wants are satisfied by approximately 661 thousand businesses. By any standard of measurement, most of these businesses can only be described as "small." Approximately 59 percent of these businesses employ fewer than five workers; 90 percent employ fewer than 20 workers; and 98 percent, fewer than 100. Similar size comparisons prevail for the nation as a whole, though in each size range (up to 99 employees) the proportionate number of businesses is higher in the region. (See Table 6.)

Average employment size varies somewhat, however, from industry to industry within the region. The next grid (a summary of the data in Table 6) indicates the regional geographic areas in which the proportion of small establishments in a given industry (those employing fewer than 100 workers) is greater than in the nation as a whole. An
### Table 6
EMPLOYMENT-SIZE PERCENTAGE DISTRIBUTION, 1976

#### Percent of United States Establishments Employing:

<table>
<thead>
<tr>
<th>Industry</th>
<th>less than 5 employees</th>
<th>less than 20 employees</th>
<th>less than 100 employees</th>
<th>100 or more employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Services</td>
<td>64.7</td>
<td>93.6</td>
<td>99.2</td>
<td>*</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>46.6</td>
<td>81.6</td>
<td>96.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Contract Construction</td>
<td>67.1</td>
<td>92.6</td>
<td>99.1</td>
<td>*</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>33.9</td>
<td>68.6</td>
<td>90.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Transportation, Communications and Public Utilities</td>
<td>47.0</td>
<td>82.8</td>
<td>96.7</td>
<td>0.2</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>49.9</td>
<td>89.1</td>
<td>99.1</td>
<td>*</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>60.8</td>
<td>92.7</td>
<td>99.4</td>
<td>*</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate</td>
<td>59.6</td>
<td>89.5</td>
<td>98.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>58.8</td>
<td>87.9</td>
<td>97.0</td>
<td>0.2</td>
</tr>
<tr>
<td>All Industries</td>
<td>56.7</td>
<td>88.3</td>
<td>97.8</td>
<td>0.1</td>
</tr>
</tbody>
</table>

#### Percent of Region VII Establishments Employing:

<table>
<thead>
<tr>
<th>Industry</th>
<th>less than 5 employees</th>
<th>less than 20 employees</th>
<th>less than 100 employees</th>
<th>100 or more employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Services</td>
<td>75.2</td>
<td>97.1</td>
<td>99.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>58.3</td>
<td>88.5</td>
<td>98.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Contract Construction</td>
<td>67.8</td>
<td>93.4</td>
<td>99.3</td>
<td>*</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>35.8</td>
<td>70.2</td>
<td>90.4</td>
<td>0.6</td>
</tr>
<tr>
<td>Transportation, Communications and Public Utilities</td>
<td>53.0</td>
<td>86.3</td>
<td>97.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>51.7</td>
<td>91.1</td>
<td>99.3</td>
<td>*</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>60.5</td>
<td>93.2</td>
<td>99.5</td>
<td>*</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate</td>
<td>62.5</td>
<td>89.9</td>
<td>97.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>62.5</td>
<td>88.4</td>
<td>97.1</td>
<td>0.2</td>
</tr>
<tr>
<td>All Industries</td>
<td>58.8</td>
<td>89.9</td>
<td>98.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Industry</td>
<td>less than 5 employees</td>
<td>less than 20 employees</td>
<td>less than 100 employees</td>
<td>100 or more employees</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------------------</td>
<td>------------------------</td>
<td>-------------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>Agricultural Services</td>
<td>80.1</td>
<td>97.1</td>
<td>99.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>49.4</td>
<td>85.7</td>
<td>98.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Contract Construction</td>
<td>68.0</td>
<td>93.8</td>
<td>99.5</td>
<td>*</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>36.2</td>
<td>69.7</td>
<td>89.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Transportation, Communications and Public Utilities</td>
<td>56.2</td>
<td>89.6</td>
<td>98.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>51.2</td>
<td>92.5</td>
<td>99.5</td>
<td>*</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>58.9</td>
<td>93.1</td>
<td>99.6</td>
<td>*</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate</td>
<td>60.6</td>
<td>91.0</td>
<td>97.8</td>
<td>*</td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>63.9</td>
<td>88.1</td>
<td>96.9</td>
<td>0.2</td>
</tr>
<tr>
<td>All Industries</td>
<td>58.7</td>
<td>90.5</td>
<td>98.3</td>
<td>0.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Industry</th>
<th>less than 5 employees</th>
<th>less than 20 employees</th>
<th>less than 100 employees</th>
<th>100 or more employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Services</td>
<td>71.3</td>
<td>96.2</td>
<td>99.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>57.0</td>
<td>90.2</td>
<td>99.1</td>
<td>*</td>
</tr>
<tr>
<td>Contract Construction</td>
<td>67.4</td>
<td>93.3</td>
<td>99.3</td>
<td>*</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>37.6</td>
<td>71.3</td>
<td>91.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Transportation, Communications and Public Utilities</td>
<td>52.6</td>
<td>87.5</td>
<td>98.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>52.8</td>
<td>91.3</td>
<td>99.2</td>
<td>*</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>61.0</td>
<td>93.9</td>
<td>99.6</td>
<td>*</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate</td>
<td>58.9</td>
<td>90.6</td>
<td>98.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>63.4</td>
<td>88.6</td>
<td>97.5</td>
<td>0.2</td>
</tr>
<tr>
<td>All Industries</td>
<td>59.1</td>
<td>90.4</td>
<td>98.4</td>
<td>0.1</td>
</tr>
</tbody>
</table>
### Table 6 (Cont.)

#### Percent of Missouri Establishments Employing:

<table>
<thead>
<tr>
<th>Industry</th>
<th>less than 5 employees</th>
<th>less than 20 employees</th>
<th>less than 100 employees</th>
<th>100 or more employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Services</td>
<td>73.6</td>
<td>97.3</td>
<td>99.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>44.8</td>
<td>82.4</td>
<td>97.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Contract Construction</td>
<td>68.4</td>
<td>93.2</td>
<td>99.2</td>
<td>*</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>34.7</td>
<td>69.5</td>
<td>89.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Transportation, Communications</td>
<td>50.0</td>
<td>82.7</td>
<td>96.3</td>
<td>0.2</td>
</tr>
<tr>
<td>and Public Utilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>52.3</td>
<td>90.1</td>
<td>99.1</td>
<td>*</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>62.3</td>
<td>93.2</td>
<td>99.5</td>
<td>*</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate</td>
<td>64.9</td>
<td>90.1</td>
<td>97.8</td>
<td>0.1</td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>60.9</td>
<td>88.5</td>
<td>97.0</td>
<td>0.2</td>
</tr>
<tr>
<td>All Industries</td>
<td>58.9</td>
<td>89.3</td>
<td>97.9</td>
<td>0.1</td>
</tr>
</tbody>
</table>

#### Percent of Nebraska Establishments Employing:

<table>
<thead>
<tr>
<th>Industry</th>
<th>less than 5 employees</th>
<th>less than 20 employees</th>
<th>less than 100 employees</th>
<th>100 or more employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Services</td>
<td>74.8</td>
<td>97.6</td>
<td>99.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>51.7</td>
<td>92.3</td>
<td>99.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Contract Construction</td>
<td>66.8</td>
<td>93.3</td>
<td>99.5</td>
<td>*</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>35.7</td>
<td>71.6</td>
<td>92.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Transportation, Communications</td>
<td>54.4</td>
<td>86.6</td>
<td>97.3</td>
<td>0.3</td>
</tr>
<tr>
<td>and Public Utilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>*</td>
<td>90.9</td>
<td>99.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>58.1</td>
<td>92.7</td>
<td>99.5</td>
<td>*</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate</td>
<td>61.0</td>
<td>87.2</td>
<td>97.3</td>
<td>0.2</td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>64.1</td>
<td>88.6</td>
<td>97.4</td>
<td>0.2</td>
</tr>
<tr>
<td>All Industries</td>
<td>58.3</td>
<td>90.2</td>
<td>98.5</td>
<td>0.1</td>
</tr>
</tbody>
</table>

* Less than 1/10 of 1 percent

SOURCE: Same as Tables 2, 3 and 6.
The asterisk indicates that the proportion in both the state and nation is the same.

<table>
<thead>
<tr>
<th>Region</th>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Services</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Contract Construction</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Transportation, Communi-</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>cation and Public</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>*</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Finance, Insurance and</td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Real Estate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>x</td>
<td>x</td>
<td>*</td>
<td>x</td>
</tr>
<tr>
<td>All Industries</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

Though individual business establishments in the nation and region are of relatively small size, collectively they account for a significant portion of total private-sector nonagricultural employment and income. Following are the percentage distributions of small establishments (employing fewer than 100 workers) to total industrial employment and income in their respective areas. 4

<table>
<thead>
<tr>
<th>Number of Establishments</th>
<th>Employment</th>
<th>Sales Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>United States</td>
<td>97.8</td>
<td>49.7</td>
</tr>
<tr>
<td>Region VII</td>
<td>98.1</td>
<td>52.4</td>
</tr>
<tr>
<td>Iowa</td>
<td>98.3</td>
<td>48.1</td>
</tr>
<tr>
<td>Kansas</td>
<td>98.4</td>
<td>57.4</td>
</tr>
<tr>
<td>Missouri</td>
<td>97.9</td>
<td>51.2</td>
</tr>
<tr>
<td>Nebraska</td>
<td>98.5</td>
<td>57.9</td>
</tr>
</tbody>
</table>

From the above figures it is clear that small business enterprises are relatively more important in the economy of the region than in the nation at large.

THE WELFARE OF SMALL BUSINESS IN THE REGION

It is difficult to be dispassionate and objective about "small business" whether considering it as a contributing and important segment of the economy or as an expression of "The American Way of Life," of free enterprise and capitalism. Various individuals and groups often
exhibit great concern. These include: (1) the small business owners themselves; (2) their suppliers, who depend upon them for existence; (3) economists and other students of "the problems;" and, of course, (4) politicians. All are properly concerned with the welfare of small business.

As the data analyzed in this paper indicate, the mortality rate among smaller, younger businesses is quite high. Those who do survive, however, experience a greater growth rate than their larger counterparts.

**Business Failures By Establishment Employment Size**

David L. Birch, of the MIT Program on Neighborhood and Regional Change, has provided statistics on the number of business establishments which failed during the periods 1969-1972 and 1974-1976, broken down by geographic area, industry classification and establishment employment-size. Business failures in each size category for both the region and the nation as a whole, as a percent of the total number of business failures reported by Birch in the area, are shown in Table 7.

Table 7 clearly shows that, in all areas of the country, the probabilities of survival improve as a business establishment grows larger, and that far the largest number of business fatalities occur among the smallest firms—those employing fewer than five workers or none at all. In the latter employment-size category it is also noted that the state and regional proportions are significantly higher than the average for the nation as a whole. The smallest firms are even more vulnerable in times of recession.

Within the region, Nebraska and Kansas firms employing fewer than five workers are more vulnerable than firms of similar size located farther west of the large industrial and population centers (Chicago, St. Louis and Kansas City).

**Age of Failed Businesses**

The odds for survival also improve as a firm grows older. The mortality rate among the newer business enterprises is very high, particularly during the first year of operation. As noted on the following graph, it is estimated that 35 percent of all new firms fail before the end of the first year of operation, and about 55 percent before the end of their second year.

Professor Birch has also provided data on the average age of business establishments that survived as of the year 1976. These data are reproduced in Table 8.

Ignoring for the moment the average age of businesses with no employees, it is noted in Table 8 that, with the exception of Nebraska establishments employing from 500 to 999 employees, average age increases progressively as business establishments increase in size. This observation is consistent with the one earlier noted: that the probabilities of survival improve as a firm grows larger.
### Table 7

<table>
<thead>
<tr>
<th>Employment Size</th>
<th>1969-1972</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>United States</td>
<td>Region</td>
<td>Iowa</td>
<td>Kansas</td>
<td>Missouri</td>
<td>Nebraska</td>
</tr>
<tr>
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<td>67.6%</td>
<td>73.4%</td>
<td>73.1%</td>
<td>75.1%</td>
<td>71.1%</td>
<td>76.7%</td>
</tr>
<tr>
<td>5-19 Employees</td>
<td>24.7%</td>
<td>21.1%</td>
<td>21.6%</td>
<td>19.8%</td>
<td>22.4%</td>
<td>18.8%</td>
</tr>
<tr>
<td>20-99 Employees</td>
<td>6.4%</td>
<td>4.6%</td>
<td>4.5%</td>
<td>4.0%</td>
<td>5.3%</td>
<td>3.9%</td>
</tr>
<tr>
<td>100-249 Employees</td>
<td>0.9%</td>
<td>0.6%</td>
<td>0.5%</td>
<td>0.4%</td>
<td>0.8%</td>
<td>0.5%</td>
</tr>
<tr>
<td>250-499 Employees</td>
<td>0.3%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.09%</td>
<td>0.3%</td>
<td>0.08%</td>
</tr>
<tr>
<td>500-999 Employees</td>
<td>0.1%</td>
<td>0.04%</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.07%</td>
<td>0.0%</td>
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<td>0.05%</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.01%</td>
<td>0.04%</td>
<td>0.02%</td>
</tr>
<tr>
<td></td>
<td>1974-1976</td>
<td></td>
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<td></td>
<td></td>
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</tr>
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<td>Region</td>
<td>Iowa</td>
<td>Kansas</td>
<td>Missouri</td>
<td>Nebraska</td>
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<tr>
<td>Less Than 5 Employees</td>
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<tr>
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<td>20.2%</td>
<td>20.8%</td>
<td>19.3%</td>
<td>21.5%</td>
<td>17.6%</td>
</tr>
<tr>
<td>20-99 Employees</td>
<td>5.7%</td>
<td>4.1%</td>
<td>4.1%</td>
<td>3.9%</td>
<td>4.4%</td>
<td>3.6%</td>
</tr>
<tr>
<td>100-249 Employees</td>
<td>0.8%</td>
<td>0.6%</td>
<td>0.7%</td>
<td>0.4%</td>
<td>0.7%</td>
<td>0.3%</td>
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<tr>
<td>250-499 Employees</td>
<td>0.2%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.05%</td>
<td>0.2%</td>
<td>0.08%</td>
</tr>
<tr>
<td>500-999 Employees</td>
<td>0.09%</td>
<td>0.07%</td>
<td>0.09%</td>
<td>0.06%</td>
<td>0.08%</td>
<td>0.02%</td>
</tr>
<tr>
<td>1,000 Employees or More</td>
<td>0.04%</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.01%</td>
<td>0.03%</td>
<td>0.02%</td>
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</tbody>
</table>

**NOTE:** Column detail may not add to 100.0 due to rounding.

**SOURCE:** Same as Tables 2, 3 and 6.
<table>
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<th>Region</th>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
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</thead>
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<td>17</td>
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<td>19.6</td>
<td>14.7</td>
<td>11.0</td>
</tr>
<tr>
<td>1-4 Employees</td>
<td>11</td>
<td>12</td>
<td>12.8</td>
<td>11.6</td>
<td>11.0</td>
<td>12.5</td>
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<td>15.7</td>
</tr>
<tr>
<td>20-99 Employees</td>
<td>19</td>
<td>20</td>
<td>20.0</td>
<td>19.2</td>
<td>20.5</td>
<td>20.4</td>
</tr>
<tr>
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<td>25</td>
<td>29</td>
<td>30.5</td>
<td>27.0</td>
<td>30.0</td>
<td>29.1</td>
</tr>
<tr>
<td>250-499 Employees</td>
<td>33</td>
<td>37</td>
<td>40.9</td>
<td>34.8</td>
<td>35.6</td>
<td>40.1</td>
</tr>
<tr>
<td>500-999 Employees</td>
<td>42</td>
<td>43</td>
<td>44.2</td>
<td>35.8</td>
<td>44.8</td>
<td>38.1</td>
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<tr>
<td>1,000 Employees or More</td>
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<td>63</td>
<td>74.2</td>
<td>52.9</td>
<td>60.2</td>
<td>64.5</td>
</tr>
<tr>
<td>All Establishments</td>
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<td>14</td>
<td>14.6</td>
<td>13.2</td>
<td>13.1</td>
<td>14.3</td>
</tr>
</tbody>
</table>

SOURCE: Same as Tables 2, 3, 6 and 7.
Source: U.S. Department of Commerce, Age and Life Expectancy of Business Firms.
An examination of the data in Table 8 also reveals that the average age of business establishments is higher in all states of Region VII in all size categories than in the nation as a whole. This may be explained in part, as noted earlier, by the region's higher mortality rate among the smaller and younger establishments. It may also suggest that perhaps the rate of new business formation is not as high in the region as in the nation; no reliable data are currently available, however, to determine this one way or the other.

The average age of establishments with no paid employees—the so-called "Mom 'n Pop" businesses—is somewhat higher than one might expect, in both the nation and the region. This is so because many of these enterprises which are no longer economically viable, if indeed they ever were, are run by people who do not value their time as much as they value being "their own boss." Many such businesses are pursued for noneconomic reasons, as a "way of life," and hence do not respond to changing economic conditions.

**Patterns of Business Expansion and Contraction**

Though newer (younger and smaller) firms are less likely to survive, those that do survive are likely to grow rapidly until they reach maturity. In his work, Professor Birch has computed ratios of the number of establishments that expanded their work force between 1969 and 1972 and between 1974 and 1976, to the number of establishments that reduced their work force during those periods. These ratios are also reproduced in Table 9.

The ratios in Table 9 provide a measure of growth potential. Ratios greater than 1.00 indicate that more firms are expanding than are contracting their operations; ratios lower than 1.00 indicate the reverse pattern. It is noted that the ratios decline as employment size increases—the smaller establishments growing more rapidly, or contracting less rapidly, than the larger ones.

Establishments employing fewer than 20 workers showed the greatest rate of employment growth during the 1969-1972 period, in both the region and the nation. However, the ratios are much smaller in all size categories in all areas during the 1974-1976 period; this, of course, reflects the economic recession which started to develop in late 1974 and which peaked in 1975. The ratios also indicate that business in Region VII was less seriously affected by the 1974-1975 recession than was the nation at large (except, as previously noted, for the high mortality rate of the extremely small firms). The region also fared better than the rest of the nation during the prerecession period.

**Failures by Type of Business**

Data provided by Professor Birch indicate that most business failures in any geographic area occur in retail trade. During the 1969-1972 period, retailers accounted for more than 52 percent of the total number of establishments that went out of business in the region; a similarly high proportion of retail business failures also occurred in the nation as a whole. Comparable percentages for other industries in
Table 9
INDEX OF NUMBER OF ESTABLISHMENTS WITH EXPANDING WORK FORCE TO NUMBER OF ESTABLISHMENTS WITH CONTRACTING WORK FORCE, 1969-1972 AND 1974-1976

<table>
<thead>
<tr>
<th>Employment Size</th>
<th>United States</th>
<th>Region</th>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than 5 Employees</td>
<td>9.80</td>
<td>11.01</td>
<td>11.04</td>
<td>12.62</td>
<td>9.89</td>
<td>11.37</td>
</tr>
<tr>
<td>5-19 Employees</td>
<td>1.26</td>
<td>1.32</td>
<td>1.29</td>
<td>1.43</td>
<td>1.15</td>
<td>1.67</td>
</tr>
<tr>
<td>20-99 Employees</td>
<td>0.85</td>
<td>0.79</td>
<td>0.77</td>
<td>0.82</td>
<td>0.77</td>
<td>0.87</td>
</tr>
<tr>
<td>100 Employees or More</td>
<td>0.66</td>
<td>0.67</td>
<td>0.82</td>
<td>0.52</td>
<td>0.63</td>
<td>0.77</td>
</tr>
<tr>
<td>All Establishments (average)</td>
<td>2.98</td>
<td>3.58</td>
<td>3.76</td>
<td>4.15</td>
<td>2.94</td>
<td>4.23</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employment Size</th>
<th>United States</th>
<th>Region</th>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than 5 Employees</td>
<td>2.39</td>
<td>2.35</td>
<td>2.36</td>
<td>2.39</td>
<td>2.26</td>
<td>2.56</td>
</tr>
<tr>
<td>5-19 Employees</td>
<td>0.85</td>
<td>0.95</td>
<td>1.04</td>
<td>0.96</td>
<td>0.90</td>
<td>0.96</td>
</tr>
<tr>
<td>20-99 Employees</td>
<td>0.74</td>
<td>0.87</td>
<td>0.89</td>
<td>0.94</td>
<td>0.80</td>
<td>0.97</td>
</tr>
<tr>
<td>100 Employees or More</td>
<td>0.65</td>
<td>0.76</td>
<td>0.81</td>
<td>0.92</td>
<td>0.69</td>
<td>0.66</td>
</tr>
<tr>
<td>All Establishments (average)</td>
<td>1.20</td>
<td>1.33</td>
<td>1.39</td>
<td>1.38</td>
<td>1.26</td>
<td>1.37</td>
</tr>
</tbody>
</table>

SOURCE: Same as Tables 2, 3, 6, 7 and 8.
areas for the 1969-1972 period are indicated in the top half of Table 10.

The bottom half of this table provides industry failure statistics for the recessionary 1974-1976 period. These data indicate that the types of businesses most sensitive to changing economic conditions are contract construction and the service-type businesses, those largely dependent upon the discretionary incomes of their customers.

The relatively large proportion of retailers among the establishments that failed in the 1969-1972 and 1974-1976 periods obviously reflects, in large part, the fact that there are so many more of them, as noted previously in Table 2(A). A more meaningful measure of the incidence of business failures in a particular industry and among different industries is to relate these business-failure proportions to the proportionate number of businesses of that type in the given area; this was done in Table 11. The significant ratios in the table are those higher than 1.0. An examination of the table clearly shows that, in all areas, retail establishments are more prone to fail than any other type of industry.

One can only conjecture as to the reason for this, but it has been observed that beginning retailers frequently are people whose previous work experience has been limited to selling and to inventory "care;" their employers did not expose them to details of the accounting or other control facilities of the firm. In a manufacturing job, in contrast, employee skills acquired in production are more the "meat" of the business. While controls do also exist, shop employees are closer to the work done--quality controls, for example.

Wholesalers exhibit less vulnerability to business failure than do retailers, perhaps because they carry less varied lines of merchandise, and the needs of their customers usually are more readily known and less changing. While inventory controls are necessary and present in wholesaling firms, they are not likely to be so complex. The wholesaler also may have more "lead time," that is, he can secure goods not in stock more quickly from manufacturers, in time for delivery to retailers. The retailer who does not have the right item as of a given moment will usually lose the sale. The wholesaler can predict his customers' needs more accurately, knowing the general trends of the market better.

The high ratios in contract construction and in transportation, communications and public utilities, on the other hand, would appear to be more related to general economic conditions than to poor preparation for business ownership or the lack of management expertise, though of course the latter may also be a factor.

Causes of Business Failure

In fact, the evidence clearly shows that ineffective management is the cause of most business failures. Ineffective management was cited as the underlying cause in more than 90 percent of the business fatalities recorded by Dun & Bradstreet in 1977. In more than 40 percent
<table>
<thead>
<tr>
<th>Industry</th>
<th>1969-1972</th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Services</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
<td>0.9</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>0.8</td>
<td>0.8</td>
<td>0.5</td>
<td>2.1</td>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Contract Construction</td>
<td>11.7</td>
<td>12.8</td>
<td>11.4</td>
<td>12.0</td>
<td>13.7</td>
<td>14.7</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>12.3</td>
<td>9.0</td>
<td>8.4</td>
<td>9.0</td>
<td>10.3</td>
<td>6.5</td>
</tr>
<tr>
<td>Transportation, Communications and Public Utilities</td>
<td>3.0</td>
<td>4.0</td>
<td>4.6</td>
<td>4.3</td>
<td>3.3</td>
<td>4.1</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>9.8</td>
<td>11.0</td>
<td>12.3</td>
<td>10.7</td>
<td>10.3</td>
<td>10.8</td>
</tr>
<tr>
<td>Retail Trade</td>
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<td>52.3</td>
<td>52.3</td>
<td>51.7</td>
<td>53.1</td>
<td>50.8</td>
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<td>Finance, Insurance and Real Estate</td>
<td>0.8</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>8.2</td>
<td>8.8</td>
<td>9.4</td>
<td>8.8</td>
<td>7.5</td>
<td>11.2</td>
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<td>0.9</td>
<td>0.4</td>
<td>2.6</td>
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<td>0.5</td>
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<td>Contract Construction</td>
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<td>5.0</td>
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<td>Transportation, Communications and Public Utilities</td>
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<td>5.4</td>
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<td>4.8</td>
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<td>39.6</td>
<td>42.7</td>
<td>39.7</td>
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<tr>
<td>Finance, Insurance and Real Estate</td>
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<td>1.7</td>
<td>1.9</td>
<td>2.1</td>
<td>1.3</td>
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<td>Nonfarm Services</td>
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<td>16.7</td>
<td>19.9</td>
<td>15.1</td>
<td>19.9</td>
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**NOTE:** Column detail may not add to 100.0 due to rounding.

**SOURCE:** Same as Tables 2 and 3 and Tables 6 through 9.
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<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
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<td>0.3</td>
<td>0.3</td>
<td>0.5</td>
<td>0.4</td>
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<td>1.0</td>
<td>1.1</td>
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<td>1.1</td>
<td>1.0</td>
<td>0.7</td>
</tr>
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<td>Contract Construction</td>
<td>1.1</td>
<td>1.1</td>
<td>1.1</td>
<td>0.9</td>
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<td>1.3</td>
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<td>1.1</td>
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<td>1.0</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
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<tr>
<td>and Public Utilities</td>
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<td></td>
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<tr>
<td>Wholesale Trade</td>
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<td>0.8</td>
<td>0.8</td>
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<td>1.2</td>
<td>1.1</td>
<td>1.1</td>
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<td>1.1</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate</td>
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<td>0.4</td>
<td>0.5</td>
<td>0.4</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>0.8</td>
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<td>1.2</td>
<td>1.2</td>
<td>0.8</td>
<td>1.2</td>
</tr>
</tbody>
</table>

**Sources:** Tables 2(A) and 10.
of these cases it was the opinion of creditors and others who had dealt with the demised firms that the businesses should never have been started in the first place because of the incompetence of the owners. In the remaining instances, poor management was attributed to the owners' lack of experience in the business; lack of management experience or "know-how"; or unbalanced management training or experience, that is, knowledge or experience not well rounded in sales, finance, purchasing and production. Ineffective management was evidenced by inadequate sales, lack of need for the business in the area selected, overextension of credit, inventory problems, competitive weakness, excessive fixed assets and lack of adequate expense controls.6

OUTLOOK FOR THE 1980s

As noted in an earlier section of this paper, all nonagricultural industries except mining and quarrying are providing increasing employment opportunities for the residents of Region VII. Projected employment and new-business opportunities, however, vary widely from industry to industry.

In the mining industry the 1970-1977 employment decreases in the region and nation are expected to be slowed considerably, and even reversed, as the nation relies increasingly on coal and shale as sources of fuel.

In manufacturing, though employment and the number of establishments have increased only moderately in recent times, output has increased dramatically. However, it is estimated that 75 percent of this output is concentrated in only 3 percent of the manufacturing firms. It is clear that big business is predominant in manufacturing, particularly in well-established industries where large markets for low unit cost products exist; where technology and mechanization have been developed to a high degree of efficiency, but where huge capital investments are required; and where standardization and simplification (limitation of variety) are desirable policies.

However, the mass-production system is often dependent on the small production plant for supplies and components. Some observers comment that the large manufacturing plants are essentially assemblers of the products of thousands of small specialized manufacturers. Thus, it is the very existence of the large manufacturers that provides the smaller manufacturers with many of their opportunities. It can be said that as big business grows, so also does small business; for the most part, these sectors of the manufacturing economy are noncompetitive and interdependent, each having a unique and equally important role in the economy. Thus, opportunities for smaller manufacturers in the region's economy will continue to increase as the 1980s are entered.

Large manufacturers are also dependent upon small retailers for the distribution of their products. The products of the great business "names" are available in such remote places as Pleasant Valley, Iowa; Enterprise, Kansas; Fidelity, Missouri; and Beaver Crossing, Nebraska only through the invaluable services provided by small independent merchants. Despite the deep incursions into the market made in recent
years by large department stores, chain stores and mail-order houses, retailing remains largely the "bailiwick" of the small, independent enterpriser.

The outlook for small service establishments in the region is equally optimistic. This sector of the economy has shown the greatest growth, both in terms of employment and the number of establishments. An important factor contributing to this growth is that the purchase of services is taking an increasingly larger proportion of the consumer's dollar. Working spouses, increased incomes and increased sales of household appliances, automobiles, gardening devices and recreational equipment have provided a natural market for specialized services of various kinds.

It is apparent that the mass producers of automobiles, farm machinery, TV sets and other electromechanical products of an increasingly affluent society are dependent on thousands of small, independent service establishments for the repair, upkeep and maintenance of these products. Again, as noted above, numerous small enterprises are essential to enable a few large ones to concentrate on those activities where their efforts are most effective.

On a less optimistic note, opportunities for the small business person in wholesale trade are expected to diminish in the 1980s, owing principally to the absorption of the wholesaling function by franchising organizations, manufacturers' representatives and large-scale integrated retailers like chain stores, department stores and mail-order houses.

In summary, as the 1980s are approached, it is noted that the importance of small business in the nation's and region's economy over the years has remained remarkably stable. To put it another way, when the amount of business done by small business, the total of persons so employed and the number of such establishments are compared to their respective totals, the resulting percentages remain substantially the same from one year to the next. Thus, as the region's economy grows, so also will the small business sector of the economy grow. This growth, however, as noted will vary from one type of business to another and with technological and social change. 7

GOVERNMENT POLICY RECOMMENDATIONS

On the basis of the analysis presented in this paper and, in part, on the author's experiences in working with owner/managers of smaller businesses over the years, the following innovations and changes in government policy are recommended:

1. That the SBA limit its financial, management and technical assistance programs to owner/managed manufacturing firms employing fewer than 100 workers, and firms in other industries employing fewer than 50 workers.

As noted in an early part of this paper, about 98 percent of all nonfarm businesses in the United States and in Region VII employ fewer
than 100 workers; by SBA's current size standards, the proportion comes close to 100 percent and the term "small business" seems somewhat of a misnomer. By reducing the maximum employment size of manufacturers to "under 100," the proportion of manufacturing firms eligible for government assistance is reduced to a more manageable 90 percent. By reducing the maximum employment size of all other nonfarm industries to "under 50," the proportion of eligible firms also approaches an estimated 90 percent.

In defining small business, however, a purely quantitative measurement is inadequate. Although the employment or sales-income size of a company is significant, the more meaningful distinction among businesses is whether or not they are owner-managed.

Remaining policy recommendations relate to SBA's "management assistance" program, which many working with small business feel should be improved and upgraded. Initially, the Small Business Administration was created (in 1953) to provide financial and government procurement assistance to smaller businesses. In the 25 years since it was formed, the SBA's primary emphasis on financial (and related government procurement) assistance has remained essentially unchanged. To quote the current administrator, A. Vernon Weaver, in response to a question asked of him, What do you consider to be the SBA's highest priorities?, "The most important program in the SBA is collecting the loans we've already made. We must keep our loss ratio at a reasonable level. Number two is to give management assistance to borrowers to improve the chances that our loans will be successful ...." Viewed in this way, SBA's "management assistance" program is merely an adjunct to its financial assistance program. A true governmental management assistance program is one offered with "no strings attached." The SBA is essentially a lender of last resort and, as such, most small companies are not eligible for SBA financial assistance--though they can profit from a management assistance program structured to their needs.

The following additional recommendations, it is felt, merit consideration by administrative and legislative policymakers:

2. That all small business firms (as defined above) be brought within the scope of the Small Business Institute program, regardless of whether or not they are making payments on a direct SBA loan or on an SBA-guaranteed loan.

Initially, in getting the SBI program started, only those firms which were at least 60 days delinquent in their loan payments and were owned by socially and economically disadvantaged persons were recruited for student management-counseling assistance. By definition, this group has been outside the business mainstream, weak in management capabilities. Since then, the program has been expanded to include other small companies which have received SBA financial assistance. It bears mention, here, that the Small Business Administration is prohibited by law from extending financial assistance to firms that can obtain
this assistance from private banking sources on "reasonable" terms; thus, it is the more risky business enterprises that need to seek government financial assistance. Under current SBA operating rules, the less risky, more viable, more successful small businesses with a greater probability of survival or growth are not entitled to government-supported management counseling assistance. This governmental policy, the author believes, is short-sighted and fundamentally wrong.

3. That the SBI student counseling program be augmented by a student small business intern program --or alternatively, that the SBA fund a pilot study to determine the feasibility of such a program.

The essence of this proposal is that the federal government (SBA) pay a percentage of the salary cost of student "assistants" hired by a small business for a specified period (one semester, or perhaps an academic year) up to a certain ceiling. Participating students would be senior-level or graduate students who have had or who are currently matriculating in an approved university or college course in small business management.

It is of interest to note that last year Canada committed $5.4 million in support of a program under which the government pays 50 percent of the first year's salary of a university or college graduate hired by a small business (up to a specified maximum). The difference between this program and the author's proposal is the objective of creating permanent jobs with Canadian firms.

Many European countries, it has also been learned, have similar programs under which a portion of a small business's cost of hiring a professional consultant is reimbursed.

It should also be noted that in a small business intern program, the student essentially maintains his role as a student, the small business owner/manager assuming the role of a teacher. This is in contrast with the SBI program, in which these roles are reversed, often to the consternation or resentment of the small business owner.

4. That the SBA rely more heavily than it currently does on a continuing education program as a form of management assistance.

In developing a management assistance program, government-supported or otherwise, an important goal or objective is to assist small business owner/managers to help themselves. Management assistance, based largely on different forms of management education and training, will be of increasing importance in the decades ahead for the viability and success of small business enterprises. In contrast with the counseling form of management assistance, which is remedial in nature, education and training is a preventive form of aid. The direct, private or one-on-one counseling approach requires a considerable outlay of time and money. Much more effective is the missionary method of education.
The author's sentiments, or philosophy of small business management assistance, is best summed or expressed by the following quotation (source unknown): "If you give a man a fish, you feed him for one day. Teach that man how to fish, and you feed him for a lifetime."

Realistically, small business owners cannot maintain themselves indefinitely on counseling assistance. To have a long-range and important impact, management assistance must be viewed as an education and training method. This is particularly important in a world of rapid change.

5. That participation in small business continuing education programs, whether co-sponsored by SBA or not, be encouraged by a system of tax credits awarded on the basis of the number of Continuing Education Units (CEU) earned during the taxable year.

Another operating rule of an effective management assistance program is to create a desire on the part of small business owner/managers for self-improvement. The small business proprietor is something of an enigma. His business ventures are extremely risky, yet with various opportunities available to reduce risk, he often fails to take advantage of them.

A study of adult education, night school and correspondence courses probably would reveal that it is employees who are taking regular courses under the pressure of advancement and demands by employers. Employees will study a particular subject in depth, such as salesmanship and accounting, because they want "to get ahead." Unfortunately, many small business proprietors (unlike many of their employees) display a limited perception of the value of education as a means of personal achievement and success, an attitude which tends to reduce their motivation to learn.

Technological and social change, and the increasing pressures of a more enlightened competition, will cause a relatively larger proportion of the small business population to avail themselves of opportunities to improve managerial competence in order to increase their probability of success. But far too many will still have not overcome their resistance to change, their reluctance to accept management training and assistance. The bulk of them will need to be motivated in more direct, more immediate and more concrete or tangible ways.

As a practical matter, the author believes that this motivation can be generated quickly and effectively by using the nation's taxing system. Tax credits have long been used to provide incentives for the achievement of desired economic and social goals, such as greater capital investment, employment of the handicapped or economically disadvantaged and home insulation to encourage energy conservation. The granting of tax credits to owner/managers of enterprises qualifying as "small" businesses, who complete successfully approved seminars or short courses in various aspects of small business management, should (the author believes) be an integral part of any government-inspired management assistance program.
The amount of tax credit would vary with the number of CEUs earned during the taxable year. The CEU is a unit of measurement being used throughout the United States by educational institutions to record participation in noncredit (nondegree) education programs. One CEU is awarded for each "ten hours of participation in an organized continuing education experience under responsible sponsorship, capable direction and qualified instruction."

Thus, there already exists among the nation's colleges and universities, a built-in administrative structure for a program of this kind. The only costs would be direct costs, in the form of tax credits to the small business participants; CEU certificates could be attached to income tax returns, serving the same function as the W-2s.

METHODOLOGY

The data presented in the preceding section are not mere compilations of facts and figures about the region's economy. They were interpreted and fitted into a framework of analysis structured around a generally accepted view of the nature of regional economic development. Stated simply, this view is that an area grows only because it affords employment and income opportunities for the people who live there. Population movements are largely in response to these opportunities, or to the lack of them.

If this study is to achieve its objective of evaluating the role of small business in the region's economy, it is necessary first to determine the nature of that economy and to analyze recent trends in the area's production of goods and services, particularly those of the "export" or basic variety.

THE ANALYTICAL FRAMEWORK

From one area to another over the face of the earth there are marked differences--differences in the resources lavished upon them by nature, differences in the kinds of economic goods and services produced, differences in the nature of jobs performed, differences in the size and distribution of incomes and differences in population density and composition.

Some of these differences result from factors beyond the control of the residents of any given area. Mineral deposits, for example, cannot be relocated--though new deposits may be discovered. River basins have been fixed by natural developments over centuries--though channels can be deepened and water can be diverted for irrigation. Soil, climate and rainfall--so important to Region VII's agricultural and agriculturally-oriented economy--can be affected only in limited ways by man. And, there is nothing the residents of an area can do to relocate that area and place it more favorably in juxtaposition to dense (market) areas.

But many other differences among areas reflect not these immovable factors, but man's adjustment to them. People can--and many do--move from one area to another in response to better employment
opportunities and higher income prospects. Thus, the occupational makeup of an area depends upon the type of jobs its resources and location will support, and its population density depends upon the number of such jobs which are available. The nature and number of jobs also influences the size and distribution of incomes earned by residents of the area.

Basic Assumption

In explaining the location of man and the nature of his activities as they vary from one area to another, the economist starts with a basic assumption about human behavior. He assumes that a man will usually prefer a higher income to a lower income and that he will move --from place to place, from job to job--to get it, if possible.

Now, in making this bald assumption the economist does not necessarily presume its perfect application. He recognizes that individuals may not know where their highest income prospects lie and, consequently, may accept less than the maximum through ignorance. He acknowledges, in addition, that some individuals will sometimes prefer less income in one location to more in another because of community or family ties. He is aware also that there may be bars to desired movement because of inadequate education or training, because of the costs of movement, or because favored areas or groups resist the entry of newcomers. But--taking into account these qualifications--the economist believes that enough people will move from higher incomes to account for the more important differences in population, jobs and incomes from one area to another.

Where Do People Maximize Income?

Accepting the view that people tend to move toward higher incomes in significant numbers to account for differences from area to area, what gives rise to the ability of one area over another to attract people by offering higher incomes?

Basically, the highest income will be offered by the area with jobs to be performed where the margin between costs (of resources used) and revenues (from products produced) is the greatest. This margin will be greatest when costs are minimized by locating near sources of raw material supply, and sales income is maximized by locating near product markets. Or--in the usual case where materials and product markets are not coincident--the margin will be greatest when that location is selected which best offsets gains in one market against losses in the other.

Thus, business operators tend to move their operations toward the highest margin areas, and are better able to offer higher wages in those locations. To these areas, people will be "pulled." Or conversely, they may be said to be "pushed" from lower-margin areas from which the business operator will be withdrawing his resources and in which he can offer only lower wages.
Each area, then, offers jobs of the type for which its margin is high. That is, each area offers those jobs which its location—relative to resources and markets—dictates.

"Export" Jobs the Key

Some jobs, however, are performed in every area approximately in proportion to the local population. Each area has its grocery stores (and its other retail and service establishments); its governmental employees (to legislate, execute policy, teach, judge, protect, maintain streets, etc.); its utilities; and its "local" manufacturing (bakeries, newspapers, etc.). These are so-called "tertiary" or nonbasic industries. The important thing about them is that employment in these local, population-serving industries depends largely upon the number of people occupied in serving other areas.

Distinctions among areas, therefore, are dependent upon those activities, firms and jobs which serve needs outside the area. Thus, the farmers, manufacturers and others who serve a broad region—or perhaps the nation or even the world at large—give an area its distinctive characteristics. These are its basic (or primary) industries. They vary from place to place both in composition and in relative importance.

Stated in another way, a "basic" (or specialized) economic activity is the production of any commodity or service beyond the requirements of the local population. This surplus production is then "exported," that is, shipped to other areas in exchange for the latter's surplus production of goods and services. So long as an area's exports are equal to, or are not greatly below the level of, its imports there may be some expansion in the local economy resulting from natural population growth and increased per capita consumption of goods and services. However, economic growth—and hence, population—occurs most rapidly in those areas with characteristically favorable "balances of trade," that is, in those areas which export more goods and services than are imported.

Thus, this study of the economic base or "profile" of Region VII began with an analysis of the region's production of goods and services, followed by an analysis of the consequences of these production activities in terms of local employment, income and population.

Measuring Economic Base Activity

Ideally, in measuring an area's economic base, the analyst would require product-distribution information from individual firms in the economy, expressing intra and interregion sales (including sales to foreign countries) as percentages of total sales. Unfortunately, however, such proprietary data are not readily available, and the economist is forced to resort to other methods of measurement.
One method of inferring the extent of economic base activity from secondary data sources is to compute what are known as "localization coefficients" or indexes of "industrial intensity." This is a measure of export activity obtained by relating the value of products and services produced in a given industry and area to the total value of goods and services produced in that industry in the nation as a whole on a per capita basis (that is, by dividing the area's percentage share of total output in the industry by its percentage share of the nation's population).

Localization coefficients greater than 1.00, computed for the region and its composite states in Table 12, indicate the extent to which production in the industry is to be in excess of the needs of the local population. In this table, "sales income" was used as a measure of output.

Another, less refined method of inferring export activity in an area industry is to compute sales income (or employment) in the industry as a percentage of the area's total business income (or employment). In this study, the two methods yielded similar results.

Current and trend data on the region's production of economic goods and services, and on changes in employment, income and population in the region, were tabulated in the preceding section of this paper. Also presented in tabular form were statistical data on industrial production, employment and sales income on an establishment-size basis, measured in terms of employment size. These tables support the conclusions reached in the paper.

THE DATA BASE

The primary source of data used in supporting the conclusions reached in this study was the data set prepared for the SBA by Dr. David L. Birch, MIT Program on Neighborhood and Regional Change, under Contract No. SBA 2608-OA-79. Like the U.S. Census of Business and County Business Patterns (alternative data sources published by the U.S. Department of Commerce and the Social Security Administration's Division of OASDI Statistics, respectively), it provides nonagricultural industry employment data distributed by establishment employment size. Unlike these latter sources, however, it also provides, on an employment-size basis, data on industry sales revenues, business fatalities, average age of business establishments and employment growth patterns.

Additionally, the 1977 Census of Business had not yet been published at the time this paper was prepared, and 1972 was the latest year for which census data were available.

Both the Birch data and County Business Patterns provide data for the year 1976. Because of its wider scope, however, the Birch data set was selected for use in this study--but only after apparent differences in the estimates of the number of business establishments in the United States had been "reconciled" to the author's satisfaction.
Table 12
INDEXES OF INDUSTRIAL INTENSITY,* 1976
(Localization Coefficients)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Region</th>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Services</td>
<td>9.9</td>
<td>2.5</td>
<td>2.0</td>
<td>3.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
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<td>0.2</td>
<td>0.8</td>
<td>1.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Contract Construction</td>
<td>5.3</td>
<td>1.2</td>
<td>1.1</td>
<td>2.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Manufacturing</td>
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<td>1.0</td>
<td>1.0</td>
<td>2.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Transportation, Communications</td>
<td>5.9</td>
<td>0.8</td>
<td>1.5</td>
<td>2.6</td>
<td>1.1</td>
</tr>
<tr>
<td>and Public Utilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>6.5</td>
<td>1.7</td>
<td>1.4</td>
<td>2.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>5.5</td>
<td>1.2</td>
<td>1.4</td>
<td>2.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Finance, Insurance and Real Estate</td>
<td>5.2</td>
<td>1.1</td>
<td>0.7</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>4.2</td>
<td>0.5</td>
<td>1.3</td>
<td>2.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Percent of Nation's Population, 1976</td>
<td>5.3</td>
<td>1.3</td>
<td>1.1</td>
<td>2.2</td>
<td>0.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Industry</th>
<th>Region</th>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Services</td>
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<td>1.92</td>
<td>1.82</td>
<td>1.41</td>
<td>3.29</td>
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<td>Contract Construction</td>
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<td>0.95</td>
<td>1.43</td>
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<td>Transportation, Communications</td>
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<td>and Public Utilities</td>
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<tr>
<td>Wholesale Trade</td>
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<td>1.00</td>
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<tr>
<td>Finance, Insurance and Real Estate</td>
<td>0.98</td>
<td>0.85</td>
<td>0.64</td>
<td>0.91</td>
<td>2.14</td>
</tr>
<tr>
<td>Nonfarm Services</td>
<td>0.79</td>
<td>0.38</td>
<td>1.18</td>
<td>0.91</td>
<td>0.43</td>
</tr>
</tbody>
</table>

* Percent of total industry sales income in U.S. divided by percent of nation's population.

**Sources:** Population data from U.S. Department of Commerce, Bureau of the Census; sales income data prepared for SBA by David L. Birch, MIT Program on Neighborhood and Regional Change, under Contract No. SBA 2608-OA-79.
In reconciling the two sets of data, the author first eliminated religious, fraternal, political, charitable, educational and other non-profit organizations from the reported total number of establishments in 1976 County Business Patterns. Also eliminated were such service "industries" as the offices of physicians, dentists, chiropractors, optometrists, veterinarians and lawyers. Then, after allowing for the Social Security Administration's 9 percent estimate of those who are self-employed, the net adjusted County Business Patterns total was 3,838,626 establishments, only 3.6 percent more than Birch's estimate of 3,706,763.

It should be noted that both these estimates are considerably lower than the SBA's 1975 estimate of 10,640,800 "businesses," based on Internal Revenue Service data. The disparity in these estimates is largely accounted for by the fact that IRS data include all persons with specified minimums of self-employment income during the taxable year, and thus, include farmers and professional men and women, as well as business owners and those who are in business for themselves only on a part-time basis; the IRS total of businesses (upon which the SBA estimate is based) may also be overstated for the reason that some businesses file more than one tax return, and some file tax returns but may not have any income at all because business is dormant. Regardless of the reason for the differences in these estimates, the disparity poses a serious problem for small business researchers; when a statistician or economist has a variety of figures to choose from, differences in conclusions are inevitable.

This problem can and should be resolved by the SBA. It has already been empowered by Congress as the ultimate authority in defining what is meant by a "small" business and in counting their numbers. There are three facets to this definitional problem: (1) defining what is meant by a business "firm" or "enterprise" (2) defining the "market" or types of enterprises to be served and (3) specifying the maximum employment level of enterprises of this type.

In addition to the recommendation made earlier in this paper--limiting SBA's financial, management and technical assistance programs to owner-managed manufacturing firms employing fewer than 100 workers, and firms in other industries employing fewer than 50 workers--the following are suggested:

1. That the SBA define a business "firm" as a business organization "under one management." Thus a business enterprise with one or more branch plants, or with one or more branch sales or service outlets, would be counted as a single firm.

2. That the SBA define a "business" so as to exclude farms and professional services and part-time enterprises whose other sources of income exceed 50 percent of their total income, as well as self-employed persons who have neither one or more employees nor an established place of business.
The latter qualification is necessary to eliminate from the small business universe the large number of "invisible" businesses--people who work out of their homes, such as seamstresses or carpenters who moonlight.

Adoption of the above recommendations would seem to be merely a matter of administrative action, except for the fact that Congress has placed responsibility on the SBA for administering the farm disaster loan program, and more recently required the SBA to extend its regular business loan program to include farmers and ranchers, so as to make them eligible for SBA's Economic Opportunity Loan program. These lending activities properly should be the responsibility of the Department of Agriculture, not the SBA. Adoption of the above two recommendations, therefore, would require--

3. That Congress rescind its actions embracing farmers and ranchers within the scope of SBA's responsibilities.

The above definitions of a "business" and a business "firm," the author of this paper believes, are most meaningful and practical.
FOOTNOTES

1 See in this volume, "The History of Small Business in Region VII" by David M. Ambrose, for an analysis of economic trends through the 1960s.

2 For a detailed discussion of the importance of small business in rural development, see in this volume, "Small Business: Vital Foundation of Rural Economy in Region VII" by Roger Z. Riefler and F. Charles Lamphear.

3 See Section on Analytical Framework for a detailed, technical discussion of basic vs nonbasic economic activity.

4 Source: Table 6, and employment-size data on employment and sales income prepared for the Small Business Administration by David L. Birch, MIT Program on Neighborhood and Regional Change, under Contract No. SBA 2608-OA-79.

5 See footnote 4.


8 Related recommendations concerning the definitions of a "business" and a business "firm" are made by the author in this paper.


10 Table 1, "1970 Economic Profile: United States Summary," Small Business Administration, Office of Planning, Research and Data Management, Economic Research and Statistics Division.
Iowa, Missouri, Kansas and Nebraska are geographically largely rural. These rural areas contain a significant fraction of the small business community of Region VII. The last 25 years of tumultuous change across the rural landscape, triggered largely by the great technological revolution in agriculture, has created mutual dependency between the enterprise of agriculture and small business. This economic and social transition has meant, however, the end for many small businesses reflecting both declining population and the demise of small towns and communities. But as the old economic landscape gave way, new business opportunities emerged which were definitely skewed toward small enterprise. Most important, this emerging landscape reflects a degree of economic integration not found in the past. A complex partnership among enterprising businesses has evolved transforming the image of rural areas from that of "backward economies" to areas of new economic opportunities. Small business played a crucial role in this important transformation.

This chapter has opened with optimistic statements about the past role of small business in the rural areas of the four-state region. It will close with equally optimistic statements about the role of small business for the future. The intervening pages provide empirical support for this optimism.

The objectives of this chapter are (1) to document the present structure of nonfarm, small business in rural areas of Iowa, Missouri, Nebraska and Kansas, (2) to analyze changes in that structure for the last quarter of a century, more specifically between 1953 and 1976, (3) to advance some scenarios concerning future development patterns, and (4) to discuss the policy implications of the findings.

Crucial to such an undertaking as outlined above is a definition of nonfarm, small business. Of the 248,047 nonfarm business establishments reported in 1976 by County Business Patterns for the four-state region, 99.8 percent have less than 500 employees. Moreover, 96 percent have less than 50 employees, and 89 percent have less than 20 workers. Only in manufacturing, with 14,525 reporting units (5.9% of the total) are there more than 20 percent of the establishments with 20 or more employees. These percentages are aggregate figures for rural and urban counties, but focusing solely on rural counties in this region, the predominance of small businesses would even be more apparent. Clearly, then, when one analyzes the business structure of Region VII, one is essentially investigating the structure of small business.

To analyze the structure of small business and, also, to probe its future, it was therefore necessary to adopt a more divisible definition
of a small business. Business firms are typically classified by the following employment categories: 0-19, 20-49, 50-99, 100-249, 250-499 and 500 or more employees. Although all but the last division might be considered small business, the analysis will be concentrated on the first two categories since they represent the predominance of businesses in rural Region VII.

The results show not only the vital role currently played by small business in rural areas in Region VII, but they document the important role played by such enterprises in the past economic development of the area. The outlook for the future is basically optimistic. Nonagricultural employment will continue to expand, and small business will participate in this expansion. Not surprisingly, therefore, the policy recommendations emphasize a continuity with the past. Special stress is given to (1) state level economic development efforts, (2) local public service provision, (3) transportation availability, and (4) freedom from so-called fair-trade legislation.

THE STATES AND SMALL BUSINESS

An overall assessment of the small business structure at the state level reveals patterns similar to those for the entire region. First, state level data clearly indicate that small business is the predominant business structure in this four-state region. Second, in the rapid employment growth sectors of finance, insurance and real estate (FIRE), and services, small business has shared equally in the observed development. The same conclusion can be drawn for the moderate growth sector, wholesale trade. Similarly, in contract construction, although growth in establishments lagged significantly behind the moderate growth in employment, small business clearly was not at a disadvantage. However, in two sectors, retail trade, exhibiting moderate employment growth, and manufacturing, with slow growth, the smallest size business was at a distinct disadvantage. While there was a net increase, albeit small, in this classification in manufacturing, there was an absolute decline in retail trade.

THE COUNTIES AND SMALL BUSINESS

Considering the extensive nature of the agrarian economy in the four-state region, one can anticipate that regional statistics reflect much of the nature of small business in rural areas of Iowa, Missouri, Nebraska and Kansas. However, further geographical disaggregation of the regional data will allow more insight into the character of rural small business. To this end, the analysis now turns to an identification of rural counties in the four-state region, to an investigation of their business structure and to a continuation of several lines of inquiry raised in the preceding sections.

Identifying Rural Counties

Rural areas were defined on a county basis. First, all counties included in Standard Metropolitan Statistical Areas (SMSA) for 1976 were eliminated from consideration for these are clearly urban. In the four-state region, there were 45 such counties. Further, any county
containing a community of 25,000 or more inhabitants in 1976 was deleted from the rural universe. Although these are not truly urban counties, the presence of cities in these counties blurs the focus on rural business. The resulting rural counties included 82 in Iowa, 99 in Missouri, 88 in Nebraska and 95 in Kansas. Despite the relatively restrictive definition of rural counties, 86 percent of the counties in this region were included in the universe attesting to the rural nature of the region.

Business Structure of Rural Counties

As a word of caution, advancing conclusions or presenting generalizations as to trends from a data set containing 364 counties and nine business sectors, as well as total and unclassified categories, is fraught with dangers. However, several common facets of the data base can be pointed out. First, nonagricultural employment increased in the 1953-76 period in approximately 94 percent of the 364 rural counties. Actual declines in total nonagricultural employment occurred only in three counties in Missouri, nine in Nebraska and eight in Kansas. (Hereafter, the word employment will refer solely to nonagricultural employment.) Second, most rural counties appear to be participating in the general expansion of employment opportunities in the FIRE, service and wholesale trade sector categories. In all three of these business sectors, a large majority of the increases in numbers of reporting units is in the lowest, 0-19 employee category. In the FIRE and wholesale sectors, new establishments are definitely skewed towards the smaller size reporting unit. In services, the same is true, but services are more likely than FIRE to show an increase in the number of establishments with 50 or more employees.

In manufacturing, an interesting pattern emerges. Although a majority of the counties record an increase in manufacturing employment, almost one-third of those recording a change in the number of establishments showed a decline. This was due mainly to a decline in establishments in the 0-19 employee range. In fact, several counties reporting a net increase in the total number of establishments still showed a decline in the 0-19 employment category. These manufacturing statistics strongly suggest that a majority of the employment growth stems from the larger employment categories while innovational entrepreneurship in rural counties, as proxied for by new, small-scale enterprise, has led a precarious existence in the post World War II period.

Retail Trade--Regional Problem

Retail trade represents an anomaly. Across the entire region employment growth in retail trade roughly approximated that for all business segments as a whole. However, the number of establishments declined. The reduction in reporting units is almost solely accounted for by the smallest (0-19 employees) category. While in 1953, stores in this category accounted for 96 percent of all retail units, this had dropped to 90 percent by 1976. All other size classifications of retail trade, with the minor exception of the 500-or-more-employees category, reported a growth rate exceeding that in the total number of establishments.
In an attempt to explain this deviant behavior of retail trade, a disaggregation of this category was undertaken. Two categories, farm equipment establishments and food stores, account for the bulk of the decline in the number of reporting units. The former represents a statistical aberration. In 1972, the Census Bureau reclassified farm equipment dealers from retail to wholesale trade. More important, is the decline in the number of grocery stores. The bulk of the decline is in the smallest size category.

Clearly, the region wide decline in the number of retail trade establishments is closely tied to the demise of the small scale or "mom and pop" grocery store. Given the healthy increase in total retail employment, approximating overall employment growth, as well as the rapid growth in numbers of grocery stores hiring between 20 and 100 workers, one can be confident that the data reflects the advent and growth of supermarkets. A crucial question remains however: Where is this change taking place?

Two scenarios, capable of explaining the observed trend in retail trade are suggested. The first scenario might be called the "demise or decline" of the rural community. Possibly the decline in small grocery stores, when combined with the negative figures recorded for general merchandise, automobile/accessory dealers and eating and drinking establishments in the 0-20 employee classification, reflects: (1) the decline of small communities as a result of net out-migration plus (2) the effect of an increasing proportion of those who stay in small communities electing to shop at larger urban centers. Such centers have been able to realize the economies of scale inherent in "modern merchandising." And increases in numbers of businesses for apparel and accessories and furniture in the smallest size classification probably indicate a proliferation of specialized "boutiques," in larger urban areas.

An alternative scenario or explanation, of course, is that the observed trend reflects not the decline of the small community, but rather a "reorientation" of its structure. Possibly "Main Street" in the rural community has lost its grocery/restaurant/general merchandise function to larger facilities located on the "outskirts" of town while specialized stores and/or nonretail units (e.g., service and FIRE establishments) have filled in the void left behind.

Obviously, the choice between these alternative scenarios is crucial not only to the policy issue of the viability of rural small business, but also to the very standing of rural communities.

Retail Trade--Rural Aspects

Although, as shown above, overall retail trade in the four-state region expanded at approximately the rate for total employment, data for the 364 rural counties show that fully 30 percent of the counties recorded a decline in retail trade employment. While in some cases these negative figures may reflect the reclassification of farm implement dealers from retail to wholesale categories, clearly the communities in many of the rural counties appear to be following a "demise" scenario.
With regard to the structure of the retail sector, 83 percent of the rural counties registering a change in the number of establishments exhibited a negative shift, with most of this shift occurring in the 0-19 employment category. In no other size classification does a majority of the counties register a decline in the number of establishments. This suggests that either the majority of the counties follow a combination of the two scenarios advanced above or they follow the second reorientation scenario. Support for the latter scenario is found in the county statistics that show: (1) an increase in retail employment, (2) a decrease in retail establishments in the smallest size category, and usually (3) a net increase in the number of establishments in the 20-100 employment size categories.

It appears that the bulk of the rural counties, while possibly losing some of their retail sales potential to nearby urban counties, have enjoyed positive growth in their domestic sales base. There has been, however, a definite restructuring of the retail sector underway. The authors would be remiss if they did not say that they may be taking too much liberty in the interpretation of the data by emphasizing those counties that reflect the reorientation scenario. It is certainly possible that within these counties certain communities may be following the alternative "demise" scenario. Given the data base, it is impossible to go beyond county level analysis.

Construction And Transportation/Utilities

The remaining two major business sectors, contract construction and transportation and public utilities, display mixed patterns. Contract construction, which for the region as a whole grew at a rate approximating that for total employment, registered an increase in employment in 80 percent of those rural counties registering changes in employment. Of course, the problem with using two single-year points in time, 1953 and 1976, to analyze long-run trends at the county level precludes attaching much weight to this figure, particularly for these two sectors. Given the rural nature of the counties being investigated, a large investment project in either initial or terminal years can severely distort employment growth figures, resulting in either too optimistic or pessimistic an assessment. Possibly a more meaningful figure illustrating the health of rural construction is the fact that 90 percent of the overall counties recording a change in the number of construction establishments showed an increase. The bulk of the increase was at the smallest (0-19) employee level. One could hypothesize that the trend of population movement into rural areas observed in preliminary population estimates for the 1970s has had a stimulating influence on this sector, especially in home construction trades (Riefler and Lamphear, 1979).

In the transportation and public utility sector, which regionally grew at a rate equal to only 51 percent of that of total employment, a very different pattern emerges. Fifty percent of those rural counties reporting a change in employment levels reported a decline in the number of employees in this sector. In addition, 54 percent of those counties reporting a change showed a decline in the number of establishments. Declines were common in the smallest establishment
classification. Several counties that experienced an increase in total employment registered a decline in the 0-19 employees category, but this decline was more than offset by growth in the 20-or-more-employees categories. The reason for the observed change in the distribution of establishments by employment size is difficult to isolate given the aggregation problem in this business sector. The pattern of rural decline in a majority of counties in the face of regional growth, albeit moderate, combined with what appears to be significant growth in certain counties seems to indicate a consolidation of facilities within the transportation and public utility industries. This is possibly combined with a general tendency for slow growth or decline in the transportation industry (e.g., railroad facilities and employment) as well as increasing economies of scale in utilities. Lacking more detailed data, one can only point out but not explain the seemingly lackluster performance of this sector, especially for the smallest size establishments in this sector.

SPECIAL ECONOMIC SEGMENTS OF RURAL BUSINESS

While the foregoing discussion concentrates on isolating common trends in the rural universe for Iowa, Missouri, Nebraska and Kansas, for many purposes it is useful to attempt an investigation for spatial or geographic patterns within the four-state region. While the counties in the universe have common attributes, such as low population density, lack of urbanization and significant dependency on the agricultural sector, they are far from homogeneous. Within the agricultural area, for instance, major products produced range from corn and soybeans, through wheat and range livestock production, to the finishing of livestock products. Even overall dependency on agriculture in these rural areas varies; witness, for example, the growth of recreational facilities in the Ozark region of Missouri. To what extent do the statistics on nonfarm employment in the rural universe of the four-state region reflect these variations in economic specialization? It is to this question, the exceptions rather than the common, that the analysis now turns.

As a departure from the foregoing statistical approach to an analysis of small business structure, it seems appropriate to begin the answer to the above query simply by verbally sketching the structural change of small business for subregional areas. Moreover, to be somewhat venturesome with the opening discussion, some liberty will be taken with the retail trade scenarios posited earlier.

Specialized County Selection

To this end, a limited number of rural counties were chosen across the four-state region to explore for the possibility of an association between the nature of small business activity and economic specialization at the subregional level. This limited sample was taken from the larger group of 364 selected rural counties. The selection of counties was based on the identification of four types of economic environments in the rural areas of the four-state region. These economic environments are (1) the peripheral areas of urban/industrial corridors,
(2) recreation/tourism areas, (3) ranch/wheat land areas, and (4) areas of diversified agriculture. The list of selected counties is given in Table 1.

To begin the discussion, a brief statement of why these particular counties were chosen is in order. Starting with the so-called peripheral urban/industrial corridor areas, Warren and Crawford Counties in Missouri were chosen because they appear to be likely candidates for the future expansion of the St. Louis metropolitan corridor. Similarly, Cedar and Muscatine Counties in eastern Iowa are emerging as a part of the Davenport urban/industrial corridor. Dallas County in central Iowa seems to be benefiting from the decentralizing growth of the Des Moines area.

Turning to recreation/tourism counties, the Ozark region counties of southwest Missouri provide a popular recreation/tourism area for residents of the nearby urban centers of Tulsa, Kansas City and St. Louis. The main industry for these counties is obviously tourism. Dickinson County in northwest Iowa attracts fishing and boating enthusiasts from major urban areas, such as the Omaha-Council Bluffs metropolitan area. Although tourism may not be the major industry in Dickinson County, it is important to the viability of the local economy.

A distinctly different economic environment emerges in the plains of western Kansas and western Nebraska, with mostly wheatlands in western Kansas and ranch lands in western Nebraska. Typical counties are Barber, Barton, and Finney in Kansas and Cherry and Dawes in Nebraska. Areas specializing in wheat and ranch lands agriculture support a relatively small population base, which means that regional trade centers dominate the nonagricultural economic landscape. More will be said about this point later.

Finally, many of the rural counties in the four-state region can be characterized as diversified agriculture, from feed grain to livestock production. It is well known that the diversified farming areas have undergone a massive transition from labor intensive agriculture to capital intensive agriculture in the last 25 years. This great technological revolution marked the beginning of the end for many small towns and communities in these rural areas, creating a dismal future for thousands of small business entrepreneurs. This pattern is reflected in the data for the selected specialized agriculture counties.

Urban Peripheries

Examining extensive data compilations in order to isolate deviant patterns at a micro level is a risky business. It is believed, however, that some visible and interesting patterns do emerge from the data. First, a contrasting pattern is found between the urban/industrial peripheral counties of Missouri and those of Iowa. The Missouri counties experienced a very high level of growth in small business activity during the 1953-1976 period. This growth included a substantial increase in the number of small business establishments of all economic types. Furthermore, this growth was supported by a significant increase in population for the same period. In contrast, the Iowa
<table>
<thead>
<tr>
<th>Type of Economic Specialization</th>
<th>Counties</th>
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<tbody>
<tr>
<td></td>
<td>Nebraska</td>
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<tr>
<td>Urban/Industrial Peripheral</td>
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<tr>
<td></td>
<td>Warren</td>
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<td></td>
<td>Crawford</td>
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<tr>
<td>Recreation/Tourism</td>
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<td></td>
<td>Stone</td>
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<td></td>
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<tr>
<td>Ranch/Wheatlands</td>
<td></td>
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<tr>
<td></td>
<td>Cherry</td>
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<tr>
<td></td>
<td>Dawes</td>
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<tr>
<td>Diversified Agriculture</td>
<td></td>
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<td></td>
<td>Nemaha</td>
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<td></td>
<td>Gage</td>
</tr>
<tr>
<td></td>
<td>Seward</td>
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</tbody>
</table>

Counties showed only modest growth in small business activity, including a substantial decline in the number of retail establishments, particularly in the 0-20 employees category.

What lies behind this contrast? The answer seems to be the difference in population growth. The Iowa counties recorded only a modest growth in population during this period, perhaps indicating that these peripheral counties are at a very early stage of development in the decentralizing phenomenon of the adjacent urban counties. On the other hand, the Missouri counties recorded a substantial increase in population during this same period, which may indicate a late stage of development. At least in the case of peripheral corridor counties in the St. Louis area, small business activity seems to benefit from urban sprawl.

Tourism And Recreation

In a single statement, areas historically dependent on tourism and recreation in the four-state region have developed economies comprised primarily of small businesses, particularly in the 0-20 employment size range. Moreover, growth in the tourist industry has meant growth in the number of small business establishments, even in the manufacturing sector, where no doubt many new manufacturing concerns have
developed to produce novelty items for the tourist trade or to use the off-season labor force. It is important to emphasize, however, that this robust environment for small business activity is due to the recent unprecedented demand for scenic vacation "spots" and/or places to spend a "sporting" week-end. While this may seem a trifling remark, it does underscore the fact that the strong growth in small business activity in these areas is not accompanied by a commensurate growth in population. Such an economy is seasonal and, therefore, it does not provide a stable, year-round base of permanent employment. In short, these specialized areas are dependent upon the high standards of living currently enjoyed by residents of the nearby urban centers and the availability of convenient and inexpensive transportation.

**Ranching And Wheat Farming**

The ranch and wheat lands of the Plains area present an "either/or" picture. Wheat and/or ranch land counties that contain major regional trade centers have experienced a substantial growth in nonmanufacturing activity. Most important, almost all of this growth has been in the 0-20 employment size category. In contrast, Plains counties that do not contain major regional trade centers have experienced mixed growth; that is, a substantial decline in the number of retail establishments and moderate-to-average growth in the number of establishments in the FIRE group and the service sector.

The economic landscape of the Plains area reflects a growth center phenomenon. A quarter of a century of improvements in transportation and mechanization of agriculture reduced the number of towns and communities required to serve the vast ranch and wheat lands of western Kansas and western Nebraska. Quite apparent is the fact that the reorganization and resettlement of business activity that accompanied this change led to the formation of major trade centers. This transition meant the elimination of a significant number of small businesses in the declining small towns and communities of the area.

Viewing the totality of this type of economic landscape, it is not clear that this transition adversely affected the role of small business. Most of the growth in the number of nonmanufacturing establishments in growth centers has been in the 0-20 employment size range; consider, for example, Great Bend and Garden City, Kansas. Admittedly, modern mass merchandising establishments have played an important role in the development of these growth centers, particularly in retail foods. But, the average size even of super markets and discount stores is still well within the definition of a small business.

Most important is the significant growth in the demand for services, which has been a major part of growth center development. This demand has opened up new opportunities for small businesses in the growth centers. As a summary statement, the impact of the technological revolution in agriculture and ranching over the past quarter of a century has meant a geographic rearrangement of business opportunities. Today, these opportunities exist primarily in the growth centers, and the general economic characteristics of these growth centers support small business.
Diversified Agriculture

What was just said about the changing economic landscape of the Plains area and the role of small business applies, in a general way, to the diversified agricultural areas of the four-state region. There are some special, important differences, however. Before the technological revolution occurred in agriculture, diversified agriculture supported a larger population base than that supported by wheat farming and ranching. Diversified farming was comprised of small farms (e.g., 160 acres). This higher settlement density pattern contributed to a greater number of towns/communities than that found in equivalent sized land areas of the Plains. The greater number of towns/communities, in turn, supported directly and indirectly a few major urban centers as collection points for agriculture's output and as disbursement centers for inputs used directly and indirectly in agriculture.

The technological revolution in agriculture, especially in diversified agriculture, meant the movement of thousands of individuals out of agriculture and, also, a significant out-migration of individuals dependent on the old form of labor intensive agriculture and residing in rural towns and communities. The net result has been a quarter of a century of continuous net out-migration from rural counties to urban areas. Moreover, busy small town main streets of the 1940s and early 50s later became memories as a continuous stream of small businesses disappeared from main street during the 1960s and early 70s. Statistics on rural county business patterns underscore this point. These statistics show a negative annual average population growth rate for these rural counties and a modest growth in rural business activity, reflecting the offsetting effects of higher per capita incomes in spite of a declining population base.

Has the reorganized economic landscape meant a decline in small business opportunities? Irrespective of size, business opportunities in rural counties are certainly limited. But, the earlier discussion of urbanizing rural counties noted the substantial growth of small businesses in peripheral urban/industrial corridor counties and, therefore, the resourceful opportunity for small business entrepreneurs in areas of population growth.

Since the dynamic nature of economic settlement patterns are not restricted to particular political jurisdictions (i.e., counties), it would be incorrect to conclude that based on the rural county statistics the economic importance of small businesses in the four-state region has declined in the last 25 years. To put it figuratively, what has occurred is a rearrangement of most of the region's economic furniture from predominately rural areas to urban areas. Small business opportunities in rural areas, however, will be examined in more detail later.

As a final comment, much of the foregoing discussion pertains to nonmanufacturing business activity. In manufacturing, no discernible patterns were evidenced in the counties for the four types of economic specialization, with the possible exception of the aforementioned discussion of activities in the Ozark region. More will be said about small business and manufacturing activity later.
INDEPTH ANALYSIS: 120 COUNTIES

In order to gain more depth of understanding and produce a meaningful discussion of "alternative futures" for the rural areas of the four-state region, one needs to return to a more rigorous examination of data at the county level. To this end, a large sample of rural counties was selected for careful study.

The selection criteria were established as follows: first an approximately 30 percent sample was chosen from the rural universe in each state; second, an attempt was made to get at least one representative county from each geographic area of each state; finally, an attempt was made to include certain types of counties (e.g., near an SMSA or the Mississippi River) which might be of interest. In all, 31 Iowa, 34 Missouri, 27 Nebraska and 28 Kansas counties were selected. For these 120 counties, average annual growth rates in population (1950-1970), total employment, and sector employment for construction, manufacturing, wholesale trade, retail trade, finance, insurance and real estate, and services were calculated. All employment growth figures are annual averages for 1953-1976.

Comparing average annual population growth figures to average annual nonfarm employment figures, an extremely interesting and important pattern emerges. In 112 of the 120 sample counties (93.3%) the growth rate in nonfarm employment exceeded the growth rate in population. An additional two counties (1.7%) registered a loss in both population and employment, with the loss in the former exceeding the latter. Only six counties (5.0%) recorded either a gain in population, but loss in employment (two counties) or an employment loss which exceeded that in population (four counties). Especially striking is the fact that 64 of the 120 counties (53.3%) suffered a loss in population, but a gain in nonfarm employment!

Cause Of Employment Growth

If one is to understand the pivotal role nonfarm small business plays in rural areas of the four-state region, it is imperative that one be able to explain these data. What has been going on in these rural areas? And, possibly more important for the future, is this trend likely to continue? If the answer to the second question is yes, the development of small business will play a crucial role in the overall economic health of the region.

As already mentioned, the decline in population in many of the sample counties (58.3%) as well as the relatively slow growth in other counties clearly signals decline, in terms of numbers, of the small farm economy and the net out-migration of population. Nonfarm employment, as captured by the statistics, has managed to "intercept" many of these potential out-migrants and has served to ameliorate what could have been a more precipitous decline in population levels. Whether these nonfarm employment opportunities represent jobs for former farm operators/workers, employment for other members of the farm family (e.g., females) or supplemental employment opportunities for part-time
farmers is largely immaterial to analysis. The important point is that the development of nonfarm employment opportunities, predominantly small business, has acted as a brake to what otherwise would have been a more precipitous decline, or at best stagnation, of the rural economy of the four-state region.

Employment Growth Sectors

Which industrial sectors were providing these nonfarm jobs? Obviously, any sector recording a positive growth in employment, 1953-1976, was helping to fill the gap. Given the interest in the future of rural areas and especially small businesses in rural areas, it is useful to compare sector employment growth in a county with the total growth of employment in that county. Identifying the sectors that are contributing the most in terms of relative growth, rather than in terms of absolute growth, is important here.

Table 2 gives the percent of counties for the rural sample where the indicated sector grew more rapidly than total county employment. Recall that care must be exercised in interpreting the percentage figure for wholesale and retail trade due to the reclassification of farm implement dealers. This change from retail to wholesale trade overstates the latter percent while probably understating the former. To gain some perspective on this problem, retail and wholesale trade were combined for those rural counties in the Kansas sample. This resulted in 24 percent of the total sample of Kansas counties with a trade growth exceeding total employment growth.

<table>
<thead>
<tr>
<th>Economic Sector</th>
<th>Percent of Counties In Which Growth Exceeded County Average</th>
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<tbody>
<tr>
<td>Construction</td>
<td>47</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>60</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>79</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>17</td>
</tr>
<tr>
<td>FIRE</td>
<td>75</td>
</tr>
<tr>
<td>Services</td>
<td>90</td>
</tr>
</tbody>
</table>

Interpreting these results, in combination with the region-wide analysis discussed earlier, the crucial role of small business in not only the current structure, but also the recent history of rural areas in Iowa, Missouri, Nebraska and Kansas is apparent. Those sectors which lead the list in the foregoing table, services, FIRE, and (possibly) wholesale trade, are precisely those sectors where small business dominates in terms of numbers and growth. The retail trade sector, another
area where small business dominates, has done relatively poorly although this sector continues to make a significant, absolute contribution to employment creation; that is, this sector has contributed relatively less to the growth (or, in light of the population decline in many counties, to the holding action) in rural areas. Finally, in manufacturing, where lack of entrepreneurial innovation has apparently held down the development of indigenous small plants, the growth of existing plants as well as the establishment of branch plants has helped stimulate the economy in a majority of cases.

Relative Importance of Economic Sectors

One task remains before one turns to an assessment of the future of small business in rural areas of Iowa, Missouri, Nebraska and Kansas. The basic issues of what the current structure of nonfarm business is as well as the recent historical record revealing trends to the present have been addressed. But, before extrapolating historical trends into the future, a closer look at the economic importance of nonfarm business in the four-state region is necessary. To accomplish this, location quotients were computed for the sample rural counties. Simply put, location quotients compare the economic importance of an industry at the county level with its importance in some comparative (or base) area. Each county was compared to three base areas for 1976. These chosen as base areas are: the United States, the four-state region as a whole, and the particular state in which the county is located. A coefficient greater than one indicates the county in question is more specialized in the activity in question than the base area. Thus, for example, if a particular county had 50 percent of its employment in manufacturing while the base area had 25 percent in this activity, a location quotient of 2.00 would result. Conversely, if the location quotient is less than 1.0, the county is deficient in the activity in comparison to the base area.

Table 3 summarizes the results of these computations by showing, for each state and for each business sector, the percent of the location quotients in the sample of rural counties that are greater than one. If two of the three calculated location quotients are greater than one, it is included.

In interpreting these results, the two sectors (manufacturing and transportation and public utilities) must be separated from the others. In these two sectors a location quotient greater than one probably indicates that the sector in question is exporting a significant amount of its output (or service) from the county to the rest of the nation, state or world. With the exception of Missouri's manufacturing sector, no state, as a whole, shows a majority of its rural sample counties with manufacturing or transportation/utilities location quotients greater than one. Given the rural nature of these counties, this is not surprising. On balance, they are net importers of manufactured goods and transportation services.

The "products," more accurately termed services, provided by the remaining sectors (contract construction, trade, FIRE and services) are not usually thought of as being exported from rural to urban areas.
For contract construction, a location quotient greater than one is probably associated with rapid growth in population and/or employment and expansion in the residential, commercial or industrial buildings. As mentioned earlier, such expansion, and therefore the counties exhibiting a location quotient greater than one, is likely to be highly variable and only limited credence can be attached to the result of one year's calculations. Major highway construction or a dam could significantly alter the results.

<table>
<thead>
<tr>
<th>Economic Sector</th>
<th>Percent of Counties Where Quotient Exceeds 1.0</th>
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<tbody>
<tr>
<td></td>
<td>Iowa</td>
</tr>
<tr>
<td>Construction</td>
<td>41</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>35</td>
</tr>
<tr>
<td>Transportation/Utilities</td>
<td>n.c.</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>74</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>86</td>
</tr>
<tr>
<td>FIRE</td>
<td>6</td>
</tr>
<tr>
<td>Services</td>
<td>16</td>
</tr>
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</table>

n.c. = not calculated

For the remaining four sectors, two patterns emerge. For wholesale and retail trade, a majority of counties, with the exception of Missouri in wholesale trade, report a location quotient greater than one. For wholesale trade, this can be interpreted, when combined with the significant growth of this sector, as indicating that the majority of the rural counties in the sample are well provided with wholesale services (again, noting the exception of Missouri), and that given the low population density and relatively vast distances encompassed within these counties, these activities are more numerous on a per capita basis, smaller and probably more labor intensive than their urban counterparts. For this sector, no trend towards consolidation to larger units or agglomeration in limited locations was noted.

Retail trade shows even a more marked pattern of relative concentration in rural areas. For all four states, over 75 percent of the rural counties reveal location quotients greater than one. Combining this result with the trend in retail trade detailed in the previous analysis indicates that, given the current state of technology, rural areas are still, despite the "shakeout" reported above, "overserviced" by small, labor intensive facilities in this sector. Possibly the decline in the number of small grocery stores, documented at the regional level using 1953-1976 data, is a forebearer of trends to which other retail lines are
susceptible? Only research at a more disaggregated level can establish the validity of this proposition.

The remaining sectors, FIRE and services, illustrate the opposite situation. In none of the four states is there a majority of location quotients greater than one. Given the small size and, therefore, the probable labor intensive nature of these sectors in rural areas relative to their urban counterparts, it is clear that rural areas in the four-state region are, on the average, deficient in these services, importing a significant portion of their service requirements from urban areas. This is not surprising, however. There are good theoretical arguments as well as previous empirical analysis supporting the results. To take an obvious example, while both a rural and urban area may be expected to have a certain amount of general practice physicians per capita, specialists and their sophisticated facilities tend to be urban-oriented. Thus, in general, urban areas may be expected to have a larger percent of health care employment in the FIRE and service sectors, resulting in lower location quotients in rural areas. However, the rapid growth in employment in rural areas in FIRE and services, the dominance of small business in these sectors, and extremely low location quotients for many of the counties certainly pose important questions.

**FUTURE OF RURAL SMALL BUSINESS**

What does the future portend for the four-state region? What will future trends in population look like? Will future trends in the business structure be an extrapolation of what has happened in the past? What about small business in the region? Will it too follow the trends outlined in this and the previous parts of this chapter? The future, of course, is predicted on the past to the extent that the general forces of cause and effect which have been and are at work will continue to effect the future. On the other hand, one can be fairly confident that the future will not duplicate the past. The purpose of this part of the chapter, therefore, is to outline some alternative futures for rural nonfarm business (and, therefore, small business) in Iowa, Missouri, Nebraska and Kansas. To accomplish this, a basic view of the future founded on past trends, current structure, and fairly conservative assumptions as to further developments will be offered. Then two discontinuities with the past, which nevertheless have appeared on the scene (possibly as transition phenomena) will be introduced and their impact on the basic scenario will be discussed. These two discontinuities are the trend towards ruralization of the national population, observed in preliminary population estimates for the 1970s, and the energy crisis.

**Base Scenario**

The general pattern that clearly emerges from the research, summarized above, is the large-scale exodus from agriculture. Whether due to mechanization, consolidation and/or the general pressures of the marketplace, people have been leaving the farm. In many counties this movement showed up in population declines; in others net out-migration occurred even though overall population grew. In most counties, nonfarm business expansion, however, served to intercept significant
fractions of these potential out-migrants. Whether this intercept function was performed through the provision of full-time jobs to ex-farmers or farm laborers, jobs for second wage earners in the family, or jobs to supplement the income earned from part-time farming is immaterial for these purposes. Clearly, the future trend of rural business, and therefore almost by definition small business, rests on: (1) whether farm employment will continue to decline, and (2) whether business expansion will continue to perform the intercept function they have in the past.

First, will the exodus from farming continue? Here the answer must be yes and no. Yes, the exodus will continue. No, it will not be as rapid as it was in the past. The trend is still towards fewer, larger farms in this region. Clearly, there are still marginal (and possibly submarginal) farms that will be retired or, more likely, consolidated into larger, less labor intensive units in the future. While improvements in agricultural science and the spread of irrigation will continue to free-up farm labor for nonagricultural pursuits, quite likely the days of the quantum jumps in agricultural labor and capital productivity are gone (at least for the foreseeable future). Hence, the view of the future is based on the likelihood that, yes, the movements out of agriculture will continue; no, it will not be of a magnitude equal to that in the earlier post-World War II period.

Given this view of the small business structure in rural areas in the four-state region, will expansion in nonfarm employment opportunities be adequate to absorb the increase in potential workers released from agricultural pursuits? Here, the answer is in the affirmative. Yes, expansion in employment opportunities will continue to intercept a significant fraction of the potential out-migrants from rural areas. In fact, given the projected reduction in the exodus from agriculture, growth in these sectors might perform the intercept function more efficiently than in the past.

Crucial to this relatively optimistic assessment of the future, is the question of which sectors will provide the growth in employment. Where will the jobs, both in an absolute and relative sense, be? First, the retail trade sector, due to its large base, will continue to generate a significant increase in the number of jobs. However, the future of the smallest labor intensive retail unit is not bright. Expansion will continue to come in larger units, although still meeting the definition of small business, and sales will expand more rapidly than employment. Certain communities, unable to adapt, may actually record negative growth in retail jobs. Given the high location quotients found for growth in retail trade employment in this sector it is likely to continue to lag behind the growth in total employment as it has in the recent past. The overall view is one of sluggish growth.

In wholesale trade, a break with the past is hypothesized. While a significant number of rural counties, possibly aided by the statisticians' reclassification of farm implement dealers, have enjoyed a growth in wholesale employment exceeding that of total employment, the conclusion, based mainly on the typically high location quotient for this sector, is that future growth will lag behind overall employment growth. While some growth in this sector will undoubtedly occur due to rising
per capita income, wholesale trade, like retail trade, will be a slow growth sector.

Manufacturing represents somewhat of an enigma. Given its "spotty" record of development in Missouri and especially Iowa, Nebraska and Kansas, a region-wide assessment is probably misleading. Future development in rural manufacturing will occur as the manufacturing structure of various regions in the country become more similar. However, development will continue to be "spotty." The difficulty is in predicting the spots. It is tempting to predict that growth in manufacturing in this region will continue to follow a "growth corridor" pattern as plants are established along the interstate highway system and the riverline system to obtain access to outside markets as well as to capitalize on interindustry linkages with previously established enterprises. This would lead to a "those that have, get" assessment of the future. On the other hand, some evidence suggests that manufacturing firms locating in many rural areas to take advantage of available labor are repelled by the location of other firms with the implied competition for labor (Wheat, 1976). Given this point, it is best to conclude that, although development will continue to be spotty for the four-state region, manufacturing will continue to be a major source of job expansion. New establishments locating in the region, however, will typically be branch plants of existing establishments and will be of relatively (to the establishment structure of the region) moderate size. The lack of entrepreneurial innovation, for whatever reason(s), will probably continue to act as a barrier to new firms and a more ubiquitous dispersion of manufacturing job growth.

The final two sectors covered, FIRE and Services, will be the most important sources for rural development and especially rural small business growth. Given the analysis of past developments, current structure and development potential, this message comes through consistently. For most rural counties in the four-state region, FIRE and Services will exhibit a growth rate in employment exceeding that of total employment and, as their growth base increases, will become an increasing part of the absolute increases in job opportunities. Unlike manufacturing and retail trade, no factors dictating against the continued success of small (0-19 employee) establishments were uncovered by the research.

Population Discontinuity

Recently, several authors, examining preliminary population estimates prepared for the Census Bureau, have noted and analyzed a precipitous rise in the population growth of rural areas quite removed from urban areas (U.S. Department of Commerce). As opposed to the historical pattern of urbanization in this country, it appears that on the whole rural areas in the 1970s have been growing more rapidly than their urban counterparts. This phenomena has been called ruralization. If these preliminary estimates are substantiated by the 1980 Census, what implications have they for the future scenario outlined above?

It is tempting to simply state they enforce the scenario. The exodus from agriculture has lessened, and the growth in rural job
opportunities continue along the lines documented for the recent past in previous sections of this chapter and forecast for the immediate future above. The urban population is being "pulled" into rural areas by the resulting economic opportunities. Certainly this must be part of the explanation and, in fact, it probably is.

The problem comes from an alternative explanation of ruralization. What if, rather than being pulled into rural areas, urban residents are being "pushed" out of major cities by such factors as crime, congestion, environmental degradation, etc. If such is the case isn't an additional burden placed on the rural business structure, and especially its small business backbone, to expand at a rate equal to if not exceeding its previous performance in response to the agricultural exodus? Clearly the answer is yes.

Two factors combine, however, to lessen the impact of ruralization on the basic future scenario set forth above. First, so far ruralization has not been a general phenomena. Not all rural counties have benefited from in-migration from urban areas. Second, those rural counties that have received these migrants have been those enjoying significant amenities (e.g., climate, scenery, water, etc.) and/or rapidly growing economic activities. The migration process is selective and, although further research is needed on this topic, it reflects "pull" elements, consistent with the basic future scenario, as well as potentially more damaging "push" factors.

Energy Discontinuity

The final discontinuity with the past trends, analyzed by the bulk of this chapter, is the energy crisis. While various authors have concluded that increased energy costs may, at one extreme, change the basic level or standard of living and, at a more moderate approach, at least change some of the modes of living, the objective here is more modest. What will be the impact of higher energy costs on the business structure, and especially small business, in rural areas of Iowa, Missouri, Nebraska and Kansas? How will the base projection of the future change?

Difficulty in answering these questions stems from uncertainty on the impact of higher energy costs, as translated into higher transportation costs, on the spatial or geographical distribution of economic activity. On the one hand, higher transportation costs increase the price of a product to the consumer. This should reduce the quantity he or she will purchase. The result therefore will be a slower expansion in job opportunities than the basic scenario predicts. To the extent rural small business represent "high cost" producers, they will be especially vulnerable. On the other hand, however, higher transportation costs act much like a protective tariff making it more expensive for competitors to infiltrate a given producer's market area. It makes it more expensive for the rural resident to do his shopping in the nearest urban area, or, the products of urban areas, delivered to the rural countryside, become more expensive. This effect, of course, would benefit rural producers and lead to a probable expansion in rural job opportunities. While these two effects have opposite impacts on
rural business, they both take the location of producers and consumers as fixed. The latter assumption especially is questionable: given the increased importance of off-farm income in agriculture, might not the energy crisis lead to an increase in off-farm migration as families move into labor markets, mainly urban, where the possibilities for multiple job-holding is greater?

Neither the trend towards ruralization nor the energy crisis significantly alters the basic view of the future for small business in rural areas of the four-state region as a whole. But the reasons they do not are quite different. In the case of ruralization, current patterns match rather than contradict the basic scenario of the future. On the other hand, the energy crisis could either reinforce or negate the trends foreseen.

CONCLUSION AND RECOMMENDATIONS

Small business has been, is and will continue to be the backbone of the commercial and industrial structure in rural areas of Region VII. As indicated by the basic scenario above, the outlook for further small business development, led by the FIRE and service sectors, is bright. What can/should policymakers do to aid the further development of the small business structure in rural areas of the four state region?

Given the documented vitality of the small business structure in Region VII as well as the optimistic prediction of future trends, it is not surprising that the policy recommendations, to a significant extent, emphasize a continuity with the past. While the analysis does not allow an evaluation of specific policy instruments on the rural industrial structure, it does clearly identify that current federal, state and local economic intervention has not acted to the detriment of small business development in Iowa, Missouri, Nebraska and Kansas. However, while emphasizing the need for overall continuity in government policy, the results lead to four specific policy recommendations or, more precisely, areas for policy consideration.

1. It is recommended that states maintain and expand their activities in the area of economic development/industrial promotion. Given the population movement into rural areas and the movement of labor off the farm, combined with the noted "spotty" pattern of manufacturing growth and the apparent importance of branch plant development, efforts in this area should aid in the absorption of the potentially available labor force. Especially crucial, considering the uncertainty of any business location or relocation decision, is the need to provide accurate information on the economic potential of rural areas (e.g., labor availability, skill mix).

2. It is recommended that states and especially local governments carefully assess their public infrastructure or public service provision and act to
improve service delivery. The availability of adequate public services such as water, sewage, utilities, airports and road transportation have been demonstrated to be of importance especially to the location decision of the small to medium sized manufacturing establishment (Norcliff, 1975, p. 30).

3. It is recommended that states reexamine their transportation system. The analysis of location quotients clearly illustrates the "open" nature of rural areas in Region VII; a significant fraction of the region's production of goods is exported and a large percent of the goods consumed are imported. While the transportation needs of exports has received considerable attention (i.e., the periodic shortage of rail cars for grain shipment and the impact of branch rail line abandonment) less time has been devoted to the impact of such factors as escalating energy costs on the importation of goods necessary for retail and wholesale trade.

4. It is recommended that states should not give in to the pressures of small retailers for protection against supermarket or discount chain stores. Attempts to institute or strengthen "fair trade" laws should be defeated. The analysis clearly shows that region retail trade centers have already developed and that further development in that direction is to be expected. This trend has been accompanied, in most cases, by an expansion in job opportunities and undoubtedly higher rural real incomes due to lower retail margins or markups and hence lower prices within large retail facilities. Efforts to thwart this trend towards larger-scale retail establishments would significantly negate the optimistic outlook of the basic scenario.
REFERENCES


AN ANALYSIS OF THE OUTMIGRATION OF RETAIL SALES FROM RURAL AREAS OF THE REGION

Kenneth E. Stone
Iowa State University

This study examined retail sales for Iowa, Kansas, Missouri and Nebraska for the years 1958, 1967 and 1977. Potential sales for each county in each state were calculated using county population, state per capita retail sales expenditures and relative income. Potential sales were compared to actual sales to determine if a county had a leakage or a surplus.

RESULTS

Counties were classified into six groups according to the size of the largest town in the county. Average leakages or surpluses were then calculated for each group. The findings for each group were compared over the 20-year study period to determine trends.

OVERVIEW OF REGIONAL RETAIL SALES

In general it was found that areas with smaller towns have been losing retail trade and areas with larger cities have been gaining retail trade. However, there were some exceptions to this that will later be discussed in detail.

It was further found that areas close to metropolitan centers tended to lose more trade over time. Conversely, it was found that remote areas tended to hold their own or gain in retail sales.

Total Retail Sales

Total retail sales in current dollars for the four-state Region VII were as shown in Table 1. Also shown are total retail sales in constant dollars (1958 = base year). The Consumer Price Index was used as the deflator.

Population

Population changes for the states over the last 20 years are shown in Table 2.

Per Capita Retail Sales

Per capita retail sales were obtained by dividing total sales by state population. Table 3 shows per capita retail sales for Region VII states for 1958, 1967 and 1977 in current dollars and constant dollars.
### Table 1
TOTAL RETAIL SALES FOR REGION VII STATES FOR SELECTED YEARS IN CURRENT DOLLARS AND CONSTANT DOLLARS

<table>
<thead>
<tr>
<th>State</th>
<th>Year</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Thousand Dollars)</td>
<td></td>
</tr>
<tr>
<td>Iowa</td>
<td>(Current $)</td>
<td>$3,668,000</td>
</tr>
<tr>
<td></td>
<td>(1958 $)</td>
<td>3,668,000</td>
</tr>
<tr>
<td>Kansas</td>
<td>(Current $)</td>
<td>2,685,000</td>
</tr>
<tr>
<td></td>
<td>(1958 $)</td>
<td>2,685,000</td>
</tr>
<tr>
<td>Missouri</td>
<td>(Current $)</td>
<td>5,895,000</td>
</tr>
<tr>
<td></td>
<td>(1958 $)</td>
<td>5,895,000</td>
</tr>
<tr>
<td>Nebraska</td>
<td>(Current $)</td>
<td>1,933,000</td>
</tr>
<tr>
<td></td>
<td>(1958 $)</td>
<td>1,933,000</td>
</tr>
</tbody>
</table>

### Table 2
POPULATION CHANGES FOR REGION VII STATES, 1958-1977

<table>
<thead>
<tr>
<th>State</th>
<th>Year</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Thousand People)</td>
<td></td>
</tr>
<tr>
<td>Iowa</td>
<td>2,747.3</td>
<td>2,813.5</td>
</tr>
<tr>
<td>Kansas</td>
<td>2,153.6</td>
<td>2,293.0</td>
</tr>
<tr>
<td>Missouri</td>
<td>4,310.5</td>
<td>4,567.5</td>
</tr>
<tr>
<td>Nebraska</td>
<td>1,433.4</td>
<td>1,488.6</td>
</tr>
</tbody>
</table>
ANALYSIS WITHIN THE STATES

Counties in each state were classified according to the size of the largest city in the county as follows.

<table>
<thead>
<tr>
<th>County Classification</th>
<th>Population of Largest City</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rural</td>
<td>Less than 2,500</td>
</tr>
<tr>
<td>2. Small Semirural</td>
<td>2,500-4,999</td>
</tr>
<tr>
<td>3. Large Semirural</td>
<td>5,000-9,999</td>
</tr>
<tr>
<td>4. Semimetro</td>
<td>10,000-49,999</td>
</tr>
<tr>
<td>5. Metro</td>
<td>50,000-149,999</td>
</tr>
<tr>
<td>6. Large Metro</td>
<td>150,000+</td>
</tr>
</tbody>
</table>

Potential sales for each county were then calculated by multiplying county population by state per capita retail sales and multiplying this product by county index of income (see Methodology section for details). County actual retail sales were compared to potential sales to determine if the county had a leakage (−) or a surplus (+) of retail trade. The surplus or leakage was expressed both in dollars and as a percent of potential sales.

Iowa

Table 4 presents the average leakages or surpluses in current dollars for the six county classes for 1958 and 1977. Figure 1 shows the 1958 and 1977 surpluses or leakages in terms of percent of potential sales.
The 21 rural counties had an average leakage of $903,000 (5.5%) in 1958. By 1977 this had grown to $5,389,000 (15.6%) or $2,571,000 in 1958 dollars, a -10.1 percent change.

Table 4
IOWA AVERAGE RETAIL SALES LEAKAGES OR SURPLUSES FOR 1958 AND 1977, BY COUNTY CLASSIFICATION-CURRENT DOLLARS

<table>
<thead>
<tr>
<th>County Classification</th>
<th>No. of Counties</th>
<th>Average Leakage ( ) or Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1958</td>
</tr>
<tr>
<td>Rural</td>
<td>21</td>
<td>$(903,000)</td>
</tr>
<tr>
<td>Small Semirural</td>
<td>28</td>
<td>754,000</td>
</tr>
<tr>
<td>Large Semirural</td>
<td>29</td>
<td>455,000</td>
</tr>
<tr>
<td>Semimetro</td>
<td>14</td>
<td>(655,000)</td>
</tr>
<tr>
<td>Metro</td>
<td>6</td>
<td>(4,851,000)</td>
</tr>
<tr>
<td>Large metro</td>
<td>1</td>
<td>23,070,000</td>
</tr>
</tbody>
</table>

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|                       |                | 1977                          |
|                       |                | $(5,389,000)                  |
| Small Semirural       | 28             | (4,228,000)                   |
| Large Semirural       | 29             | (4,693,000)                   |
| Semimetro             | 14             | 2,467,000                     |
| Metro                 | 6              | 24,783,000                    |
| Large metro           | 1              | 163,377,000                   |

The 28 small semirural counties went from an average surplus of $754,000 (4.0%) in 1958 to a leakage of $4,228,000 (9.4%) in 1977, a -13.4 percent change. The 1977 leakage, adjusted for inflation, was $2,017,000.

Large semirural counties (N=29) also went from an average surplus in 1958 to a deficit in 1977. In 1958 the surplus was $455,000 (1.9%) and 1977 leakage was $4,693,000 (7.8%), a -9.7 percent change. Constant dollar leakage in 1977 was $2,239,000.

Semimetro counties (N=14) averaged a leakage of $665,000 (1.2%) in 1958. This improved to an average surplus of $2,467,000 (1.8%) in 1977, a change of +3.0 percent. The 1977 surplus, adjusted for inflation, was equal to $1,177,000 in 1958 dollars.

For the six metro counties in Iowa an average leakage of $4,851,000 (3.2%) was experienced in 1958. By 1977 the situation had changed to an average surplus of $24,783,000 (6.2%), a +9.4 percent change. In real terms this was equivalent to $11,824,000 in 1958 dollars.

Iowa has only one county classified as large metro. That is Polk County (Des Moines) and it recorded a surplus of $23,070,000 (5.6%) in
Figure 1

Iowa Retail Sales Leakage or Surplus as a Percent of Potential by County Size 1958 - 1977

Legend: Population of Largest Town in County
1) <2,500 (n=21)
2) 2,500 - 4,999 (n=28)
3) 5,000 - 9,999 (n=29)
4) 10,000 - 49,999 (n=14)
5) 50,000 - 149,999 (n=6)
6) >149,999 (n=1)
1958. This grew to $163,377,000 (14.8%) in 1977, or $77,947,000 in real terms, a 9.2 percent increase.

Kansas

Table 5 presents the 1958 and 1977 leakages and surpluses for Kansas counties in current dollars. Figure 2 shows the 1958 and 1977 surpluses and leakages in terms of percent of potential sales.

The 48 rural counties in Kansas averaged leakages of $345,000 (4.8%) in 1958. By 1977 the leakages increased to $1,757,000 (11.2%) a change of -6.4 percent in current dollars. The 1977 leakage in terms of 1958 dollars was $833,000.

The 23 small semirural counties averaged surpluses of $833,000 (6.7%) in 1958. In 1977 this had reversed to a leakage of $2,121,000 (7.1%), a 13.8 percent decrease. When adjusted for inflation, the 1977 deficit was $1,012,000.

There are nine large semirural counties in Kansas. They experienced average retail sales surpluses of $3,385,000 (14.9%) in 1958. That grew to a $6,308,000 (12.6%) surplus in 1977. However, when adjusted for inflation, the 1977 surplus was $3,010,000, a slight decrease (2.3%) from 1958.

The 22 semimetro counties in Kansas averaged leakages of $1,667,000 (3.7%) in 1958. That changed to a $928,000 surplus (0.6%) in 1977, an increase of 4.3 percent. In constant 1958 dollars, the 1977 surplus was $443,000.

There is only one metro county in Kansas, and its trade surplus in 1958 was $8,016,000 (4.4%). This county experienced an increase to $43,774,000 (8.9%) in 1977, a +4.5 percent change. In real 1958 terms this was $20,885,000.

The two large metro counties in Kansas experienced average leakages of $1,964,000 (0.6%) in 1958. These two counties also experienced changes to average surpluses of $50,855,000 (6.0%) by 1977, a 6.6 percent increase. This was $24,263,000 in 1958 constant dollars.

<table>
<thead>
<tr>
<th>County Classification</th>
<th>No. of Counties</th>
<th>Average Leakage ( ) or Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1958</td>
<td>1977</td>
</tr>
<tr>
<td>Rural</td>
<td>48</td>
<td>$(345,000)</td>
</tr>
<tr>
<td>Small Semirural</td>
<td>23</td>
<td>833,000</td>
</tr>
<tr>
<td>Large Semirural</td>
<td>9</td>
<td>3,385,000</td>
</tr>
<tr>
<td>Semimetro</td>
<td>22</td>
<td>(1,667,000)</td>
</tr>
<tr>
<td>Metro</td>
<td>1</td>
<td>8,016,000</td>
</tr>
<tr>
<td>Large Metro</td>
<td>2</td>
<td>(1,964,000)</td>
</tr>
</tbody>
</table>

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Figure 2

Kansas Retail Sales Leakage or Surplus as a Percent of Potential by County Size 1958 - 1977

Leakage (-) or Surplus (+) in Percent of Potential Sales

Legend: Population of Largest Town in County
1) < 2,500 (n=48)
2) 2,500 - 4,999 (n=23)
3) 5,000 - 9,999 (n=9)
4) 10,000 - 49,999 (n=22)
5) 50,000 - 149,999 (n=1)
6) > 149,999 (n=2)
Missouri

Figure 3 and Table 6 present 1958 and 1977 leakages and surpluses for Missouri in terms of current dollars and percent of potential, respectively.

The 50 rural Missouri counties averaged leakages of $23,000 in 1958. This declined to current dollar leakages of $4,207,000 in 1977. Corrected for inflation, the 1977 leakages were $2,007,000. In terms of percent of potential, the leakages went from 0.2 percent in 1958 to 15.0 percent in 1977, a -14.8 percent change.

For the 23 small semirural counties, the average leakage was $2,270,000, and this further declined to current dollar leakages of $9,917,000 in 1977. Adjusted to 1958 dollars, the 1977 leakage was $4,732,000. The percentage leakage in 1958 was 13.8 percent and declined to 21.5 percent in 1977, a -7.7 percent change.

<table>
<thead>
<tr>
<th>County Classification</th>
<th>No. of Counties</th>
<th>Average Leakage ( ) or Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1958</td>
<td>1977</td>
</tr>
<tr>
<td>Rural</td>
<td>50</td>
<td>$(23,000)</td>
</tr>
<tr>
<td>Small Semirural</td>
<td>23</td>
<td>(2,270,000)</td>
</tr>
<tr>
<td>Large Semirural</td>
<td>19</td>
<td>(1,304,000)</td>
</tr>
<tr>
<td>Semimetro</td>
<td>17</td>
<td>2,922,000</td>
</tr>
<tr>
<td>Metro</td>
<td>3</td>
<td>1,736,000</td>
</tr>
<tr>
<td>Large metro</td>
<td>2</td>
<td>9,103,000</td>
</tr>
<tr>
<td></td>
<td>115</td>
<td></td>
</tr>
</tbody>
</table>

The 19 large semirural counties experienced average leakages of $1,304,000 in 1958. By 1977 that had increased to $19,161,000 in current dollars or $9,142,000 in constant 1958 dollars. The 1958 leakage amounted to 4.6 percent and the 1977 leakage was 22.6 percent, a -17.6 percent change.

The 17 semimetro counties in Missouri went from a $2,922,000 average surplus in 1958 to a $4,530,000 average leakage in 1977. In 1958 constant dollars, the 1977 leakage was $2,161,000. In terms of percent, these counties showed average surpluses of 6.8 percent in 1958 and 3.1 percent leakages in 1977, a -9.9 percent change.

Missouri has three metro counties that averaged retail trade surpluses of $1,736,000 (1.4%) in 1958. In 1977 the surpluses averaged $37,844,000 (10.6%), an improvement of 9.2 percent. The 1977 surplus adjusted for inflation was $18,055,000.
Figure 3
Missouri Retail Sales Leakage or Surplus as a Percent of Potential by County Size 1958 - 1977

Legend: Population of Largest Town in County
1) <2,500 (n=50)
2) 2,500 - 4,999 (n=23)
3) 5,000 - 9,999 (n=19)
4) 10,000 - 49,999 (n=17)
5) 50,000 - 149,999 (n=3)
6) >149,999 (n=3)
The two large metro counties in Missouri (St. Louis and Kansas City) averaged trade surpluses of $9,103,000 in 1958 (0.05%). The surplus increased to $368,068,000 (8.8%) in 1977. The 1977 amount adjusted for inflation is $175,605,000 and represents an 8.75 percent improvement over 1958.

**Nebraska**

Table 7 and Figure 4 show Nebraska retail surpluses and leakages by county in dollars and percentages for 1958 and 1977. Nebraska has 52 rural counties that averaged $632,000 (9.5%) leakages in 1958. The leakages increased to $2,802,000 (21.6%) in 1977, a -12.1 percent change. The 1977 leakage adjusted for inflation was $1,337,000.

<table>
<thead>
<tr>
<th>County Classification</th>
<th>No. of Counties</th>
<th>Average Leakage ( ) or Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1958</td>
<td>1977</td>
</tr>
<tr>
<td>Rural</td>
<td>52</td>
<td>$(632,000) $(2,802,000)</td>
</tr>
<tr>
<td>Small Semirural</td>
<td>11</td>
<td>649,000 (1,625,000)</td>
</tr>
<tr>
<td>Large Semirural</td>
<td>19</td>
<td>(1,400,000) 2,493,000</td>
</tr>
<tr>
<td>Semimetro</td>
<td>9</td>
<td>5,202,000 23,478,000</td>
</tr>
<tr>
<td>Metro</td>
<td>0</td>
<td>--</td>
</tr>
<tr>
<td>Large Metro</td>
<td>2</td>
<td>10,538,000 11,262,000</td>
</tr>
</tbody>
</table>

The 11 Nebraska small semirural counties had retail trade leakages averaging $647,000 (4.5%) in 1958. Leakages increased to $1,625,000 (5.3%) in 1977, a change of -0.8 percent. The 1977 leakage in 1958 dollars was $775,000.

There are 19 large semirural counties in Nebraska and they had average retail sales leakages of $1,400,000 (7.7%) in 1958. Sales improved to an average of $2,493,000 surplus (5.4%) in 1977, a +13.1 percent change. Constant dollar surplus in 1977 was $1,189,000.

The nine semimetro counties in Nebraska showed surpluses of $5,202,000 (13.6%) in 1958. The surpluses widened to $23,478,000 (24.1%) in 1977, a +10.5 percent change. The 1977 constant dollar surplus was $11,201,000.

There are no Nebraska counties in the metro classification. However, there are two large metro counties, Douglas and Lancaster, whose major cities are Omaha and Lincoln, respectively. On the average these two counties enjoyed retail trade surpluses of $10,538,000 (2.9%) in 1958. However, the average surplus increased to only $11,262,000.
Figure 4

Nebraska Retail Sales Leakage or Surplus as a Percent of Potential by County Size 1958 - 1977

Legend: Population of Largest Town in County
1) <2,500 (n=52)
2) 2,500 - 4,999 (n=11)
3) 5,000 - 9,999 (n=19)
4) 10,000 - 49,999 (n=9)
5) 50,000 - 149,999 (n=0)
6) >149,999 (n=3)
(1.1%) in current dollars in 1977, a net decrease of 1.8 percent. The 1977 surplus in constant dollars was $5,373,000.

**Migration By Merchandise Group**

An analysis by merchandise group is a massive undertaking and was outside the scope of this study. However, a 1978 study using State of Iowa retail sales tax data gives an indication of the nature of retail sales migration for various types of goods and services.

Table 8 indicates that rural counties have surpluses of trade in the farm oriented merchandise groups of building materials and wholesale (farm machinery is the largest component). Rural counties experienced their greatest leakages in general merchandise, food, apparel, home furnishings and services; while these were the greatest surplus areas for metropolitan counties.

**Table 8**

**1978 IOWA RETAIL SALES LEAKAGES ( ) OR SURPLUSES BY COUNTY CLASSIFICATION BY MERCHANDISE GROUP**

<table>
<thead>
<tr>
<th>Merchandise Group</th>
<th>Population Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Building Materials</td>
<td>12.1</td>
</tr>
<tr>
<td>General Merchandise</td>
<td>(81.1)</td>
</tr>
<tr>
<td>Food</td>
<td>(36.8)</td>
</tr>
<tr>
<td>Apparel</td>
<td>(40.2)</td>
</tr>
<tr>
<td>Home Furnishings</td>
<td>(38.6)</td>
</tr>
<tr>
<td>Eating and Drinking</td>
<td>(19.6)</td>
</tr>
<tr>
<td>Specialty</td>
<td>(33.1)</td>
</tr>
<tr>
<td>Wholesale*</td>
<td>16.9</td>
</tr>
</tbody>
</table>

*Includes farm machinery and items sold to consumers by wholesalers

**Importance Of Geographic Location**

Figures 5, 6, 7 and 8 show the retail trade surpluses and leakages by county for Iowa, Kansas, Missouri and Nebraska, respectively. A 1958 map and a 1977 map are shown for each state, to illustrate the changes in the relative positions of county retail sales. As was previously noted, most of the metropolitan areas have experienced real gains in retail sales over the 20 year period. Additionally, some of the more remote rural counties experienced real gains in retail sales, pointing out that there are definite limits to how far people will drive to shop.
Figure 5
Iowa Retail Trade Surpluses and Leakages
by County for 1958 and 1977
(\% of Potential)

Legend
- Places of 100,000 or more inhabitants
- Places of 50,000 to 100,000 inhabitants
- Central cities of SMSAs with fewer than 50,000 inhabitants
- Places of 10,000 to 50,000 inhabitants outside SMSAs

Standard Metropolitan Statistical Areas (SMSA's)

1958

1977

1.0 = Surplus
(1.0) = Leakage
### Kansas Retail Trade Surpluses and Leakages

#### by County for 1958 and 1978

(\% of Potential)

#### 1958

<table>
<thead>
<tr>
<th>County</th>
<th>Surplus-m</th>
<th>Surplus-f</th>
<th>Leak-m</th>
<th>Leak-f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kansas</td>
<td>30.2</td>
<td>(11.1)</td>
<td>29.5</td>
<td>(15.2)</td>
</tr>
<tr>
<td>Wichita</td>
<td>46.5</td>
<td>24.5</td>
<td>(23.8)</td>
<td>27.8</td>
</tr>
<tr>
<td>Kansas City</td>
<td>6.3</td>
<td>0.8</td>
<td>28.7</td>
<td>21.4</td>
</tr>
<tr>
<td>Topeka</td>
<td>24.7</td>
<td>(17.6)</td>
<td>21.9</td>
<td>(10.8)</td>
</tr>
<tr>
<td>Lawrence</td>
<td>5.5</td>
<td>5.5</td>
<td>19.0</td>
<td>19.0</td>
</tr>
<tr>
<td>Kansas</td>
<td>3.8</td>
<td>3.8</td>
<td>21.6</td>
<td>21.6</td>
</tr>
<tr>
<td>Wichita</td>
<td>3.5</td>
<td>3.5</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Kansas City</td>
<td>3.7</td>
<td>3.7</td>
<td>19.0</td>
<td>19.0</td>
</tr>
<tr>
<td>Topeka</td>
<td>3.7</td>
<td>3.7</td>
<td>19.0</td>
<td>19.0</td>
</tr>
</tbody>
</table>

#### 1977

<table>
<thead>
<tr>
<th>County</th>
<th>Surplus-m</th>
<th>Surplus-f</th>
<th>Leak-m</th>
<th>Leak-f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kansas</td>
<td>1.2</td>
<td>(10.8)</td>
<td>29.2</td>
<td>(15.2)</td>
</tr>
<tr>
<td>Wichita</td>
<td>82.9</td>
<td>24.9</td>
<td>(20.7)</td>
<td>(10.8)</td>
</tr>
<tr>
<td>Kansas City</td>
<td>38.0</td>
<td>38.0</td>
<td>25.6</td>
<td>25.6</td>
</tr>
<tr>
<td>Topeka</td>
<td>47.8</td>
<td>47.8</td>
<td>21.4</td>
<td>21.4</td>
</tr>
<tr>
<td>Lawrence</td>
<td>54.9</td>
<td>54.9</td>
<td>21.6</td>
<td>21.6</td>
</tr>
<tr>
<td>Kansas</td>
<td>54.9</td>
<td>54.9</td>
<td>21.6</td>
<td>21.6</td>
</tr>
<tr>
<td>Wichita</td>
<td>54.9</td>
<td>54.9</td>
<td>21.6</td>
<td>21.6</td>
</tr>
<tr>
<td>Kansas City</td>
<td>54.9</td>
<td>54.9</td>
<td>21.6</td>
<td>21.6</td>
</tr>
<tr>
<td>Topeka</td>
<td>54.9</td>
<td>54.9</td>
<td>21.6</td>
<td>21.6</td>
</tr>
</tbody>
</table>

#### Legend

- Small Metropolitan Statistical Areas (SMSAs)
- Standard Metropolitan Statistical Areas (SMSAs)
- Places of 100,000 or more inhabitants
- Places of 50,000 to 100,000 inhabitants
- Places of 25,000 to 50,000 inhabitants

1.0 = Surplus
1.0 = Leakage

86
Missouri Retail Trade Surpluses and Leakages
by County for 1958 and 1977

(%) of Potential

1958

1.0 = Surplus
(1.0) = Leakage

1977

Legend:
- Points of 100,000 or more
- Points of 50,000 to 99,999
- Points of 25,000 to 49,999
- Points of 7,500 to 24,999
- Points of 3,000 to 7,499
- Points of 750 to 2,999
- Points of 250 to 749
- Points of 75 to 249
- Points of 25 to 74
- Points of 10 to 24
- Points of 7 or less

Figure 7
Figure 8
Nebraska Retail Trade Surpluses and Leakages
by County for 1958 and 1977
(% of Potential)

1958

LEGEND

1.0 = Surplus
(1.0) = Leakage

1977

LEGEND

1.0 = Surplus
(1.0) = Leakage
The net gains in both metropolitan centers and in some remote areas were probably due, in part, to tourism and/or transient traffic.

The biggest losers were the rural counties in the proximity of metropolitan centers. However, there were cases in some of the more remote areas where heavy leakages occurred. Migration from these counties was apparently to adjacent rural counties or to more distant metropolitan centers.

IMPLICATIONS OF FINDINGS

The findings of this study verify what many people intuitively have felt: there has been a considerable migration of retail sales from less populated areas to bigger population centers. It was not the purpose of this study to determine why, but one can speculate as to some reasons.

The continual reduction in the farm population has brought about a reduction in the economic base in the more rural areas. Consequently, many types of stores that once were viable are no longer able to remain profitable. One needs only to drive down the main streets of many small rural midwestern towns and observe the vacant and converted stores to verify this fact. Once a store terminates business in a smaller town, the town becomes an even less attractive shopping place, even less attractive as a place to start a new business, even less attractive as a place to live.

Improved mobility of rural residents has probably been another factor in the migration to bigger shopping centers. This has been brought about through better highways, in particular the interstate system, and through better vehicles.

Shopping malls also appear to be a strong factor in attracting people from rural areas. The large anchor stores and the vast selection of certain types of merchandise also appear to provide strong attractions to shopping malls. In addition, the malls offer plenty of free parking, convenient shopping hours and controlled climate, all of which are hard to find in smaller towns.

Impact On Existing Businesses

The impact of retail trade migration on some existing businesses in small towns is painfully obvious. This seems to be most acute in merchandise lines where selection is a prime factor in buying. Clothing stores, shoe stores, variety stores and jewelry stores are examples of businesses most severely affected by out-migration. The stores become victims of the proverbial vicious cycle. The decline in economic base causes a reduction in the number of customers which causes the store manager to reduce stock which causes the store to have less appeal, which causes more existing customers to leave, which causes the store manager to reduce stock even further, etc.

Many stores offering services or merchandise where convenient location is a factor in buying, often continue to thrive in the face of a
shrinking economic base. Examples of these businesses are hardware stores, lumber yards, farm supply stores, plumbing and heating services, automobile repair shops, etc.

Impact On New Businesses

The outmigration problem presents special challenges to individuals establishing new businesses, especially in smaller towns. Many new businesses are started in small towns with the knowledge that the trade area population is sufficient to provide the volume of customers needed for success. But failure to recognize the migration patterns of shoppers is a shortcoming of many new business people. Unless the new store is truly comparable to its big city competition, many shoppers will not give it a second try. For example, a small fabric shop in a small town in the shadow of a big city shopping center probably does not have much chance for success. The larger selections and possibly better prices in the city stores are strong attractions for customers.

Conversely, a well managed repair shop in a small town could have an advantage over its city competition in the form of lower prices because of lower overhead and operating costs. It could also be more convenient and provide more personalized service.

Impact On Transportation And Energy Costs

After an examination of Figures 5-8, it is fairly obvious that many consumers from Region VII are traveling long distances to purchase goods and services that in earlier times would have been purchased much closer to home. This migration for shopping is typically accomplished through the use of personal vehicles and probably results in a large amount of extra mileage. Without further study it is not clear what the net energy increase would be. However, a hypothetical example may serve to illustrate the magnitude of the problem. Assume the following for a state with 100 counties.

- Average round trip travel increment to shop out of town = 70 miles
- Number of families per county that migrate (1/3) = 2,000
- Number of shopping trips per year = 12
- Number of migrating counties = 60

This would amount to approximately 101 million additional miles per year. If vehicles averaged 17 miles per gallon, this would require approximately six million gallons of additional gasoline. In terms of additional cost to car owners, at 17 cents per mile, the additional cost would be approximately 17 million dollars per year. Presumably, migrating shoppers feel at least one of the following.

1. They save more than the cost of the trip because of lower prices in the larger shopping centers.
2. The satisfaction derived through larger selections is worth the additional travel costs.
3. They do not have a viable alternative.

Impact On Communities

There has been a significant impact on the retail sectors of many communities, especially those in the shadow of metropolitan centers. Unfortunately, this impact carries over to other segments of the community. For example, if a community has a leakage of retail sales of $5,000,000 annually and a multiplier factor of two, the total revenue leaving the community would be $10,000,000.

Oftentimes communities are judged by the appearance of their retail districts. As appearances of smaller town business districts degenerate, so too do the chances of acquiring new industry, new medical professionals, new residents, etc. In general, the effect on smaller communities is debilitating.

Conversely, the effect of migrational shopping on larger shopping center towns has been growth enhancing. The large volume of customers presents a picture of vitality which is attractive to additional industry, additional retail business, additional professionals and additional residents.

Future Scenarios

Scenario 1. Energy supplies remain similar to mid-1979 conditions. Assuming that ratios of gasoline prices to disposable incomes remain at mid-1979 levels, the trends for migration of retail sales from rural areas to population centers will probably change very little. If larger shopping centers can, in fact, sell merchandise for lower prices because of large volume, the migration trends will almost certainly continue for more expensive items. For example, assume that a customer travels 35 miles to a large shopping center to purchase a $200 item that is $20 less than in his or her home town. The 70 mile round trip would require approximately four gallons of gasoline in a 17 mpg car. That is $4.00 at $1.00 per gallon gasoline prices. Most customers would consider such a shopping trip as fully justified.

It is conceivable that customers may shop closer to home for less expensive items. Also it is probable that lower income consumers will tend to shop closer to home.

Scenario 2. Energy supplies are rationed and/or prices continue to increase at a rapid rate. If gasoline should be rationed, there could be an adverse effect on larger shopping centers. Trade area size would probably diminish considerably. In fact, volume could decrease to the point where shorter operating hours would be mandated. Or conversely, a possible fuel-saving policy dictated by government could be the restriction of shopping malls from opening at nights or on weekends. This would create a disastrous situation for the mall stores which presently depend heavily on these shopping hours to draw trade from outlying areas where local stores are closed. At the same time, if the policy appeared somewhat permanent, it would signal smaller town merchants and developers that there is again more potential for retail stores in smaller communities.
If entrepreneurs do not capitalize on a situation such as the above, consumers would be left in an unpleasant situation with respect to certain types of merchandise. It is conceivable that in cases such as this, consumer cooperatives could develop to provide scarce types of merchandise. This situation would not be too different from the situation where private sector agribusiness firms were ignoring the needs of farmers in certain agricultural areas and consequently helped bring about the formidable farmer cooperative system.

RECOMMENDATIONS AND CONCLUSIONS

Based on this study it can be concluded that in general the rural areas of Region VII states have been losing progressively more retail trade over the last 20 years. Conversely, more metropolitan areas, for the most part, have been gaining more trade over the same period. The losses are most severe for rural counties near metropolitan areas. Some rural areas in remote locations are holding their own and/or showing gains in retail sales.

The losses in retail trade appear to be heaviest in general merchandise, apparel, food, home furnishings, and specialty items. The merchandise lines where rural areas are doing well are generally farm related. They are building materials, hardware and farm machinery.

Future Research

There is a need to more precisely define potential sales. The method used in this study is generally satisfactory, however, it does not take into consideration the effect of factors such as distance to more populated areas, age of population, tourism, etc. An econometric study designed to determine the effects of these factors would certainly provide valuable information and would allow planners and policy makers to more precisely analyze retail trade migration.

A study to determine the optimal location of various types of shopping centers with respect to net energy savings would also seem to be of importance at this time. This could be based on feasible sized shopping centers located so as to provide needed goods and services to the maximum population while minimizing travel.

Governmental Policy

If, in fact, it is the purpose of government to attempt to rectify inequities caused by the market system, the following are policy directions.

1. Tax incentives for development of rural shopping centers. Rural shopping centers could alleviate the hardships on rural residents caused by loss of local shopping facilities. However, developers are reluctant to build in rural areas because of sparse population, especially when metro shopping centers can successfully draw rural residents from afar. Tax incentives could also help local governments
and merchants with expanding, rebuilding and developing existing shopping facilities.

2. Loan programs to assist in building rural shopping centers. In the final analysis, financing is probably the most critical factor in developing any new facilities. Because of their deteriorating situation, some rural merchants have a particularly difficult time in raising both capital and operating funds.

3. Tax incentives and funding for development of rural retail goods distribution systems. One factor that creates higher cost of goods for rural merchants is the higher transportation costs brought about by remoteness from distributors and duplicity in the system. Greater efficiency in the distribution system could reduce net energy requirements also.

Possible Community Actions

Community government must act in harmony with merchants to solve some of the problems causing outmigration of retail customers. Parking in many rural towns is inadequate even for lower levels of trade recently experienced. Local governments could assist merchants greatly by providing adequate, convenient parking for retail customers.

The local government could also assist retailers by providing efficient traffic flow. Current traffic flow in some rural towns is inconvenient to say the least.

The provision of comfort facilities is also an action that community governments could take. Inadequate restroom facilities are a common complaint heard from older people and parents with young children.

Possible Actions By Businesses

Merchants can accomplish little on their own until they cooperate in a unified effort. Unfortunately, this is a major problem in many smaller communities.

Business people should develop a strategy that would allow their businesses to effectively compete with their primary competition. This involves recognizing trade potentials, customer characteristics and limitations. It involves finding a niche where the business community can effectively compete. For many small towns, this probably means concentrating on convenience goods and services.

Some towns may be able to capitalize on a heritage theme or on certain degrees of tourism. Where applicable, these themes can be effective in maintaining vibrant retail sectors.
MODELS AND METHODOLOGY

This study revolves around the methodology for determining potential sales for counties. Potential sales were compared to actual sales to determine if counties had leakages or surpluses of retail sales.

PROCEDURE FOR DETERMINING POTENTIAL RETAIL SALES

For this study, county potential sales were based strictly on the characteristics of the population within the county. County retail sales potential was determined by multiplying county population by state per capita retail sales expenditure. This product was further multiplied by index of income to take into account differing county income levels. The equation is:

\[ P_{rs} = CP \times SE \times I \]

where:
- \( P_{rs} \) = County Potential Retail Sales
- \( CP \) = County Population
- \( SE \) = State Expenditure (per capita) for retail sales
- \( I \) = Index of Income

County population, \( CP \), was found in Survey of Buying Power. It is based on the last U.S. Census of Population and is updated annually.

State expenditure (per capita) is derived by the following equation.

\[ SE = \frac{TS_s}{SP} \]

where:
- \( TS_s \) = Total state retail sales
- \( SP \) = State population

Total state retail sales were found in Census of Business and in Market Guide, a commercial data source.

Index of income was determined by using the following equation.

\[ I = \frac{CI}{SI} \]

where:
- \( CI \) = County average income
- \( SI \) = State average income

The following example illustrates the procedure for determining potential retail sales for a hypothetical county.
ASSUME: County Population (CP) = 12,000  
Total State Retail Sales (TS) = $10,000,000  
State Population (SP) = 3,000,000  
State Average Income (SI) = $6,000  
County Average Income (CI) = $5,500  

THEN: \[ P_{rs} = \frac{CP \times TS}{SP} \times CI \]
\[ = \frac{12,000 \times 10,000,000,000}{3,000,000} \times \frac{5,500}{6,000} \]
\[ = 12,000 \times 3,333 \times 0.917 \]
\[ = 36,676,000 \]

The procedure for determining potential sales for merchandise groups is similar to the above procedure except that state per capita expenditure for the merchandise group is substituted for total state expenditure for retail sales.

PROCEDURE FOR DETERMINING LEAKAGES OR SURPLUSES

After potential county retail sales were determined, a comparison was made to actual sales. When potential sales were greater than actual sales, the difference was considered a "leakage." When actual sales were greater than potential sales, the difference was considered a "surplus."

Surpluses and leakages were converted to percentages by dividing the dollar amounts by the potential sales in dollars.

LIMITATIONS OF METHODOLOGY

Since potential retail sales is the main determinant in this study, it is important to understand the methodology used in its calculation. If the population was uniform in its make-up and if it were uniformly distributed, the technique used here would be extremely accurate. The technique is probably accurate for a certain portion of the population, however, the model does not take into consideration the age of the population. Also, proximity to larger population centers is not considered in the model. Other factors such as tourism and geographic location of the population within the county are also not included. A much more detailed study would be necessary to include these desired variables.

The assumption that retail sales per capita varies directly with people's incomes is not completely accurate. It is known that different people have different consumption functions, but in lieu of this specific knowledge potential sales as calculated herein are believed accurate enough for study purposes for most of the counties.
THE DATA BASE

The retail sales data for 1958 and 1967 come from the Census of Business for those years. At the time research began it was believed that the 1977 Census of Business would be available in time for use. However, the data were delayed. Consequently, there was no choice except to use commercial data sources. Retail sales data for 1977 were found in Market Guide.

Population and income figures for 1958, 1967 and 1977 were found in Survey of Buying Power.

Sales by merchandise group for Iowa were found in the 1978 Iowa Retail Sales and Use Tax Report.

It generally is assumed that the Census of Business is the standard of excellence for accuracy in reporting retail sales. Checks of the commercial data for several years indicate that it generally is within 10 percent of the Census of Business, and usually much closer than that. Therefore, the use of commercial data for 1977 retail sales should not substantially affect the results and conclusions.
FOOTNOTES

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ATTITUDES OF SMALL BUSINESS MANAGERS
TOWARD FEDERAL REGULATIONS AND
THE BUSINESS/FEDERAL GOVERNMENT RELATIONSHIP

Judith Johnson Kirchhoff
University of Nebraska-Omaha

If government is to be "responsive to the people," then it must reflect what the people think. In the cases of federal regulations impact on small business and small business/federal bureaucracy relationships, volumes of rhetoric and mountains of testimony before congressional inquiries chronicle the problems large and small businesses face in dealing with government. Not surprisingly, the picture painted is a strongly negative one. Kaufman (1977) presents a marvelously compact synopsis of the pertinent issues and concludes that the problem won't disappear, but we should, nonetheless, chip away at it.

What, then is the value of discussing this issue again from a regional viewpoint? One reason is the lack of empirical evidence that the attitudes which surface in headlines and testimony are pervasive. Regulation of business is one of the most visible and conflict-generating forms of government (Ripley and Franklin, 1976), so perhaps complaints reflect a halo effect... or is it the tip of an iceberg, a pervasive mood? The few empirical studies in existence were conducted at a time shortly after considerable legislative regulatory action occurred (Land, 1976; Research Institute of America, 1974). Findings showed high disaffection during these periods followed by acceptance (but never enthusiasm) as time wore on. What has been the impact of 13 years of consumer protection legislation on small businesses? And how do business managers view their interaction with the federal bureaucracy? Can a representative, prevailing sentiment be ascertained? And if so, what does that sentiment mean to federal, state and local policymakers?

This paper addresses these questions by surveying a sample of small businesses in Region VII. The results of this survey show that small businesses have stronger negative feelings towards federal regulations today than ever recorded in previous research. They see federal regulations as overly complex hindrances which require too much disclosure. They find discrepancies in federal government interpretations of regulations, see minimum wage laws as restrictive and OSHA as unreasonable. At the same time, small business lacks knowledge about federal regulations and reporting requirements. This ignorance results in dubious validity of response to federal information requests. Quite simply, small business does not understand where their information goes and, therefore, places no importance upon their responses.

The plea is for less government at all levels, federal, state and local. Any effort to add regulations or requirements, even where policymakers perceive clear advantages for small business, may be met with surprisingly strong resistance. Yet less government interaction need not mean less effective government. Policies which will improve
the government—small business relationships are not complex and will be mutually beneficial. This paper shows, however, that the mandate calls for immediate action.

METHODOLOGY

Two separate surveys are the tools used to identify perceptions of Region VII small business. One was conducted in Nebraska as preparation for a White House Conference on Small Business held in Omaha in May, 1979. It addressed a wide range of political issues relevant to small businesses. The other is a replication of the Nebraska survey administered to small businesses in Iowa, Missouri and Kansas specifically for this chapter. If the results of this three-state survey confirm those of the Nebraska study, either survey can be called representative of Region VII attitudes.

Discussions in this paper derive primarily from the three-state survey conducted by this researcher because several additional questions of importance to this forum also were asked therein. These questions can be assumed to be regionally representative if the three-state results also confirm Nebraska results.

THE NEBRASKA SURVEY

The Nebraska Business Development Center (NBDC) at the University of Nebraska at Omaha (UNO) distributed a survey to small businesses (less than 500 employees) in Nebraska. There were 819 questionnaires returned from businesses of varying size, geographic location and industries.

This mail survey asked 31 questions concerning major issues and most frequently mentioned concerns expressed in other White House Conferences throughout the nation. Its goal was to gain insights into the breadth and magnitude of issues concerning small businesses, especially as they relate to the federal bureaucracy. Questions were designed to: (1) require respondents to agree or disagree with the statements, (2) require careful thought, and (3) reduce grouping or sequence bias. This was accomplished by: (1) using declarative statements and a six-point, forced-answer scale (strongly agree to strongly disagree, no neutral point), (2) reversing some statements, and (3) mixing statements on various issues. Demographics were included to permit cross-classification of responses.

The typical response to the Nebraska survey is from a white male, age 46-55 (30%), who participates in a business which has been under the same ownership less than five years (32%) or 6-15 years (29.1%) and has less than 100 employees (92%). No effort was made to exclude women or minority responses in Nebraska, yet few responded. Therefore, it cannot be assumed that these groups would concur on all issues.
THE REGIONAL SURVEY

An attempt to expand the applicability of the Nebraska results was undertaken by using the Nebraska questionnaire to survey small businesses in Iowa, Missouri and Kansas. This replication was done by telephone. Respondents were selected by contacting Chambers of Commerce in ten geographically scattered cities of varied populations in each state and asking them to identify five manufacturing and five service businesses in their locale. Two respondents (one manufacturing and one service) from each locale were interviewed by telephone. The target sample was 60 (20 from each state), and 59 interviews were accomplished. In one city, none of the five manufacturing firms suggested by the Chamber of Commerce would respond to the survey. One offered this explanation for not responding, "The federal government stinks. It's all worthless and should be destroyed. You're wasting your time."

The typical three-state respondent is quite similar to his Nebraska counterpart. A white (99%) male (81%) between the ages of 41-50 (36.2%), he owns or works for a manufacturing or service business which has been under the same ownership 21 years (34.5%) or 11-15 years (24.1%) and employs less than 100 employees (99%). Thus, he is slightly younger than the typical Nebraska respondent but works for a firm of longer duration under the same ownership. As in the Nebraska survey, no minorities and few women responded, so the caution about assuming their concurrence prevails here as well.

TYPES OF ANALYSIS

Since raw Nebraska data were not available for analysis, the two data sources could not be pooled for statistical manipulations. Thus they are discussed separately. In the three-state survey descriptive statistics are calculated on 18 pertinent questions. Issues of taxation, transportation, and energy are excluded from this analysis because they are subjects for separate chapters in this volume.

Responses also are broken down by state, age of respondent, manufacturing or service firm, and number of years the business has been under the same ownership. Additionally, those who respond to a statement that they find no federal agency difficult to deal with (23.7% of total respondents) are compared with those who complained about one or more specific agencies. And those who are likely to fill out federal paperwork themselves are compared with those who are likely to have bookkeepers, accountants or lawyers respond for them. Also, those who agree with a statement that all federal information collection should be coordinated into one agency are compared to those who do not think federal data collection should be centralized. The purpose of these cross-classifications is to determine if any of the selected factors by themselves explain the dominant perspective.

COMPARABILITY OF THE TWO STUDIES

Nine statements common to both the Nebraska and three-state survey and dealing with issues of the impact of federal regulations or
federal reporting on small businesses are compared by difference of means tests to determine comparability between the samples. These tests are conducted between results and then between product and service groups in the three-state study. In comparisons, statistically significant differences (p ≤ .05) appear in six questions. But in three questions, the difference is one of intensity of feeling rather than of disagreement about the issue. For example, Table 1 shows a comparison of responses to the statement, "Federal regulations and paperwork hinder small business operations." Nebraska respondents are more likely to strongly agree on this issue, but the sum of agree statements in both surveys provides clear majority support for the issue. These differences in intensity might be explained by the difference in sample sizes, or the impact of telephone versus mail survey. People tend to temper the strength of their response in a telephone conversation so fewer "strongly agrees" are expected. In other words, essentially identical responses were obtained on these three questions from both surveys.

<table>
<thead>
<tr>
<th>Nebraska Survey</th>
<th>Three-State Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>72.3</td>
</tr>
<tr>
<td>Agree</td>
<td>20.6</td>
</tr>
<tr>
<td>Slightly Agree</td>
<td>3.1</td>
</tr>
<tr>
<td>Other</td>
<td>4.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100.0</td>
</tr>
</tbody>
</table>

In the other three questions, a clear majority from both groups share like opinions, but a significant minority in the three-state group feel otherwise. For example, 88.7 percent of Nebraska responses and 77.8 percent of three-state responses fall on the agree side for the statement: "Minimum wage laws are restrictive to hiring marginally productive employees." However, among remaining responses, a small percentage (14.8%) of the three-state respondents express disagreement on this point. In breaking down the sample into manufacturing or service, the deviance occurs primarily among manufacturing firms. It is highly probable that differences between methods of surveying (mail vs telephone) and sampling procedure causes this.

In summary, variations from strongly perceived notions are noted where they occur, but are not considered important enough to challenge comparability of the two surveys, particularly because the significance virtually disappears when intensity is ignored. The conclusion is that the three-state survey supports the Nebraska survey and that either document can be used to express Region VII sentiment.
Hereafter, discussion derives primarily from the three-state survey. In most cases, agreement or disagreement is so dominant that it is unnecessary to introduce refinement of degree of intensity. Thus, unless there is some particular reason why intensity of response is of central importance, the magnitude of agreement or disagreement is omitted.

DATA BASE ANALYZED

The three-state survey results are shown in Table 2. As noted earlier, nine questions from the Nebraska survey were chosen for analysis, but several additional statements were added in the three-state study which also are included. Analyzed questions are broken into two groups: those which relate to regulations and their impact on small businesses and those which deal with communications between small business and federal bureaucrats.

FEDERAL REGULATIONS--RESULTS

There is, as noted earlier, a strong majority in Region VII that feel federal regulations and paperwork hinder small business operations. Over 90 percent agree. This result supports earlier surveys conducted in New England and across the U.S. (RIA, 1978, p. 34). In 1940 (just after the passage of several regulatory laws), 81 percent of respondents to a survey of small businesses in New England described federal regulations as unfavorable, although cost and the amount of paperwork involved were not advanced as major reasons for disfavor (Land, 1966, p. 38). Negative feelings about federal regulations fell to 50 percent of respondents in a 1965 survey of small business managers across the U.S., but that percentage returned to the 81 percent level in 1970 shortly after the burst of legislation which saw 15 consumer protection laws passed in three years, 1966-1968 (Robinson and Dye, 1971, p. 34). Results here show that negative sentiment (90%) has increased from the levels it reached shortly after the two periods of intense legislation. In conversations with small businesses, cost and the amount of paperwork both are sources of frustration, although small businesses are unable (or unwilling) to place a dollar figure on costs.

Likewise, 77.8 percent agree that minimum wage laws restrict businesses from hiring marginally productive employees—a feeling not greatly diminished by the presence of a significant minority of manufacturing firms (26.9% of manufacturing firms, or 14.8% of total responses) who disagree with this notion. Also, 91.4 percent agree that federal regulations are too complex for small businesses.

Still another clear majority occurs in response to the statement: "Federal government agencies have discrepancies in the interpretation of their regulations." Agree responses constitute 90.7 percent of the total. Agreement on these issues is not changed when state, age, length of ownership, industry or any other subclassifications are applied. Nebraska survey results parallel these three-state results.

In other statements dealing directly with federal regulation, a clear majority opinion also emerges, but there is a "significant other" opinion
Table 2
THREE-STATE SURVEY RESULTS:
FEDERAL REGULATIONS

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>Percent Agree</th>
<th>Percent Disagree</th>
<th>No Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal regulations and paperwork hinder small business operations</td>
<td>90.0</td>
<td>10.0</td>
<td>-</td>
</tr>
<tr>
<td>Minimum wage laws restrict businesses from hiring marginally productive employees</td>
<td>77.8</td>
<td>14.8</td>
<td>7.4</td>
</tr>
<tr>
<td>Federal regulations are too complex for small businesses</td>
<td>91.4</td>
<td>8.6</td>
<td>-</td>
</tr>
<tr>
<td>Federal government agencies have discrepancies in the interpretation of their regulations</td>
<td>90.7</td>
<td>9.3</td>
<td>-</td>
</tr>
<tr>
<td>Federal regulations require disclosures of too much confidential business information</td>
<td>66.7</td>
<td>33.3</td>
<td>-</td>
</tr>
<tr>
<td>OHSA regulations and procedures are reasonable</td>
<td>30.3</td>
<td>69.7</td>
<td>-</td>
</tr>
</tbody>
</table>

which suggests some confusion. "Federal regulations require disclosure of too much confidential business information." To this statement, 66.7 percent agree. However, a significant number (33.3%) disagree in the three-state sample. That aberration does not occur in the Nebraska sample, which logs only 12.3 percent disagreement. None of the subgroups analysis is helpful in explaining why a significant number of people do not consider that federal regulations require excessive disclosure of business information.

"OSHA (Occupational Safety and Health Administration) regulations and procedures are reasonable." Nearly one in three (30.3%) agree with the statement. A clear majority disagrees (69.7%), as does a greater majority of Nebraska respondents (89.7%). Breaking down the three-state sample into subgroups sheds some light on who sees OSHA as reasonable. Those who indicate to a later statement that they find no federal agencies difficult to deal with are more likely than others to describe OSHA as reasonable. While the difference does not reach significance (p = .06), it merits notation. OSHA ranked second among federal agencies cited by three-state respondents as being difficult to deal with. The Internal Revenue Service (IRS) ranked first.
While statements in the survey refer to federal regulations, comments from business respondents do not excuse state and local governments. Many pointed out that these governmental regulations are equally inhibiting and that there should be less interference by all governments.

In summary, small business sees federal regulations as overly complex hindrances which require too much disclosure of business information. They find discrepancies in federal government interpretations of regulations, see minimum wage laws as restricting their hiring, and deem OSHA regulations and procedures unreasonable. The cry is for less interference.

SMALL BUSINESS/FEDERAL BUREAUCRACY RELATIONSHIPS--RESULTS

Twelve questions fit into this category, but they can be subdivided into two sections: (1) information collected about small business and its uses by the government, and (2) the level and nature of interaction between federal agencies and small business. Table 3 summarizes these findings.

<table>
<thead>
<tr>
<th>Information Collected</th>
<th>Level and Nature of Interaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Businesses:</td>
<td></td>
</tr>
<tr>
<td>Learn of applicable federal regulations most often through trade media.</td>
<td>Report to 4-6 separate federal agencies in any given year.</td>
</tr>
<tr>
<td>Are not aware of the Code of Federal Regulations, although accounting firms which serve small businesses are aware of the CFR.</td>
<td>Consider some or all federal agencies to be difficult to deal with.</td>
</tr>
<tr>
<td>Accurately report to the government that information which is readily available from their files, but estimate responses otherwise (excluding IRS reporting).</td>
<td>Believe federal regulations to be duplicative.</td>
</tr>
<tr>
<td>Have little or no idea what the Federal Government uses data for.</td>
<td>Consider Federal Government internal communications to be uncoordinated.</td>
</tr>
<tr>
<td>Believe that information collected by the Federal Government about their business is of no use to them.</td>
<td>Agree that all Federal Government information gathering activities should be coordinated into one agency.</td>
</tr>
</tbody>
</table>

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Information

It is not enough to know that small businesses in Region VII believe that federal regulations require disclosure of too much business information. Also important is how small businesses learn what is required, how they provide it and what they perceive as its destination and uses.

Trade media and federal government mailings are the most frequently mentioned sources of information about federal regulations which impact small businesses. General media is third most frequently mentioned, with lawyer, accountant or other professional advisor ranked fourth.

Interestingly, no respondent mentioned the Code of Federal Regulations (CFR) or the Federal Register. Some respondents were asked a followup question to determine if they are aware of this resource. None had ever heard of it. The CFR, along with its daily update The Federal Register (FR), is the official repository for general and permanent rules promulgated by all executive departments and agencies of the federal government. Made up of 50 titles representing broad subject areas, the CFR is subtitled by issuing agencies and further subdivided into parts covering specific regulatory areas.

Using the CFR

Using the CFR requires stamina, perseverance and a good idea of what one is looking for, not to mention a healthy amount budgeted for publications. The CFR costs $400 per year and its companion volumes, the List of Sections Affected (LSA-published monthly) and the FR, are $10 per year and $50 per year respectively. The Register publishes daily amendments, additions or deletions to any rules as well as a cumulative list of subparts of CFR affected beginning January 1. The LSA lists changes by Title, Chapter, Part or Subpart, then gives the page in the current or previous year's FR where the change might be found. If the change occurred before the routine update of the CFR (several titles each quarter), the change will be in the basic volume. Otherwise, the change will be found in the FR.

All of this assumes that one knows what one is looking for. The CFR et al. is not suited for a random search. For example, a typical reference in the CFR reads: "29 CFR XVII OSHA 1920 P § 1926.650 (L)(4)." It denotes (from left to right) the title (29 is Labor) of the CFR; Chapter (XVII); Subtitle (OSHA); Part (1920); Subpart (P § 1926); Regulation (.650); and Subparagraph ((L)(4)). The entire chapter in the 1978 CFR for OSHA regulations pertaining to labor is 716 pages long. The entire CFR in 1978 is over 60,000 pages long, up from 17,000 pages in 1966 (Kaufman, 1977, p. 98). This explosion in size coincides with the surge in consumer protection laws.

Coping With Complexity

Given the cost and complexity of the CFR, it is not surprising that Region VII small business managers are unfamiliar with it.
However, in the survey respondents indicate that in fact they do not reply to federal reporting requirements themselves (21.4%), it becomes more important to know if professional advisors are familiar with the documents. An accounting firm which handles federal reporting requirements for many small businesses in a Region VII city, for example, subscribes to and uses the CFR. This firm, itself a small business, employs three researchers whose full-time job it is to keep current on federal regulations, rules and procedures. The firm handles all federal government interactions for its clients. Over 90 percent of these interactions are with the IRS.

The majority (78.8%) of small businesses respond to some or all federal requests for information about their businesses, but just how meticulous are they in responding to each request? Two questions in the three-state survey tap this concept. They are, essentially, the same question asked two different ways: "In providing information to agencies of the federal government (other than the IRS), I estimate replies to questions;" and "In providing information to agencies of the federal government (other than the IRS), I research my files in replying to the questions."

Paradoxically, 68.5 percent of respondents agree with the first and 67.9 percent agree with the second statement. It appears that business managers both estimate and research their files in responding to requests for information. One might conclude that the questions are not valid, but a better explanation occurs in the comments which accompany replies. In essence, if the information requested is routinely kept in the manner requested, then businesses are careful to provide accurate feedback. Wage and hour reports to the Department of Labor and Social Security Administration are often given as examples.

However, if information is requested which is not easily tapped from routine records, respondents estimate replies. The example most often given is the census forms sent periodically by the Department of Commerce. One interviewee explained that when he received the census form, he "ignored it until the feds threatened to take me to court. To fill it out properly," he said, "I would have to search every line in every ledger because we keep books by job and they ask for items such as 'total rental or lease of machinery, equipment or structures.' No way am I going to do it. I just guess."

Destination and Usefulness

Whether guesses or researched replies, business managers feel that they send their replies into oblivion. The group which responds to: "For what does the government use the information it collects?" With "nothing" or "don't know" constitutes 32.2 percent of the total. One in four respond with the nebulous "statistics" to this open-ended question, and 14.3 percent think it is collected just to make government jobs. Only one in ten believe that it is used for decisionmaking.

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Not only are respondents cynical about the ultimate usefulness of data they provide, but the majority (66.7%) feel that the information is not helpful to them. One interviewee said, "I wouldn't mind giving the information if I sometimes heard about what they do with it."

None of the subgroupings used for analysis reveal significant differences of opinion among subgroups about any of the issues presented here. There is strong agreement about the lack of information about federal regulations and reporting requirements, variation in types of feedback to federal requests for information, ignorance concerning uses of the data provided and doubt that the compiled data is helpful to them.

Level and Nature of Interaction

In 1940, regulatory laws were "for the most part inoffensive in any serious sense and reveal a moderately simple pattern. . ." (Lane, 1966, p. 10). Such is not the case in 1979. Nearly half (40.6%) of the respondents to the Region VII survey indicate that they respond to at least 4-6 separate federal agencies in any given year, and may respond to as few as two or as many as 12. Six percent consider all federal agencies difficult to deal with, and eleven different agencies are cited by those (74.5%) who specified choices. As noted earlier, the IRS and OSHA rank one and two, and the Federal Trade Commission (FTC) ranks third. That the FTC should be mentioned is somewhat surprising since it is widely held as an important protective shield for small business (RIA, 1972, p. 14). Other agencies mentioned include the Department of Labor, Social Security Administration, Environmental Protection Agency, Small Business Administration, Tennessee Valley Authority, Department of Commerce, Census Bureau, and Health, Education and Welfare. It is of interest that no respondents cited the Department of Energy, Interstate Commerce Commission or Federal Communications Commission.

The amount of reporting by each individual business is difficult to ascertain in a uniform way, but survey respondents shared strong feelings about duplication of effort. Two questions tap this concept: "Duplication of federal government services is of no concern to small business," and "Duplication of reports to federal agencies creates burdens on small business." Disagreement to the first is expressed by 83.6 percent of the three-state sample and 92 percent of the Nebraska survey. To the second 98.1 percent of the three-state and 97.7 percent of the Nebraska sample logged agreement. This is a dominant opinion which remains consistent through all subgroup comparisons. Clearly, Region VII small businesses feel very strongly about the amount of duplication which occurs in their interactions with the federal bureaucracy, even though some researchers maintain that duplication of regulatory efforts is not excessive (Ripley and Franklin, 1976, p. 96).

The feelings on duplication are reaffirmed by a clear majority (81.4% in the three-state and 89.6% in Nebraska) which believes that the federal government lacks coordinated internal communications. The frustration is at such a high level that three out of four respondents
now believe that the federal government should coordinate all of its information gathering activities into one agency. Perhaps this is the generation which Kaufman (1977, p. 99) maintains may be willing to trade off between higher risks (less privacy) and fewer unpleasant choices (responding to government paperwork). It is at least a generation which sees its interactions with federal bureaucracies in a powerfully negative light. As with earlier questions, respondents also chided state and local governments for their proliferation, duplication and unconcern. No governmental entity escapes criticism.

CONCLUSIONS

The message from this survey is loud and clear: small businesses in Region VII have strong negative feelings about the impact of federal regulations on their businesses and about their interactive relationship with the federal government. Comments which accompany their responses suggest that small businesses feel equally negative toward state and local governments. These feelings prevail no matter what the respondent's age, geographic location, type of business, or the length of time the business has been in operation. To a person, they are fed up. Even if they have no difficulty dealing with federal agencies, or if they avoid dealing with them by employing professionals to do so, the negative feelings persist. The frustration is so great they would just as soon see all data collection centered in one place, despite recent public focus on privacy issues.

More of any policy which requires additional forced interactions with public bodies will accentuate the negative, not alleviate it. Replies to other statements in the questionnaire not analyzed here suggest that this refers even to policy decisions which clearly would benefit small businesses. If any decision requires increased interactions, it will not be appreciated. Frankly, even this government sponsored survey was viewed with hostility by several respondents.

What federal, state and local governments do with the reality of small business hostility depends a great deal on government goals. What, for example, is the goal of federal government in directing specific and consistent focus on small business over the past 25 years? Is it to establish another visible constituency? The protective web around the agricultural industry began with systematic government promotion of political pressure by farmers (Olson, 1974, p. 127). Yet is resultant public policy in the area of agriculture a reflection of the pervasive needs of farmers?

Prevailing theories of group action suggest that "latent" large groups (a definition which fits both farmers and small businesses by virtue of their numbers and historical noninvolvement in politics) will not act unless attractive incentives are provided to smaller segments of them (Olson, 1974, p. 50-51; Buchanan and Tullock, 1974, p. 48; Katona, 1978, p. 129). In these smaller segments are the pressure groups which speak loudly, but not necessarily representatively (McConnell, 1966, p. 7-8). In the case of Region VII small businesses, the only legitimate representative message would be less, less, less. Yet where is the selective incentive that would make small businesses
carry this message loudly enough to affect public policy? There is none.

Thus, messages which go forward into the public policy arena are likely to reflect the needs of particular segments of the larger group. If public policymakers at all levels of government would recognize and understand this, they might be able to resist allowing "ad hoc" spokes-persons become all-knowing with regard to all the needs of the larger group they represent. This will not be easy . . . if Region VII small businesses suddenly became a pressure group capable of abolishing federal regulations, outlawing OSHA, eliminating the minimum wage and terminating their relationship with the federal government, opposition would be tremendous . . . for one person's red tape is another person's protection (Kaufman, 1974, p. 67). What then, is the course policymakers can pursue?

First, they can recognize that even the strong opinions expressed in this paper might reflect relative rather than absolute alienation. To borrow from Lincoln, "Not all of the people are affected all of the time, but enough of the people are affected some of the time" to generate strong feelings. (Kaufman, 1974, p. 9; Loye, 1978, p. 101).

Responsiveness is legitimate, but it need not be total. It should, however, be systematic and comprehensive, with the goal of reducing the number of interactions between small businesses and government bureaucracies without disturbing legitimate societal goals. There is, for example, strong justification for OSHA's existence, but not for all of its activities. Indeed, OSHA has taken steps to remove some of its more questionable monitoring activities and no doubt can do more. A good example exists in the actions of the Law Enforcement Assistance Administration (LEAA). It prioritized a total review of governance procedures for its grantees and cut the number of regulations and reporting requirements in half without sacrificing legislative goals (Gregg and Diegelman, 1979). Their blueprint for action could be applied to every government department at all levels. Whether that happens or not depends on how willing policymakers are to prioritize and oversee review and reduction of regulations and reporting requirements. There is no reason why this cannot be done without affecting the legislative intent of Acts already in place.

However, legislation also is necessary to stem the flow of regulatory promulgations. Some have called for institution of a legislative veto (Costley, 1979). However, 18 states already have some form of legislative veto (Murphy, 1979), and it does not appear to have mitigated criticism of too intense governmental presence. The reason might be that these veto laws (all four states in Region VII have them) permit automatic approval of regulations if the legislatively authorized committee takes no action to disapprove them. This is backwards. The legislative committee should be forced to approve (be accountable for) each regulation. Or perhaps, as in Montana's legislative review law, all bills that authorize agencies to promulgate rules should require a statement of legislative intent. Also in Montana, the burden of proof of consistency with legislative intent rests with the promulgating agency if legal action occurs. This speaks to accountability! Region VII states should propose and pass stronger legislative veto requirements.
The passage and impact of these recommendations takes time, and no doubt policymakers will want to begin changing small business' critical attitude immediately. This study tells them how. Simply reduce the number of reporting interactions required by authorizing federal agencies to gather data from each other. Small businesses appear ready to permit this. Should individual authorization be necessary (given the constraints of privacy laws) a simple letter of permission from the small business could replace lengthy requests for information. Additional long-range benefits should accrue. For example, fewer reporting requirements should encourage more accurate responses.

In summary, government policymakers can respond to soften small business criticisms of an overly regulated environment by systematically reducing required interactions. There are some guides to action in this paper, and others waiting to be uncovered. The challenge to policymakers is to ensure action inside bureaucracy.
FOOTNOTES

1 But note, comments refer to regulatory impacts, and do not address government services as such.

2 Peruse library references to Congressional inquiries, special select committees and Executive orders, as well as print media in every trade and academic discipline.
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IMPACT OF TAX LAWS ON SMALL BUSINESS IN REGION VII

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This study focuses on the impact of tax laws on small business in Iowa, Kansas, Missouri and Nebraska (Region VII). Events leading to the President's tax proposals on small business and the Revenue Act of 1978 are traced, primarily through a review of legislative hearings, in the first section. With the development of new Federal tax legislation as background, the specific impacts of Federal, state and local taxing systems on small business are addressed. The perspectives on taxation and small business were obtained through a mail questionnaire sent to more than 500 Chamber of Commerce officials in Region VII. The respondents were asked to express their opinion on the impact and effectiveness of federal, state, and local government tax legislation on small business. Particular emphasis was placed on obtaining comments on general changes needed in tax legislation at the state and local levels to encourage the growth and development of small business.

It is concluded that Region VII representatives are most dissatisfied with the Federal taxing system as it impacts on small business. State and local tax relief for small business in the early years of operation are recommended, and it is suggested that Nebraska and Kansas, in particular, reexamine state taxing policies as they impact on small business. Missouri is pointed out as a state in which both the state and local governmental levels have demonstrated a desire to encourage the growth and development of business.

CONCLUSIONS AND RECOMMENDATIONS

This study of the impact of tax laws on small business in Region VII confirmed many of the comments which are frequently attributed to small business. Primarily, the survey results point to a federal tax system that has placed significant burdens on small business, resulting in a strong sentiment against the Federal Government's tax policies. The Federal Government was singled out as the level of government most restrictive to the growth and development of small business and most in need of tax legislation revision to encourage the future growth and development of small business. Further, Region VII respondents were in agreement with the conclusion that the existing tax system does not respond to small business capital needs because it lacks incentives to attract private investment capital. It should be recognized, however, that the Region VII respondents had little, if any, data or experience with which to judge the impact of the Revenue Act of 1978.

State and local governments in Region VII were judged as the most appropriate sources to provide proper incentives to encourage growth
and development of small business. When asked to comment on general changes in tax legislation which were needed at the state and local levels, responses tended to focus on tax incentives and tax breaks to new business in the first few years of operation. Kansas respondents voiced a strong concern over the impact of the state inventory tax, while Nebraska respondents voiced a similar concern about the property tax. Missouri respondents were most satisfied that the state and local governments were attempting to support the growth and development of small business.

The following recommendations from this study are suggested:

- Followup work examining the impact of the 1978 Revenue Act on small business should be conducted.
- All levels of government need to reexamine and reduce the paperwork required of small business.
- State and local governments in Region VII should reexamine current tax structures with the goal of providing tax incentives for small business in the early years of operation.
- The inventory tax in Kansas and the property tax in Nebraska are the two taxes in Region VII which need to be reexamined in light of the adverse impact they currently have on business.
- Governments in Region VII that wish to assist small business should examine the support provided to business in Missouri.

SMALL BUSINESS AND FEDERAL ISSUES

The tax problems of Region VII small business are a mix of federal, state and local origins. Thus, it is worthwhile to examine recent federal legislation and research on federal policy to provide a perspective within which an analysis of state and local problems can be organized.

Events leading to the President's Tax Proposal on Small Business in 1978 and the Revenue Act of 1978 have demonstrated several common themes relating to the federal tax system and its impact on small business. The 1975 Joint Hearings before the Select Committee on Small Business and the Subcommittee on Financial Markets of the Committee on Finance marked an important step toward recognition that some tax law revision for small business was warranted.

In the hearings, Professor Roy Schotland of Georgetown University summarized several adverse impacts the federal business tax structure had on small firms. Schotland noted, for example, that it was only since 1973 that people began to understand the discriminatory nature of taxation on small firms; e.g., small companies paid an effective tax rate which was about 15 percent higher than what major companies paid. He
further noted that increased federal regulatory requirements were placing severe burdens on the small firms. Finally, Schotland pointed out that inflation and higher interest rates were placing severe burdens on small businesses, particularly in connection with the securing of capital to operate and expand (U.S. Congress, 1975).

Schotland's testimony was echoed by others. A common thread centered on the difficulties small firms were having in retaining and obtaining funds to finance growth. The testimony of the Council of Smaller Enterprises of Cleveland and the National Association of Wholesaler-Distributors in the same hearings reinforced these themes (U.S. Congress, 1975).

In 1977 the Small Business Administration released three reports pertaining to small business: The Study of Small Business, Part I; What is a Small Business?, Part II; and The Impact of Taxation on Small Business, Part III (U.S. Small Business Administration, 1977). Of particular relevance for this report is the work provided in Part III which reinforces the view that small business is confronting several crucial problems associated with the tax system.

The report went to some length to emphasize that small business differs from other business and, because of its size, is discriminated against by the tax system. Specific examples focused on the special difficulties small firms have in retention and accumulation of operating and long term capital. The report further emphasized that complexity of the tax system placed special burdens on small business. A major recommendation was that a new taxpaying entity called a "small business enterprise" be created. This entity would be defined in terms of the number and nature of equity owners, its capitalization and its gross profit (U.S. Small Business Administration, 1977).

In the June 1977 hearing before the Subcommittee on Government Regulation and Small Business Advocacy of the Select Committee on Small Business, the three-part SBA study was taken to task as being superficial, secondary research, and a rehash of the reports and hearings done by SBA and the Committee and the House (U.S. Congress, 1977). The topic of taxation and small business was again brought up for testimony in the 1978 hearings before the Subcommittee on SBA and SBIC Authority and General Small Business Problems of the Committee on Small Business. The testimony again demonstrated the belief that special tax revisions were needed for small business (U.S. Congress, 1978). The testimony by the Chamber of Commerce of the United States was particularly strong, noting that small business "is in a state of declining economic strength primarily due to actions of government." Taxation, regulation and inflation were cited as the three main culprits, and it was again noted that tax relief was needed so small firms could retain earnings to generate needed capital (U.S. Congress, 1978).

On October 15, 1978, the Revenue Act of 1978 was passed by Congress. An outgrowth, partially, of the various concerns expressed for small business, the Act has as its principal purpose the reduction of taxes and the generation of new investment. Specific provisions concerning small business include a new graduated tax rate structure
more favorable to small business, liberalization of the scope of Sub-chapter S, and ordinary loss treatment for losses sustained on investments in the stock of qualifying small business corporations. A special tax entity such as the "small business enterprise" suggested in the Small Business Administration report was not part of the Act (Peat et al., 1978).

REGION VII ISSUES

The above review of legislative testimony and research clearly identifies a federal taxation system that disproportionately burdens small business. Although some legislative remedies were enacted in 1978, it is unlikely that the impact of this new legislation which takes effect in 1979 has yet been felt among small business managers in Region VII. Nonetheless, it was decided to seek out opinions to define small business tax problems.

SURVEY OF SMALL BUSINESS

To obtain further insight into the impact of tax laws on small business, questionnaires were sent to 525 Chambers of Commerce throughout Region VII. Each Chamber was asked to have its member who is most knowledgeable in business taxes respond for its membership. Responses were received from 156 Chambers: 38 responses from Iowa, 29 from Kansas, 48 from Missouri, 25 from Nebraska and 16 without identification. This is a 30 percent response rate, which is typical for mail survey methodology. The following sections describe and analyze the results by examining responses to each question separately.

Current Tax Legislation

Respondents were asked the following question: "In terms of current tax legislation, which governmental level do you think:

- is providing proper incentives to encourage the growth and development of small business;
- is providing the most restrictions on the growth and development of small business;
- is most in need of tax legislation revision to encourage the growth and development of small business; and
- has the most immediate potential for providing tax legislation changes which encourage the growth and development of small business."

Respondents were in agreement that state and local governmental levels were best providing proper incentives to encourage growth and development of small business. Of 161 responses (some gave more than one answer), only 17 (11%) selected federal government while 60 (37%)
selected local government and 53 (33%) selected state government. The remaining 31 (19%) indicated that none of the governmental levels were providing proper incentives.

These views varied by state. Missouri responses reflected greater satisfaction with local government (45%), while Iowa responses tended to stress state (51%). Kansas and Nebraska were more mixed, with local government receiving the most votes.

The response pattern was much more consistent in terms of the level of government "providing the most restrictions on small business" and "most in need of tax legislation revision." The federal government was selected in 85 percent of the responses for the former and in 74 percent of the latter. A distant second was the state and third belonged to the local level. Iowa respondents tended to be most likely to point to the federal government as "most restrictive" while Missouri respondents were most likely to point to the federal government as most in need of "tax legislation revision."

Respondents, however, were not all that optimistic that the federal level "has the most immediate potential for providing tax legislation changes to encourage growth and development of small business." Only 47 percent selected the federal level; while 40 percent selected the state level. Iowa respondents seemed most likely (60%) to select the state as most promising. Kansas respondents, however, were less likely to select the state (17%) as the level of government with immediate potential for tax legislation change.

Some respondents took the opportunity to further comment on governmental restrictions, at times moving away from tax legislation to other barriers affecting growth and development. One Iowa respondent noted "Legislative restrictions in all areas are killing the free enterprise system America is known for." Another, from Missouri, stated, "Small business, with limited funds for professional advice, needs the elimination of federal forms (not revision!) plus greater understanding by local government on how job opportunities and the tax base can be expanded." Another noted, "The federal government works at cross purposes regarding the provision of proper incentives and restrictions on small business growth. Funding the SBA heavily, and then making an effort to explain government's restrictive regulations as one of their most important functions is illogical!" As a final example, a Kansas respondent noted that the "paperwork requirements by Census Bureau, Social Security, IRS, EPA, OSHA and various Departments of Commerce, Agriculture, etc., are too burdensome on small businesses."

Others took the opportunity to explain why they chose the state or local governmental level as having the most immediate potential for providing tax legislation changes to encourage growth of small businesses. Examples are: "Federal Government seems too far removed to have any immediate potential for assistance to small business"; "Local control is the only answer"; "... states are more able to provide tax incentives to improve specific climates of business." More details on total responses are provided in Table 1.
<table>
<thead>
<tr>
<th>Response Item</th>
<th>Number of Responses</th>
<th>Federal</th>
<th>State</th>
<th>Local</th>
<th>Unidentified Responses</th>
</tr>
</thead>
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<tr>
<td>Providing proper incentives to encourage growth and development of small businesses?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Region VII</td>
<td>161</td>
<td>11%</td>
<td>33%</td>
<td>37%</td>
<td>19%</td>
</tr>
<tr>
<td>Iowa</td>
<td>41</td>
<td>10%</td>
<td>51%</td>
<td>29%</td>
<td>10%</td>
</tr>
<tr>
<td>Kansas</td>
<td>33</td>
<td>12%</td>
<td>33%</td>
<td>40%</td>
<td>15%</td>
</tr>
<tr>
<td>Missouri</td>
<td>49</td>
<td>10%</td>
<td>20%</td>
<td>45%</td>
<td>25%</td>
</tr>
<tr>
<td>Nebraska</td>
<td>22</td>
<td>14%</td>
<td>27%</td>
<td>41%</td>
<td>18%</td>
</tr>
<tr>
<td>Unknown</td>
<td>16</td>
<td>6%</td>
<td>31%</td>
<td>25%</td>
<td>38%</td>
</tr>
<tr>
<td>Providing most restriction on growth and development of small business?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Region VII</td>
<td>165</td>
<td>85%</td>
<td>9%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>Iowa</td>
<td>39</td>
<td>92%</td>
<td>8%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kansas</td>
<td>30</td>
<td>83%</td>
<td>10%</td>
<td>7%</td>
<td>-</td>
</tr>
<tr>
<td>Missouri</td>
<td>50</td>
<td>80%</td>
<td>10%</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>Nebraska</td>
<td>28</td>
<td>89%</td>
<td>7%</td>
<td>4%</td>
<td>-</td>
</tr>
<tr>
<td>Unknown</td>
<td>18</td>
<td>78%</td>
<td>11%</td>
<td>11%</td>
<td>-</td>
</tr>
<tr>
<td>Most in need of tax legislation revision to encourage growth and development of small business?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Region VII</td>
<td>176</td>
<td>74%</td>
<td>19%</td>
<td>7%</td>
<td>-%</td>
</tr>
<tr>
<td>Iowa</td>
<td>42</td>
<td>74%</td>
<td>19%</td>
<td>7%</td>
<td>-%</td>
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<tr>
<td>Kansas</td>
<td>32</td>
<td>84%</td>
<td>13%</td>
<td>6%</td>
<td>-%</td>
</tr>
<tr>
<td>Missouri</td>
<td>51</td>
<td>69%</td>
<td>22%</td>
<td>8%</td>
<td>-%</td>
</tr>
<tr>
<td>Nebraska</td>
<td>28</td>
<td>89%</td>
<td>11%</td>
<td>-</td>
<td>-%</td>
</tr>
<tr>
<td>Unknown</td>
<td>23</td>
<td>57%</td>
<td>30%</td>
<td>13%</td>
<td>-%</td>
</tr>
<tr>
<td>Has most immediate potential for providing tax legislation changes which encourage the growth and development of small business?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Region VII</td>
<td>169</td>
<td>47%</td>
<td>40%</td>
<td>12%</td>
<td>1%</td>
</tr>
<tr>
<td>Iowa</td>
<td>45</td>
<td>27%</td>
<td>60%</td>
<td>13%</td>
<td>-%</td>
</tr>
<tr>
<td>Kansas</td>
<td>29</td>
<td>70%</td>
<td>17%</td>
<td>13%</td>
<td>-%</td>
</tr>
<tr>
<td>Missouri</td>
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<td>50%</td>
<td>36%</td>
<td>12%</td>
<td>2%</td>
</tr>
<tr>
<td>Nebraska</td>
<td>25</td>
<td>52%</td>
<td>40%</td>
<td>8%</td>
<td>-%</td>
</tr>
<tr>
<td>Unknown</td>
<td>20</td>
<td>45%</td>
<td>35%</td>
<td>20%</td>
<td>-%</td>
</tr>
</tbody>
</table>

NOTE: Responses exceed respondents because some provided more than one reply per question.
Existing Taxing Systems

The questionnaire also attempted to gain views on four conclusions which were advanced in the 1977 study of small business conducted through the Office of Advocacy of the Small Business Administration (U.S. Small Business Administration, 1977). Those receiving the questionnaire were asked to rate the importance of the following conclusions concerning taxes and small business:

The existing taxing system:

- does not respond to small business capital needs because it lacks incentives to attract private investment capital;
- is not responsive to retirement security needs of the owner;
- forces the sale of a business upon death of an entrepreneur to pay estate taxes; and
- encourages mergers with larger enterprises.

As shown in Table 2, most respondents were in agreement with the statement that the tax system does not provide incentives to attract private investment capital. Sixty-six percent rated this as most important and another 20 percent rated it as second most important. Some agreement was also reached that the existing tax system "forces the sale of a business upon death of an entrepreneur to pay estate taxes" and "encourages mergers with larger enterprises." Thirty-one percent rated the former as most important and 26 percent rated the latter as most important. There certainly was not total agreement, however, on the two statements. For example, 15 percent rated the issue of estate taxes as least important and 18 percent provided a similar rating for the issue of mergers.

Only 12 percent rated as most important the conclusion that the existing tax system is not responsive to retirement security needs of the owner.

For the four questions, there was little difference in response by state. Those from Kansas, however, did not put as much emphasis on the failure of the tax system to provide incentives to attract private investment capital as did those from the other states. Conversely, those from Nebraska tended to emphasize the adverse impact of the estate tax more than those from other states. Relative to the sample size, however, these differences are not great enough to be considered significant.

Respondents were also invited to comment further if they disagreed with any of the four conclusions. Reflecting the rankings, a few took issue with the conclusions concerning estate taxes and security needs—with the general theme that these were a matter of personal planning, not the tax system.
<table>
<thead>
<tr>
<th>Response item</th>
<th>Number of Responses</th>
<th>Most Important</th>
<th>Slightly Important</th>
<th>Important</th>
<th>Not Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does not respond to small business capital needs because it lacks incentives to attract private investment capital.</td>
<td>152</td>
<td>66%</td>
<td>20%</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>Region VII</td>
<td>149</td>
<td>32%</td>
<td>24%</td>
<td>29%</td>
<td>15%</td>
</tr>
<tr>
<td>Iowa</td>
<td>38</td>
<td>71</td>
<td>13</td>
<td>3</td>
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<td>28</td>
<td>46</td>
<td>25</td>
<td>7</td>
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<td>Missouri</td>
<td>46</td>
<td>63</td>
<td>26</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Nebraska</td>
<td>25</td>
<td>72</td>
<td>24</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>Unidentified</td>
<td>15</td>
<td>93</td>
<td>7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Forces the sale of a business upon death of an entrepreneur to pay estate taxes.</td>
<td>149</td>
<td>32%</td>
<td>24%</td>
<td>29%</td>
<td>15%</td>
</tr>
<tr>
<td>Region VII</td>
<td>149</td>
<td>32%</td>
<td>24%</td>
<td>29%</td>
<td>15%</td>
</tr>
<tr>
<td>Iowa</td>
<td>38</td>
<td>26</td>
<td>26</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td>Kansas</td>
<td>28</td>
<td>36</td>
<td>25</td>
<td>36</td>
<td>3</td>
</tr>
<tr>
<td>Missouri</td>
<td>46</td>
<td>26</td>
<td>33</td>
<td>22</td>
<td>19</td>
</tr>
<tr>
<td>Nebraska</td>
<td>22</td>
<td>54</td>
<td>14</td>
<td>32</td>
<td>-</td>
</tr>
<tr>
<td>Unidentified</td>
<td>15</td>
<td>20</td>
<td>7</td>
<td>40</td>
<td>33</td>
</tr>
<tr>
<td>Encourages mergers with larger enterprises.</td>
<td>152</td>
<td>26%</td>
<td>35%</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>Region VII</td>
<td>152</td>
<td>26%</td>
<td>35%</td>
<td>21%</td>
<td>18%</td>
</tr>
<tr>
<td>Iowa</td>
<td>38</td>
<td>18</td>
<td>42</td>
<td>26</td>
<td>13</td>
</tr>
<tr>
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<td>28</td>
<td>32</td>
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<td>18</td>
<td>25</td>
</tr>
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<td>46</td>
<td>28</td>
<td>30</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>Nebraska</td>
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<td>20</td>
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<td>15</td>
<td>21</td>
<td>53</td>
<td>13</td>
<td>13</td>
</tr>
</tbody>
</table>
State and Local Tax Legislation

The questionnaire also invited open comments on the general changes in tax legislation needed at the state and local levels to encourage the growth and development of small business.

Those responding to the questionnaire from Region VII identified several concerns that were common to each state. These will be discussed before the specific concerns of each of the four states are examined.

The strong antagonism toward the federal tax system was a foremost thought of the respondents despite the fact that the question requested comments about problems within their respective state and local tax structure. More specifically, mention was made about the severity of the federal income tax and social security system on small businesses.

The grass roots philosophy of taxes being placed at the lowest level of government was another common theme. Though it would be inaccurate to conclude that owners of small businesses are pleased to pay state and local taxes, the absence of acrimonious comments about their state and local tax system does seem to indicate that the level of dissatisfaction within the total tax system--federal, state, and local--is principally aimed at Washington, DC. This dissatisfaction, in fact, extended beyond taxes and included paperwork, regulations and several other federal agencies and programs. There also was support expressed for increased state and local taxes if relief could be obtained at the federal level.

The specific tax at the state level which the respondents singled out for general review and adjustment was the inventory tax. Although this tax appears to be of foremost concern to the small business in Kansas, it was a common target in the other three states as well. The need for assistance or some type of special tax relief in the first two to five years of a new business was frequently mentioned by the respondents in Region VII.

An analysis of the comments of respondents about general changes in tax legislation needed at the state and local levels to encourage the growth and development of small business in each of the four states in Region VII follows.

Iowa. For Iowa, 26 of the 38 respondents shared thoughts on tax legislation changes. Overall, the comments tended to focus on state rather than the local governmental level. They also tended to favor a tax system which would be more supportive and less demanding for business in general. Recommendations for tax relief often focused specifically on the first few years of business operation.

Twenty out of 26 respondents made specific mention of tax incentives for business. These comments ranged from very general statements such as "tax incentives" and "tax breaks" to fairly specific recommendations concerning types of incentives. A summary of the latter is:
Reduce income tax rates for small business. This particular respondent noted that what is often termed "profit" is instead merely wages for the owner/operator.

Raise the limit on personal property exemptions.

Exempt new machinery and equipment from sales and use taxes.

Provide property tax incentives such as moratoriums for new facilities and major improvements.

Eliminate inventory, equipment and machinery taxes.

Eliminate or phase out the personal property tax.

Provide state assistance for speculative businesses.

Provide for property tax abatement.

Several respondents referred to the early years of operation of a new business. Examples of their thoughts are:

Provide tax reduction with a special tax scale for the first year of a new business.

Provide tax legislation to encourage self-employed persons to start a business.

Provide tax relief on structures and equipment in the initial years.

Provide income tax relief through the state for the initial startup period of the business.

Local government could waive property taxes for the initial startup period.

Provide a tax break to small business which is under heavy financial burden in the first few years of business.

Several respondents took this opportunity to discuss other incentives and assistance which would benefit business. Two respondents, for example, noted that startup training could be expanded and subsidized by the state. Such a program would offer training assistance to companies considering expanding or locating in the State of Iowa. Providing state assistance for communities to refurbish available buildings, establishing a State Finance Authority to assist industrial development, providing low cost loans, allowing title insurance to be sold and providing Iowa communities more authority to offer real estate tax
incentive to encourage industrial development are examples of other recommendations offered by respondents. On the local level, one suggested the provision of "one stop" information centers for such things as restrictions, ordinances and taxes regarding the development of a business.

Despite the fact that the question referred specifically to state and local government, several respondents took the opportunity to again discuss changes needed at the federal level. One stated "the problems seem to be found at the federal level." Another noted that no specific changes in tax legislation were needed; but further noted two general areas of change concerning the federal government: (1) the same reporting forms are not required for small business as for large business, and (2) some special provisions are needed for small business in terms of such things as minimum wage requirements and OSHA regulations.

A third respondent noted a void between what Industrial Revenue Bonds will accomplish (usually starting at 1 million) and what SBA will guarantee. A fourth directed his aim at the federal level:

The federal government has so strangled the small businessman with unnecessary paperwork and taxation that it makes it harder and harder for the small town, low volume merchant to compete with high volume, larger city companies.

Several others took the opportunity to voice concern over paperwork and related regulatory requirements.

Overall, the comments reflect a concern for business assistance at the state and local levels. Tax incentives, particularly in the early years of operation, were most frequently mentioned as ways to provide this assistance.

Missouri. Twenty-two of the 48 Missouri respondents shared thoughts on changes in tax legislation needed at the state and local level. Of these respondents, it is evident that the Missourians are relatively pleased with their state and local tax system. Several noted that few or no changes were needed. An example statement follows: ". . . the state and most local governments have a very healthy outlook to encourage small business to expand and grow. The legislature itself is committed to this direction by the votes against bills to inhibit business growth in Missouri in the recent session."

There were, however, many suggestions for improvements. A majority offered recommendations for tax incentives, including general statements such as "decrease all taxes," "reduce taxes of all types" and "lower taxes on small business." Other more specific comments are:

- Provide incentives for capital investment by small business.
- Put larger companies in higher tax brackets.
- Eliminate double taxation on small business.
- Exempt very small business from state and federal legislation.
- Provide more funding for schools through the state rather than local property taxes.
- Decrease the emphasis on property taxes.
- Eliminate the inventory tax in the state.
- Reduce tax on equipment.
- Increase responsiveness of local governments to needs of new business, particularly to encourage such to begin business in local areas.
- Watch closely the rate of tax on manufacturers so as not to discourage new business.

Several of the Missouri respondents also took the opportunity to discuss their concerns on federal tax legislation, paperwork and regulations.

Kansas. Eighteen of the 29 respondents offered recommendations for tax legislation change. The Kansas respondents were, relative to those in the other three states, fairly vocal about the need for change. Without question, the state inventory tax was the most mentioned area in need of change. About three-fourths of the respondents noted the need to repeal or reduce the inventory tax. Several also cited the need to reduce state inheritance taxes and to remove taxes on the purchase of new manufacturing and farm equipment. Other comments mentioned include:

- Provide credits for expenses needed to bring buildings to code standards.
- Subsidize interest rates for redevelopment of buildings and for new construction in older areas.
- Provide tax credits or partial exemptions for refurbishing existing businesses.
- Provide tax leniency during the early years of a business operation.
- Exempt small business from tax on the first $100,000 of net profit.
- Forgive property taxes for a ten year period for new industrial facilities.
Kansas respondents also took note of the federal government. Workman's compensation, unemployment compensation, minimum wage legislation and job programs were all mentioned as in need of change. Several also discussed the paperwork and overall level of government. One suggested that business should be allowed a tax credit for time spent doing government paperwork.

Nebraska. Fourteen of the 25 Nebraska respondents provided thoughts on tax legislation changes needed at state and local levels. Three general themes were apparent: (1) tax incentives need to be provided; (2) change is needed in the current tax mix at the state level; and (3) reduced government interference, particularly at the federal level, is needed.

Several provided general statements calling for tax relief. "Better tax exemptions for small business" and "more allowance for growth and expansion" are examples of such responses. Other specific recommendations follow:

- Provide better investment credits.
- Provide more allowances on retained earnings.
- Eliminate the capital gains tax.
- Abolish inventory tax.
- Provide lower taxes in the first few years of operation of a small business.

The need for more balance in the tax system was also cited. One respondent, for example, noted that all forms of taxation should be used to supply the funds necessary to operate government agencies. Another supported this view by noting the need for Nebraska to expand its use of the sales and income taxes to aid schools and other local subdivisions so that property taxes could be reduced. This respondent further noted: "Nebraska's heavy reliance on property taxes represents a regressive, archaic, confiscatory tax system."

Finally, Nebraska respondents also shared their views on government regulation, paperwork and interference which are similar to those in the other states.

Other. Fifteen responses were received from people for which a state identification was not available. Although the state could not be identified, the responses deserve attention.

Several expressed specific concerns about the health of small business. One noted that business firms in small towns in particular are gradually deteriorating and in need of tax relief. Another urged change in both state and federal legislation to assist small business. Reduction of taxes to encourage capital expansion, new depreciation methods for small business, lower social security obligations, reduction or freezing of minimum wages and making dividends deductible were cited.
REFERENCES


A REVIEW OF STATE AND LOCAL POLICIES ON SMALL BUSINESS IN THE REGION

Staff, Journal of Corporation Law
Gary W. Koch, Editor
University of Iowa

RESULTS

The purpose of this paper is to analyze in detail legislative and constitutional actions, as well as the general business climate for small business, in a four-state area: Iowa, Kansas, Missouri and Nebraska. Inflation, increases in crime and competition from larger business have developed problems for small business. Because of the limitations on the size of this paper and the numerous important topics, the format of this paper reflects a desire to discuss in some detail various critical areas.

First, inflation has been of constant concern to small business. Because of increased prices and high interest rates, capital for the growing business has been consistently short. While large companies frequently borrow at prime rates, smaller companies must pay one, two or more points over prime to obtain normal financing. Capital markets have also literally dried up for the small business as the inflation spiral has limited investor confidence to all but the largest companies. State securities registration requirements for small public or private offerings are often costly and time consuming. The consensus is that growing business needs help.

Help can come in two ways. SBA lending can be shifted more toward "small business" than larger companies able to obtain funds elsewhere. And, vigorous training and education programs designed to counteract the lack of managerial expertise can help small business make better use of the funds it now controls.

Second, increased competition from larger business results in a myriad of problems. Larger corporations typically can put "excessive" competition into the market, tending to drive the small enterprises out of business. Although states have begun more intensive state antitrust regulation, the state activity has also generated problems. State antitrust actions are frequently directed toward small business for political reasons and to obtain "easy" precedents for larger antitrust cases. Also, small businesses are easier to convict, being less informed on antitrust prohibitions and less able to assemble the expensive defenses available to larger companies with more funds.

States can, and should, help promote small business by informing operators of prohibited practices and illegal restraints of trade. Also, state enforcement should center on all business uniformly, even if that entails enlarging current budgets and grants to aid state antitrust enforcement.
Third, state income taxes operate to discriminate against small business. While the largest corporations may pay 25 percent of their income in taxes, the amount paid by small business may be double that. Most state income taxes on corporations are not significantly progressive, and small corporations bear the brunt of the burden. Varying state tax rates also operate to place businesses in interstate commerce at a competitive disadvantage with other companies.

States can remedy the problems. Progressive rate structures can place the burden of taxation on enterprises able to afford the tax. Indexing of the rate brackets will also result in realistic amounts of taxes, avoiding artificial increases due to inflation. And, uniform tax schedules adopted country wide can ease the disparate treatment given businesses operating across state borders.

Fourth, crime has plagued small business, and probably always will. State enforcement and crime prevention is neither adequate nor specialized enough to protect small business. Losses of millions of dollars per year are commonplace.

States need to devote more time and money to crime prevention, starting with training and instruction on how to deter losses. In addition, a concerted effort must be taken to stop not only the thief, shoplifter and burglar, but also the persons responsible for the redistribution of the stolen merchandise. Finally, information systems on criminal activity should be continually updated to provide specialized crime prevention units, as well as the police, with accurate data on the trends of criminal activity.

Fifth, the products-liability systems need updating and revising. Current compensation systems are so slow, erratic and expensive that victims are undercompensated and businesses overcharged—occasionally even ruined by products sold years earlier.

Although it is questionable whether relief can come from the state level, enacting modified versions of workmen's compensation plans can replace the present chaos with a limited but certain, system of compensation.

The five topics mentioned above, while by no means exclusive, constitute significant areas of state and local interaction with small business. As listed above, these areas are also fertile for legislative and political reform.

**METHODODOLOGY**

This paper was prepared by a research team consisting of five graduates of the University of Iowa College of Law. The methodology consisted of unstructured and informed interviews conducted in person and/or over the telephone with a number of small businessmen, together with extensive use of the research facilities of the University of Iowa Business and Law Libraries. The personal interviews revealed a general apathy toward state government and assessments of local governments based principally on personal relationships rather than on
policy matters. Perhaps not surprisingly, it was also expressed that the relationship between state and local governmental bodies and small businesses is most frequently characterized by a sort of benign neglect.

The decision was made, therefore, to concentrate the analysis on the library share of the research. Rather than attempting to identify every aspect of public policy which impacts on small businesses, it was deemed more appropriate to isolate and discuss in some detail a few issues of salient importance at the present time. Those areas selected are product liability, crimes against small businesses, capital financing, trade regulation and the structure of the state corporate income tax. As per instructions the inquiry focused on the states of Iowa, Kansas, Missouri and Nebraska.

In conducting the research, analysis of cases, statutes, periodicals and leading treatises was employed. Where appropriate, Congressional hearings and legislative debate were examined. Extensive use was also made of the Mead Corporation's Lexis computer research system. Whenever possible, an attempt was made not only to identify problem areas but also to evaluate proposals for remedial action.

DATA BASE

CAPITAL FINANCING FOR SMALL BUSINESS

In this section, the problems of small business in obtaining adequate capital will be discussed. Discussion will center upon three topics: equity capital and the extent of state regulation of securities, debt financing and practices and recommendations for the SBA and, finally, reduction of risk associated with small business investment through SBA-sponsored education programs. Because of the extent of SBA involvement in the latter two areas, comments will be primarily addressed to practices of the SBA.

Equity Capital

The need of small business for equity capital is quite clear. The capitalization of businesses that are technologically oriented typically consists of 48 percent equity capital. In comparison, nontechnology businesses usually have 14 percent equity in their total capital structure. The desirability of equity capital is shown by a 1976 survey of 77 companies founded during the period of 1971-1975. This survey shows that for every $100 in equity investments, $70 is generated in exports, $33 is spent on research and development, and $35 is produced for federal, state and local corporate personal income taxes.¹

The methods of obtaining equity capital through the sale of investment securities is closely regulated on both the national and state levels. Generally, the sale of an issue of securities must be registered with the Securities and Exchange Commission² and with the securities divisions of the States of Iowa, Kansas, Missouri and Nebraska. Because of the broad application of the term "securities" by both statutory and case law,³ any sales of equity-ownership interests by a
small business not complying with statutory exemptions will run afoul of state and federal law.

An examination of the methods for complying with both state and federal law reveals how the small business is effectively barred from the capital markets available to larger business and industry.

Companies issuing a class of securities for sale in public markets must register the class of securities with the SEC under Section 5 of the Securities Act of 1933. Section 5 registration provides the SEC and the public with substantial information regarding both the class of security and the issuer, including detailed financing statements. Companies that have already registered with the SEC may register with the State Securities Divisions of Iowa, Kansas, Missouri and Nebraska by "coordination," a method that involves essentially refileing the SEC registration statement with the state. Because registration by coordination with the four states is substantially parallel to Section 5 registration with the SEC, little extra expense or burden is imposed on the issuer.

The cost, however, of a Section 5 registration with the SEC is so great, often involving $150,000 to $200,000 in accounting and attorney's fees before underwriting commissions, that small businesses are prohibited from making such a public offer. Because of this high cost, several exemptions from Section 5 registration exist, including Regulation A and Rule 146.

Companies with issues of securities seeking less than $1.5 million may utilize Regulation A, which essentially constitutes a more simplified registration procedure than regular registration. While the cost of raising capital is substantially diminished under Regulation A, the cost savings is virtually eradicated because of the increased burdens imposed by state registration. Unlike the simple "registration by coordination," associated with state registrations of securities offerings subject to full SEC registration, Regulation A offerors must comply with the state's more complex and expensive "registration by qualification." When a company registers by qualification, essentially the same information that is required in a Section 5 registration must be provided to the states.

The rationale behind the increased state-imposed burdens when the federal burden is eased is based upon the philosophy of the state securities laws. The purpose of the securities laws of Iowa, Kansas, Missouri and Nebraska is to insure that investors within those states have an adequate amount of information about a company upon which to base their decision to invest. This philosophy of disclosure is paralleled in the federal securities laws.

In contrast, the philosophy behind the SBA, and other federal and state agencies that promote interests of small businesses, is to aid small businesses in their formation and operational stages by providing low cost capital.
Thus, the philosophy of full disclosure to investors despite the corporate burden that underlies state securities regulation conflicts directly with the philosophy underlying the SBA. The result bars small businesses from the public securities market because of the high cost involved.

Exemptions from registration, however, are available on both the state and federal level for private offerings. Under federal law, Section 4(2) of the Securities Act of 1933 provides an exemption from registration for "transactions not involving any public offering." Rule 146 was promulgated pursuant to Section 4(2) as an alternate method of obtaining the private offering exemption. However, because of ambiguities inherent in Section 4(2) and difficulties in complying with Rule 146, both have been severely criticized. Resales of securities initially sold pursuant to the private offering are extremely limited.

Each of the states involved in this study provide for private offering exemptions from registration. The requirements for each state, including the maximum number of purchasers, differ slightly from state to state.

While small business that qualifies for the private offering exemption is relieved of the registration burden, federal law still imposes strict informational requirements. Similarly the issuer complying with state law must obtain legal aid to ensure that the state requirements are met.

The availability of equity capital, however, is largely dependent upon the state of the economy. The current nature of the economy and the depressed condition of the stock markets have created an atmosphere of uncertainty which has virtually closed the doors to investment dollars for small ventures. Because investors have noted that the higher risks associated with startup businesses do not necessarily coincide with higher rates of return, they have been unwilling to invest.

The chilling nature of the current public offering market is evidenced by statistics for the last several years. In 1969, registered stock issues by companies worth less than $5 million totaled 698. In 1975, this figure dropped to a low of 3, with 52 such offerings during the period of 1974-1977. Regulation A offerings, a simplified public offering for smaller stock offerings not involving registration, fell from 393 in 1973 for $154 million to 124 in 1977 for $46 million. The result is that the capital markets have been closed to all but the 1,000 largest companies, thus eliminating the balance of U.S. business from fresh sources of equity capital. Private placements have suffered similarly over the past years due to investors' unwillingness to tie up money in private securities with restricted resale terms.

Debt Financing

Debt financing for most small business comes essentially from commercial loans made by banks and lending institutions and from SBA...
loans. Small businesses in the four-state area find that loans from commercial institutions are available at interest rates from 0.75 percent to 2 to 3 percent higher than what larger businesses are charged. This reflects, among other things, the attitude of banks and lending institutions that substantially higher risk is associated with investment in most small businesses. While a higher cost of capital is justifiably borne by small business, the amount of risk associated with small business can be reduced by educational programs of the SBA, to be discussed below.

Statutorily, SBA loans, made on a direct, participating and guaranteed basis, are not available unless the financial assistance is not otherwise available on reasonable terms. It can be inferred from this statute that SBA loans are to be treated as a last-resort financing method, to be available only after the borrower has exhausted all other alternatives. In practice, however, small businessmen in the four-state area have found that SBA loans are available to any business desiring such financing. This fact, when combined with SBA size standards that categorize approximately 95 percent of all U.S. businesses as "small," indicate that SBA capital is being misallocated. Because of the ease of obtaining SBA financing, and the overly broad SBA size standards, larger businesses are obtaining a disproportionate share of SBA help, both in terms of dollars and number of loans granted.

Thus, a two-point recommendation is appropriate concerning SBA lending. First, stringent enforcement of the statutory requirement that businesses look elsewhere initially in their search for debt capital. This will prevent larger businesses that are able to obtain and afford financing from the commercial lending community from depleting the SBA coffers before smaller, more needy businesses are financed. Second, SBA size standards should be revised downward to prevent abuses of SBA funding by larger businesses. In formulating new standards, attention should be paid to recognizing the diversity which exists among small businesses, the abilities, needs for assistance and attitudes toward such assistance.

Reduction of Risk Through Education

The universal problem associated with small businesses in the four-state area is the lack of managerial expertise. This is coupled with the almost universal criticism levied against the SBA for not having gone far enough with its sponsored programs designed to help small businessmen succeed.

Research in the four-state area indicates that the SBA would be wise in reallocating its available funds from some of its lending programs to managerial training. While adequate financing is essential for the success of the small business, no amount of money will make a business succeed when the money is not efficiently utilized because of management which lacks basic managerial skills.

The SBA, through its Office of Management Assistance, has made great strides in the field of management education through programs such as Small Business Development Centers, Small Business Institutes
(SBI) and management counseling and publications. While these programs are extremely valuable as aids, their application has been limited because of limited resources. In 1977, SBA programs provided management counseling to 181,000 small businesses and management training to another 235,000 businesses. Thus, SBA management aid is extended only to approximately 3 percent of the nation’s estimated 13 million small business concerns.

Suggested areas that the SBA can improve or expand include the following. First, increased financing of research into the risk characteristics of small business. Analyzing and identifying risk areas are the first steps in decreasing those risks. Decreasing the risks associated with small business investment will not only lower the cost of capital borne by small business, it will also increase its availability.

Second, expansion of SBI programs at the college level can be accomplished by increasing both the number of campuses with SBI programs and the number of students at each school to be associated with the programs. This expansion will allow a greater caseload of small businesses.

Third, expansion of management assistance to small businesses in outlying areas as well as in the cities. Often small town and rural businesses are not as easily accessible to metropolitan areas offering greater opportunities for management assistance. Expansion of management assistance can be done by increasing the number of area seminars and workshops, conducted by SBA officials, SBI students and SCORE personnel in the rural areas.

Fourth, affirmative contact with area small businesses. SBI programs should periodically contact area small businesses in an effort to affirmatively recruit caseload work instead of waiting for the business to make the initial contact.

The SBA has already made great strides in reducing business failure through its innovative management assistance and education programs. Expanding these programs even further will be of great value.

STATE TRADE REGULATION

Overview

The persuasive influence of the Federal Government on the regulation of American business has been a recognized fact since the end of World War II. Moreover, in the regulation-of-trade practices (primarily antitrust laws) Federal control almost obliterated state involvement in policymaking and enforcement. Gradually, however, commentators came to the realization that an absence of state participation might not be desirable in terms of guarding against unfair trade practices. This was especially true in the sense that the limited resources of the Federal Government forced a prioritizing of enforcement activities. Naturally, antitrust violations that were national in scope were vigorously prosecuted; small business activity within the various states was
ignored. Consequently, the 1970s saw a revival of interest in state
antitrust law and enforcement of those laws.

The impact on small business is not yet clear because many of the
changes in the law and in enforcement practices are recent. What is
apparent, however, is that the small businessman can no longer rely on
the benign neglect of the Federal Government. He must be made aware
that there are such creatures as state antitrust laws and that certain
business practices may violate those laws. If such information is made
available, the small businessman will be able to avoid the embarrassing
publicity and possible legal penalties of an encounter with a zealous
state attorney general.

Although the antitrust law and its theoretical justifications are
extremely complex, a capsule summary can give the layman a rough idea
of what business conduct is prohibited. Historically, antitrust laws
were designed to prevent two kinds of business behavior. One kind of
forbidden behavior is embodied in the concept of monopoly—those con-
tracts and restraints which raise prices or reduce production. The
other is the concept of conspiracy—that is, conspiracy to create or
maintain restraints against competition.

Modern antitrust laws retain the underlying concepts of prohibition
of monopolies and conspiracies. The language of modern statutes,
however, is illustrative as to the ways in which monopoly can be
achieved or conspiracy carried out. Practices such as price fixing,
collusive bidding and predatory behavior by one firm against another
are prohibited by state statutes. They are also practices that—as
cases indicate—small businessmen have been found guilty of performing.
A brief overview of each state's law and a few leading cases confirms
that small businessmen do occasionally run afoul of state antitrust laws.

The Four-State Region

In three of the four states in this region—Kansas, Missouri and
Nebraska—there was little or no state antitrust enforcement until state
grants were awarded through the Federal Crime Control Act of 1976.
Federal money provided the financial wherewithal for state attorneys
general to hire personnel to work on antitrust matters. Iowa had
already developed a small enforcement program, but its efforts were
enhanced by federal funds. Although this paper is directed at state
and local institutions, it should be remembered that federal money has
been the principal reason for the resurgence of state enforcement
activity. But because federal money has increased the state attorneys
general staff sizes, bureaucratic inertia may result in a continued
antitrust enforcement presence on those staffs.

Iowa. The State of Iowa's current antitrust provisions, entitled
the Iowa Competition Law, went into effect on January 1, 1977. The
Iowa statute provides that two or more persons shall not contract,
combine or conspire to restrain trade in a relevant market. Additional-
ly, no person may attempt to establish or establish a monopoly of trade
or commerce in a relevant market for the purpose of eliminating compe-
tition or fixing prices. The Iowa statute also gives the attorney general
of the state extensive investigatory powers whenever he has "reasonable cause" to believe that a violation of the statute has occurred. Basically the attorney general may compel by court order the attendance of the alleged violator or his agents for examination under oath. He may also require the reproduction of documents.

Although there has been little litigation under the current statute, there have been several investigations into alleged violations of state law. The most common violation of Iowa law has been for price fixing. Typical examples of investigations and cases include: (1) A group of smalltown insurance agents who gathered once each week to set commission fees; (2) Barbers accused of conspiring to set prices; and (3) Farm implement dealers meeting and subsequently publishing a book reflecting a general 10 percent increase in the cost of repair parts.21

In the few cases that reach trial, both civil (injunction, actual damages and exemplary damages) and criminal penalties (knowing and willful conduct that violates the statute may result in a charge of serious misdemeanor) are available. Generally, however, cases do not reach trial but are settled out of court when the accused parties agree to terminate the alleged illegal activity.

Kansas. The Kansas statute22 is entitled Monopolies and Unfair Trade. Provisions of the Kansas statute are similar to Iowa's but more harsh in some respects. Most notable of the more stringent provisions is a requirement that the attorney general or county attorney institute an action for the forfeiture of the charter, rights and franchise of a corporation that has violated the antitrust laws. Typical cases under Kansas law include: (1) A conspiracy between undertakers to eliminate competition;23 (2) A system of ice delivery among several producers designed to divide the market;24 (3) An agreement by dealers limiting the right of each to buy grain;25 and (4) A contract requiring a retailer to maintain the seller's list prices.

Missouri. Missouri's antitrust law26 was revised and reenacted in 1974. Generally, Missouri's law follows the pattern of most state statutes. Contracts, combinations or conspiracies in restraint of trade and attempts to monopolize are unlawful. In addition, tying agreements (setting a price in return for reducing competition) are also illegal. Both civil and criminal penalties may be brought against antitrust violators. Illustrations of violations of Missouri's law include: (1) Arrangements among insurance companies to limit competitive bidding on auto repairs to those shops that agreed to preconditioned limits on their bids;27 (2) An agreement among retail filling stations to fix the price at which they sell.28

Nebraska. Nebraska's statutory provisions29 are similar to those of her sister states. Restraints of trade or commerce and monopolizing trade or commerce are illegal and punishable by civil and criminal penalties. In addition, the Nebraska law contains a provision prohibiting the underselling of a competitor (by selling at less than fair market value) for the purpose of driving that competitor out of business. An illustrative but old Nebraska case indicates that an agreement by retail
lumber dealers to sell lumber and building materials within the county at certain fixed prices and to divide the territory between them is illegal. 30

Problem Areas for Small Business

Small businessmen have traditionally supported antitrust laws. 31 Such laws were viewed as a shield for small businesses against the unfair exercise of economic power by large firms. Despite this salutory effect, the antitrust laws and enforcement of those laws have posed problems for the small business owner.

A major problem has been and will continue to be a knowledge of what kinds of business behavior is prohibited. Many small business owners do confer as to the price they will charge for their products. They probably do not realize that for competitors to engage in discussions on what will be a reasonable price to charge for a commodity may be a violation of antitrust statutes. Existence of antitrust laws will never deter this kind of behavior at the local level, but businessmen should at least be aware of possible risks. Therefore, state government should make every effort to ensure that business owners and operators are made aware of state antitrust laws and what practices are prohibited under that law.

A second problem related to state antitrust law is the uneven nature of the enforcement of the law.32 Uneven enforcement is brought about primarily because of the limited resources of state government. State attorneys general do not have the staff or resources to detect and prosecute the vast majority of antitrust violations. Therefore, only a tiny minority of violators may be caught and the deterrent effect of the law reduced to a nullity. Ultimately, those firms that escape prosecution will operate at the expense of the few other firms that the attorney general has singled out for punishment.

In the small business context, uneven enforcement is manifest on two levels. One level is uneven enforcement among small firms; the other level is uneven enforcement between small firms and large firms. The first situation occurs largely because many attorneys general do not have enough field investigators whose duty it is to monitor business practices in the state. Rather, the attorney general in many cases must rely on nothing but tips from the public. This results in a system of enforcement that punishes (and therefore deters illegal behavior) only to the extent that the very few unlucky ones get caught. If states are serious about enforcing antitrust laws, they should remedy the foregoing situation by hiring more field investigators or establishing some institution that can monitor the setting of prices and other sales practices throughout the state.

Uneven enforcement is also brought about because of the differences between small businesses and large ones. Large firms have legal and financial resources that make them formidable opponents for state attorneys general. The small firm does not have the money to undergo costly and protracted litigation. Thus, the attorney general may be tempted to attack small business more frequently; both because the
better chance of winning will enhance his political reputation and
because he may be able to set favorable precedent that can later be
used against large firms. The remedy for this problem is for small
businessmen to use their political strength to support candidates who
will equalize the treatment of small and large firms.

THE STATE CORPORATE INCOME TAX

It is a truism that the most inescapable element of governmental
intervention in the private sector is the practice of taxation. The
Federal Government,\textsuperscript{33} the District of Columbia and 45 of the 50 states
impose taxes on corporate income.\textsuperscript{34} The extent to which these taxes
are or are not equitable has a vital impact on the operation of small
businesses. Table 1, which follows, demonstrates the structure of the
federal and various state corporate income taxes.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>MARGINAL RATE OF TAX EXPRESSED AS A PERCENTAGE</th>
<th>OF TAXABLE CORPORATE INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First $25,000</td>
<td>$25,000-$50,000</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Federal</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>Alaska</td>
<td>9.4</td>
<td>9.4</td>
</tr>
<tr>
<td>California</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Illinois</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Iowa</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Kansas</td>
<td>4.5</td>
<td>6.75</td>
</tr>
<tr>
<td>Minnesota</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Mississippi</td>
<td>(3% on first $5,000; 4% on excess)</td>
<td>4</td>
</tr>
<tr>
<td>Missouri</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Nebraska</td>
<td>4.5% of federal tax liability for first $25,000; 4.95% of federal tax liability on excess over $25,000.</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: Iowa Code ch. 422 (1979); CCH State Tax Reporter (Nebraska) (figures for Nebraska are for 1979); Missouri Annotated Statutes §143.071 (Vernon); CCH Tax Reporter (all states). In Kansas, life, fire and casualty, hail and county mutual fire insurance companies are taxed at a flat 5\% rate.\textsuperscript{35}

As presently structured, state corporate income taxes present
three principal difficulties for the small businessman:

1. Due to inflationary pressures, when a fixed-rate
structure is employed, a business may be forced
into a higher tax bracket even though there is no change in the real economic position of the business.

2. As a result of increasingly sophisticated means of interstate transportation, the small businessman is forced to compete with out-of-state producers and merchandisers to whom an entirely different tax rate may be applicable. Conversely, due to the varying methods of allocating income between interstate and intrastate commerce, a businessman who sells his goods in interstate commerce may be subject to double taxation or placed at a competitive disadvantage vis-a-vis businesses located in other states which may have a portion of their income not taxed at all.

3. Because of the relatively slight degree of progressivity which characterizes state corporate income taxation, small businesses are placed at a disadvantage vis-a-vis larger businesses which are able to take advantage of economies of scale but which are taxed at the same or nearly the same rates.

Each of these three problem areas will now be assessed and some tentative remedial measures proposed.

Changes in Tax Brackets Caused by Inflation

As a preliminary matter, it should be observed that the problem of inflation-provoked changes in tax brackets can be present only to the extent that a progressive tax rate is employed. Thus, in Missouri, where all corporations are taxed at a fixed 5 percent rate regardless of income, no change in rate is possible. In states such as Iowa and Kansas, however, where statutorily-prescribed tax brackets are employed, inflationary decreases in the purchasing power of the dollar can result in increased dollar income and a consequently higher tax rate percentage even though the economic utility of the business’s income remains unchanged.

Under Nebraska law, the State Board of Equalization and Assessment is charged with setting the applicable income and sales tax rates so as to provide sufficient revenue for state operations. Unfortunately, the rate set by the Board must be a flat percentage of federal income tax liability. Thus the problem of inflationary changes in brackets is, of course, still present. The Board can nonetheless provide some measure of tax relief by an across-the-board rate decrease (assuming that sufficient revenue would still be available).

One seemingly meritorious proposal for addressing the dilemma of inflationary changes in tax brackets is the concept of "indexing" so as to provide for automatic adjustments in the rates applicable to a given bracket in accordance with the prevailing rate of inflation. At the time of this writing, a number of proposals for such an indexing system
were being debated in the Iowa legislature. A system of indexing has recently been adopted in Arizona. Regrettably, none of the proposals introduced in the Iowa legislature would apply to the corporate income tax. This would appear to be a particularly unfortunate omission from the standpoint of small business since a significant number of small businessmen derive their entire income from the proceeds of their business. While indexing may have the undesirable effect of curtailing much needed revenues, it appears to date to be the only viable method of dealing with the problem of inflation-invoked changes in tax brackets—a situation which is particularly onerous for small businesses with a relatively smaller profit margin.

Problems Resulting from Nonuniformity in State Tax Laws

The difficulties arising from variations in state tax laws are of essentially two types:

1. Problems relating to different tax rates in various states, and

2. The inequities associated with the various formulae employed to allocate income of multistate businesses between the taxing state and other states.

The extent of the first problem is demonstrated by Table 1. A small business corporation in Illinois will be taxed at a rate of 4 percent. In Iowa, a similar business would be taxed at a marginal rate between 6 percent and 10 percent and in Minnesota at a 12-percent rate. Obviously, such differences can and do have a significant impact on pricing policies. Particularly for the small entrepreneur who is located near a state border, competition with out-of-state firms may be difficult or even impossible. Clearly, a high degree of inequity is inherent in this situation. Unfortunately, this problem is not easily remedied. Owing to the fairly artificial nature of state boundaries, vast differences exist among states in terms of revenue needs and available tax bases. The one theoretically workable solution—greater federal taxation and dispersion of the proceeds via revenue-sharing measures—is considered politically unacceptable.

The second problem occurring as a result of the lack of uniform state laws arises when one business has dealings in two or more states using different methods of allocating income from interstate commerce. The issue has been succinctly put:

The majority of states agree that fair taxation of income is achieved by attributing income to the state in which it is earned. The rules for dividing income of multistate businesses are designed to assign to the taxing state that portion of a corporation's total net income which is fairly attributable to the state. However, neither states nor economists have agreed on the method that would most accurately attribute income to the state in which it is earned. As a result, the present system is characterized by complexity and diversity, producing overtaxation and undertaxation.
Essentially three methods of allocating income have been developed:

1. The separate accounting method.
2. The specific allocation method.
3. The formula apportionment method.

While a detailed discussion of these three methods is beyond the scope of this paper, they have been extensively dealt with elsewhere. The net result of the employment of the many variants of these three allocation techniques is that a given item of income may be taxed by no states, one state, two states, three states, or, theoretically, all fifty states. Obviously, such a situation can have a fairly substantial adverse impact on the conduct of business, particularly in the case of smaller companies. Notwithstanding this apparent burdening of interstate commerce, the United States Supreme Court has recently held that, in at least some circumstances, such divergent allocation schemes are not unconstitutional.

Happily, at least a partial solution to the problem of divergent methods of allocation has been proposed. In 1958, the National Conference of Commissioners on Uniform State Laws promulgated the Uniform Division of Income for Tax Purposes Act (UDITPA) which utilizes a three-factor formula for allocating income among states. Ten years later, the National Association of Tax Administrators issued a "Multistate Tax Compact" incorporating UDITPA's method of computation and establishing a Multistate Tax Commission to administer the Compact. Twenty-eight states have adopted UDITPA or the Multistate Tax Compact or both. Kansas and Nebraska have adopted both; Missouri adheres to the Multistate Tax Compact but not to UDITPA; Iowa follows neither.

It seems fairly clear that adoption of UDITPA and the Multistate Tax Compact would have the salutary effects of lessening the incidents of over and undertaxation and thereby of alleviating the burdens on businesses involved in interstate commerce. States which have not done so are, therefore, urged to give serious consideration to implementing these measures.

The Lack of Progressivity in State Corporate Tax Rate Structures

Of the 45 states and the District of Columbia which impose taxes on corporate income, 31 have tax structures which are completely non-progressive (i.e., a flat percentage rate is charged, regardless of income level). Of those states which do employ a "progressive" rate structure, the difference in rates between the lowest and highest brackets is de minimus. From the standpoint of small business, this is perhaps the single most onerous element of state tax policy. By way of juxtaposition, only six states do not employ a progressive rate structure for personal income taxation. The federal tax on corporate income ranges from 17 percent for the lowest bracket to 46 percent for the highest.

The origin of the progressive tax system traces from the notion that those most able to bear the burden of taxation ought to shoulder
the heaviest load. This rationale is as efficacious when applied to businesses as it is with individuals. Indeed, it is not unusual for a small business to be the sole source of income for its proprietor. Relatively larger corporations, on the other hand, are able to take advantage of economies of scale, of enhanced political influence and of many investment advantages which are a concomitant of a stronger economic position. It would seem wholly appropriate, therefore, to alleviate some of these competitive disadvantages placed upon small business by adopting a truly progressive rate structure for state corporate income taxation.49

CRIME AND SMALL BUSINESS

This section focuses attention on the crime problem plaguing small business in this region and the states' responses, outlining the problem areas and suggested solutions. Although crime is not unique to small business, it strikes small business much harder than larger enterprises. Employee theft, shoplifting, vandalism and uncollectible checks result locally in losses of millions of dollars per year. Small business can afford neither sufficient personnel and security equipment to guard against losses nor large amounts of theft and bad checks. With low operating budgets and slim profit margins the small business is forced to pass on losses to consumers, resulting in a substantial crime inflated price tag. Excessive price hikes may make the business too inefficient to compete in the market place.

Shoplifting

Shoplifting is one major problem for small business, especially those engaged in retail sales. Larger business typically employs security staffs, either outfitted in uniforms to act as a deterrent or dressed in plain clothes to aid in detection. For most efficient use and maximum security some businesses use both uniformed and plainclothes guards. Smaller stores, on the other hand, usually depend on sales employees to detect violations, but rarely train or alert their staff on how to detect violations. As a result fewer shoplifters are caught and more merchandise is lost. Those people that are caught are generally prosecuted lightly. Some are even released after having been given a warning, often because owners do not understand police procedures and do not trust the district attorneys and courts. Shoplifters that are prosecuted may receive light fines, since the courts consider shoplifting a relatively minor offense.

Employee Theft

Employee theft is a second crime that impacts heavily on small business. Prosecution is low, however, because of a greater public tolerance for this type of crime and the fear of false arrest and subsequent liability suits. And, the cost of surveillance necessary to ensure convictions may be prohibitive. Employee theft, however, has a higher than average conviction rate because companies can selectively choose cases to prosecute. Courts also deal more harshly with employee theft, although most employees convicted receive small fines, probation or suspended sentences. Very few receive sentences and almost none receive punitive fines.
Bad Checks

The third major money loss is bad checks and uncollectible checks. Forgers and payors with insufficient funds are continually passing bad checks on merchants. Defaults and delinquent accounts can soon raise outstanding payments to high levels, eliminating much of the profit on sales. The legal means for extracting payment is often so slow and expensive that it is cheaper to write off the loss. In addition, collection agencies are occasionally restricted in seeking payment because debtor protection statutes may provide obstacles to thwart collection activity.

Credit Card Theft

Credit card theft is another major problem. Although banks issue the majority of the cards, retailers issuing their own cards have been stuck with a great portion of the loss. Competition and state law has kept the cardholder liability down to about $50, meaning that while the cardholder is not liable for the majority of the loss the issuer is responsible.

Resale of Stolen Merchandise

Many thefts by shoplifters, employees and burglars are made profitable because buyers and middlemen are set up to handle resale of stolen goods. Legitimate businessmen are often willing to buy at low prices, thereby ensuring higher profits. The fact is that the vast amount of stolen merchandise cannot be absorbed by those stealing the articles. The thief steals with the intent of selling to a middleman, who will then make a profit on the resale.60

The middleman has been hard to catch and as a result the conviction rate has been consistently low. Prosecution is time consuming. Constant surveillance is often required. Identifying stolen goods can be impossible if articles are not clearly marked. Furthermore, the difficulty of proving guilt beyond a reasonable doubt and knowledge that the goods are stolen makes convictions extremely difficult. Middlemen are usually skilled at remaining out of sight and maintaining up to date "legitimate" inventory lists.

State Efforts at Controlling Crime

The four states covered in this report have enacted broad criminal statutes designed to deal with the problems mentioned above, but the states lack progressive statutory provisions to stimulate enforcement and specialized units to combat crime against small business.51 Penalties upon conviction are generally low, even though the statutes authorize up to 10 years in prison. Budgets are too small to permit the acquisition of specialized manpower and electronic equipment. Iowa, for example, lacks the funds and continual flow of information necessary to stop the resale of stolen goods.52 Missouri has depended on local police departments and the highway patrol, not specialized units, to control all crime.53 These states, like the others, need funds and equipment to perform adequately.
The states and localities also continue to rely on official police statistics to determine directions of change in their crime rates. Such data is essential to effective allocation of police manpower. The data is also an irreplaceable indicator of the extent to which citizens are willing to bring crime to the attention of the police. The statistics must be maintained and correlated to provide keys for business on what to protect. Unfortunately, rural enforcement agencies typically lack personnel to maintain extensive record systems.

Pawnbrokers have often been regarded as prime distributors of stolen goods, and the states have enacted legislation regulating pawnbrokers. Kansas, for example, requires accounts and records of all transactions. Unique solutions have been proposed, but not adopted, to halt the resale through these outlets. One suggestion is that people pawning articles could be required to leave their thumb print with their signature, lessening the possibility of fictitious names.

Proposed Programs and Priorities

The four states have not attempted to incorporate programs found successful in other states into their enforcement plans. Michigan, for example, set up a receiving company for stolen merchandise, using undercover agents to pose as buyers. The project disclosed information on distributional networks and accounted for numerous arrests. Such programs can provide a wealth of information on crime networks and distribution systems.

The four states can modify their statutes to ameliorate the crime problem. Other states have enacted statutes that provide for civil suits to recover treble damages for injuries due to theft, plus the cost of the suit and attorneys fees. In addition, civil suits allow use of depositions and lower standards of proof, such as preponderance of the evidence, which aid in enforcement. Provisions such as these make it more profitable to press for compensation and seek middlemen in distribution networks.

Halting crime and lessening its effects on small business might be accomplished in a number of ways. First, more funds are needed at the state and local level to provide personnel, training and equipment to teach businesses how to guard against and prevent crime. Business can minimize its losses if instructed how to protect itself. Surveillance equipment placed in the right location, making plants more theft proof, and outlining procedures to follow upon the detection of crime can reduce the loss. Second, funds are needed to train personnel to detect and apprehend many of the middlemen, thereby reducing the distribution systems for stolen goods in a given area. Third, state laws can be amended to allow more flexibility to allow successful prosecution. For example, Iowa and Missouri statutes are drafted to allow constructive knowledge that goods are stolen, thereby easing the burden on the prosecutor. Fourth, security personnel must have at their disposal accurate and reliable data indicating where their workload is coming from and where responses are needed. Record systems must be designed to provide the type of information needed. Communication systems must be improved.
State and federal cooperation would likely improve the crime problem for small business. A concerted effort at improving investigation, prosecution and crime reporting by the federal government would be beneficial.

PRODUCTS LIABILITY

This section will address the problem of products liability. Products liability has been the subject of recent hearings before the Nebraska state legislature's judiciary committee, the Iowa state legislature's Products Liability Joint Subcommittee, and a series of hearings before the Senate Committee on Small Business, in which Senator Culver of Iowa played a major role. These hearings, as well as articles in the Creighton and Missouri Law Review, and cases in Iowa, Kansas, Missouri and Nebraska, document that products liability presents a major problem for small business in the four-state area as well as throughout the country, and that the problem is rapidly growing. Despite the magnitude of the problem, legislatures seem at a loss as to how to cope. Their proposals to date are merely stopgap, and do not go to the root of the problem. It is the intention of this section to outline the problem and propose an effective solution.

From the businessman's point of view, the problem is that costs associated with liability for the manufacture of defective products have skyrocketed. Senator Culver's hearings revealed that the problem is particularly acute for small businessmen. Their insurance costs, when insurance is even available, have grown disproportionately to the rate of claims paid because of the uncertainty which insurance companies feel. New theories of recovery introduced by courts, and record awards by juries make the level of exposure to claims difficult for insurers to predict; to be safe, they overcharge. Small businesses, lacking the market dominance to be able to simply pass these costs along to consumers, find themselves squeezed by rising insurance rates.

This might be tolerable for our society as a whole if the tort system were working well for consumers. It is not.

The tort system is slow. Within the past few months products liability cases have been decided by the Supreme Courts of Iowa, Nebraska, Kansas and Missouri. These cases arose out of accidents which had occurred four, five, seven, even 11 years before the courts finally handed down their decisions. For all of those years the victims had to wait, not knowing whether they could recover anything for their loss of work time, medical bills and disabilities.

The tort system is erratic. Because each case is unique to the jury that hears it, awards can and do vary widely. In Missouri, for example, two cases involving retinal damage from using the exact same drug were decided within one year of each other. One woman received $80,000 and another $180,000. Other plaintiffs, not so fortunate, receive nothing at all.
The tort system is expensive. It utilizes the adversary system, one side pitted against the other, both sides represented by attorneys. Even where a consumer recovers, more than a third of his award may be eaten up by legal fees and expenses. These expenses mean both that businesses pay too much and consumers receive too little to recompense the injured parties.67

It should be noted that the failure of the tort system is of particular concern to small businessmen because they too are consumers. Farmers, builders, and mechanics, all use machines and tools in their businesses which, when defective, can result in serious injuries.

Many states are currently addressing the problem but all in a manner which is bound to fail for political reasons. The solutions to date emphasize precluding number of years after purchase, by creating new defenses for manufacturers, or by restricting recoveries to the immediate purchasers of goods.68 These "solutions" are all clearly unacceptable in our society. It is in the nature of products liability that defects may not be discovered until years after purchase. Expanding defenses runs contrary to the whole trend of tort law, which today runs toward "no fault." Restricting recoveries to immediate purchasers is patently unfair, as can be demonstrated by a single example taken from real life.69 A couple was driving down the road. As a tow truck approached them, the towing brackets between the truck and the car it was towing broke because of a defect in the brackets. The car being towed then swerved into oncoming traffic, hitting the couple and causing severe injuries. Should this couple have been denied recovery because they were not the purchasers of the brackets? Obviously not. Solution: Establish a "Consumer Compensation" Act.

Rather than exposing both plaintiff/consumers and defendant/manufacturers to the uncertainties of the "tort lottery," the solution is to establish a system parallel to the workmen's compensation system in force in most states today. Such a system would give injured consumers swift, certain recoveries at standardized, limited rates. The consumer would gain this certainty at the cost of the occasional windfall recovery. The manufacturer would gain predictability and limitation of losses, but would lose the possibility of "beating the rap" in court.

More than half a century ago the same sorts of problems were present in the workplace as are present today in the field of products liability. Workmen's compensation systems have faced up to the harsh reality of placing specific dollar limitations on the amount which may be recovered above medical expenses and lost work time for a lost finger, toe or eye. While it is a harsh decision for plaintiffs--and their attorneys on contingent fees--to give up the possibility of the $500,000 award for loss of an eye, most plaintiffs attorneys when pressed would admit that their clients would gladly have exchanged this possibility for a certainty immediately after their accident that their medical bills would be paid, that they would be supported while out of work, and would receive some compensation for their loss. Admittedly $25,000 is not adequate replacement for an eye, nor is $250,000, nor, probably, any dollar amount. But such a limitation has proved acceptable in the field.
of workmen's compensation. There is no reason to believe that a working man's eye is less valuable than anyone else's, and there is no reason why such a form of compensation could not be found acceptable for products liability. Not ideal, not the best of all possible worlds, but something which both consumers and businessmen can live with.

The transition to consumer's compensation would be less traumatic today than the transition to workmen's compensation was half a century ago for a couple of reasons. First, one of the main obstacles to the adoption of workmen's compensation was the reluctance many felt to abandon the notion of "fault" in allowing recoveries. This obstacle is rapidly being cleared in the areas of products liability as more and more states, among them Missouri, Nebraska and Iowa, are adopting theories of "strict liability" in products liability cases. Second, the consumer compensation system would have the years of experience within the workmen's compensation system to guide it in determining equitable levels of awards, methods of assessing liability and damages, and so on.

One problem present in a consumer compensation system not present in workmen's compensation, however, is the problem of federalism. Workmen's compensation may be effectively mandated at the state level because the plaintiff/employee, defendant/employer, and locus of the injury are usually all present in the same state. But a product manufactured in one state may be shipped and cause injuries in all 50 states. It is highly questionable whether the state of manufacture could on its own authority limit the rights of out-of-state consumers to recover for out-of-state injuries to the limits and procedures of the manufacturing state's consumer compensation act. Thus, a consumer compensation act requires legislation at the federal level, even if the result is for Congress to delegate the authority back to the states.

Finally, small businessmen cannot look to the legal profession to bail them out of the products liability mess. In this respect, attorney's interests are antiethical to small business, and even to the interests of consumers, for much of the savings in time and money in a consumer compensation system would come from dispensing with the need for attorney's services in the vast majority of cases. For the consumer compensation system to become a reality, then, small businesses and the organizations which represent them must press their own arguments.


4 For a description of the information required in a registration statement, see Schedule A 5 US Code §77aa (1976).

5 Iowa Code §502.206 (1979); Kansas Statutes Annotated §17-1257 (1974); Nebraska Revised Statutes §8-1106 (1977); Missouri Statutes Annotated §409.303 (1979). The four states involved in this study have enacted versions of the Uniform Securities Act and, thus, are substantially similar to each other in securities regulation.


7 See, for example, Iowa Code §502.207 (1979). Note that under the Iowa Uniform Securities Act, if the aggregate offering price of all securities of the issuer registered for sale exceeds $2 million, then the issuer may not register by qualification. Instead the issuer is forced to seek either a private offering exemption or register under §5 and then register with Iowa by coordination. Id. §502.210. See Hayes, The New Iowa "Uniform" Securities Law, 25 Drake Law Review, 267, 295 (1975).


11 Iowa limits the number of purchasers to 35 in the state, Kansas limits the number to 15 anywhere, Missouri limits the number to 25 and Nebraska limits the number to 10.

13 Id.


16 Id.


20 Iowa Code Annotated ch. 50 (1978 cum. supp.).


22 Kansas Statutes Annotated ch. 50.


24 The State v. Ice Co., 112 K. 497, 211 P. 631.


26 Varnons Annotated Missouri Statutes ch. 416 (1979 cum. supp.).

27 Opinion of the Missouri Attorney General, 1-5-72.


29 Revised Statutes of Nebraska §59-801 (1978 cum. supp.).


31 Hearings on the Antitrust Improvements Act of 1975, Before the Subcomm. on Antitrust and Monopoly of the Senate Comm. on the Judiciary 94th Cong., 2d Sess. 84.


It should, of course, be noted that the rates set out in Table 1 are applicable only to corporations. In the case of a sole proprietorship or a partnership, business income is almost universally included in the individual's gross income. Under Subchapter 5 of the Internal Revenue Code and Nebraska Revised Statute §2734 (3) an electing small business will be treated as a nontaxable entity and its income taxes to the shareholders.

Missouri Annotated Statutes §143.071.

Revised Statutes of Nebraska (1978 cum. supp.) §77-2715.

House Files 14 & 739; Senate Files 122 and 166.


Moorman Manufacturing Co. v. Bair, 98 S. Ct, 2340 (1978) affirming the Iowa Supreme Court's decision reported at 254 N.W. 2d 737 (1977). The Iowa Apportionment Formula is contained in Iowa Code §422.33. For other allocation provisions see Kansas Statutes §§79-3272 et seq; Missouri Revised Statutes §143, 451; Revised Statutes of Nebraska §§77-2736 et seq.


Id.

Id. at 103.

Id. at 1511-1513.


Due to the generally localized nature of sales and property taxes, no attempt has been made to deal with them in this paper. It should be noted, however, that many of the conclusions drawn relating to income taxation would be equally applicable in these fields.

See State v. Maier, 520 P. 2d 1258 (Kan. 1974) (fencing television sets); Hearings Before the Select Committee on Small Business, 93d Cong., 2d Sess.

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Sterling Drug, Inc. v. Cornish, 370 F. 2d 82 (8th Cir. 1966).


One example from Senator Culver's hearings will suffice. A company which manufactures truck tailgate lifts, along with its distributor, was sued by a person crippled through misuse of their product. The person was awarded $100,000 in fees and costs defending the lawsuit. Assuming the person paid the usual contingency fee to his attorney, he probably received about $65,000. Thus, it cost the tort system $154,000 to deliver $65,000 to the injured party. Products Liability Hearings, supra note 2, at 2149-51.

See, for example, the solutions proposed at the Nebraska and Iowa legislative hearings, supra notes 1 and 1a.
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RESULTS

Historically, small business has played a crucial role in the economic growth and development of this country. A majority of the economic and productive innovations during the past century find their roots in the small business community. The formation, development and growth of small business has been and still is one of the key contributors to employment growth. Even in the present, small businesses provide the vast majority of new job creation in the civilian work force. In the past decade 98 percent of the increase in employment has come from the smaller firms in our economy.

One of the key ingredients in the formation and growth of business, both small and large, is the availability of credit and equity capital. Events which tend to restrict the flow of funds into business, and small business specifically, will undoubtedly restrict this country's economic growth both in productive output and in new job creation.

In the light of the role of small business in the economy, and the importance of financing in the development and growth of small business, this paper studies the cost and availability of capital to the small business community.

This study identifies national and regional problem areas that need to be considered in any proposals to improve the availability of capital funds to the small business community. On the national level, attention must be addressed to the effect of differential tax burdens on proprietorships and corporations. This difference in taxation may restrict equity accumulation by proprietorships. In addition, a national program should be devised to attract institutional funds into small business lending and venture capital. Problems in the current two-tiered prime rate plan are also discussed, and the need for a broader plan proposed.

On a regional basis the major problem area identified by this research is the effect of usury laws in restricting lending to regional proprietorships. Attention also needs to be directed toward increasing the availability of venture capital in the region. Finally, the study points to the need for increased regional emphasis on the new Small Business Administration (SBA) guarantee loan secondary market.

CONCLUSIONS

This paper will discuss the varied sources of small business capital, national and regional problems encountered in obtaining these funds, potential solutions to these problems and areas of concern for
future study. Those national and regional topics that need attention are summarized below:

National

1. Review the tax burden carried by sole proprietorships and partnerships in relation to that imposed on corporations. If proprietorships and partnerships pay a disproportionately high tax rate, what effect does this have on equity accumulation?

2. Investigate the feasibility of attracting pension funds and insurance company funds into small business lending and venture capital investments.

3. Investigate the feasibility of developing a broader two-tiered prime rate plan for small business borrowers which would be available to all qualifying firms.

4. Investigate the feasibility of revising the method of packaging the guaranteed portion of SBA loans to increase their marketability and demand.

5. Investigate new concepts for improving the new issue markets for small business equity markets.

6. Investigate the impact of the increasing competition between banks and nonbanking financial institutions for deposit dollars. What effect does this competition have on the availability of loanable funds to the small business community?

Regional

1. Take immediate actions to remedy the prohibitive usury laws restricting lending to regional proprietorships.

2. Investigate the feasibility and desirability of increasing the availability of funds or reserves to rural banks during periods of tight money.

3. Investigate ways to increase SBIC venture capitalism in Region VII.

4. Initiate an SBA sales program on the benefits to local banks and small business borrowers of the secondary market in SBA guarantee loans.
METHODOLOGY

BUSINESS FUNDING SOURCES

Before the specific question of small business funding can be formally addressed, a general understanding of all the types and sources of business funds should be obtained. Table 1 presents, in standard format, a corporate balance sheet. The balance sheet is traditionally divided into two major sections: the firm's assets, listed on the top, and the firm's liabilities, listed on the bottom of the balance sheet. A simplified view of this split is to consider the liabilities as the source of all the corporation's funds and the assets as the use of these funds. Since all funds obtained must be put to work, even if only in the company's cash account, then by necessity assets will equal liabilities. It is these liabilities, or funding sources, that this study is interested in.

These funding sources are again, by tradition, grouped into three categories depending on their common characteristics. These categories are current liabilities, long term debt and stockholder's equity.

Current liabilities, sometimes called short term debt, are those debts the company will pay off within a year. Current liabilities are generated either internally, through accrued commitments to employees and taxing authorities, or externally. External commitments fall into three broad categories: trade credit, loans from commercial banks and other borrowing. Trade credit arises out of the ordinary conduct of business when a company buys supplies and materials on credit from other firms. Trade credit, which is "spontaneously" created by buying, is considered by many as the most important category of short term credit available. The second most important source of short term funding is bank borrowing. Most short term bank loans are notes and lines of credit and tend to be "self liquidating," in that it is hoped that the assets purchased with the borrowed money will provide the cash flow necessary to pay off the loan. The final funding category includes items such as commercial paper, customer advances, finance company loans (a lending institution without a bank charter which makes various types of loans to businesses secured by accounts receivable), inventories or fixed assets.

Long term liabilities are those liabilities which extend beyond the current fiscal year, the major forms of which are debt contracts and equipment loans and leasing contracts. Equipment loans are an extended type of accounts payable where the equipment manufacturer, to facilitate the sale of equipment, extends or arranges credit for the purchases of the equipment. An alternative to purchasing equipment is leasing, which in reality is an alternative form of borrowing since the lessee is committed to a periodic rent payment in exchange for the use of fixed assets over a period of time. It is the commitment that makes leasing a quasi-debt instrument. The major types of debt are term loans and bonds. Term loans can be obtained from personal investors, banks and other financial institutions such as insurance companies. Bonds are long term funds obtained either through a direct placement with a financial institution or a public sale in the securities markets.
Equity capital differs from debt capital in several key ways. Equity capital represents the owner's investment in the firm. Unlike borrowed funds that must be repaid at a specific date, equity capital is expected to remain in the firm for an infinite period of time. Equity capital comes from two sources. The first is the funds provided by the firm's owners. This investment is called stock if the firm is a corporation. The second source of equity capital is the after-tax earnings of the firm kept in the company, called retained earnings. All equity capital, both paid in and retained, takes a secondary position to debt capital with event of bankruptcy. It is this subordinated role of equity capital that provides its importance in the ability of the firm to obtain debt financing and is therefore the keystone in building a viable business organization.

This background on the sources of funding now allows an investigation of the needs and problems of small business firms in obtaining funds. Table 1 shows the differences in funding for all manufacturing corporations in column 1 and for small manufacturing corporations in column 2. It can be seen that small business firms rely more on debt than equity, more on long term bank credit than the other available sources of long term funds, and finally on short term credit to a greater extent than long term credit. An important part of this paper will be to investigate why these differences exist, what effect they have on the small business firm and what the implications are.

**SMALL BUSINESS FUNDING**

This section will review the sources of funding open to small business firms in general and discuss their relative availability and costs.

Table 1 indicates that small businesses rely on short term borrowing more heavily than larger firms. Furthermore, small businesses cannot avail themselves of the commercial paper market which is dominated by the largest firms in the nation. Thus, small businesses are almost exclusively limited to obtaining short term funds from their bank, their suppliers or commercial finance companies. The last of these three sources, borrowing on receivables, inventory or assets from the wide variety of local commercial finance companies, is almost always available. The main drawback to this type of financing is the cost, which may reach 36 percent on an annual basis. As one Iowa finance company loan officer interviewed said, "We've got all the money they want, but it costs . . . if they borrow for any length of time it's expensive." This high cost of borrowing restricts the use of commercial finance companies as a source of funds, except for short term emergency uses where other funds are not available.

The largest source of funding is trade credit. Trade credit is usually obtainable by established firms and is often available to new firms and firms that cannot obtain bank credit, although some firms contacted report difficulties initiating new credit lines recently. This extension of credit by suppliers is in large part a selling or marketing device, and is therefore dependent upon many factors in addition to a purchaser's credit rating. Table 1 shows how heavily this source of
<table>
<thead>
<tr>
<th></th>
<th>Column 1</th>
<th>Column 2</th>
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<tbody>
<tr>
<td></td>
<td>All Firms</td>
<td>Under $5 Million in Assets</td>
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<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>3.5</td>
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<td>Marketable Securities</td>
<td>2.4</td>
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<tr>
<td>Receivables</td>
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<td>28.7</td>
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<tr>
<td>Inventories</td>
<td>20.5</td>
<td>25.4</td>
</tr>
<tr>
<td>Other</td>
<td>2.7</td>
<td>4.3</td>
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<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>47.0</strong></td>
<td><strong>68.6</strong></td>
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<tr>
<td>Net Property, Plant &amp; Equipment</td>
<td>34.9</td>
<td>27.1</td>
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<tr>
<td>Other Noncurrent Assets</td>
<td>18.1</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
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<tr>
<td>Short Term Loans &amp; Current Installments</td>
<td>4.6</td>
<td>11.7</td>
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<tr>
<td>Trade Credit</td>
<td>8.9</td>
<td>17.2</td>
</tr>
<tr>
<td>Income Taxes Accrued</td>
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<td>Other Current Liabilities</td>
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<td><strong>Total Current Liabilities</strong></td>
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<td>Long Term Debt: From Banks</td>
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<tr>
<td>Other</td>
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<td><strong>Long Term Liabilities</strong></td>
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<td><strong>Total Liabilities</strong></td>
<td><strong>47.6</strong></td>
<td><strong>55.5</strong></td>
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<td>Capital Stock (less treasury stock)</td>
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<td>Retained Earnings</td>
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<td><strong>Stockholders Equity</strong></td>
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<tr>
<td><strong>Total Liability and Equity</strong></td>
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<td><strong>100.0</strong></td>
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</table>

**SOURCE:** Table G-3, Quarterly Financial Report, 3rd QT, Federal Trade Commission.
credit is relied on by small manufacturing companies. Trade credit is equally important, if not more so, to other industry categories like wholesaling and retailing. This credit relationship is maintained because many of the small merchants act as the distribution system for many of the large manufacturers.

The most important source of short term funds available to small businesses is bank borrowing. Banks themselves prefer to lend on a short term basis and regional banks report that over 60 percent of their commercial loan portfolios are in short term loans. Bank borrowing can be considered to be more important than trade credit in an operational sense, because it allows the firm the discretionary decision of its use. Bank borrowing requires that the firm have a working relationship with its bank, and a credit standing and record that permits borrowing. The cost of borrowing is a multiple function of the firm's credit standing and the volume of funds borrowed.

Table 2 gives a breakdown of commercial and industrial loans by size. It can be seen that the smaller the loan, and thus presumably the borrower, the higher the cost of borrowing. This inverse relationship is primarily a function of the fixed costs associated with loan making regardless of size and the increased risk and reduced credit information associated with smaller borrowers. The higher cost of small business borrowing combined with the recent surge upward in all borrowing costs (see Table 3) has put considerable pressure on overall small business profitability. In an attempt to ease the high costs of small business borrowing combined with the recent surge upward in all borrowing costs, some 100 banks, at the urging of the SBA, have initiated a rate reduction plan for their small business borrowers. These plans are based on a two-tiered prime rate, one rate for large customers and a lower rate for small business borrowers. These plans, while intellectually appealing, do not appear to be based on sound logical economics. In times of tight and expensive money, it is not feasible for banks to offer what funds are available to their less credit-worthy small business customers at or below cost, and have to turn away their sounder and/or larger major customers. The probable benefactors of these well publicized two-tier rate plans will most likely be the bank's prime small business borrowers. For a workable two-tiered rate plan open to the entire small business community to exist would require changes in the entire banking system and financial incentives to the participating banks in the form of tax credits, reduced reserve requirements, or reduced rate borrowing from the Federal Reserve System.

Switching the discussion to long term credit sources, Table 1 again shows the national reliance of small business firms on bank credit to provide their long term credit needs. Table 2 shows the general tendency for small business loans to be doubly restrictive in that they require high interest costs and shorter maturities than larger loans. On a regional basis most businesses interviewed reported that, aside from personal funds, bank borrowing was their only source of long term funding. As to the cost of these funds, local banks indicated they would lend, assuming they were lending to a local resident of good credit standing and business experience who was opening a new retail outlet, at 11.5 percent and require 30 percent equity on a five-year
### Table 2

**TERMS OF LENDING AT COMMERCIAL BANKS**

Survey of Commercial and Industrial Loans Made August 7-12, 1978

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>SHORT TERM Interest Rate</th>
<th>Maturity (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000 - 24,999</td>
<td>10.45</td>
<td>2.8</td>
</tr>
<tr>
<td>$25,000 - 49,999</td>
<td>10.19</td>
<td>3.4</td>
</tr>
<tr>
<td>$50,000 - 99,999</td>
<td>10.30</td>
<td>2.4</td>
</tr>
<tr>
<td>$100,000 - 499,999</td>
<td>10.19</td>
<td>3.0</td>
</tr>
<tr>
<td>$500,000 - 999,999</td>
<td>9.93</td>
<td>3.3</td>
</tr>
<tr>
<td>$1,000,000 and up</td>
<td>9.47</td>
<td>3.1</td>
</tr>
<tr>
<td>Weighted Average</td>
<td>9.97</td>
<td>3.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>LONG TERM Interest Rate</th>
<th>Maturity (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000 - 99,999</td>
<td>10.66</td>
<td>33.7</td>
</tr>
<tr>
<td>$100,000 - 499,999</td>
<td>10.35</td>
<td>47.2</td>
</tr>
<tr>
<td>$500,000 - 999,999</td>
<td>9.83</td>
<td>57.7</td>
</tr>
<tr>
<td>$1,000,000 and up</td>
<td>9.96</td>
<td>47.4</td>
</tr>
<tr>
<td>Weighted Average</td>
<td>10.2</td>
<td>45.2</td>
</tr>
</tbody>
</table>

**NOTE:** The August 31, 1978 Prime Rate on Short Term Business Loans was 9.25 percent.

**SOURCE:** Table A26:135, Federal Reserve Bulletin, December 1978.

### Table 3

**COMPARATIVE INTEREST COSTS**

<table>
<thead>
<tr>
<th>Prime Rate* (National Avg.)</th>
<th>Prime Rate (Eastern Iowa)</th>
<th>SBA (Max Rate)</th>
<th>5 yr Gov. Sec.</th>
<th>Baa Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977 Jan</td>
<td>6.25</td>
<td>10.00</td>
<td>6.58</td>
<td>9.08</td>
</tr>
<tr>
<td>April</td>
<td>6.25</td>
<td>10.00</td>
<td>6.79</td>
<td>9.07</td>
</tr>
<tr>
<td>July</td>
<td>6.75</td>
<td>9.25</td>
<td>6.84</td>
<td>8.87</td>
</tr>
<tr>
<td>Oct</td>
<td>7.52</td>
<td>9.50</td>
<td>7.32</td>
<td>8.89</td>
</tr>
<tr>
<td>1978 Jan</td>
<td>7.93</td>
<td>9.00</td>
<td>9.50</td>
<td>7.77</td>
</tr>
<tr>
<td>April</td>
<td>8.00</td>
<td>9.00</td>
<td>9.50</td>
<td>7.98</td>
</tr>
<tr>
<td>July</td>
<td>9.00</td>
<td>9.50</td>
<td>10.75</td>
<td>8.54</td>
</tr>
<tr>
<td>Oct</td>
<td>9.94</td>
<td>9.75</td>
<td>11.25</td>
<td>8.61</td>
</tr>
<tr>
<td>1979 Jan</td>
<td>11.75</td>
<td>10.00</td>
<td>12.00</td>
<td>9.20</td>
</tr>
<tr>
<td>April</td>
<td>11.75</td>
<td>10.75</td>
<td>12.00</td>
<td>9.25</td>
</tr>
</tbody>
</table>

*SOURCE: Federal Reserve Bulletin
installment loan. This rate varies between banks, but the average cost of long term loans to small businesses tends to be 1 percent above the bank's prime rate, which averages in the region to be 10.5 percent. For further details see questions 33-40 of Appendix 1.

Small businesses' reliance on bank borrowing reflects their inability to tap into the public bond market and the institutional private placement market. This lack of access to institutional funds is a complex question which may have important implications on the future of small business funding. It appears that institutional lenders shy away from small business fundings because of the general unmarketability and regional nature of the securities. This problem, combined with the increased risk of the firms and the greater requirements on investment analysis needed to make these investments, makes them relatively unattractive. Furthermore, this natural aversion to small business lending is complemented by the multitude of legislative restrictions placed on institutional investors. A recent example of legislation that may inhibit institutional small business lending is the application of the prudent man rule interpretation contained in ERISA placing pension fund managers personally liable for losses on high risk investments. Instead of tightening investment activities of pension funds, investigation should be made into programs that allow and/or encourage ERISA pension funds to invest a portion of their funds into small business loans and venture capital investments.

Small businesses also obtain funding through equipment loans and leases. These sources are highly specialized and restricted to obtaining fixed assets. The terms and conditions of each are privately negotiated and not generally disclosed.

An important source of debt financing is provided through the SBA's program of direct loans, participation loans and guaranteed loans. In Region VII the majority of SBA loan activity is in guaranteed loans and thus is basically an extension of bank debts as discussed above. To complement the guaranteed loan program the SBA has recently developed a secondary market for the guaranteed portion of these loans. This market will allow banks to gain liquidity by selling the guaranteed portion of their SBA loans in the market, while they continue to service the loan and retain the unguaranteed portion. The guaranteed portion carries the full faith and credit of the U.S. Government and thus represents a low risk investment, and should attract many investors who normally would not consider high risk small business loans. A well functioning secondary market will enable banks to attract regional and out-of-region floating funds for the benefit of their small business borrower. Furthermore, this market may attract the institutional market, once it is fully developed.

Because of the nature of the sources of debt funding available to the small business community, the study on the cost and availability of credit to small businesses must be narrowed down to banks. Trade credit is readily available to most firms depending on their level of economic activity. However, the terms and conditions of trade credit vary by the lender, the borrower, the industry, the region and so many other factors that it would be quite difficult to detail and study.
There is little or no information on small business leasing and equipment sales. There is also no information on personal lending to small businesses. The banking community is the only lending source that can be readily studied. The previous discussion shows how important the local banker is to the small business person by providing both long and short term funds. The banking community is also the key ingredient in the SBA guaranteed loan program and secondary market program. This group, because of its importance, easily identifiable nature and approachability, will be the main source of data for the investigative portion of this paper.

Equity capital was noted earlier to be a key ingredient in the funding of a business enterprise. Equity is composed of invested funds and earnings retained from operations. Small business firms tend to have a chronic shortage of equity funds. This tendency is observed in the data presented earlier in Table 1. One reason equity funds are in short supply to noncorporate firms and small privately held corporations is the limitations on the personal investment capabilities of the owners. Small publicly held corporations are likewise under capitalized because of their difficulties in obtaining funds in the equity markets. The poor performance of the stock market in the last decade has made new equity funds difficult for businesses of all sizes, but particularly for the small firm. The numbers in Table 4 show how the new issue markets have fallen off in recent years. Particularly hard hit are the Regulation A filings which represent new issues under $500,000. In line with this data, Region VII investment bankers report that intrastate issues have all but dried up in recent years. In recognition of these problems the Securities Exchange Commission has adopted higher limits on filing abbreviated registrations and raised the issue limits on Regulation A issues from $500,000 to $1,500,000. This action, although important, will provide only marginal aid as long as the stock market and economy are sluggish. Work needs to be done on developing equity capital sources for small businesses.

A potential source of equity capital is the Small Business Investment Companies (SBICs). These firms prefer to invest in companies with rapid growth prospects and capable managements. SBICs are particularly active in the East and West, but poorly represented in the Midwest. Region VII has only five active SBICs operating a total of eight offices. This absence of SBICs may rob the region of a vital source of equity capital for its high growth firms. Discussion with two differing sources, an SBIC president and a banker contemplating the formation of an SBIC, pointed up several reasons the area lacks SBICs. Capital requirements to operate a successful SBIC were estimated to be at a minimum of a million dollars, although the legal requirement is only half a million dollars. These high equity requirements limit the potential entrants in this thinly populated, nonindustrial region. Furthermore, the long term nature of venture capital investments, where a large portion of the return comes from capital gains received from five to seven years after the investment, is not suited to many of the potential SBIC investor's financial requirements. Many institutional investors, like the region's many small banks, have difficulty justifying these types of investments. Also, there are not a large number of high growth firms in the region. Consequently, the few SBICs in the region
Table 4
PRIMARY SECURITY OFFERINGS

<table>
<thead>
<tr>
<th>Date</th>
<th>Regulation A #</th>
<th>$(millions)</th>
<th>1933 Act #</th>
<th>Registrations $(millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>157</td>
<td>$ 61</td>
<td>857</td>
<td>$28,444</td>
</tr>
<tr>
<td>1977</td>
<td>124</td>
<td>46</td>
<td>820</td>
<td>32,333</td>
</tr>
<tr>
<td>1976</td>
<td>123</td>
<td>45</td>
<td>809</td>
<td>35,861</td>
</tr>
<tr>
<td>1975</td>
<td>130</td>
<td>49</td>
<td>879</td>
<td>41,711</td>
</tr>
<tr>
<td>1974</td>
<td>233</td>
<td>78</td>
<td>724</td>
<td>30,950</td>
</tr>
<tr>
<td>1973</td>
<td>393</td>
<td>154</td>
<td>848</td>
<td>22,745</td>
</tr>
<tr>
<td>1972</td>
<td>650</td>
<td>256</td>
<td>1740</td>
<td>29,404</td>
</tr>
</tbody>
</table>


are located in the population centers where high growth firms are more concentrated, such as St. Louis, Kansas City and Omaha. An effect of this regional lack of SBICs is to reinforce the lack of growth firms, as they may form instead in areas where equity capital is more readily available.

The creation of venture capital sources in the region is definitely a concern worth investigating. The banker investigating SBICs indicated that the SBA could be more aggressive in the area of promoting SBIC formation in the region. His feeling is that many potential investors are not familiar with SBICs, their formation and operation, and that the SBA could do more to attract and educate potential investors. Furthermore, the SBIC president indicated the key to running a successful SBIC is having an experienced venture capitalist making and directing the investments. This being the case, the proper talent needs to be attracted to the region.

The second major problem area in equity capital is in the area of retaining earnings in the firm. Earnings retention in many small firms is low for no other reason than that earnings are themselves low. Low earnings, however, are not the major difficulty. The major problem in retaining earnings is created by income taxation. Most small- and medium-sized businesses can not avail themselves of the available tax credits and benefits open to the larger more well heeled firms. Table 5 shows the effective tax rates for firms of various sizes. These figures show that the largest corporations in the nation pay only an average 21.5 percent effective rate, while small corporations pay a 39.5 percent effective tax rate. The nation's smallest corporations, because of the graduated nature of the corporate tax structure, fall in between the two rates at 31.4 percent. Congress has responded to this problem in its most recent tax legislation by increasing the graduated nature of the corporate income tax rate. The effective tax rate of the first $100,000 of earnings is now only 26.75 percent as compared to the 46 percent marginal tax rate.
Table 5
EFFECTIVE TAX RATES
Large Corporations vs. Small Corporations

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>All under $1,000,000</th>
<th>All under $250,000,000</th>
<th>All over $250,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of corporations</td>
<td>1,828,406</td>
<td>1,964,112</td>
<td>1,782</td>
</tr>
<tr>
<td>Income subject to tax (thous)</td>
<td>$14,749,798</td>
<td>$56,475,307</td>
<td>$87,507,206</td>
</tr>
<tr>
<td>Income tax (thous)</td>
<td>$4,999,524</td>
<td>$24,375,437</td>
<td>$41,737,552</td>
</tr>
<tr>
<td>Tax credits (thous)</td>
<td>$375,144</td>
<td>$2,036,013</td>
<td>$22,945,985</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>31.4%</td>
<td>39.5%</td>
<td>21.5%</td>
</tr>
</tbody>
</table>


This legislation is a good first step, but the problem is more complex and needs further study. First, Table 5 points out that the hardest hit corporate groups are the larger small- and medium-sized firms. These groups pay the highest effective rate and will not be helped much by the new tax rates on earnings over $100,000. Second, many of the businesses in this country are not incorporated and thus fall under the personal tax rates. Referring to Table 6, 81 percent of the nonfarm businesses in this country are not incorporated. Furthermore, the bulk of these noncorporate firms have sales of less than ten million dollars and would likely be classified as small businesses. Because the effective tax rate of each of these businesses depends on the margin bracket of the firm's owner, it is impossible to say what the effect of taxation is on the retention of earnings in these noncorporate firms. It is entirely possible that these firms are paying a disproportionately high effective tax rate and thus find their equity accumulation and potential growth restricted. There are no data available to determine if this is actually the case, but the effect of taxation on the noncorporate small business should be considered in future studies and tax legislation.

The legal form of the organization has other implications in addition to taxation that must be considered. In Region VII, state usury laws treat proprietorships differently than corporations and partnerships. These differences tend to restrict the flow of credit to proprietorships in times of high interest rates. For example, Missouri and Kansas have state usury laws that limit interest rates to 10 percent and 11 percent respectively on business loans secured by second mortgage on personal real estate to proprietorships, but not on corporations or partnerships. Nebraska currently sets a maximum rate of 10 percent on loans of less than $100,000 to proprietorships. This rate will be officially raised to 12.5 percent on August 1, 1979, but even those
rates may effectively limit credit to small businesses. Iowa sets an
11 percent maximum on short term notes and a 12 percent maximum on
monthly installment loans. The restrictiveness of these usury limits is
an important regional problem in a time when the national prime rate is
11.75 percent and the allowable SBA rate on guaranteed loans is
12 percent.

In concluding this section on small business capital sources and
needs, the nature of the economy must be mentioned. Inflation affects
business capital needs in three major ways. First, it increases bor-
rowing needs—since inventory and accounts receivable increase in value
with inflation. Secondly, inflation causes interest rates to rise, thus
making the increased borrowing needs more expensive. And finally,
inflation is usually accompanied by governmental reactions leading to
tighter credit. Tight money is generally discriminatory to small busi-
ness firms in that they are not equipped to compete with the larger
firms for the diminishing supply of loanable funds. Furthermore, rural
unit banking states such as those found in Region VII find it difficult
to attract and hold funds. This is due to the number of small banks in
the system. These small banks have problems in that they are not well
equipped to compete for high cost funds in the nation's money markets
and thus usually are required to ration their credit during tight money
periods.

REGIONAL REVIEW

To understand the regional credit situation requires a brief review
of the area. The region contains 5 percent of the nation's population
which earns 5 percent of the per capita income. The area has over
660,000 nonfarm business firms. Over 75 percent of these are sole
proprietorships, which is in line with national averages (see Table 7).
The population not concentrated in the area's few major cities is thinly
Table 7
REGION VII SOLE PROPRIETORSHIP STATISTICS (NONFARM)

<table>
<thead>
<tr>
<th>Item</th>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>129,324</td>
<td>112,468</td>
<td>199,977</td>
<td>69,773</td>
</tr>
<tr>
<td>Bus Receipts (000's)</td>
<td>$4,981,385</td>
<td>$3,788,369</td>
<td>$6,198,811</td>
<td>$2,669,493</td>
</tr>
<tr>
<td>Payroll (000's)</td>
<td>419,660</td>
<td>300,938</td>
<td>602,629</td>
<td>245,211</td>
</tr>
<tr>
<td>Profit</td>
<td>623,365</td>
<td>539,579</td>
<td>940,186</td>
<td>345,055</td>
</tr>
</tbody>
</table>


Table 8
SOLE PROPRIETORSHIP STATISTICS NONFARM FIRMS
AS A PERCENT OF TOTAL FIRMS

<table>
<thead>
<tr>
<th>Iowa</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Nebraska</th>
<th>Region VII</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>42%</td>
<td>48%</td>
<td>55%</td>
<td>40%</td>
<td>47%</td>
<td>71%</td>
</tr>
</tbody>
</table>


spread over the region and is mainly engaged in agriculture. The region's nonfarm firms represent only 47 percent of the region's total firms as compared to the 71 percent national nonfarm average (see Table 8). This farm orientation is increased by the number of agricultural oriented service and sales organizations, some 47 percent. The region's nonfarm firms tend to be small local organizations. This information is highlighted by the bankers' responses to questions 19 and 20 of the questionnaire discussed in the next section. In these two questions 78 percent of the responding banks indicate that none of the commercial and industrial loans are with companies employing 500 or more. Furthermore, 76 percent of the respondents indicate that 50 percent or more of the commercial and industrial loans are to firms with 20 or less employees.

The agricultural orientation of the region shows in the area's unit banking structure. The only nonunit banking state is Iowa, which only allows limited branching. The region's 2,447 banks, 16 percent of the nation's total, tend to be small and agriculturally oriented. Table 9 shows the relationship between commercial loans and farm loans in the 649 Iowa banks. Ninety-four percent of the state's banks have less than 30 percent of their total loan portfolio in commercial loans. Seventy-six percent have less than 20 percent and 29 percent less than 10 percent. This low concentration in commercial loans is compared to the fact that 39 percent of the banks have 50 percent or more of their total loan portfolio in farm loans and 84 percent of them have at least 20 percent of the loan portfolio in farm loans.

171
Table 9  
IOWA BANKS  
Loans as a Percent of Total Loans  

<table>
<thead>
<tr>
<th>Percent</th>
<th>0-9.9</th>
<th>10-19.9</th>
<th>20-29.9</th>
<th>30-39.9</th>
<th>40-49.9</th>
<th>50-59.9</th>
<th>60-69.9</th>
<th>70-79.9</th>
<th>80-89.9</th>
<th>90-99.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>187</td>
<td>306</td>
<td>118</td>
<td>31</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm</td>
<td>54</td>
<td>48</td>
<td>73</td>
<td>109</td>
<td>110</td>
<td>112</td>
<td>86</td>
<td>46</td>
<td>9</td>
<td>2</td>
</tr>
</tbody>
</table>

SOURCE: 649 Iowa banks listed in Shensunoff: Banks of Iowa 1978
This review shows the agricultural bias that exists in the region's business community. The nonfarm firms in the region are typically small and are dominated by agribusiness which is the area's main industry. This dominance will undoubtedly limit the availability of funds to the nonfarm business community and must be considered. Factors which ease or tighten farm credit will likewise affect nonfarm credit.

THE QUESTIONNAIRE

Considering the importance of banks in the funding of small businesses, the opinions of the region's bankers on topics concerning small business borrowing should reveal regional problems. The topics of interest were developed from discussions with members of the region's small business community, bankers, SBA employees, state banking commissions and many others, including topics proposed by this paper's sponsor. The basic topics to be investigated are as follows: (1) the impact of tight money on the region, (2) the region's level of participation in the SBA guaranteed loan program, and acceptance of the secondary market for guaranteed loans, (3) the impact of state usury laws on bank lending to sole proprietorships, and finally, (4) the region's views on branch banking and franchising.

The method used to obtain the views of regional bankers was the questionnaire sent to 200 of the region's banks. The questionnaires were addressed to the bank's commercial loan officers and provided anonymity in order to elicit candid replies and greater response. The 125 usable responses received are summarized in Appendix 1 at the end of this paper. The questionnaire was not totally random in its selection among the region's 2,477 banks. Fifty banks were selected from each of the region's four states by dividing each state's banks into four groups depending on deposit size, then selecting at random 12 banks from each group and two extras at random. This procedure was followed to provide the broadest range of views possible within the region. Of the 124 replies received, 38 came from Iowa, 30 from Kansas, 21 from Missouri and 35 from Nebraska. Sixty-nine indicated they were state banks and 55 national banks. The bank sizes represented are: 20 banks with deposits under $10 million, 29 between $11 and $25 million, 40 between $26 and $50 million and 35 over $51 million. Concerning service area, 92 of the banks classified themselves in a rural area, while 30 classified themselves as city banks. Further descriptive information concerning the respondents is contained in questions 1-10 in the Appendix.

DATA BASE ANALYZED.

THE GENERAL AVAILABILITY OF CREDIT

Probably the greatest problem encountered by business in today's tight money market is obtaining sufficient funds at rates that allow profitable business operations. Tight money affects banks just like it affects other businesses, except that the business of banks is to buy (borrow) money at one price and sell (lend) it at another higher price. During periods of tight money banks face two problems. First, the
price of money increases, and secondly, the amount available decreases. Banks can respond in several ways. To remain profitable they are forced to raise interest rates to their customers, thus passing along the increased cost of borrowing. If increased costs cannot be shifted forward, banks may readjust their lending away from less productive lending to those areas providing a greater return. In these cases the more profitable loans are said to "crowd out" the less profitable loans. Finally, if the increased cost of borrowing does not reduce the demand for borrowing enough, the banks must "ration" the available funds to their customers. Methods used in credit rationing, besides higher interest cost, include reducing loan maturities, increasing credit quality standards, reducing loan limits on outstanding lines of credit and not accepting new loan accounts. These actions distress all borrowers but none worse than small businesses, since they have few alternative sources of funds.

To measure the impact of tight money on the region's banks is to measure the impact of tight money on the region's small businesses. This statement is especially true in Region VII due to the small nature of the region's business. Questions 19 and 20 show that 78 percent of the banks indicate that none of their loans are to firms hiring over 500 employees and, furthermore, 76 percent of them indicate that 50 percent or more of the commercial and industrial loans are lent to firms with 20 or less employees.

Questions 23, 24 and 25 show that 86 percent of the surveyed banks have felt the recent effects of tight credit. Of this 86 percent so affected, 26 percent have been severely affected and the remaining 74 percent moderately affected. Fifty-one percent of all the responding banks indicate that they have had to cut back or ration credit. Thirty-eight percent of those not yet rationing credit indicate they expect to do so in the near future. These results indicate that the region has been severely affected by tight money which will undoubtedly hurt the area's small businesses.

To determine who is hurt most by credit rationing, the people making the lending decisions were asked in Question 26 to indicate their opinion of who is hurt most by credit rationing. This was done by asking the bank loan officers to pick between several pairs of potential borrowers. Pairs "a," "c" and "d" emphasize the obvious. The loan officers indicated they felt that small businesses (86% of the responses selected small businesses over large businesses) were hurt relative to large businesses (14%). New businesses (97%) were hurt relative to established firms (3%) and long term borrowers (95%) were hurt relative to short term borrowers (5%). These results confirm the statements about tight credit made in the previous paragraphs.

Pair "h" indicates the potential in the region for high return consumer loans (79%) to crowd out commercial loans (71%). This crowding is confirmed by the 27 banks that responded positively to Question 28, that recent market factors have caused their real estate and personal loans to crowd out their small business loans. The importance of this response is unfortunately weakened by the fact that real estate loans are combined with personal loans on the questionnaire. Pair "i"
and recent experience show that real estate loans have been hit hardest by the recent tight money markets and have been crowded out by both commercial and consumer loans.

Two final pairs, "g" and "f," are very indicative of the economic nature of Region VII. Pair "g" shows that farm loans dominate commercial loans. This information confirms the loan data previously presented in Table 9. Agribusiness is the major concern of the region and receives lending priorities over commercial loans. Pair "f" ties into the regional usury problem to be discussed in the next section. During periods of tight money where interest rates rise above usury ceilings imposed on sole proprietorship loans, banks lend what money they have to corporations, which are allowed to pay the higher interest rate, rather than to proprietors.

The response to these questions clearly indicates that regional bankers are feeling the pinch of tight money, and it is adversely affecting the region's small business community. The regional impact of tight credit is further increased by competition for deposit funds. In addition to the normal CDs and money market accounts, the region's credit unions are competing for time deposits previously reserved for banks, by providing share draft accounts (checking accounts) that pay interest. In addition, savings and loans are attracting deposit funds through phone payment plans. Even regional consumer and commercial finance companies are aggressively promoting their passbook savings and time deposit accounts in the regional newspapers and television stations. This increased competition for funds, coupled with the general inability of regional banks to aggressively compete in the nation's money markets due to the region's large number of small unit banks, makes tight money doubly burdensome to the region.

A brief review of the actual cost of money in the region is provided by Question 40 and the data presented in Table 3. The average prime rate of all the banks responding to the questionnaire is 10.5 percent which is 1.25 percent behind the rate charged by the nation's leading banks. The representative Eastern Iowa Bank prime rate in Table 3 shows the relative stability of the local rate. When national rates fell the local rate remained fairly high; however, when national rates rose, local rates did not follow suit. This reflects the local banks need to maintain local business relationships. This being the case, regional banks will be hurt as much by tight credit as will regional businesses.

USURY LAWS AND PROPRIETORSHIPS

Usury laws in the four state region are varied and complex, however, because of the low allowable ceilings permitted on certain types of loans to proprietors, usury laws are restricting credit to many small business firms. Questions 29, 30 and 31 were asked to measure how many of the region's banks have experienced difficulty due to the usury laws. Question 29 was written after consulting with the state banking commissions concerning their usury laws. In Missouri a banking commission spokesman indicated there were no credit problems to proprietors due to state usury laws. However, the responses of
bankers in Missouri indicated that the opposite is true. Thirty-four percent of the respondents of Question 29 indicated they have been forced to restrict credit to proprietorships because of state usury laws. On a state by state basis, 67 percent of Missouri's banks reported problems as compared to 37 percent of Iowa's banks, 32 percent of Nebraska's banks and 10 percent of Kansas' banks. These results are quite dramatic in that aside from showing the magnitude of the problem, they show that in at least one instance the regulators of credit do not fully comprehend the impact of their rules.

When asked if they anticipated future credit availability problems for proprietorships, 44 percent of the responding banks replied yes. If Kansas, which appears to have the fewest problems, were omitted from the sample, 52 percent of the banks in the remaining three states anticipate problems. Finally, 68 percent of all the respondents indicated that they feel that new proprietorships were being affected more by usury laws than existing firms. The question of resolving usury law restrictions to proprietorships is vital to the region. Through the misfunctioning of the laws, the rules have adversely affected those they were meant to help.

BANK USE OF SBA PROGRAMS

SBA guarantee loans are an important funding source for many small businesses. Questions 11 through 18 were designed to study regional bank participation in the SBA guaranteed loan program and the new secondary market in the guaranteed portion of these loans. A large percentage, 86 percent, of the surveyed banks indicate that they had issued guaranteed loans in 1978. Of this number, 21 percent issued six or more, and another 46 percent issued between three and five of them. This represents a wide regional acceptance of this program. When asked if the banks were passive or active in making SBA guarantee loans, 50 percent indicated they were passive, or very passive (make SBA loans only upon request) and 50 percent indicated they were active or very active (solicit) in making guarantee loans. This response corresponds to an interview with a local businesswoman who discussed her borrowing attempts at two local banks. One bank tried to discourage her from seeking an SBA loan, while the other bank actively promoted the idea.

Question 22 allowed bankers to comment on their dealing with the SBA in obtaining funds for their customers. The majority of the comments were favorable. Most of the negative comments dealt with the "red tape" involved in getting loans. This "red tape" may be more imaginary than real since in the words of one interviewed businesswoman, "If you and your banker know what you're doing and do your homework, getting an SBA loan is not difficult at all."

The responses to Questions 14 through 18 indicate that, while the region's bankers are aware of the secondary market in guarantee loans, they have not yet fully comprehended their mechanics, use and function. Only 10 of the banks indicated they have sold SBA guarantees more than once or twice. This poor response could be due to the region's rural nature and lack of ready access to brokers' willing to act.
as market makers in guarantee loans. This program looks like an ideal way for attracting out-of-region funds into many of Region VII's rural areas. Unfortunately, the author feels the mechanics of this market may need to be overhauled to increase its workability. Currently, each loan, with its individual value and maturity, must be handled separately. This handling makes the secondary market a placement market rather than an active liquid market where the loan may be resold easily. A study should be conducted to see if the guarantee secondary loans could be patterned after the popular GNMA passthrough certificates. Here, a large group of individual mortgage notes are bundled together, and then standardized shares of this bundle are sold to investors.

FRANCHISING

Two questions were asked concerning bank lending attitudes toward franchises. First, the bankers were asked who they felt would be hurt most by tight credit conditions, franchises or independent operators. Fifty-nine percent of the bankers felt franchises would be hurt more. Secondly, the bankers were asked if they would be more likely to lend to a local borrower opening a nationally known franchise, than one starting a nonaligned retail outlet. Eighty-eight percent of the bankers said no. These two questions cannot be used to draw definite conclusions, but it appears that local bankers are not overly biased to franchise lending.
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May 23, 1979

Dear Commercial Loan Officer:

In preparation for the January 1980, WHITE HOUSE CONFERENCE on Small Business, the Government has commissioned a series of regional studies on the problems encountered by small businesses. I would like to ask your assistance in preparing a study on The Cost and Availability of Credit in SBA Region VII.

As you are a commercial loan officer, we are quite interested in your knowledge and opinions on several questions relating to the economy, banking, the SBA and small business borrowing needs and problems. Please take the few minutes necessary to fill out the enclosed questionnaire.

Return the completed questionnaire as soon as possible in the post-paid envelope that is enclosed for your convenience. If you have any comments or statements to make concerning the cost and availability of credit to small businesses that you feel were not covered in the questionnaire please feel free to include them. To enable you to answer the questions as openly as possible this is a completely anonymous questionnaire.

Thank you for your gracious assistance and cooperation.

Sincerely,

Carl Schweser
Assistant Professor - Finance

CS/km
QUESTIONNAIRE FOR THE 1980 WHITE HOUSE CONFERENCE
ON SMALL BUSINESS
TOPIC 5--AVAILABILITY AND COST OF FUNDS
REGION VII

GENERAL BANK INFORMATION

1. Is your bank a 69 State or 55 National bank? 
   63 yes 61 no
2. Is your bank a member of the Federal Reserve System? 
   63 yes 61 no
3. What state is your bank located in? 38 IA 30 KS 21 MO 35 NE
4. How would you classify your geographical location? 92 Rural 30 City
5. What are your total deposits in millions of dollars? 20 under 10 29 11-25 40 26-50 24 51-100 11 over 100
6. How many banks are in your immediate service area? 12 1, only ours 22 2 17 3 73 4 or more
7. How does your bank rank in asset size in your service area? 70 first 26 second 10 third 18 fourth or lower
8. How would you classify the overall degree of competition you receive from other banks in your immediate service area? 86 significant 36 some 2 none
9. How would you classify the overall degree of competition you receive from nonbank financial institutions in your immediate service area? 79 significant 44 some 1 none
10. Is your bank a holding company affiliate? 51 yes 73 no

SBA LOAN INFORMATION

11. Did your bank make any SBA Guarantee loans in 1978? 107 yes 17 no
12. If yes, how many? 17 1 18 2 49 3-5 18 6-10 5 more than 10
13. How would you assess your participation in the SBA Guarantee loan program? 18 (a) very passive (only if requested by borrower) 43 (b) passive (make them but not as a general practice) 53 (c) active (make them on a regular basis) 7 (d) very active (you solicit SBA Guarantee loan business)
14. Are you familiar with the secondary market for SBA Guaranteed loans? 118 yes 5 no
15. Have you ever sold the guaranteed portion of an SBA loan in the secondary market? 23 yes 100 no
16. If you have sold SBA guaranteed loans have you sold them 13 (a) only once or twice 7 (b) more than once or twice but infrequently 3 (c) frequently.
17. Do you anticipate using the secondary market more in the future? 46 yes 68 no
18. In your opinion do you think the secondary market concept will enable you to attract out of region or local floating funds for use by your small business customers?
   49 yes  62 no

19. What percentage of your commercial and industrial loan portfolio is lent to firms with 500 or more employees?
   94 0 percent  20 5 percent  5 10 percent  0 25 percent
   0 50 percent  1 75 percent or more

20. What percentage of your commercial and industrial loan portfolio is lent to firms with 20 or less employees?
   0 0 percent  15 5 percent  0 10 percent  14 25 percent
   21 50 percent  69 75 percent or more

21. Of your business loans to small business concerns what percent 62.5 would you say are short term, and what percent 37.5 would you say are longer term?

22. Any comments, pro or con, you would like to make concerning your dealings with the SBA in obtaining funds for your customers that you feel might improve the availability of funds to worthwhile small business enterprises? If you need additional space, please feel free to use additional paper.
   Positive Comments = 29
   Negative Comments = 11

23. How has the recent credit squeeze affected your bank?
   17 no affect  78 moderately  27 severely

24. Have you had to cut back or ration credit yet because of tight money?
   63 yes  60 no

25. If no to the above do you feel you will have to resort to credit rationing in the near future?
   25 yes  40 no

26. From the following pairs, which do you feel is hurt most by tight credit?
   (a) 79 small business borrowers vs. 13 larger business borrowers
   (b) 29 SBA loans vs. 51 regular loans
   (c) 102 new businesses vs. 3 established businesses
   (d) 47 franchises vs. 33 independent operations
   (e) 5 short term borrowers vs. 87 intermediate term borrowers
   (f) 64 proprietorships vs. 16 corporations
   (g) 29 farm loans vs. 51 commercial loans
   (h) 24 consumer loans vs. 59 commercial loans
   (i) 100 real estate vs. 6 commercial loans

27. Do you feel that liberalizing the state's branch banking laws will increase the flow of funds to the local small business community?
   21 yes  102 no

28. Do you feel that recent market factors have caused your real estate and personal loans to crowd out your small business loans?
   27 yes  95 no

29. Current market interest rates have touched or exceeded the state usury limits in Iowa, Kansas and Nebraska for small loans to sole
proprietorships. Have you been forced to restrict credit yet because of these usury laws?

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30. Do you anticipate credit availability problems for your small sole proprietor customers due to the usury laws?

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31. Do you think new small sole proprietorships are being (or will be) affected by the usury laws to a greater extent than established businesses?

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32. If you have any comments on usury laws and credit availability to the small business community, please make them.

MISCELLANEOUS QUESTIONS

Assume a local resident, who is a customer of your bank with a good credit rating, approaches your bank with a well thought out and apparently workable plan to open a local retail outlet. If he/she needed capital:

33. Would you give him/her a loan? 109 yes 1 no

34. As a percentage of the total funding necessary how much equity money would you require? 30 percent

35. What is the maximum maturity you would allow on the loan? 6.5 yrs.

36. What rate of interest would you charge him/her (assuming a 5 year loan paid in monthly installments)? 11.5 percent

37. What compensating balance would you require?

38. If he/she wanted to open a nationally known franchise retail outlet would he/she be more likely to obtain credit than if he/she was proposing a nonaligned retail outlet? 13 yes 95 no

39. Would you recommend applying for an SBA loan? 102 yes 16 no

40. What is your bank’s current prime rate? 10.5 percent
Innovation is a subject of major importance to the nation today. Technological innovation is often credited with being the most important single contributor to the economic strength and standard of living of the United States. The United States has, in the past century, been the technological society par excellence. More than any other people, Americans have exuberantly sought, bought and used the products of science and technology. They made folk heroes of scientists and inventors like Albert Einstein and Thomas Edison. High technology is still the U.S.'s special strength in world trade; high productivity is still the basis of a two trillion dollar economy. As symbolic proof of the people's deep love affair with technology, the U.S. was the first nation to send humans to the moon and back.

But pride goeth before a fall. Just about the time that Neil Armstrong was taking "one giant step for mankind," Americans began to assume that they could take their technological and economic leadership for granted. Investment in technological innovation was moved to a lower priority, and more of the nation's resources were directed toward other issues associated with "the quality of life" and "social and economic justice."

The measures of the resulting problem are well known. Over the past fifteen years, expenditures for research and development in the United States have not kept pace with the growth of the economy. In proportion to the gross national product, R&D spending has declined 25 percent since 1964.

During this same period, many other industrialized nations, including Japan and West Germany, have been increasing the share of their GNP spent on research and development. The U.S. Patent Office reports that foreigners now receive 37 percent of all U.S. patents, compared with only 20 percent in 1960.

As a matter of official policy backed up by tax structure, the other advanced industrial nations since the 1950s have been investing much more of their GNP in new plant and equipment than has the United States. France and Germany are proportionally investing two times as much, and Japan three times as much as the U.S. in new ventures, new technology, and new plant and equipment. And their productivity has been increasing two or three times as fast as the U.S.

The results are seen in every home--the familiar Japanese and European products that Americans buy for both quality and price. The results are also seen in two horrendous trade deficits on the order of $30 billion dollars a year, back-to-back, that the United States has had to accept in the past two years.
PRINCIPAL FINDINGS

Region VII does not appear to be either immune from the problems confronting the nation as a whole nor does it have any unique problems which do not occur elsewhere. However, the degree of seriousness and/or nature of problems confronting technology-oriented firms in the region does differ.

The typical technology-oriented entrepreneur (TOE) interviewed for this study perceived his major problems to be government regulations, lack of a sufficient skilled labor force, inflation, taxes, patent rights, lack of venture capital and difficulties with transfer of technology and managerial techniques.

TYPES OF TECHNOLOGY-ORIENTED COMPANIES IN REGION VII

There are few "high" technology-oriented small businesses in the region. "High technology," as the term is used in this paper, refers to organizations that function at the outer edges of scientific knowledge. Those in the fiber optics field or in other similar frontiers of scientific knowledge are examples. The technology-oriented companies in Region VII use what might be termed "medium" and "low" technology. A company producing electronic instruments which use large scale integrated circuits would be an example of "medium" technology. "Low" technology would be characteristic of a company which manufactures farm equipment.

These low and medium technology-oriented organizations are scattered throughout the region, although heavier pockets are located near the major cities of St. Louis, Kansas City, Omaha, Wichita and Des Moines. Those located near the cities tend to use a higher level of technology and are often associated with the aircraft industry. Those located in rural areas tend to have an agricultural base.

Given the weather conditions, quality of land, agricultural thrust of the larger educational institutions, skill level of the work force, absence of a major venture capital market and other related factors, it is understandable that the largest percent of the technology-oriented small businesses manufacture equipment for the agricultural community. Still, the region is a major industrial exporter.

FAILURE TO BE AWARE OF ASSISTANCE PROGRAMS

Thorough discussions of the problems and opportunities of Region VII TOEs are presented later in this paper along with specific policy proposals to reduce the problems and increase the opportunities. However, there appears to be one major problem which exists throughout Region VII and which affects virtually every TOE and public official in the region.

This problem is an almost complete lack of awareness on the part of the TOEs of existing governmental assistance programs oriented specifically toward the TOE. Moreover, the apathy of federal, state and local government officials in Region VII towards the TOE as a
special, highly productive, employment generating segment of the economy is enormous. If the value of TOEs to the standard of living of the United States and to the economy of Region VII is known by these officials, then they are derelict in their efforts to make Region VII TOEs aware of programs designed specifically for technology-oriented businesses.

Indeed, very few government officials at any level were even aware of several federally funded programs to assist technology-oriented businesses. This lack of awareness was especially apparent in regard to programs of the National Science Foundation.

NATIONAL SCIENCE FOUNDATION PROGRAMS

The major federal source of assistance to the TOE is the National Science Foundation. One of its major programs has been the innovation center projects which it has funded for the last five years at a total cost of $3 million. It also funds small business innovative research directly and publishes research reports.

Innovation Centers

There are four centers located at Carnegie-Mellon University, University of Utah, University of Oregon and Massachusetts Institute of Technology. Through these programs, over 1000 students (primarily engineering) and over 50 faculty members have assisted over 25 company formations. Last year these companies generated $15 million in sales. While none of these schools are within Region VII, all of them make information available to all TOEs. The University of Oregon will, for a modest fee, evaluate personal, corporate, product and market entrepreneurial abilities of an individual or small firm. The Small Business Development Center (SBDC) in Nebraska, for example, refers its potential TOEs to the University of Oregon.

Small Business Innovation Research Program

The NSF also provides funding in the form of product development grants through its "Small Business Innovation Research Program." If a TOEs proposal is accepted, NSF provides a grant of up to $25,000 for the first six months of product development. If the product shows promise after the first phase, a second phase offers grants of $100,000 to $400,000 over a two-year period for additional product development and determination of market feasibility. Unfortunately, this program is not well known. No TOE or government official who was interviewed for this paper in Region VII was aware of this program. Moreover no grants have been made to Region VII since its inception.

Directorate For Applied Science And Research Applications

Also available from the NSF are research reports of a scientific nature which may be useful to TOEs. Indeed, TOEs may seek NSF support to conduct research of a scientific nature which later may be published by the NSF. This research funding program is conducted by the NSF's Directorate for Applied Science and Research Applications.
Again, there was no evidence of any TOEs participating in this NSF program.

Although only the NSF's programs which assist TOEs were discussed here, there was a similar lack of awareness about almost all other federal programs. Awareness about these other programs are described later in this paper.

MAJOR POLICY RECOMMENDATIONS

None of the federally funded programs deliberately maintains a low profile. Indeed, this author, who neither has the personal need to utilize these programs nor the job responsibility to inform others of the existence of these became aware of them without seeking out their existence prior to the appointment to prepare this paper.

It would therefore seem that governmental officials whose job responsibilities include informing TOEs of available assistance programs would be aware of all federal as well as all state and local programs which may be of assistance to TOEs.

Regional Assistance

Therefore, it is recommended that the federal government create a regional position with responsibility for: (1) staying abreast of assistance programs for TOEs; (2) actively disseminating information to other federal, state and local government officials; (3) insuring via feedback from TOEs that the information is being utilized by TOEs; and (4) assisting other government officials to develop additional specific programs to assist TOEs.

It is further recommended that this position be placed within the National Science Foundation structure. The NSF already has a small business thrust in its structure while the SBA does not have a major technology thrust in its structure.

State Assistance

Furthermore, it is recommended that each state within the region establish a state-funded office to offer assistance to TOEs. These offices should be located in the major metropolitan areas and should be administered through each state's industrial/economic development department. The office should also have access to engineering and business schools in the state. Moreover, it is important that the staff of these offices contain professional engineers with management education. These state level staffs would be the primary source of assistance to TOEs. So that they can provide meaningful service to the TOEs, these staffs need to first become thoroughly acquainted with existing programs. Second, they need to establish a meaningful data base for making decisions affecting TOEs. This author found virtually no meaningful statistical information which would be of aid in better understanding the problems of TOEs or of use in developing programs to assist TOEs. State staffs with assistance from the NSF regional staff, need to use this data base and assistance of TOEs to develop more useful programs.
Funding Sources

The cost of these staffs should be supported by increased tax revenues resulting from higher level of employment and increased company profits. The soundness of this reasoning is supported by Birch's (1979) findings that approximately 70 percent of all employment growth currently comes from the small business sector. The remaining 30 percent comes from increased government payrolls and virtually none from the largest corporations. More recently, Smollen (1979) found that the technology-oriented small business accounted for a large portion of this increase.

METHODOLOGY

Because exploratory research was required for this project, a field study was determined as the most effective way to complement the results of literature research.

The literature search was conducted by a student doing advanced entrepreneurial study, two research librarians and the author. The search looked for surveys of statistical information published by various federal, state and local governmental units, and by other organizations such as Dunn & Bradstreet. This search yielded little statistical information specific to the region. Also included was a review of articles, dissertations, books and other material related to the topic.

To learn of current national programs, the author attended the National Industrial Innovation Conference at Carnegie-Mellon and met with National Science Foundation and Small Business Administration officials in Washington, DC during April.

After this initial thrust, telephone interviews were conducted with each of the district and regional offices of the Small Business Administration and the Department of Commerce within Region VII. An open-ended interview technique was used which provided an opportunity to learn viewpoints held by these officials as well as to make a general assessment of their awareness of problems confronting TOEs. During these conversations, details about specific programs in the region were obtained. The names of state and other local government persons who interacted with TOEs were suggested by these federal officials as sources of additional information. These local persons were also contacted and interviewed by telephone using open-ended interviews.

All officials were asked to suggest names of TOEs who might be able and willing to provide their perspectives of problems, opportunities and impacts of federal, state and local programs. The persons suggested tended to be presidents of "larger and successful" technology-oriented businesses who had actively worked for betterment of TOEs. Thus their comments, if biased, may have been more supportive and sensitive to past efforts and programs than would those from owners of smaller, newer and less successful businesses. However, their breadth and depth of experience made them valued participants in this study.
Also contacted directly by the author were large technology-based companies. All such firms had small business specialists within their organization who were able to provide an additional perspective.

A final literature search took place after the interview phase was completed to obtain more background information concerning topics discovered during the interview process.

In excess of 300 man-hours were spent in the preparation of this paper. It is the belief of the author that the information contained within this paper accurately reflects perceptions of those interviewed and the limited statistical data available.

DISCUSSION OF FINDINGS

A review of the research literature suggests that several environmental factors affect the decision of an engineer or other technology-oriented person to start a business. One factor is a "push" from the previous employment position. Examples would include dismissal, refusal to accept transfer to a different section of the country and/or dissatisfaction with the job or promotion opportunity (Brockhaus, 1978). Seldom is it a case where exploitation of an outstanding new product "pulls" the potential entrepreneur from his old position.

Given some form of "push," one form of "pull" seems to be the potential entrepreneur's belief that the act of starting a technology-oriented business is a credible endeavor. This credibility is enhanced by other TOEs serving as role models. Essentially, what the potential TOE believes is that if someone else can do it, so can he or she. Thus one finds that TOEs tend to spin-off other TOEs either directly from their organization or by serving as a role model for employees of another firm.

FACTORS AFFECTING THE LOCATION DECISION OF TOEs

Because technical education backgrounds are normally required, and because persons with those types of background are generally employed by large technology-oriented companies, ones find pockets of these technology-oriented small firms. Within this region, St. Louis, Kansas City, Omaha, Wichita and Des Moines contain most of the TOEs.

The aircraft industries in St. Louis and Wichita have resulted in TOEs whose firms supply small parts to the larger aircraft manufacturers. Both Kansas City and St. Louis also have TOEs who provide services and equipment to the automobile assembly plants located there. Omaha and Des Moines have fewer TOEs than these other cities because they are primarily commercial centers; they lack the large industrial base.

Moreover, social, recreational and educational features of larger cities are inviting to TOEs. Also, new TOEs tend to establish in areas of existing technically-oriented companies because as former employees of these firms, the founders are familiar with the area's resources.
resources include potential customers, suppliers, technicians for a skilled labor force and financial contacts. TOEs also reduce their perception of risk involved by remaining in an area with which they are familiar. Moreover, they reduce resistance from members of their families by this decision.

Policy Recommendations

From a policy viewpoint, it would seem that major efforts to provide assistance programs to potential TOEs should be in those areas of Region VII with a large industrial base. Furthermore, these efforts should be directed to keeping potential TOEs in the area rather than seeking to bring in new TOEs from other sections of the country.

One exception to this general policy is for TOEs who return to their previous home communities for social and family reasons. This motive accounts for many TOEs who are scattered throughout small towns of Region VII. This process is made even more possible by the fact that most of the TOEs in Region VII are low technology which reduces the need for highly skilled labor. Therefore, persons responsible for assistance programs cannot ignore TOEs arriving from other sections of the country and those locating in smaller communities. However, again it must be made clear that these TOEs are seeking the area and little will be gained from attempts to bring in TOEs who do not have previous connection with the area. Programs need to be established which can assist these persons in obtaining resources from the area. Such programs would include assistance in locating financial sources, material suppliers, labor forces, customers and suitable plant sites.

Research Park Policy

Research and industrial parks, despite their reputation for attracting scientific and technology-oriented companies, have not, in general, accomplished this goal. As a matter of fact, Danilor (1972) claimed that there have been more disappointments than successes and the average occupancy rate is only 40 percent. From a regional point of view, Danilor reported less than 5 percent of TOEs chose an area because of availability of a research park. Therefore, there probably is no need to raise funds to establish new research and industrial parks. Indeed, efforts to rezone and rehabilitate existing older buildings would probably yield better results. These older facilities will normally cost new TOEs less to occupy at a time when financial resources are likely to be very limited.

Sources of Technological Innovations

Innovation is that process which starts with an inventor's insight and ends with a new product or technique. Therefore, an attempt must be made to identify these innovators.

Innovation is the basic human instinct to strive for effective ways to utilize the environment, and, like the instincts of all creatures, provides the species with the ability to survive in a biosphere of the earth. (Li, Janson and Cravalho, 1978.)
More specifically, Komives (1972) who was with the Center for Venture Management studied 20 high technology entrepreneurs all living and working in the same general area. He was interested in the questions of how, in what way and to what extent do entrepreneurs differ from others in society. Some of the typical characteristics of his sample were: (1) possession of a masters degree, usually in hard science, (although all had hard science bachelors degrees, some had masters in business administration, and/or engineering); (2) average age when starting the enterprise was 34; (3) families to support; and (4) the characteristic of being single entrepreneurs in contrast to being members of partnerships.

Another resource of innovation is the academic world. For the academic world, the early phases of each leap in technology represents a fertile area for basic research which is followed by applied research. Since the early 1960s, the federal government became an increasingly predominant party to university research in many cases providing a large share of departmental funding.

These two types of innovators, entrepreneurs and academia, are probably the two most important with relation to small business R&D and innovation. However, there is probably one other type of innovator who should be mentioned. The "back yard" innovator is the lone individual who usually, due to lack of funding, career opportunity or professional knowledge, carries on his innovative activities in the privacy of his basement or garage. It is unfortunate that this is a style of innovation that can be a highly creative yet frequently fails to have a profitable product as the final outcome.

Policy must be established in Region VII that will locate potential TOEs and provide them with technical, financial, marketing and management skills necessary to bring forth profitable products. The importance of such a policy for Region VII becomes apparent when the region's lack of a high technology environment is considered. Lacking a large number of suitable TOE role models, the naive backyard innovator is more likely to be present in Region VII than in other more technically developed sections of the country.

**REDUCTION IN R&D FUNDING**

After World War II, a number of companies developed large research centers to do basic and fundamental research. It was believed that useful and marketable products and services would be the final result. Today industrial research is dominated by a small number of very large corporations. The top 10 R&D performing firms accounted for over 36 percent of all basic research expenditures in 1976 (Manners and Nason, 1978). Moreover, according to Manners and Nason, in 1958 industry allocated as much as 38 percent of its R&D dollar to research. The percentage has decreased year after year--reaching a low of 25 percent in 1976. This general decrease has affected both basic and applied research, although the percentage allocated to basic research has been cut almost in half.
Newsweek reported that, "McGraw-Hill issued the results of its annual survey of business plans for R&D spending and reported that during 1979, American firms intend to spend only 2.1 percent of anticipated sales on R&D--the lowest proportions since 1956. Manufacturers predicted that R&D would account for only 47.5 percent of capital spending this year--compared with 78.7 percent in 1963" (Newsweek, 1979).

Not only is there a definite decline in the R&D and innovation area within large and small business of America, but since the late 1960s, federal expenditures on research and development have also been reduced as more emphasis has been placed on social programs. Because much of the reduced federal expenditures is for basic research, the life line for new applied technology is again reduced. The federal government historically has been a big supporter of industrially performed research, but this support is diminishing. Throughout the 1950s the government annually supported over one-third of industrial research activity. This level of support reached almost 40 percent in 1962, but has been consistently diminishing to a level of 25 percent in 1976 (Manners and Nason, 1978).

There seems to be several reasons for the shift in support by the federal government. First, governmental funding of basic research activity has been moving to the university sector. Second, government as a matter of policy, has moved to a more mission-directed mode of research funding. Third, growing antagonism between government and industry is eroding cooperative R&D. Regulatory requirements appear to be a major cause of this antagonism.

Given the almost total lack of high technology innovations in Region VII before these reductions, it is rather unlikely that the reduction in basic R&D has greatly affected the region. Moreover, the medium and low technology innovations of Region VII are unlikely to be significantly affected by any change in R&D expenditures in basic research.

GOVERNMENT REGULATIONS

Although there is some evidence that regulatory activities can stimulate certain categories of technological innovations, the net effect of EPA, FDA, OSHA, toxicity laws, product liability, and other regulations on research has made matters worse.

Government regulations have, in some cases, kept many potentially harmful products off the market and forced the U.S. to start a very necessary cleanup of the environment. However, regulation is a costly and sometimes cumbersome process, and every small businessman in America can cite tales of red tape that deaden the entrepreneurial spirit. The cost of regulations came to more than $102 billion last year. And most regulations have been imposed without any significant effort to determine whether the benefits justify the enormous costs.

The magnitude of negative impact these regulations have upon decisions to invest in new technology cannot be overstated. Many a
business entrepreneur--facing the prospect of lawsuits, regulatory hearings, paperwork, battles with bureaucrats, capricious interruptions, mandated expenditures on nonessentials and enemies armed with the weapon of infinite delay--will simply refuse to risk his time or money on a high-technology product. Instead, he will settle for the familiar technology, the quick-payout investment. There is no measure of how many good ideas go untested. Many may have made significant contributions to society. The involvement of the federal government in scientific and technological affairs is not a new idea. Even the Constitution calls for the encouragement of innovation. However, some authorities point to "... contradictions and inconsistencies in the federal regulation of research and development and in policies relating to ownership of inventions (which) seem to be stifling the very atmosphere those policies were designed to promote and protect" (Thornton, 1978). Scientists and executives are beginning to lecture on the impact of government red-tape and regulation upon R&D. While a large industrial concern can afford to pay the price of testing and absorb a major loss, smaller enterprises often can afford neither. The cost of research required for government mandated consumer-product testing, occupational safety, environmental restraints and toxic substances are as expensive in dollar terms to small companies as they are to large. But in terms of financial resources, such costs are especially onerous to the small firm. Because of this, executives of small firms admit that they are reluctant to try to bring new products to market. The risks are simply too great.

In an effort to reduce these expenses and the resulting risks, the federal government has developed programs intended to assist in developing new products of a technological nature. However, there is a significant portion of large and small companies which do not want federal funds supporting their research programs. For example, they contend that whenever federal funds support a research effort, any innovations coming from that research are patented by the government. Therefore, the patents are available for public use by both the actual developer and any of his competitors. A more realistic policy should be established which will allow the developer of the patent to at least be able to obtain licensing fees for the use of the patent by competitors.

TAXATION

Next to regulatory problems, most experts argue that U.S. tax policy is the single biggest impediment to technological innovations. In a nation where government takes, transfers and spends nearly 40 percent of the nation's output, tax policy is obviously a very big factor.

To repeat an earlier point, R&D is critical to successful innovation, but it is only the first step in the process. Turning new ideas and inventions into commercially successful businesses requires extensive and risky investments in new plant, equipment and market development that may cost as much as 10 times the original investment in R&D. Therefore a tax policy that aims to reverse the decline in technological innovation cannot be directed at R&D alone, but must address the larger problem of declining business capital investment.
Congress took a first step in that direction with its 1978 tax bill, which reduced both corporate and individual income tax rates, made the investment tax credit permanent at 10 percent, and reduced the capital gains rates for corporations and individuals. This was an important initiative, but additional tax changes are required to improve the crucial ratio of risk to reward which is the basic determinant of the level of business investment in innovation.

**TOEs RECOMMENDATIONS**

To solve these problems, some Region VII TOEs recommend tax law changes to provide inflation-indexed, year-by-year reductions in the corporate tax rate. Second, they also suggest improved capital recovery allowances to make up for the under-depreciation caused by inflation. Third, they need relief from the double taxation of corporate dividends. Fourth, they feel that improvements in the tax treatment of capital gains and losses and extension of the investment tax credit to new buildings will be especially helpful to innovation.

In addition to tax changes aimed at improving the overall climate for business investment, it may be worthwhile to have supplemental tax incentives targeted specifically at R&D. It must be stressed, however, that R&D incentives cannot be a substitute for the tax policy changes needed to improve the risk/reward ratio and thereby raise the general level of investment. By themselves, R&D incentives would not be effective in stimulating innovation. They can only work effectively in a favorable investment climate.

Given that provision, here are some principles suggested by Region VII TOEs that should govern the design of tax incentives for R&D. First, the incentives should be broadly based, and should not be restricted to certain types of R&D activity or certain politically chosen technologies. The objective of increasing successful innovations is more likely to be achieved if resource allocation is left to the marketplace rather than the politicians or some central bureaucracy.

Similarly, the incentives should be nondiscriminatory or neutral in their application—that is, they should be available to all taxpayers. There will be tremendous political maneuvering to try to limit the incentives to firms located in economically depressed areas, or companies in designated industries, or small business or some other politically favored group. But the incentives have the best chance of stimulating a broad, nationwide resurgence of innovation if they are available to all companies and all parts of the country.

Jones (1979) recommended specific R&D incentives as follows:

1. Flexible depreciation for equipment and special-purpose structures used in R&D. The taxpayer could elect to depreciate his investment in such assets in full in the year of acquisition, or over any other period, depending on his financial circumstances.
2. Flexible depreciation for externally acquired patents and other intangible items of technology, such as know-how, secret processes and the like. As the Japanese have demonstrated, technology acquired from others can be very effective in stimulating economic growth. Yet the provisions of existing law discriminate against patents and other intangible technology assets acquired from others. This is because such technology must be capitalized; whereas expenditures for internally generated technology are deductible for taxes as incurred. The unequal treatment of externally and internally acquired patents and technology discourages the purchase and commercialization of new inventions, and limits the market opportunities of inventors.

3. Here's an idea: How about allowing a special deduction equal to 120 percent of R&D expenditures? Such a provision would cost about $2.4 billion a year. It would reduce the effective tax rate for those companies that are efficiently investing in R&D--thus increasing their cash flow for additional innovation.

CAPITAL FINANCING

Most working capital financing for the new or small company must be obtained from local sources. This usually means loan monies from local banks or bank related sources. Currently, loan policies and practices differ widely from region to region of this country. They are strongly affected by local history and are based upon the unique economic history of the region.

Banking Institutions

Bankers whose loan experience has largely been with such applicants as farmers, miners, land developers or tourist facility operators are not familiar with or qualified to evaluate the loan application of a company engaged in the development and manufacture of technical products... Few regions have developed a financial community that is entrepreneurial enough or that has institutionalized the ability to readily support new and unfamiliar kinds of ventures (Hoffman, 1972).

However, it must also be recognized that when banking institutions are involved in lending capital to new kinds of ventures, the restrictions of the loan can be and usually are very demanding. Loan collateral requirements can take on many forms and as the risks involved become greater so do the loan security requirements. Collateral requirements, for example, can take on any of the following forms: (1) unsecured loans and/or loans secured only by a personal guarantee; (2) current or quick assets (includes receivables and inventory); (3) fixed assets and equipment (includes plant, equipment and real
estate); and (4) other security such as investments, SBA guarantees, general pledge agreements, life insurance, etc.

In a study conducted in the Ozarks region (Hoffman, 1972), data were collected to determine just what was involved in getting bank financing for new and innovative ventures. Hoffman found that the degree to which loans were granted to new and young technical companies (versus the nontechnical) was dependent on increased security requirements. Bankers on either coast are believed to better appreciate the needs of TOEs--perhaps due to more frequent contact with TOEs.

When loan money is not available from the local banks or other local sources, it is not unusual for the applicant to give up the search for necessary capital or to move to an area where capital is available. Thus Region VII loses the resulting influx of money at a later date when these companies become successful.

Venture Capitalists

Another form of capital investment which influences technical company formation is the availability of venture capitalists. Just about four to five years ago, stagflation, high capital gains taxes and a bearish stock market made venture capitalists almost nonexistent. But suddenly, venture capital seems to be blossoming again as Newsweek (1979) reported: "In the last year, entrepreneurs have raised an estimated $750 million for investment in fledgling companies--an amount roughly equal to all the venture capital raised between 1969 and 1977."

However, venture capital is no longer what it used to be. Today venture capitalists tend to be more conservative, concentrating their investments in companies with at least a few years of experience and some solid indication of ultimate success. This trend does not leave much opportunity for new technological ventures to obtain initial capital from this source.

Li, Jansson and Cravalho (1978) recommend that high technology entrepreneurs search for a venture capitalist who "is a bona fide management innovator with the appreciation for key parameters of the innovation, and would give his inventor the kind of counseling which would stretch available funds over a period properly matched with the normal time span needed to bring a technological innovation to fruition. He would maintain a continuous dialogue with his inventor to bring out the dominant innovation issues--mostly technological, but within the context of an economic structure." However, Region VII is short of venture capitalists and for TOEs to seek only the type described above would not be realistic.

The ability to raise cash by issuing publicly held stock has also improved--in part due to the 1978 reduction on capital gains taxation to 28 percent from 49 percent. As a result, last year 37 small companies raised $205 million in public offerings; while in 1975 only four firms raised $16 million (Newsweek, 1979). Nevertheless, 37 companies a year is a number which is still far too few.
Other Sources

Assistance in capital funding may be through industrial revenue bonds sold by local, municipal or county governments. Another source of such funding is through the SBA's "502" plan which assists local development corporations. However, these programs are not specifically designed for TOEs.

Kansas has a private organization, Kansas Development Credit Corporation, which provides funds to TOEs and others who otherwise would not be able to obtain necessary funds. The stockholders in the organization are 60 large corporations. Also participating are 450 of the 600 banks in Kansas who lend 3 percent of capital in surplus to the program. In its 15 years of existence, 543 manufacturing companies in 142 communities have received $75 million in loans. This capital infusion has resulted in 17,000 employees and a $73 million payroll. Similar programs also exist in other states of Region VII. In Missouri, it is a similar organization, First Missouri Development Finance Corporation, located in Jefferson City. The Iowa Business Development Credit Corporation is headquartered in Des Moines, Iowa, and the Business Development Corporation of Nebraska is located in Lincoln.

MERGERS AND ACQUISITIONS

Typically, successful TOEs borrow all they possibly can from various sources. But at some point in their growth, the debt to equity ratio becomes too high and new equity capital must be raised. Given the still conservative venture capital market, the TOEs are forced to cease their rapid growth rate and depend upon internally generated funds for future growth. However, in competitive markets, this may be the signal for larger competitors to expand their share of the market and eventually force out the TOE.

Another equally dismal alternative also exists. In an effort to avoid losing market position due to lack of funds, many TOEs will sell all or a majority of their company to a larger company. Many problems accompany this decision, not the least of which is the failure of the TOE to be satisfied to work (even as president of "his" firm) for anyone else. It is highly likely that the TOE will become unhappy to the point of leaving after a few years. Often the acquisition contract will forbid starting a similar business for a number of years. Therefore, many TOEs facing the prospects of low growth or losing control through selling the company will select low growth. Even those TOEs who are able to issue a public stock offering run a high risk of losing control so they choose not to "go public."

Acquisitions and mergers are becoming more numerous and newsworthy; they certainly have become an item of notice to the regulatory agencies. The total number of mergers occurring in 1976 was 1,441. The total number of mergers and acquisitions completed and pending for 1977 is 1,558 (Bureau of Economics, 1978). These figures indicate there is a large and increasing number of acquisitions taking place. In 1977, according to the Bureau of Economics, the highest proportion of recorded acquisitions were accounted for by acquired firms that fell into
the smallest asset size class. These numbered 1,111 or 71.3 percent of
the total number of recorded acquisitions (Bureau of Economics, 1978).

If the premise is taken that a significant portion of these acquisitions
were due to the inability of the companies to acquire needed
capital for expansion, then it becomes apparent that policies need to be
created which will foster specific regulations which in turn will enhance
the availability of capital.

GOVERNMENT FUNDED ASSISTANCE PROGRAMS

Earlier in this paper, programs which assist TOEs and are offered
by the NSF were discussed. Many other programs exist.

Catalog Of Federal Domestic Assistance

The Office of Management and Budget yearly publishes the Catalog
of Federal Domestic Assistance which contains information about all
federal assistance programs. By use of its index, TOEs can become
aware of assistance programs available to them. Such a catalog is very
useful if TOEs are made aware of its existence, but few are. No TOE
interviewed for this study knew of the catalog.

Energy Grants

Another source of assistance is the Department of Commerce.
They offer several programs of assistance. One of the most timely is
offered by the Department's National Bureau of Standards. The NBS
evaluates all energy-related inventions submitted by small companies.
If promising, NBS provides grants for development of the invention
directly to the TOE. There was a high level of awareness by govern-
mental officials of this particular program.

Computer Search Programs

The SBA while offering many management training programs and
much literature has very few programs developed specifically for the
TOE.

One which is worthy of review is provided by the University of
Kansas (KU) under contract by the SBA. Any small business in Region
VII with a particular problem of an engineering and/or scientific nature
can request a computer search be conducted by KU to determine if the
solution to a similar problem is stored in their computerized data base.
If one or more solutions do exist, the computer provides the inquiring
company with an abstract of the solution and the source of more com-
plete information.

The effectiveness of this program, of course, is dependent upon
the breadth and depth of KU's data base, the specificity of information
contained and the degree of awareness on the part of the small business
who may have need for this information. In regard to this last
criteria, there seems to be some uncertainty. Of the Region VII TOEs
contacted, few were aware of the program. Those who were aware and
had used it, were somewhat reserved in their enthusiasm. The chief complaint seems to center around lack of specificity of information and difficulty in transferring the information obtained to their own organization's needs.

The SBA office in Nebraska uses a private data base corporation on the West Coast for its search efforts. Moreover, the State of Nebraska employs personnel to inform the small business community about this type of service.

Small Business Development Centers

Further major programs in Region VII are the Small Business Development Centers (SBDC) which are located at the University of Missouri at St. Louis and at the University of Nebraska at Omaha.

The headquarters location for University of Missouri's program is at the St. Louis campus; however, the technical assistance portion is largely based at the Rolla campus. There, engineering and science students under the direction of professors assist TOEs. The program receives its funding through the Small Business Institute program which will be described later.

A second SBDC exists in the University of Nebraska. Headquartered at the Omaha branch, the Nebraska Business Development Center has branches at the University of Nebraska, Lincoln; Chadron State College; Wayne State College; and Kearney State College.

The University of Nebraska at Omaha's SBDC program provides little direct assistance to TOEs either in Omaha or through its five branches. It primarily refers proposals for research assistance to the computerized searching previously described. TOEs seeking advice on the development of technology based products are referred to the University of Oregon's Center for the Advancement of Invention and Innovation. There for a nominal fee the proposed product is evaluated for both technical aspects and marketability. Moreover, they will analyze the TOEs managerial ability.

Small Business Institute Programs

Small Business Institutes are available within many colleges of business within Region VII and provide managerial assistance to TOEs by students and faculty. This assistance is of most use to the TOE with a technical degree but who lacks business management training. Most of the SBI projects are of short duration and focus upon a rather limited managerial problem. It is for that reason that many of the Region VII TOEs interviewed believed that the SBI program did not provide them with useful technical managerial assistance.

One other specific assistance project of Region VII is the Science, Engineering and Research and Development Directory for Region VII which contains a short synopsis of the capabilities of small consulting firms. Eighty-eight research and development firms and four architectural firms are listed. This directory can be of assistance to TOEs
seeking technical assistance within Region VII and is available from district SBA offices.

Policy Recommendations

All of these SBA sponsored programs are fairly well known by established TOEs who find that most of their needs are too complex to be readily met by these programs. Therefore, these programs should be reevaluated to determine how they can more effectively and efficiently meet the needs of established TOEs in Region VII.

In addition, research needs to be undertaken to determine if the programs of Region VII are effectively reaching potential TOEs who were not contacted as part of this study.

OTHER ASSISTANCE PROGRAMS

The State of Kansas provides what appears to be an even more complete service to its small business citizens. Graduate engineering students under the direction of their professors assist TOEs in utilizing the information obtained from the computer search. This assistance, funded by the State of Kansas, seems to increase the utilization of the information received. The University of Missouri at Rolla also provides assistance in a similar manner without major state funding. Iowa State University at Ames provides engineering and other forms of technical assistance. Also in Iowa, the University of Iowa in Iowa City, through its Center for Entrepreneurship, provides management assistance through its graduate students and faculty and continuing education program.

There also exists local community efforts to assist TOEs. For example in St. Louis, the Regional Commerce and Growth Association, an organization similar to a chamber of commerce, has a subcommittee which attempts to make large companies aware of material which can be supplied by local firms.

A frequently mentioned source of assistance was that of large businesses. This assistance varies from "setting aside" certain subcontracting for small firms to assisting TOEs in product development. The latter is especially useful because many TOEs necessarily have limited technological ability among their staff.

Both of the above programs are excellent uses of the private enterprise system. However, the fledgling TOE is very unlikely to become aware of them unless a more systematic approach is taken. As discussed earlier, a state office would seem to be an appropriate means to accomplish this goal.

SUMMARY AND CONCLUSIONS

Region VII public officials contacted in this survey were as a group very unaware of specific programs designed to assist TOEs. However, as stated earlier, such programs do exist. Moreover, public officials stated they believed TOEs would be reached through
conventional outreach programs, designing programs specifically for them is unnecessary. Their rationale for this situation seems to be explained by the fact that relatively few technology firms exist in the region and, therefore, there is little cause to become acquainted with that type of information. Indeed, it was pointed out by one regional official that TOEs should be expected to ferret out sources of assistance on their own.

Such a philosophy would seem to run counter to the needs of TOEs to whom time is of a premium. Indeed, a common reason cited by them for not attending SBA workshops is lack of time. Moreover, before most TOEs would attempt to seek these sources of assistance, the existence of such sources must at least be reasonably expected. However, based upon interviews with TOEs in Region VII, they do not know about the sources and do not expect such sources to exist. Therefore, it is recommended that programs need to be developed to increase the TOEs awareness of assistance programs.

Toward this effort, it is recommended that NSF establish regional offices to coordinate other federal, state and local assistance programs. Furthermore, each of the states need to establish offices to directly assist the TOEs. These staffs should develop effective and efficient means of making existing and potential TOEs aware of the assistance available. The present situation lacks overall direction of purpose and adequate communication processes. As a result, what programs exist very often are not reaching the potential user in Region VII. Indeed, as stated earlier, those persons presently responsible for assisting TOEs are poorly informed themselves.

Other specific policy recommendations discussed in this report include the following:

1. Efforts should be designed to keep potential TOEs in the local area rather than designed to attract TOEs from other areas.

2. Research and industrial parks are less likely to attract and keep TOEs than rehabilitated older structures.

3. Special efforts should be made to find and assist "back yard" TOEs.

4. The developer of a patent which results from government funded research should be granted licensing rights.

5. Governmental regulations should not be imposed without cost benefit analysis.

6. The tax structure should be revised to stimulate TOEs activity.
7. Overall government policies should be designed to enhance the availability of capital to TOEs.

8. Suppliers and users of assistance programs for TOEs should evaluate existing programs to insure that they are effectively and efficiently meeting the needs of TOEs.

Given the climate, quality of land, and the agricultural thrust of the region, it is understandable that a highly technical work force and venture capital market do not exist in Region VII. It is unlikely that high technology industries will become established. However, there is much that can be done within Region VII if the governments involved realize the potential value of TOEs to the region and create and staff offices capable of delivering appropriate services in an efficient and effective manner.
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MEASURING THE ENERGY VULNERABILITY OF SMALL MANUFACTURING BUSINESSES

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University of Nebraska at Omaha

Ever since the 1973 oil embargo, the public has been aware that some kind of energy crisis exists. Phenomenal price increases and lines of cars waiting to reach the gas pumps have been frequent experiences. Of course small businesses, too, are concerned with the energy crisis and their proprietors wonder what implications energy shortages hold for them.

In assessing the vulnerability of small businesses to energy crises, there are two basic categories of small business that could be studied: those that are concerned with retail and wholesale trade or other services and those that are involved in manufacturing. Small businesses involved in trade and services have an instinctive notion as to their vulnerability vis a vis energy. Those that are linked to the automobile have already experienced difficulties and can expect to experience more. This group of businesses includes not only automobile retailers and repair services but also those who depend upon the automobile to make their services available. Resort owners, drive-in food stands, motels and other businesses built around the automobile have already seen a decline in the number of their customers. For most service organizations, then, the degree of energy vulnerability is readily apparent.

For manufacturers, however, the degree of energy vulnerability is much less obvious. This is because they utilize a wide range of inputs which in turn are dependent upon energy in varying degrees. As energy prices rise, some input prices will rise substantially and others may show little or no increase. Or, if energy is allocated by administrative fiat, "shortages" may cause some inputs to be unavailable. Even a manufacturer who uses few inputs may have difficulty assessing his vulnerability because his inputs in turn have inputs. In short, he knows there are "wheels within wheels within wheels," but he does not know how to approximate the total effect.

Since it is felt that the manufacturer's problem is the more obscure one, the focus will be solely upon manufacturing. With this restriction in mind, this paper develops a measure for energy vulnerability, the "British thermal units (Btu) coefficient." Btu coefficients have two uses: first, they permit specific industries to compare their energy vulnerability with other industries and with manufacturing as a whole; second, they permit the testing of a set of hypotheses relating to American business in general and small businesses in particular.

This measure of energy vulnerability is based upon two concepts: a conviction that the energy crisis is basically rooted in fossil fuel use and an econometric technique called input-output analysis. The energy crisis was triggered by the oil embargo and the Organization of Petroleum Exporting Countries (OPEC) move to quadruple oil prices. In the
short run many firms found that they simply had to use the higher priced oil; other firms were able to substitute coal, but virtually none were able to substitute solar, hydroelectric, or nuclear power. Even now, six years after the oil embargo, it is apparent that alternatives to fossil fuels are very limited and available mainly in the future. Thus, it was felt that reliance upon fossil fuels rather than upon energy per se was the best criterion of vulnerability.

The economic technique of input-output is designed to trace the labyrinthine problem of inputs and to add up all the effects of the "wheels within wheels." Thus it was possible to determine the total energy requirements of each manufacturing process plus the energy demands of its inputs, plus the energy used by inputs to the inputs, etc. The final result, the Btu coefficient, measures the total energy requirement (from oil, gas and coal) of a dollar's worth of output. Later in the paper, Table 4 shows the Btu coefficients for a sample of 20 industries. A more complete table, detailing the energy requirements for 280 different industries, is available on request.

The last part of this chapter uses the Btu coefficients to answer several questions:

1. Was U.S. economic growth between 1963 and 1972 biased in favor of energy use; that is, did industries with above average energy intensity tend to grow faster than industries with below average energy intensity?

2. Was regional economic growth between 1963 and 1972 energy biased?

3. Was the change in the number of small businesses from 1967 to 1972, on an industry by industry basis, related to the energy intensity of the industry?

4. Was the change in the value added by small businesses in each industry related to the energy intensity of the industry?

5. Was the change in the value added by small businesses in each industry within the region related to the energy intensity of the industry?

6. Is the average energy intensity of the region greater than the average energy intensity of the U.S.?

On the basis of 1963, 1967, and 1972 data, the answer to all of these questions was "no." Even if the oil Btu coefficients instead of total Btu coefficients are used, the answers are still "no."
OBSERVATIONS AND RECOMMENDATIONS

Based upon the table of Btu coefficients and the six tests just described, the following observations and recommendations are made:

OBSERVATIONS

1. The region has the same average energy intensity in manufacturing that the nation has.

2. Changes in small business' share of market or changes in the number of small businesses were not a function of energy intensity between 1967 and 1972.

3. There was no tendency for small businesses to expand more rapidly in energy intensive industries (or vice versa).

4. The total energy requirements in dollar terms for each dollar's worth of output were very low. In 1967, for instance, a dollar's worth of output required, directly and indirectly, an average of only 1.4¢ of oil and 0.5¢ of coal.

RECOMMENDATIONS

1. There were no trends between 1967 and 1972 that would justify administrative intervention in the allocation of energy to aid small business.

2. A replication of this study using 1977 data is extremely important. This would indicate whether the quadrupling of oil prices was more injurious to small businesses than it was for industry as a whole.

3. Since in 1967 oil accounted for only 1.4¢ of each dollar of output, a five-fold increase in oil prices would theoretically require a price increase of only 5.6 percent between 1967 and 1977. Since energy is still a small percentage of value added, this suggests that small businesses can compete in the marketplace for the requisite energy. If, however, an administrative allocation scheme is developed, there will be shortages, (by definition--if there were no shortages, there would be no need to allocate). If inputs become unavailable, it is quite possible that suppliers may satisfy their large customers first, leaving small businesses at the end of the queue. Thus allocation schemes, with their attendant shortages, seem more threatening to small businesses than do price increases.
METHODOLOGY

As has been seen, knowledge of the energy intensity of inputs (as well as the energy intensity of the inputs to the inputs) is crucial to the estimation of energy vulnerability. In order to rank U.S. industries in terms of energy intensity (and thus rank them in terms of vulnerability), a series of Btu coefficients has been derived, where the Btu coefficient is the total energy requirement for a dollar's worth of output from a particular industry. Of course to be of use, the energy requirement must include not only the Btus used directly by an industry, but also the Btus used indirectly in producing inputs to that industry. Thus, to determine the total energy requirement for an extra dollar's worth of automobile output, one must not only know the energy required to run the assembly line, but also know how much energy is invested in component products such as steel, tires, paint, glass, etc. These calculations require an intimate knowledge of inter-industry relationships.

Fortunately, the development of input-output techniques has shed light on precisely these interrelationships. Input-output tables begin by tracing where the output of each individual industrial sector goes; then, by implication, it can be seen where all of a particular sector's inputs originate. Suppose, for instance, that the economy is divided into five sectors: agriculture, mining, heavy industry, light industry and services. Assume that the outputs of each industry are distributed as shown in Table 1.

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<td>OUTPUTS FOR FIVE HYPOTHETICAL SECTORS</td>
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<tr>
<td>Heavy</td>
</tr>
<tr>
<td>Light</td>
</tr>
<tr>
<td>Service</td>
</tr>
</tbody>
</table>

Reading across a row will show where the output of any particular industry goes. Thus, $10 worth of agriculture was used by the agricultural industry itself, $5 went to the mining industry, $20 went to heavy industry, $15 went to light industry, $30 went to the service industry and $100 worth of output was sold to consumers directly. By adding all of these together, it can be seen that total agricultural output is $180. Table 1 shows where each sector's output went, as well as the origin of each sector's input. Heavy industry, for instance, used $20 worth of agricultural goods, $70 worth of the mining industry's output, $20 worth of its own output, $20 worth of light industry output, and $20 worth of services to produce its output worth $195. To summarize, then, each row of the matrix shows where output goes and each column shows where inputs came from.
Table 1 can also be converted into a table of coefficients, where each coefficient shows how many cents worth of a particular input is required to produce a dollar's worth of output. Since heavy industry used $20 worth of agricultural output, and its total output value was $195, the input coefficient for agriculture is $20/195 or .1026.

The input coefficients, as a whole, for heavy industry then are shown in Table 2. In a similar fashion, all of Table 1 can be converted into a table of coefficients. This is done in Table 3.

Table 3 reveals much about interindustry relationships, but does not yet address the problem of "wheels within wheels." An extra dollar's worth of output from the heavy industry sector required .3590 worth of extra output from the mining sector. But an extra $.3590 worth of output from the mining sector in turn requires extra output from the heavy industry sector ($.3590 x $.1961; or $.0704) which in turn requires extra mining output, and on and on. Calculating the total effect of an infinite number of steps would seem to be a staggering task; it is, but with computers and a mathematical process called matrix inversion, it is possible. The results of all the appropriate

---

### Table 2
**INPUT COEFFICIENTS FOR HEAVY INDUSTRY**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>.1026</td>
</tr>
<tr>
<td>Mining</td>
<td>.3590</td>
</tr>
<tr>
<td>Heavy Industry</td>
<td>.1026</td>
</tr>
<tr>
<td>Light Industry</td>
<td>.1026</td>
</tr>
<tr>
<td>Services</td>
<td>.1026</td>
</tr>
</tbody>
</table>

---

### Table 3
**INPUT COEFFICIENTS DERIVED FROM TABLE 1**

<table>
<thead>
<tr>
<th></th>
<th>Agri.</th>
<th>Mines</th>
<th>Heavy</th>
<th>Light</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>.0556</td>
<td>.0490</td>
<td>.1026</td>
<td>.0476</td>
<td>.1224</td>
</tr>
<tr>
<td>Mining</td>
<td>.0278</td>
<td>.0196</td>
<td>.3590</td>
<td>.0317</td>
<td>.0408</td>
</tr>
<tr>
<td>Heavy</td>
<td>.0833</td>
<td>.1961</td>
<td>.1026</td>
<td>.2857</td>
<td>.1633</td>
</tr>
<tr>
<td>Light</td>
<td>.0556</td>
<td>.1471</td>
<td>.1026</td>
<td>.0635</td>
<td>.2041</td>
</tr>
<tr>
<td>Services</td>
<td>.0833</td>
<td>.0901</td>
<td>.1026</td>
<td>.0952</td>
<td>.0816</td>
</tr>
</tbody>
</table>

calculations would be a table wherein the direct and indirect requirements are added together to yield the total requirements for an extra dollar's worth of output (not reproduced here).
SOURCE OF INPUT-OUTPUT DATA

Input-output data is collected and collated by the Office of Business Economics. The information is published in three tables: a transactions table (similar to Table 1), a direct requirements table (similar to Table 3) and a total requirements table. A summary, 80 sector model appears regularly in the Survey of Current Business while a more detailed, 365 sector model is published separately as a three volume set. Because of the amount of information required and the considerable computations involved, there is a substantial time lag involved in publication. Publication takes place every four or five years with the latest versions being 1967, 1963 and 1958. By necessity, then, tracing the reliance upon fossil fuels and calculating the appropriate Btu requirements will involve using the 1967 input-output relationships.

BTU COEFFICIENTS

To establish the Btu coefficient, the 365 sector input-output Total Requirements Table was used to determine the direct-plus-indirect coal and petroleum requirements for a dollar's worth of output for each of the several industrial sectors. This information was then supplemented with price and energy content data. Since it was felt that energy vulnerability is tied to reliance upon fossil fuels, the Btu coefficients ignore the energy contributions of hydroelectric and nuclear power and focus solely on coal, natural gas and petroleum. To this end, the total requirements input coefficients for the coal sector and the petroleum/natural gas sector were utilized. For each of the manufacturing sectors studied (comprising 280 sectors), the total input requirement (direct-plus-indirect) of the coal and petroleum/natural gas sectors was recorded. The electric power generating sector was not directly included. It was included indirectly to the extent that electric power generation required the use of fossil fuels. Thus, to the degree that the paints and pigments sector uses electric power either directly or indirectly (i.e., through the purchase of inputs that used electric power somewhere in their production chain), the effect of that electric power use was included in so far as it placed demands on the stock of fossil fuels.

The determination of a particular sector's Btu coefficient involves the following calculations:


2. Assigning a Btu value to a short ton of coal, cubic foot of natural gas, or barrel of oil.

3. Finding the Btu's per dollar when coal, gas, or oil are purchased.

4. Finding the direct-plus-indirect requirements (in dollars) of coal and oil for an extra dollar's worth of output from each of the other sectors.
5. Combining all of the above information into the Btu coefficient.

As an example, the coal Btu coefficient for sector 26.01, newspapers, is calculated. According to the total requirements table .00271 dollars of coal were required directly plus indirectly to produce a dollar's worth of newspaper output. In 1967 the average price for a short ton of coal was $4.84. Therefore a dollar's worth of newspaper output required .00271/4.84 \times 25 \text{ million} = 13,998.

In calculating the oil Btu coefficient, it was assumed that each sector consumed oil and natural gas in the same proportions as they were used nationally. This is a necessary assumption because oil and natural gas are mixed together in the same sector. In 1967 it cost $.16 for a thousand cubic feet of natural gas (wellhead price) yielding a thousand Btus per cubic foot and $2.92 for a barrel of crude oil yielding 5,950,000 Btus. The total value of petroleum/natural gas in 1967 was $15,031 million with $2,899 million due to natural gas and $12,132 million due to petroleum. For every dollar spent on the oil industry, the natural gas Btus would be:

\[
\text{natural gas' share of oil sector output} \times \frac{\text{Btus per cubic foot}}{\text{price per cubic foot}} = \frac{2899}{15031} \times \frac{1,000,000 \text{ Btus}}{.16} = 1,205,425
\]

The contribution of petroleum would be:

\[
\text{petroleum's share of oil sector's output} \times \frac{\text{Btus per barrel}}{\text{price per barrel}} = \frac{12,132}{15,031} \times \frac{5,950,000 \text{ Btus}}{2.92} = 1,644,670
\]

Adding the two together would yield the total Btu's per dollar spent on the oil sector:

\[
1,205,425 + 1,644,670 = 2,850,095.
\]

The oil Btu coefficient, then, multiplies the fraction of a dollar spent on the oil sector by 2,850,095. As an example the newspaper sector spent .00674 per dollar of output on the oil sector. The oil Btu coefficient was:

\[
.00674 \times 2,850,095 = 19,210
\]

Total Btu requirements are derived from the simple addition of the coal and oil Btu coefficients.

RESULTS

In Table 4 the energy coefficients for 20 sample industries are given. The coal and oil columns show the total requirements, in dollars, from the coal and oil sectors for each dollar's worth of value
<table>
<thead>
<tr>
<th>Industry</th>
<th>coal$</th>
<th>oil$</th>
<th>Coal Btu</th>
<th>Oil Btu</th>
<th>Total Btu</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. meat products</td>
<td>0.00245</td>
<td>0.01765</td>
<td>12,655</td>
<td>50,304</td>
<td>62,959</td>
</tr>
<tr>
<td>2. canned fruits and veg.</td>
<td>0.00383</td>
<td>0.01087</td>
<td>19,783</td>
<td>30,981</td>
<td>50,764</td>
</tr>
<tr>
<td>3. frozen fruits and veg.</td>
<td>0.00290</td>
<td>0.01175</td>
<td>14,979</td>
<td>33,489</td>
<td>48,468</td>
</tr>
<tr>
<td>4. prepared feeds for animals</td>
<td>0.00300</td>
<td>0.01761</td>
<td>15,496</td>
<td>50,190</td>
<td>65,686</td>
</tr>
<tr>
<td>5. wet corn milling</td>
<td>0.01311</td>
<td>0.01691</td>
<td>67,717</td>
<td>48,195</td>
<td>115,912</td>
</tr>
<tr>
<td>6. bakery products</td>
<td>0.00149</td>
<td>0.01086</td>
<td>7,696</td>
<td>30,952</td>
<td>38,648</td>
</tr>
<tr>
<td>7. soybean oil mills</td>
<td>0.00302</td>
<td>0.01586</td>
<td>15,599</td>
<td>45,202</td>
<td>60,802</td>
</tr>
<tr>
<td>8. apparel made from purchased materials</td>
<td>0.00261</td>
<td>0.00750</td>
<td>13,481</td>
<td>21,376</td>
<td>34,857</td>
</tr>
<tr>
<td>9. paperboard containers</td>
<td>0.00521</td>
<td>0.01402</td>
<td>32,076</td>
<td>39,958</td>
<td>72,035</td>
</tr>
<tr>
<td>10. fertilizers</td>
<td>0.00580</td>
<td>0.02931</td>
<td>29,959</td>
<td>83,536</td>
<td>113,495</td>
</tr>
<tr>
<td>11. paints and allied products</td>
<td>0.00434</td>
<td>0.03064</td>
<td>22,417</td>
<td>87,327</td>
<td>109,744</td>
</tr>
<tr>
<td>12. cement, hydraulic</td>
<td>0.04123</td>
<td>0.02276</td>
<td>212,965</td>
<td>64,868</td>
<td>277,833</td>
</tr>
<tr>
<td>13. iron and steel foundries</td>
<td>0.00712</td>
<td>0.00844</td>
<td>36,777</td>
<td>24,055</td>
<td>60,832</td>
</tr>
<tr>
<td>14. primary lead</td>
<td>0.00322</td>
<td>0.00788</td>
<td>16,632</td>
<td>22,459</td>
<td>39,091</td>
</tr>
<tr>
<td>15. metal cans</td>
<td>0.01623</td>
<td>0.00984</td>
<td>83,833</td>
<td>28,045</td>
<td>111,878</td>
</tr>
<tr>
<td>16. fabricated structural steel</td>
<td>0.01485</td>
<td>0.00891</td>
<td>76,705</td>
<td>25,109</td>
<td>101,814</td>
</tr>
<tr>
<td>17. fabricated plate work (boiler shops)</td>
<td>0.01179</td>
<td>0.00861</td>
<td>60,899</td>
<td>24,539</td>
<td>85,438</td>
</tr>
<tr>
<td>18. sheet metal work</td>
<td>0.01133</td>
<td>0.01108</td>
<td>58,523</td>
<td>31,579</td>
<td>90,102</td>
</tr>
<tr>
<td>19. farm machinery</td>
<td>0.00635</td>
<td>0.00734</td>
<td>32,800</td>
<td>20,920</td>
<td>53,721</td>
</tr>
<tr>
<td>20. radio and television communication</td>
<td>0.00181</td>
<td>0.00494</td>
<td>9,349</td>
<td>14,079</td>
<td>23,429</td>
</tr>
</tbody>
</table>
added. Coal Btu and Oil Btu take the dollar requirements for coal and 
oil and convert them into Btu requirements. The Total Btu column is 
the summation of Coal Btu and Oil Btu. Total Btu requirements range 
from a low of 20,677 for coffee roasting to a high of 371,630 for lime 
production. The mean, or average, total Btu requirement is 66,189. 
An individual industry's relative energy intensity can be seen by com-
paring its total Btu requirement with the 66,189 average. The envelope 
industry, for instance, might be surprised to discover that its total Btu 
requirement of 117,726 is almost double the average.

EVALUATION OF ENERGY COEFFICIENTS

In evaluating the various energy coefficients, three further con-
siderations should be borne in mind. First, since most dollar coeffi-
cients are less than 2¢ (oil $ mean = 1.4¢ and coal $ mean = 0.5¢), it is 
apparent that in 1967 energy costs accounted for a very small percent-
age of an industry's output value. Thus, if the oil $ coefficient were 
2¢, even a quadrupling of price would require only 8¢ worth of oil. 
This small fraction implies that manufacturing industries were not forced 
into drastic responses by the oil price increases of the 1970s. Indeed 
production processes are very likely to be substantially the same.

Second, even if manufacturing industries were responsive to 
energy price increases, it takes time to change production processes. 
Short run studies are likely to find that the Btu coefficients changed 
little (in relative terms) during the 1970s. Although substantial energy 
price increases may force changes in production techniques over the 
long run, during the 1970s they may have been "locked in."

Third, it should be realized that over time the Btu coefficients 
have declined. Because of inflation, a dollar's worth of output from a 
particular industry represents a smaller physical quantity and a cor-
respondingly smaller energy content. As a consequence, it is best to 
consider the Btu coefficients as indicators of relative energy content of 
various sectors rather than as cardinal numbers.

STABILITY OF BTU COEFFICIENTS

The Btu coefficients can be used to predict into the future only in 
so far as the technical relationships they embody continue to exist. 
Thus the stability of the Btu coefficients is extremely important. Since 
1967 is the latest year for which input-output data exists, one can 
hardly test stability into the 1970s. However, a stability test from 1958 
to 1967, based on a pilot study utilizing the 80 sector model, showed 
remarkable consistency. The correlation between 1958 Btu coefficients 
and 1967 Btu coefficients was .996.

Of course the years from 1958 to 1967 were not marked by energy 
price increases the way the 1970s were. Although the same stability is 
not likely to persist through the 1970s, a fair degree of stability is 
expected due to the factors mentioned earlier: energy represents a 
small percentage of the final price for most products and there has not 
been sufficient time for much in the way of technological change to take 
place.

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USING BTU COEFFICIENTS TO TEST HYPOTHESES

The six questions posed in the introduction were answered via the use of Btu coefficients and correlational procedures. Although the results are all summarized in Table 5, the questions, tests and results are briefly discussed below.

1. Was U.S. economic growth between 1963 and 1972 energy biased; that is, did industries with above average energy intensity tend to grow faster than industries with below average energy intensity?

To answer this question the five and ten year percent change in value added for each industry with its total Btu coefficient was correlated. The correlations, across all 280 manufacturing industries, were not significant. In other words, no correlation exists, so the magnitude of change in economic activity is not related to energy intensity. Energy intensity was neither a stimulus nor a depressant to economic growth.

2. Was regional economic growth between 1963 and 1972 energy biased?

Correlations were calculated between Region VII industries five and ten year value added growth and Btu coefficients. The correlations were not significantly different from zero. These tests established that growth was not energy dependent in Region VII.

3. Was the change in the number of small businesses from 1967 to 1972, on an industry by industry basis, related to the energy intensity of the industry?

This test was conducted for Region VII only and involved correlating the percent change in number of small manufacturers in each industry with the total Btu coefficients. The criterion for small business was the criterion used by the Census of Manufactures, i.e., fewer than 20 employees. Again there was no correlation.

4. Was the change in the value added by small businesses in each industry related to the energy intensity of the industry?

This time the criterion for "small" was fewer than 500 employees. There were two tests conducted: one to see whether or not the change in value added by small business was related to energy use and the other to see whether or not the change in small business' share of market was related to energy use. No significant correlations were found.

5. Was the change in the value added by small businesses in each industry related to the energy intensity of the industry in Region VII?
Because of missing data resulting from the Census of Manufactures protection of confidentiality, this question was not directly testable. Changes in market share could not be tested at all. Only the change in value added by small business was tested by assuming that small businesses had the same share of market regionally that they did nationally. Using this assumption, there was no significant correlation between changes in value added by small business and the total Btu coefficient.

6. Is the average energy intensity of Region VII greater than the average energy intensity of the U.S.?

Had there been any real differences, they would have been important considerations in regional energy policy. However, the average energy intensity in the region is virtually identical to that of the U.S. The average used in this analysis is a weighted average, i.e., each industry's total Btu coefficient was weighted by the industry's value added. That way industries that contribute more to Gross National Product are given a larger weight.

The hypotheses tested certainly do not exhaust all the possibilities for Btu coefficients, rather they represent what were considered to be the most important questions.

RECOMMENDATIONS

As has been seen, none of the correlations were significant. As a result no trends were evident from 1967 to 1972 that would support administrative intervention on behalf of small businesses. Admittedly, these tests were made prior to the energy crisis. Still, the relationships tested are nevertheless extremely important. It is recommended that these correlations be conducted again when 1977 data becomes available. The 1977 Census of Manufactures is due to be published in the fall of 1979 and will provide the necessary data to assess the impact of higher energy prices. Until such studies support the thesis that small businesses are disadvantaged relative to industry in general, it is recommended that no energy allocation schemes be undertaken.

Because energy represented such a small percentage of production costs in 1967, even the rapid price increases of the 1970s might necessitate only small increases in product prices. As was pointed out earlier, the mean oil Btu coefficient was 1.4¢. If oil prices underwent a fivefold increase, this would become 7¢. In other words, a 6 percent increase in product price would cover the extra energy cost.

Thus, product price increases theoretically necessitated by rising energy prices are, on the average, small. Small businesses, should be capable of making such price increases while still competing successfully within a market situation. Government energy allocation schemes, on the other hand, are potentially much more dangerous. Even allocation schemes that appear favorable to small businesses may prove damaging. This is because allocation schemes would only deal with direct energy
inputs. The "indirect" energy uses, via inputs, are also very important. If a key supplier (big business) has to curtail production because of an energy allocation program, he may choose to allocate his limited production to his big buyers. Thus small businesses will find themselves at the end of a supplier's queue. Then they will have to curtail production even though they have "direct use" energy allocated directly to them. Because input relationships are so complex, these effects cannot be adequately foreseen by any allocation scheme.

If, by some chance, an allocation scheme is adopted, it should be only after an assessment of its costs and benefits. The costs to be incurred are not just the added government salaries; enforcement problems, added paperwork, delays, unforeseen shortages and the failure to receive key inputs are very real costs to society.
Speedy and efficient transportation service is a widely recognized need of small business, but very little is known of the special nature of this requirement. Meager sources of information are available and all are related to small shipments. Although not all small shipments are generated by small business, the majority are, excluding perhaps those handled by the U.S. Postal Service. Thus, a close relationship between small shipments and small business may be assumed for most transportation modes. Even with this assumption, the definition of "small shipments" causes as much disagreement as does the definition of "small business". The perception of small shipments varies widely according to the needs of individual users and the situation in which they are involved. For example, a manufacturer accustomed to shipping much of his freight as truckloads may consider anything less than a truckload as a small shipment, while a small retailer, who usually uses United Parcel Service (UPS), would consider freight of 1,000 pounds to be a large shipment. These conceptual differences and a general lack of data for both small business and small shipments make a national study of this topic a difficult task and a regional study even more subjective and risky. Current information on transportation comes from a variety of sources, most of which lack coordination; this makes reasonable comparison almost impossible. This problem has never been more prominent than now at the height of current controversies over proposed trucking deregulation and its potential impact on small business, particularly those in small communities.

In the absence of any precise definition, it is assumed in this study that small shipments are essentially small shippers' loads. The assumption is reasonable in the case of small shippers' problem analysis because, by and large, it is the size of shipments which imposes transportation problems and not the size of shippers. Single shipments of less than 10,000 pounds are considered as small shipments in this study, a definition widely used by the Interstate Commerce Commission (ICC). However, a further breakdown of small shipments has been used in several places to identify issues and problems of very small package shipments.

An extensive search of published statistical reports reveals that little information is available as to how small businesses meet their transportation needs and at what cost. This necessitates a sample survey of small business in the region with a view to obtaining some basic information on the subject. The survey includes a sample of small businesses selected from various communities in all four states of the region.

The survey results show that the transportation needs of small businesses in the region are met by three modes: commercial trucks,
private trucks and UPS. Although a vast majority of small business in the region depend heavily on trucks, commercial and/or private, most of the businesses irrespective of size or trade also rely on UPS as a secondary source of transportation service. Many, however, depend almost exclusively on UPS. It is important to note that the survey does not indicate any correlation between size or type of business and mode of transportation.

Although the majority of businessmen in the region feel that their business is adequately serviced by the transportation industry, a fourth of them appear unhappy with the service. More businesses in the retail and wholesale trade, and also those in the smaller size group, are dissatisfied with the service they receive than those in other categories of business. Also, more manufacturers feel cost of transportation is reasonable than do retailers and wholesalers. Manufacturers are involved more heavily in shipping out of the region than shipping into the region while retailers and wholesalers are just the opposite. This appears to indicate that there are differences in service standards depending on the direction of transportation. There are, however, other factors such as the fact that manufacturers are probably in a better position to pass on transportation costs to their customers than are those in retail and wholesale businesses.

Over a quarter of the businesses do not have any opinion on issues related to deregulation, although 55 percent of them feel that existing regulations are necessary to ensure service to small businesses. An important feature to be noted, however, is that a larger proportion of businesses which operates private truck service support deregulation than do users of common carriers. Almost a third of these businesses also feel deregulation is likely to reduce cost of transportation. Private truck business operations are, perhaps, currently bothered by the problem of empty backhaul, an issue which regulation frequently imposes on those involved in transportation service.

This study brings out several specific issues which need to be addressed in the future. First, some actions are badly needed to improve information on small businesses in the region. Existing sources of data on use of transportation are virtually nonexistent. Secondly, there is a great need for dissemination of information to small businesses with respect to their rights for adequate transportation service. This is essentially an educational process and small businesses in the region should have an opportunity to improve the knowledge of their rights and the availability of service for efficient business operations. Business associations and/or the Small Business Administration (SBA) should consider their role in helping small business with these problems.

All small businesses do not have identical problems. On the contrary, the issues vary widely depending on the type and location of such businesses. These issues and characteristics need to be further explored through more detailed research if any successful transportation policy is to evolve with a view to helping small business in the region. With reference to proposed deregulation, the role of private trucking needs to be investigated in detail. Such operations could potentially
enter into the transportation industry by offering service to small business, under deregulation, and thus alleviating problems in certain areas within the region.

METHODOLOGY

ECONOMIC DATA

Little information is available with respect to cost and availability of transportation needed to conduct small business operations. The 1972 Census of Transportation includes in its commodity transportation survey section summary data on traffic patterns of small manufacturing plants. The survey, which appears to be the only source of regional information on small business transportation needs includes a variety of useful information such as amount spent, products transported and spatial characteristics. The regional disaggregation is based on Department of Transportation (DOT) regions and is not suitable for drawing inference on the four states in Region VII. Several area reports of the Census include parts of the region, in particular, the State of Missouri, Production Area 27 (DOT definition) which includes Kansas City, St. Joseph and Topeka metropolitan areas, and Production Area 18 which includes the St. Louis metropolitan area. However, these reports are based on all business activities including both large and small firms, and it is not possible to disaggregate by size of shippers. One important gap in census data is that it is based on freight shipped and does not include shipments received in the region. It may be possible to generate some such information indirectly through regional aggregation but little can be done to determine the size of firms receiving these shipments.

Much of the available information is related to small shipments rather than freight originated or received by small businesses. The definition often varies with respect to what is perceived as small shipments and often less than a truckload (LTL) or carloads (LTC) is considered to be a small shipment. Such a definition is least useful to analyze problems of small businesses since most of the loads generated by them are in very small parcels. The ICC has produced several reports on small shipments, although much of this information has not been adopted officially by the Commission. The original ICC study (ICC, 1967) defined a small shipment as a parcel of less than 1,000 pounds in weight. A comprehensive statistical report on small shipments may be found in a recent ICC publication (ICC, 1978), but the data contained therein include only national aggregates and therefore no regional picture can be drawn from this report.

In addition to these periodic statistical reports, occasional publications from a variety of sources analyze issues and problems of small freight shipments. A recent report prepared for the United States Congress by the Office of the Comptroller General is one such report which includes most pertinent information and analyzes issues involving small shippers' needs (General Accounting Office, 1967). Lack of information is apparent even in this report which concludes "the Commission (ICC) should accumulate accurate data on the problem" of small shippers. The acute lack of any regional information forced the author
to undertake a sample survey to identify regional characteristics. Findings of this survey will be discussed in the next section.

SURVEY OF SMALL BUSINESS

Because of a critical lack of relevant information, a regional mail survey of small business has been carried out. Although the survey was severely constrained by time and available resources, great care was taken through a two-stage sampling procedure. In the first stage, a number of Chambers of Commerce were selected which in turn provided a list of small businesses from among their membership. Then, in the second stage, a random sample of firms was selected from these lists of companies. Questionnaires were mailed to the selected small businesses throughout the region.

In designing the questionnaire, every effort was made to minimize the response for participants. This is considered to be an important determinant of response rate from small businessmen who generally are extremely busy with their day to day business operations. Consequently, most of the questions asked are qualitative in nature and intended primarily to identify the problem areas and to expose current feelings among small businessmen with respect to availability and cost of transportation service.

Seventy-nine Chambers of Commerce were contacted to participate in the survey and of those 35 responded positively. These chambers are distributed throughout the four state region: 10 in Iowa, 11 in Kansas, 7 in Missouri and 7 in Nebraska. A sample of 280 firms were selected from these 35 Chambers, and of these firms 130 responded. The 130 small businesses providing the information are well scattered around the region: 44 from Iowa, 32 from Kansas, 27 from Missouri and another 27 from Nebraska. It is interesting to note that the 44 percent response rate for the Chambers is somewhat lower than the 46 percent response rate of the small businesses. However, in either case response rate is more than satisfactory for a survey of this type.

Out of the 130 responding businesses, 2 could not be classified because of lack of information and therefore 128 firms are included in the final analysis. Of these firms, 51 are involved in manufacturing, 42 in retail and/or wholesale trade, and the remaining 35 firms are involved in a variety of businesses including agriculture, construction, financial services and multiple activities. With respect to the size distribution of the sample firms, 16 have less than 5 employees (including none), 32 employ 5 to 19 persons, 47 employ 20 to 99 persons and the remaining 33 are relatively large firms employing 100 to 500 people. Thus, the sample, although small in size, embraces a cross section of small businesses in the region.

SURVEY RESULTS

The survey sought information in three specific areas: first, adequacy of available service; second, cost of the service; and third, attitude toward regulation of the freight transportation industry. In
addition, some basic information such as type and size of business and reliance on various transportation modes was obtained.

The participants were asked to rank each mode of transportation they depend upon indicating the order of importance to their business. Table 1 includes a summary of information by size of firm and type of mode most extensively used.

Table 1
DISTRIBUTION OF FIRMS BY SIZE AND TRANSPORTATION MODE

<table>
<thead>
<tr>
<th>Size of Firm</th>
<th>Commercial Truck</th>
<th>Private Truck</th>
<th>UPS</th>
<th>All Other Modes</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 4</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>5 - 19</td>
<td>12</td>
<td>13</td>
<td>4</td>
<td>3</td>
<td>32</td>
</tr>
<tr>
<td>20 - 99</td>
<td>24</td>
<td>12</td>
<td>5</td>
<td>6</td>
<td>47</td>
</tr>
<tr>
<td>100 - 500</td>
<td>12</td>
<td>10</td>
<td>4</td>
<td>7</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>39</td>
<td>16</td>
<td>18</td>
<td>128</td>
</tr>
</tbody>
</table>

Analysis of the information in Table 1 does not reveal any significant correlation between size of firm and the modes of transportation used by these businesses. A similar analysis of type of business and mode of transportation, which is summarized on Table 2, also does not indicate any significant correlation. It is important to note the significance of the UPS even to some large firms employing over 100 people.

The businesses surveyed placed greatest importance on commercial motor carriers followed by private trucks (own or customers) with UPS taking the third place. Out of 128 businesses surveyed, 43 percent rank commercial trucks to be the most important, 31 percent rate private trucks first, and another 12 percent indicate UPS is most frequently used in their business. The remaining 14 percent of firms in the survey rely heavily on a variety of other sources of transportation service including air cargo, freight forwarders, railroads, water carriers, U.S. Postal Service parcel post and bus express. Thus, as far as common carriers are concerned, motor carriers and UPS are the major modes upon which small businesses in the region place greatest demand. These characteristics of small businesses in Region VII are useful in analyzing and interpreting primary data. To examine issues related to availability of transportation service to small businesses, respondents were asked to rate the following statement on a five-point scale, from strongly agree to strongly disagree.

"Existing transportation service for freight shipment is adequate for small businesses like ours."

The results have been summarized only into three categories—agree, disagree, and no opinion. The results obtained from the survey
Table 2
DISTRIBUTION OF FIRMS BY TYPE OF BUSINESS AND TRANSPORTATION MODE

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Commercial Truck</th>
<th>Private Truck</th>
<th>UPS</th>
<th>All Other Modes</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>24</td>
<td>10</td>
<td>6</td>
<td>11</td>
<td>51</td>
</tr>
<tr>
<td>Retail &amp; Wholesale</td>
<td>17</td>
<td>13</td>
<td>7</td>
<td>5</td>
<td>42</td>
</tr>
<tr>
<td>All other Businesses</td>
<td>14</td>
<td>16</td>
<td>3</td>
<td>2</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>39</td>
<td>16</td>
<td>18</td>
<td>128</td>
</tr>
</tbody>
</table>

have been summarized according to three different classifications: by primary mode of transportation used, by type of business and by size of business. The following three tables (3a, 3b and 3c) show the results.

From Table 3a, it appears that almost two-thirds (65%) of the businesses surveyed think the existing service adequate while a quarter of these firms feel the available service to be inadequate. The remaining 10 percent are uncertain regarding the situation. A more detailed analysis reveals that 73 percent of the respondents relying heavily on commercial trucks think the existing service is adequate for their business while only 59 percent of those relying on private trucks, 69 percent of those depending on UPS and 56 percent of those primarily using other modes concur with this view. An interesting feature to be noted is that firms using commercial trucks have the highest positive response while those using private trucks have the lowest positive response. This significant difference may be due to many small businesses using private trucks because of dissatisfaction with services provided by the common carriers.

Table 3b reveals that the overwhelming majority of manufacturers (79%) feel the available service is adequate while only 57 percent of businesses in retail and wholesale trade and 54 percent of all other businesses hold a similar view. The differences between the opinions of manufacturers and those of other trade groups are statistically significant. The manufacturers are generally involved in shipping unlike others in retailing, wholesaling and services who are chiefly involved in receiving. Thus, the significant differences in opinion may indicate differences in service standards between shippers and receivers. Organizations are likely to have less interaction with a shipper on outgoing freight than freight they receive. Damage claims, lost shipments, delayed deliveries, etc. are problems for the receiver, not the shipper.
### Table 3a
CLASSIFICATION BY MODE MOST FREQUENTLY USED

<table>
<thead>
<tr>
<th>Mode of Transportation Most Frequently Used</th>
<th>Agree</th>
<th>Disagree</th>
<th>No Opinion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Truck</td>
<td>40</td>
<td>12</td>
<td>3</td>
<td>55</td>
</tr>
<tr>
<td>Private Truck</td>
<td>22</td>
<td>13</td>
<td>4</td>
<td>39</td>
</tr>
<tr>
<td>UPS</td>
<td>11</td>
<td>2</td>
<td>3</td>
<td>16</td>
</tr>
<tr>
<td>All Other Modes</td>
<td>10</td>
<td>5</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>32</td>
<td>13</td>
<td>128</td>
</tr>
</tbody>
</table>

### Table 3b
CLASSIFICATION BY TYPE OF BUSINESS

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Agree</th>
<th>Disagree</th>
<th>No Opinion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>40</td>
<td>6</td>
<td>5</td>
<td>51</td>
</tr>
<tr>
<td>Retail and Wholesale</td>
<td>24</td>
<td>13</td>
<td>5</td>
<td>42</td>
</tr>
<tr>
<td>All Others</td>
<td>19</td>
<td>13</td>
<td>3</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>32</td>
<td>13</td>
<td>128</td>
</tr>
</tbody>
</table>

### Table 3c
CLASSIFICATION BY SIZE OF BUSINESS

<table>
<thead>
<tr>
<th>Size (number of employees)</th>
<th>Agree</th>
<th>Disagree</th>
<th>No Opinion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 4</td>
<td>13</td>
<td>3</td>
<td>0</td>
<td>16</td>
</tr>
<tr>
<td>5 - 19</td>
<td>26</td>
<td>4</td>
<td>2</td>
<td>32</td>
</tr>
<tr>
<td>20 - 99</td>
<td>25</td>
<td>15</td>
<td>7</td>
<td>47</td>
</tr>
<tr>
<td>100 - 500</td>
<td>19</td>
<td>10</td>
<td>4</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>32</td>
<td>13</td>
<td>128</td>
</tr>
</tbody>
</table>
Data in Table 3c clearly indicates that more of the very small businesses are satisfied with existing facilities than relatively larger firms. Over four-fifths (81%) of the businesses employing less than 20 people agree that the existing service is adequate while only 55 percent of the larger businesses with 20 or more employees appear to hold a similar opinion. This significant difference may be somewhat related to expectations and also to the nature of business operations. Very small companies are perhaps less demanding and make the most of what is available and they may also operate under less critical planning horizons.

To identify some reactions concerning the cost of service for small businesses in Region VII, the following statement was asked. Respondents recorded their opinions on a five-point scale as before.

"Small businesses get value for their money from the freight transportation industry."

The statistical data obtained from this question has been summarized in the following three tables, Tables 4a, 4b and 4c.

From Table 4a it can be seen that 53 percent of the respondents feel that they are getting "value for money" from their freight service, but 30 percent disagreed, meaning they are paying more than they feel the service is worth. It is interesting to note that a considerable number of businessmen (16%) do not express any definite view with respect to cost of service. This situation may arise because many small businesses never have any yardstick for comparisons and accept the service and cost as is without any question. Examining the data related to various modes of transportation, businesses using UPS as the primary source of service give the lowest positive score (44%) agreeing that they get "value for money" which compares with the highest score of 67 percent from the group of businesses chiefly dependent on modes other than trucks and UPS. Although the difference is not statistically significant, it can be interpreted as an indication because of the price structure of various modes with UPS on the high end and railroads and water carriers on the low end of the scale.

Data included in Table 4b are classified according to the type of business of respondents. It appears that 63 percent of those engaged in the manufacturing business are satisfied with the cost of transportation while only 45 percent of those engaged in the retail or wholesale trade hold a similar opinion. This is a statistically significant difference between the two groups. Those engaged in other types of business also appear to be less satisfied with cost of service as only 49 percent agreed that they get value for their money. Further examination shows that excluding the construction contractors (who generally use private trucks), most other businesses show even a greater dissatisfaction with respect to cost of service. This difference between manufacturers and nonmanufacturers perhaps emerges because manufacturers are in a better position to pass on costs to their customers than are nonmanufacturers. Often manufacturers do not have to pay the shipping costs for their products.

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224
### Table 4a
CLASSIFICATION BY TRANSPORTATION MODE MOST FREQUENTLY USED

<table>
<thead>
<tr>
<th>Transportation Mode</th>
<th>Agree</th>
<th>Disagree</th>
<th>No Opinion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Truck</td>
<td>28</td>
<td>16</td>
<td>11</td>
<td>55</td>
</tr>
<tr>
<td>Private truck</td>
<td>21</td>
<td>13</td>
<td>5</td>
<td>39</td>
</tr>
<tr>
<td>UPS</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>All Other Modes</td>
<td>12</td>
<td>5</td>
<td>1</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>68</td>
<td>39</td>
<td>21</td>
<td>128</td>
</tr>
</tbody>
</table>

### Table 4b
CLASSIFICATION BY TYPE OF BUSINESS

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Agree</th>
<th>Disagree</th>
<th>No Opinion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>32</td>
<td>13</td>
<td>6</td>
<td>51</td>
</tr>
<tr>
<td>Retail and Wholesale</td>
<td>19</td>
<td>15</td>
<td>8</td>
<td>42</td>
</tr>
<tr>
<td>All Others</td>
<td>17</td>
<td>11</td>
<td>7</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>68</td>
<td>39</td>
<td>21</td>
<td>128</td>
</tr>
</tbody>
</table>

### Table 4c
CLASSIFICATION BY SIZE OF BUSINESS

<table>
<thead>
<tr>
<th>Size (number of employees)</th>
<th>Agree</th>
<th>Disagree</th>
<th>No Opinion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 4</td>
<td>7</td>
<td>7</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>5 - 19</td>
<td>20</td>
<td>7</td>
<td>5</td>
<td>32</td>
</tr>
<tr>
<td>20 - 99</td>
<td>23</td>
<td>15</td>
<td>9</td>
<td>47</td>
</tr>
<tr>
<td>100 - 500</td>
<td>18</td>
<td>10</td>
<td>5</td>
<td>33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>68</td>
<td>39</td>
<td>21</td>
<td>128</td>
</tr>
</tbody>
</table>
Table 4c, which includes information according to size of operation, does not reveal any significant differences of opinion between businesses in various size categories. Although a relatively higher proportion of firms (62%) employing 5 to 19 persons indicate satisfaction with current costs, such evidence is not conclusive from a statistical viewpoint.

The final area of the survey concerns regulations, and each participant was given two questions with which to agree or disagree as before. The first of the two questions is more general in nature and the second is more specific with respect to the likely impact of trucking deregulation on the cost of transportation. These questions are:

"Current regulation of the transportation industry is necessary to ensure service to small business like ours," and

"Deregulation of trucking will result in a cheaper service for small business."

The results indicate no evidence as to differences in opinion because of the size or type of business in which the respondents are engaged, and, therefore, the basic data are not included in the report. The mode of transportation, however, plays a vital role and important conclusions can be drawn from this information. Such information is summarized in Tables 5 and 6 for the first and second questions respectively.

The important feature is the fact that over a quarter (26%) of small businesses surveyed have no opinion on regulatory aspects. This shows that many small businesses in the region are either not informed on this important issue which is likely to affect their day-to-day business operations or the topic is so complex that many simply have resigned themselves to uncertainties ahead.

Information in the two tables is essentially complimentary because the two questions are somewhat related. From Table 5, a majority of businesses (55%) which primarily depend on commercial trucking think current regulation of transportation is necessary while only 31 percent of those relying heavily on private trucks hold a similar viewpoint. This difference in opinion is statistically significant. Among other groups, 44 percent of those depending on UPS and half of those businesses using various other modes feel the regulations are necessary. An important feature to note here is that all primary users of UPS favor the regulations.

Examining the data in Table 6, a reverse relationship with information in Table 5 may be found. More businesses relying on private trucks (33%) feel that trucking deregulation will result in lower costs to small businesses than do businesses in any other category. Only 16 percent of businessmen depending on commercial trucks hold a similar view, while a majority (55%) disagree with the statement implying deregulation will not result in a lower cost. This difference between the groups of businesses relying on commercial and private trucks is significant. Only one respondent relying on UPS agrees with the
statement that deregulation may reduce costs, the remainder of the firms either disagree or have no opinion. A majority (56%) of those depending on modes other than trucks and UPS do not think trucking deregulation will result in any reduction in costs of transportation, while 28 percent agreed that it may reduce costs.

Table 5
RESPONSES TO: CURRENT REGULATION IS NECESSARY

<table>
<thead>
<tr>
<th>Type of primary mode used</th>
<th>Agree</th>
<th>Disagree</th>
<th>No Opinion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial truck</td>
<td>30</td>
<td>15</td>
<td>10</td>
<td>55</td>
</tr>
<tr>
<td>Private truck</td>
<td>12</td>
<td>16</td>
<td>11</td>
<td>39</td>
</tr>
<tr>
<td>UPS</td>
<td>7</td>
<td>0</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>All other modes</td>
<td>9</td>
<td>6</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>58</td>
<td>37</td>
<td>33</td>
<td>128</td>
</tr>
</tbody>
</table>

Table 6
RESPONSES TO: TRUCKING DEREGULATION WILL RESULT IN CHEAPER SERVICE

<table>
<thead>
<tr>
<th>Type of primary mode used</th>
<th>Agree</th>
<th>Disagree</th>
<th>No Opinion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial truck</td>
<td>9</td>
<td>30</td>
<td>16</td>
<td>55</td>
</tr>
<tr>
<td>Private truck</td>
<td>13</td>
<td>10</td>
<td>16</td>
<td>39</td>
</tr>
<tr>
<td>UPS</td>
<td>1</td>
<td>7</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>All other modes</td>
<td>5</td>
<td>10</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>57</td>
<td>33</td>
<td>128</td>
</tr>
</tbody>
</table>

Clearly, those firms relying heavily on UPS do not support the idea of deregulation and a similar conclusion may be drawn for a majority of those depending on commercial trucks, although a considerable disagreement among them prevails. Some of these businesses, however, think deregulation may even reduce the cost of transportation. The most important difference can be noticed with respect to those currently using private trucks as their primary mode of transportation. A relatively larger number of these businesses feel regulation not only unnecessary but that deregulation may also reduce the cost of transportation in the region. This view arises, perhaps, because many of these businesses are currently restricted from expanding their service. For example, they cannot pick up freight commercially even though they
may be traveling back empty. These are firms who are likely to get involved in more expanded transportation service if entry control regulations are lifted.

TRANSPORTATION ISSUES AND CHARACTERISTICS

The sample survey of small businesses in the region provides some unique information. The study, however, cannot be complete without proper examination of specific characteristics such as demand, supply and other relevant features such as regulation and energy impact. This section, therefore, examines some of these features relating to small shipments at the regional level and draws comparison with appropriate national measures. The information available is often very limited and what is available cannot be related to Region VII. From area reports of the Census of Transportation, data related to certain specific areas within the region are available. Information obtained from these special reports combined with national statistics does enable certain comparisons to be made and conclusions can be drawn with respect to regional characteristics.

DEMAND ANALYSIS

It is appropriate, at the outset, to examine the aggregate level of expenditure on small shipments because this provides a direct measure of the level of demand that small business places upon the transportation industry. The recent estimate of intercity shipments by the ICC shows that during 1975 total expenditure on small shipments was $11 billion which included the moving of 100 million tons of goods made up of almost 1.8 billion parcels (ICC, 1978). In the absence of any precise regional data, aggregate regional demand is estimated from the national data using the ratio of regional to national small business employment. Factoring by this ratio, a regional estimate of total expenditure on intercity small shipments appears to be $660 million which includes moving an estimated 6 million tons of goods made up of an estimated 108 million parcels. This means the average weight and cost per shipment were 113 pounds and $6.20 respectively.

Complete information on the composition of small shipments for Region VII is unavailable. The state with the largest number of business organizations is Missouri. During 1972, only a little over 12 percent or less than 4 million tons of total tonnage shipped fell into the category of small shipments defined as less than 10,000 tons a piece (U.S. Department of Commerce, 1974). A further breakdown indicates that small parcels weighing less than 1,000 pounds represent to only 1 percent of the total tonnage in the state. Such findings should represent the transportation needs of small business since they generally ship large numbers of parcels which are relatively light in weight.

The most important aspect of demand analysis for small business is the diversity of shippers’ needs depending on size and nature of a business and its location. For example, shipments from small manufacturing plants are generally less than a truckload, but only 5.6 percent of these shipments are in packages less than 1,000 pounds (U.S. Department of Commerce, 1974). Small shipments weighing less than
1,000 pounds were only 0.5 percent of total tonnage in Iowa, whereas comparable percentages for St. Louis and Kansas City, St. Joseph and Topeka standard metropolitan statistical areas (SMSA) were only 0.9 percent and 0.4 percent respectively during 1972. Small shipments defined as parcels less than 10,000 pounds accounted for 4.9 percent of tonnage in Iowa, 12.3 percent in the state of Missouri, 16.2 percent in St. Louis SMSA and 4.1 percent in the combined metropolitan area of Kansas City, St. Joseph and Topeka. While these figures are based on manufactured and processed goods only, they expose relative magnitudes of size and mix of small shipments in different parts of the region. Little information is available on small business other than manufacturing but one could postulate that most shipments originated by mining, construction and to a large extent by wholesale business would be in heavier parcels while retail, finance and service related businesses would ship in smaller parcels. Thus, the former group of businesses would place greater demand on trucks while the latter group would depend more on UPS and other modes such as the U.S. Postal Service, air freight and bus express. Unfortunately, neither data from published sources nor from the survey permit such a disaggregated analysis.

The foregoing analysis provides some measures of exports from Region VII; however, little is known about the characteristics of the freight imported to the region. From the Census of Transportation regional data, it is estimated that during 1972 approximately 70 million tons of goods were transported into the region. Much of this tonnage (42%) was brought in by rail, with commercial and private trucks hauling 32 percent and 21 percent respectively. The water carriers appear to have a reasonable market share of 4 percent leaving only 1 percent for various other modes. This information, although providing some understanding of the total magnitude of import freight transportation demand, tells nothing about the size of the importing organizations. This is, perhaps, the biggest gap in most transportation data base and studies alike.

The composition of small shipments has been changing, indicating perhaps a change in type of service demanded by small businesses. The average size of small shipments has increased over the years. The ICC estimates show that average weight per LTL shipment on class I and class II motor carriers has increased from 561 pounds in 1965 to 787 pounds in 1975 (ICC, 1978). UPS had an average parcel weight of 5.1 pounds in 1965 but by 1975 this had increased to 11.6 pounds. Freight forwarders' loads followed the same growth path from an average of 496 pounds in 1965 to 1,067 pounds in 1975. This trend towards increasing size of parcels is perhaps due to several interdependent factors such as improved marketing and distribution management and cheaper rates for larger parcels. Although these figures are based on national data, a similar change is expected to occur in Region VII over the years for both inbound and outbound traffic.

SUPPLY ANALYSIS

One of the major objectives of the ICC and its regulatory process is to ensure availability of reasonably priced adequate transportation
service for small businesses, both in urban and rural areas. The dilemma of hauling small shipments, however, has continued to be a chronic problem for all parties concerned. The railroads no longer service small shipments thereby leaving the trucking industry and regulatory agencies to face the battle of providing adequate service at a reasonable price. They do this with some embarrassment and apathy because the high operating cost of small shipment transportation often discourages the industry. For example, in 1975 several rate bureaus claimed that small shipment costs would exceed revenues by 66 percent for minimum charge shipments, 36 percent for shipments under 500 pounds and 9 percent on shipments of 500 to 9,000 pounds (General Accounting Office, 1967).

One issue often debated is the actual handling cost incurred by truckers to transport small shipments. Small shipments require costly multiple handling of freight transported from the shipper's dock in one city to the receiver's dock in another. There is, however, no reliable estimate of handling costs available. The ICC efforts to measure such costs has been strongly criticized by shippers on grounds of validity of the procedure used. Lack of sufficient through rates and numerous service restrictions in tariffs are also found to be contributing factors to the high cost of handling small shipments (General Accounting Office, 1976).

In Region VII, small businesses are primarily served by three modes of transportation. Commercial trucks lead the way as the major provider of transportation for almost 45 percent of the businesses surveyed while serving another 33 percent as a secondary mode. Private trucks appear to be very popular in the region, ranking second only to commercial trucks and serving 33 percent of the firms as the primary and another 23 percent as a secondary mode. The third most important service is offered by UPS which serves 12 percent of the businesses as a primary mode but another 30 percent of the firms utilize the service as a secondary mode of transportation. The railroad serves only 7 percent as the primary and another 4 percent as a secondary means of transportation. All other modes together service only 3 percent of the region's business, although another 9 percent of them use these modes as a secondary source. In sum, it is the motor carriers, private or common, and UPS who provide the backbone of transportation for small business in Region VII.

COST OF SERVICE

A large part of the transportation industry is regulated under the legal concept of "common carriers" and the industry is required by law to serve small businesses at a "just and fair" price. Still, tremendous variation does exist both in price and quality of service for small shipments (General Accounting Office, 1976). In spite of ICC's regulatory activities, including cross subsidization of rates and enforcement of industry obligations to serve small businesses both in large urban and small rural communities, a considerable degree of dissatisfaction appears to continue among both shippers and truckers. To understand some of the issues and problems of small shipments, an analysis of cost and size of shipments would be most appropriate at this point.
Cost of small shipments on trucks is relatively high. In the midwestern ICC motor carrier region it has been noted that cost per ton for truckload traffic in 1974 was $16 while for LTL shipments it was $65, over four times greater. Rapid escalation of the cost of small shipments during recent years has been a contributing factor to this differential. For example, from January, 1971, through January, 1976, one rate bureau increased territorial rates for LTL traffic under 500 pounds by 72 percent while truckload rates increased only 31 percent (General Accounting Office, 1976). In addition, service problems are increasing with fewer through routes forcing interlining and with increasing service restrictions defined in tariffs. For example, published tariffs may show a given rate only applicable to shipments over a certain imposed weight limit or may be applicable only between specific locations. Restrictions on through routes is also a problem for shippers with widely scattered plants as they are located in different commercial zones with authorized service by different truckers. Since common carriers are authorized to service only designated areas, interlining of freight often becomes a costly necessity. Expansion of commercial zones during 1977 appears to have had some positive impact upon small shipments as well as truckload freights (Allen, 1978).

DEREGULATION AND THE FUTURE

There has been much debate by the nation's lawmakers and involved industries on the current wave of deregulation of transportation. But these controversial arguments appear to have had only a minimal impression on small business in Region VII. Over a third of those firms included in the survey have no opinion concerning this issue. This finding is consistent with an earlier study of small manufacturers in the states of Maryland, Virginia and West Virginia (Haynes, 1979). The outcome is not surprising because many small businesses, particularly those in the smaller groups, have neither the time nor the interest to understand such an intricate issue.

Issues involving trucking deregulation are perhaps the most important to small business, since, as has already been seen, it is their most important mode of transportation. Although over a third of the businesses gave no opinion, a majority of those with definite views thought trucking deregulation will have a negative impact on their business. Many small businesses (22%) in the region, however, think deregulation will have a positive impact to the extent it may reduce the cost of transportation for small businesses. It is, therefore, quite clear that small businesses are divided, like much of the nation, about potential impact of trucking deregulation.

The structure of the transportation industry is likely to change in the future as some major changes in regulations, if not complete deregulation, are made. Clearly the future availability of transportation service to small businesses in the region will be the direct result of future national transportation policy. However, what the future policy will be is a matter of speculation. Therefore, alternative scenarios must be considered, one under a regulatory framework with the likely relaxation of some existing restrictions, and the other under complete deregulation of transportation industry.
Under a regulatory framework, the ICC will continue its effort to ensure the effectiveness of its mandate of providing "adequate" service to small businesses at a "fair and just" price. However, small shipments, because of the special nature of service and the inevitable multiple handling, will continue to be a high cost operation for the transportation industry. Therefore, in the absence of any major innovation in the area of freight handling and operation, the common carriers at best will maintain the current level of service. Some regulatory reform directed toward more through routes and encouraging more UPS type specialized carriers for small parcels may, however, improve service to small businesses in the region.

The impact of deregulation of transportation and in particular the trucking industry is more difficult to assess. The arguments for and against are often more emotional than rational. Small businesses are caught in the middle of these arguments and many are unable to form any objective opinion. One positive aspect of deregulation can be seen in removal of restrictions on through routes. In this case UPS could expand and provide better service to small businesses. Relaxation of entry control may encourage more transportation companies to provide specialized service for small business as UPS is doing. Some small transportation companies may specialize in serving rural areas in collaboration with major intercity carriers, thus improving service for small businesses in rural areas. Although it is too early to evaluate, and complete data are not available, similar changes toward specialization are taking place in airline passenger carrier operations. While the larger carriers find it is unprofitable to service such rural areas, new small airlines are being started. Some indications of similar events taking place are indirectly apparent even in the sample survey, as many businesses with private truck operations feel they are currently restricted and perhaps would like to expand their service.

Deregulation will reduce the current requirements for paperwork which are often complained about by both shippers and truckers of small shipments. This should consequently bring about some reductions in costs. In addition, deregulation through increased competition may create a congenial environment for innovations in improved handling methods and equipment for small shipments. These projections, however, remain speculative at this point and fear of the unknown will continue to play a protective role to maintain the status quo, as may be seen in this as well as other studies.

The risk that some businesses with special needs may face a critical situation, however, remains high during the period of transition. One can only speculate on the innovative nature of the free enterprise system. Small business being at the forefront would certainly find ways to alleviate unsatisfactory situations.

IMPACT OF ENERGY

Another critical issue that needs to be addressed is the energy situation. No sector of the economy is more vulnerable to the energy crunch than transportation. Much of the economic life depends on the movement of goods from one place to another. Region VII, with its
Energy problems are likely to force some changes upon the transportation industry itself. For example, one will probably see more multimodal freight service such as intercity truck trailer traffic on rail. Joint operations between truckers and railroads may increase the transit time and thus businesses may have to adjust to new standards of service.

CONCLUSIONS AND RECOMMENDATIONS

At the conclusion of this report it must be reemphasized that there is a great lack of information available regarding transportation for small business. This situation makes it difficult to analyze how small business in the region meets its transportation needs. It is ironical that a section of the business community which is so important to the economic system has been virtually ignored in the compilation of transportation data. The government agencies collected very little information in this area; even complaints by small shippers are not well documented (General Accounting Office, 1976).

It is therefore, strongly recommended that the SBA should initiate, through appropriate agencies, data collection activities from small business. A preliminary information base would be extremely desirable, even if such data are collected periodically on only specific areas of the country. Small shipments are likely to grow in the region along with anticipated national growth. A clear understanding of the position is vitally important in taking any corrective action against potentially critical situations which small business may have to face in the future. Thus, certain detailed studies also appear to be necessary not only to identify the problem areas, existing or potential, but also to find a possible course of corrective action.

A lack of knowledge of the transportation industry is found to be widely prevalent among the small businesses themselves. The regional survey shows a substantial number of them do not have any perception as to what comprises reasonable cost and adequate service and thus are not sure of the appropriateness of their demands from the transportation industry. This situation arises in part from a lack of expectations and planning on the part of small businesses. Perception of fair price for transportation would, of course, vary depending on how much of its cost an individual firm could pass on to its customers. Many firms, however, appear to have no opinion as to what to expect and at what
cost. This is further evidence of both lack of knowledge and lack of planning on the part of small businesses themselves. The situation calls for some kind of corrective educational process through dissemination of information.

In spite of much furor about deregulation, many small businesses do not understand the issue. This is apparent from the survey results indicating over a third of the businesses surveyed has no opinion on this important matter. Besides, some of the opinions seem to be misconstrued perhaps because of adverse publicity or a fear of the unknown. For example, businesses who almost solely depend on UPS service unduly fear trucking deregulation will have an adverse effect on their business. This is, perhaps a result of over regulation of the transportation industry which has made little effort to market its service to small businesses. Associations of small businesses, Chamber of Commerce or even the SBA and other groups supporting small businesses in the region should look into the issue with a view to improving awareness of the rights of small businesses to adequate service and availability of such service.

Educating those involved in small business and helping them to obtain the best possible transportation service available should play an important role in facilitating the efficient operation of their business, and efficient small businesses provide the lifeline of the free enterprise system. Finally, it should also be noted that the ICC has not been very effective in dealing with complaints from small shippers. Lack of documentation of relevant information can be singled out as the primary cause of the failure of ICC, which only reinforces the need for shippers' awareness and an improved data base.

Looking more specifically into the situation as it exists in Region VII, a substantial difference in opinion prevails between manufacturers and those in nonmanufacturing businesses. While one can speculate as to its cause, the issue deserves a more thorough study to identify specific problems of specific groups of small businesses. Such studies are likely to provide future policy guidelines for improving service to small business in the region. With respect to deregulation of transportation, groups of businesses providing their own transportation by private trucks appear to be more supportive of trucking deregulation. Further study is recommended to explore the reason behind this mood because it is possible that under deregulation these businesses may expand their service to include other businesses in the form of backhaul or otherwise. This is an important area for the exploration of a potential new entry in the transportation industry, one which may fill the gap which is currently feared to be left by the large commercial carriers.
REFERENCES


THE STATUS OF AND OPPORTUNITIES FOR MINORITIES,
WOMEN, AGED, AND OTHER SPECIAL INTEREST
GROUPS IN SMALL BUSINESS

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Department of Management Sciences
University of Iowa

This paper used secondary sources and a limited mail survey of
appropriate agencies to determine the status of, and opportunities for,
Region VII's minority and female-owned firms, particularly as related to
U.S. patterns.

The conclusions are:

1. Secondary data are generally inadequate for pur-
poses of assessing special interest groups' current
status and future prospects. Suggestions for
improvement are included.

2. Both minority group members and females are sub-
stantially underrepresented among owners of firms
based on their proportions in the populations of
Region VII and the U.S. Specifically minorities
fare worse in VII than in the U.S. with respect to
current ownership. Similar conclusions were ob-
tained for females in Region VII.

3. Prospects of minorities and females who own busi-
nesses are difficult to assess. There is little
adequate information. One source indicates that
VII's female-owned businesses have received propor-
tionally greater numbers and amounts of SBA loans
than in the U.S. However, most evidence re-
garding assistance programs is descriptive, anec-
dotal and does not provide data on effectiveness.
Until better data are available it is thought that for
the most part the prospects for special interest
groups in VII are similar to those in the U.S.

Recommendations were derived from two sources: the relevant
literature and responses to the questionnaire Appendix I item 3, mailed
to the agencies listed in Appendix II. Examples of responses (Appen-
dix III) are:

More outreach programs such as workshops focusing on differ-
ent aspects involved in a business such as: how and when to
get loans, agencies that can provide technical experience,
etc.
Assisting with venture capital and starting a local development corporation.

More funding available to help businesses in getting trained people.

More availability of dollars.

Better training programs for people trying to start a business.

More incentive programs to contract with minority-owned businesses.

More and better information relating to opportunities, financing and assistance must be made available to minorities who are interested in entering business. Additionally, assistance programs and financial packages must be easily accessible at minimal cost.

Both financing and technical assistance could be provided by an umbrella agency created by lending institutions.

Establish a minority Business Service Center in each state that will offer bonding, business training, loans and government contract information.

Based upon these responses and the available literature, it is recommended:

1. A special interest group Business Service Center should be established. The center would have the mission of providing direct services to prospective and operating owners. These services would include: training in the business disciplines, providing equity and operating capital, and assisting in establishing and maintaining relationships with both public and private sector customers. The center should be staffed by experienced business persons and controlled by a board. The board will provide an integrative function and should consist of representatives of: federal, state and local government; minority and majority business persons; lending institutions; and business educators. All federally sponsored assistance should be channelled through these centers, and the centers' operating budgets should be jointly shared by the federal and state governments. The criterion for evaluating the centers' performance should be the increase in gross receipts generated by special interest group owners within the state on an annual basis.
2. The relative proportion of federal funds allocated to Region VII for special interest group ownership be increased by at least 40 percent. (This amount reflects the relative gap in gross receipts generated within the region.)

3. The Department of Commerce establish a central agency to compile and distribute statistics on special interest group ownership. The agency should rely upon an advisory board in performing this function. The board should consist of federal and state government representatives, business researchers and statisticians.

METHODOLOGY AND RESULTS

The purposes of this research paper are twofold. First, it was intended to assess the small business ownership status of various special interest groups (e.g., minorities, women and the aged) in Region VII (Iowa, Kansas, Missouri and Nebraska). Second, it was intended to assess the opportunities for small business ownership in the region. Essentially, the study was to appraise current circumstances and to project into the future. As will be evident, these objectives have not totally been achieved.

The remainder of this section is organized into three parts: assessment of status, appraisal of opportunities and conclusions. In addition, a number of appendices provide copies of data collection instruments, some presentations of raw data and discussion of selected data.

ASSESSMENT OF STATUS

To assess the status of special interest group small business ownership within the region, these two questions were answered:

1. Within the region, are the number and size (i.e., gross receipts and number of employees) of firms owned by members of a given special interest group proportional to the population of that interest group within the region?

2. Are characteristics of special interest group-owned businesses within the region comparable to analogous characteristics for the aggregate United States?

Answers to the first question provide absolute information about the region. For example, within the region minorities comprise 6.4 percent of the total population. Thus, it ideally would be hoped that the percent of total firms they own would approximate their percent of population; however, it was not possible to isolate estimates of the total number of firms in the region and, therefore, the authors could not determine what percent of total firms within the region are owned by special interest groups.
Answering the second question became of paramount importance. Here, too, data collection difficulties were encountered. For example, it was possible to report only on the relative status of minorities and women and, thus, exclude the aged.

The search for secondary data sources included mailing a questionnaire (Appendix I) to the agencies listed in Appendix II, as well as attempting to contact numerous persons by telephone (Appendix IV). This search process yielded three partially usable data sources: 1972 Survey of Minority-Owned Business Enterprises; Women Owned Businesses: 1972; and The Bottom Line: Unequal Enterprise in America. Another data source is the 1977 survey of women-owned businesses conducted under the direction of the President's task force on Women in Business. Unfortunately, public distribution of the data from the study is limited to copies of preliminary analyses, none of which could be used to compare U.S. and regional patterns.

The results for minorities will be presented first. The minorities within the region comprise 2.75 percent of the United States' total minority population. Thus, it was hoped that the relative ownership status of minorities in the region approximates this 2.75 percent. As shown in Table 1 minorities within the region own 2.08 percent of the nation's minority-owned businesses. These firms produce 1.94 percent of the gross receipts generated by the country's minority-owned businesses, and these firms employ 2.25 percent of those persons employed by America's minority-owned businesses. It, therefore, can be concluded that the status of minority ownership in the region compared to the status of minority ownership in the total United States is less than favorable. In particular, the minority-owned firms in the region generate gross receipts of $321 million compared to the relative goal of $455 million, leaving a gap of $134 million between actual and expected gross receipts. To close the gap would require an increase of 41 percent in gross receipts for the region.

Table 1
STATUS OF MINORITY OWNERSHIP

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>Region</th>
<th>VII as a % of U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>381,935</td>
<td>7,946</td>
<td>2.09</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>456,009</td>
<td>10,253</td>
<td>2.25</td>
</tr>
<tr>
<td>Gross Receipts</td>
<td>$16,566,392</td>
<td>$321,821</td>
<td>1.94</td>
</tr>
</tbody>
</table>

Women within the region comprise 5.45 percent of the United States' total female population. Thus, it was hoped that the relative
ownership status of women within the region approximates this 5.45 percent. As shown in Table 2 women within the region own 3.62 percent of the nation's women-owned businesses. These firms produce 3.58 percent of the gross receipts generated by the country's women-owned businesses, and these firms employ 4.21 percent of those persons employed by America's female-owned businesses. Again, the conclusions are not positive. The status of female ownership in the region compared to the status of female ownership in the United States is less than favorable. For instance, the gap between actual and expected gross receipts is $192 million, requiring an increase of 65 percent to establish comparability.

Table 2
STATUS OF WOMEN OWNERSHIP

<table>
<thead>
<tr>
<th></th>
<th>U.S. Total</th>
<th>Region VII</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>402,025</td>
<td>14,570</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>230,049</td>
<td>9,688</td>
</tr>
<tr>
<td>Gross Receipts</td>
<td>$8,146,001,000</td>
<td>$291,622,000</td>
</tr>
</tbody>
</table>

In sum, the status of minorities and women as business owners in Region VII compared to their status in the United States is low. This conclusion is further confirmed by additional summary statistics presented in Appendix IV.

APPRAISAL OF OPPORTUNITIES

Two methods of appraising opportunities for special interest group small business ownership were employed. First, a brief review of the relevant literature was conducted. Second, the questionnaire was mailed to the agencies listed in Appendix II.

It was found that the literature regarding opportunities for female ownership were extremely limited. The most comprehensive and recent source is The Bottom Line: Unequal Enterprise in America, which reports the conclusions of a Presidential task force. It also presents some data from a 1977 survey of women business owners. Unfortunately, except for SBA loan activity, there are no data which permit comparisons between Region VII and U.S. female-owned firms' characteristics. As shown in Table 3, SBA loans to female-owned firms are smaller than the typical SBA loan in both the U.S. and Region VII. It is also clear that the SBA's Region VII has devoted proportionately more of its resources to female firms than has been true in the U.S. Nevertheless, other opportunities for most female-owned firms in the region probably are fairly characterized by the national patterns discussed by the President's task force.
Table 3
TOTAL SMALL BUSINESS LOANS AND PERCENTAGE OF LOANS TO WOMEN IN FISCAL YEAR 1977 IN REGION VII AND THE U.S.

<table>
<thead>
<tr>
<th></th>
<th>SBA Loans to Women</th>
<th>Total SBA Loans</th>
<th>Percent to Women</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Amount ($1,000)</td>
<td>Number</td>
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<tr>
<td>Region VII</td>
<td>673</td>
<td>$49,308</td>
<td>3,499</td>
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<td>U.S.</td>
<td>4,577</td>
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<td>32,821</td>
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<tr>
<td>VII/U.S.</td>
<td>.147</td>
<td>.153</td>
<td>.107</td>
</tr>
</tbody>
</table>

Mean Loan Size of SBA Loans

<table>
<thead>
<tr>
<th></th>
<th>To Women</th>
<th>Total Loans</th>
<th>Percent to Women</th>
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</thead>
<tbody>
<tr>
<td>Region VII</td>
<td>$73,000</td>
<td>$94,000</td>
<td>.78</td>
</tr>
<tr>
<td>U.S.</td>
<td>70,000</td>
<td>91,000</td>
<td>.77</td>
</tr>
</tbody>
</table>


Several more useful references were isolated regarding minority opportunities. Based upon this material it was concluded that the major obstacles to minority ownership remain the lack of technical experience and the lack of capital and necessary contacts with financing institutions and customers.

This conclusion was largely confirmed by the responses to the questionnaire item "What are obstacles you perceive to minority ownership of small business?" (See Appendix III.) For instance, the following are representative of typical answers:

Many of our minority business owners are first generation business people. Therefore, there is: a lack of business knowledge, experience and education; an inability to understand the necessity of a good accounting system; inadequate borrowing power; poor management, planning, or none; insufficient working capital; and a lack of good business judgment.

Ability to get loans to start business: Ability to acquire skill, experience, and knowledge to compete with established minority businesses. Involvement in informal networks with other business persons to share experiences, exchange ideas, etc.

Working capital. The lack of technical and managerial knowhow that come about by having a track record established.
Loan requirements. Lack of knowledge about running a small business.

Availabilities of monies for speculative ventures. Expertise.

Lack of business heritage and thus of basic finance and management knowledge.

Lack of financial resources.

There is an overall deficiency in available resources capable of assisting and advising the minority-owned firm.

In addition, there are often problems with financing new minority-owned firms due to lack of risk capital available.

Lack of equity investment. The heritage of business ownership and business management skills.

Thus, the obstacles to minority-owned businesses in the region are analogous to those in the nation. The question now becomes what is being done in the region to overcome these obstacles. The respondents were asked, "What programs does your agency have to overcome those obstacles?" (See Appendix III.) Most agencies responded that they were providing some type of training for minority persons. Assistance in obtaining financing was rarely mentioned. Vague responses or a response of "nothing" were not infrequent. In total, the image formed was that several appropriate agencies are going through the motions, but there does not exist a sincere, all-out effort within the region to increase the status of minority ownership. This is reflected by the lack of a well-funded, systematically organized effort at either the state or regional level. In sum, the principal obstacles to increasing the status of minority ownership in the region are lack of experience, contacts and financial resources on the part of minorities. Efforts are underway throughout the region to overcome these obstacles, but these efforts are insufficient and lacking in magnitude and direction. Thus, it must be concluded that opportunities, at least in the short run, for minorities within the region are dismal.

CONCLUSIONS

The principal conclusions are as follows:

1. Due to lack of comprehensive, comparable and standardized statistics, it is not possible to assess the absolute status of special interest group ownership within the region. Further, statistical inadequacies also make it difficult to clearly assess relative status.

2. The relative status of minorities and women in the region as compared to the country at large is not favorable.
The shortrun opportunities for the improved status of minority ownership in the region are dismal due to the lack of sufficient efforts to overcome existing obstacles.

DATA BASES

Initially it was anticipated that adequate secondary sources, both printed and on tape, could be located to assess both status and prospects for special interest groups. However, early responses to the survey of government agencies in Iowa, Kansas, Nebraska and Missouri and comments by various officials with whom needs were discussed (Appendix IV) caused a focus on three main sources of secondary data. They are (see bibliography for complete citation):


These sources permitted limited comparisons of Region VII with the U.S. experience for minority group owners of small businesses, and for female-owned small businesses. Most of these comparisons are displayed in Appendix V.

A 1977 survey of approximately 3,000 women owners was conducted and is partially utilized in The Bottom Line: Unequal Enterprise in America. Copies of the results are not available to the public except as Xerox reductions of preliminary analysis conducted with SPSS. Of these, the only analysis reporting characteristics of female ownership in Region VII shows that about 7.8 percent of the responses to the survey, 272 female-owned firms, were from Region VII.

The limited secondary data resulted in distribution of the original questionnaire to all identifiable minority assistance agencies in Iowa. Appendices I-III display primary data as follows:

APPENDIX I

Survey of State and Federal Agencies in Region VII, and of Minority Assistance Agencies in Iowa

APPENDIX II

Addressees Receiving Questionnaire

APPENDIX III

Responses to Questionnaires:

244
1. Perceived obstacles to small business ownership
2. Programs to overcome obstacles
3. Suggestions for future programs

Responses to the statistical pages of the survey were not received from any addressee. Narrative responses to the three opinion questions were too limited in number to justify coding and statistical analyses. The time and resources to develop and analyze a more comprehensive survey of agencies and/or owners were not available. Moreover, the early (December 1979 or January 1980) publication by the Bureau of the Census of the 1977 surveys of minority and female-ownership patterns, including cross tabulations by state, would render another survey in Region VII both redundant and not comparable to data available from other regions.

The reader should be aware that the published secondary data are not as strictly comparable as they appear. For example, several definitional changes were made between the 1969 and 1972 Minority-Owned Business surveys (see the introduction to the 1972 survey). Another example of noncomparability is the 1972 and 1977 data for female-owned firms. The 1977 data are from a sample; whereas the 1972 data presumably covered the entire population. Finally, the authors were cautioned that it was dangerous to conduct comparisons between female and minority data (as is done in Appendix V, Table 1).

Because secondary data do not cross tabulate geographic location with many characteristics of interest, most of the comparisons of Region VII and the U.S. for minorities and females are relegated to Appendix V. Variables such as size of firm (as measured by number of employees and receipts), legal form, and life expectancy (formations and bankruptcies) measures could not be used to establish parallels and differences between VII and the U.S. Moreover, the definitions of what constitutes a business are not always comparable. The authors had expected to be able to relate firm counts in the secondary sources to those from other public sources (such as County Business Patterns or various Census Bureau reports). However, the discrepancies were simply too large to warrant analysis.

The recommendation regarding statistical procedures and data collection must be implemented if adequate empirical grounds are to be used as a foundation for policymaking.
BIBLIOGRAPHY


APPENDIX I

SURVEY QUESTIONNAIRE

PLEASE TYPE OR PRINT YOUR ANSWERS

1. What are obstacles you perceive to minority ownership of small business?

2. What programs does your organization have to overcome those obstacles? (Please send us any data you might have concerning the effectiveness of these programs and any other data you think we may be interested in.)

3. What suggestions do you have for future programs concerning minority participation in small businesses?
PLEASE FILL IN AS MANY OF THE BLANKS AS POSSIBLE

Number of Primary Firm Owners

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<th>1975</th>
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<th>1975</th>
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<table>
<thead>
<tr>
<th>Total Owners</th>
<th>1965</th>
<th>1970</th>
<th>1975</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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APPENDIX II

ADDRESSEES RECEIVING QUESTIONNAIRE

GOVERNMENT AGENCIES

Director of Manpower, Office for Planning and Programming, Iowa
Commissioner, Bureau of Labor, Iowa
Director, Development Commission, Iowa
Department of Human Resources, Kansas
Department of Economic Development, Kansas
Office of Manpower Planning, Missouri
Department of Labor and Industrial Relations, Missouri
Commerce and Industry Development Commission, Missouri
Department of Labor, Nebraska
Department of Economic Development, Nebraska
Regional Director, Small Business Administration
District Directors, Small Business Administration, Iowa, Kansas, Missouri, Nebraska

MINORITY ASSISTANCE AGENCIES IN IOWA

Ames Human Relations Commission
Bettendorf Human Rights Commission
Burlington Commission on Human Rights
Cedar Falls Human Relations Commission
Cedar Rapids Human Rights Commission
Clinton Human Rights Commission
Council Bluffs Human Relations Commission
Davenport Human Relations Commission
Dubuque Human Rights Commission
Fort Dodge Human Rights Commission
Fort Madison Human Rights Commission
Des Moines Human Rights Commission
Grinnell Human Rights Commission
Indianola Human Rights Commission
Iowa City Human Relations Commission
Keokuk Human Relations Commission
Marshalltown Human Rights Commission
Mason City Human Relations Commission
Muscatine Human Rights Commission
Sioux City Human Rights Commission
Waterloo Human Rights Commission
Martin Luther King Center
Siouxland Spanish Speaking Society
L.U.L.A.C. Council 306
M.A.R.C.
Migrant Action Program
El Centro
Blacks in Management

250
Black Community Advancement Association
American Indian Community Center
Sac and Fox Tribe of the Mississippi in Iowa
Iowa Refugee Service Center
Urban Affairs Bureau
Business Advisory Resource Bank (B.A.R.B.)
Spanish Speaking Commission
Small Business Development Association (O.M.B.E.)
Iowa Civil Rights Commission
APPENDIX III

COMPLETE RESPONSES TO OBSTACLE QUESTION

What are obstacles you perceive to minority ownership of small business?

Bonding.

Lack of formal business training (e.g., basic bookkeeping, cost control, inventory control, etc.)

The minority community at large neither possesses the experience to operate a business that grows out of a history of family ownership, nor has training been available to an extent capable of producing good managers.

Over and beyond skill factors, racial discrimination in the form of redlining (isolation of minority community and sentencing it to economic and concomitant social decay) or outright discrimination against the minority person by lending institutions stifle small business ownership.

More subtly, minority entrepreneurs may only receive patronage of other minority persons. Since Iowa has such a small minority population, successful operation of a business would be limited.

There is an overall deficiency in available resources capable of assisting and advising the minority-owned firm in the initial or start-up stages of the firm's life. Since many minority individuals have had limited or no experience in the various phases of establishing, running, and expanding a business, it becomes doubly important for such individuals to have appropriate business technical assistance available to them on a regular basis during the early years of their firm's existence.

In addition, there are often problems with financing new minority-owned firms due to the lack of risk-capital available. Too often, the minority individual has neither the personal financial wealth nor the credit rating for borrowing funds which would enable the newly established minority-owned firm to be properly financed during the early years of the firm's life. Since adequate financing is critical during the early life cycle of a business, this becomes an extremely crucial factor for minority-owned businesses.

In addition to all the obstacles common to all business aspirants a major obstacle facing many minorities in their efforts to become small business owners is their lack of a 'business heritage' and thus of basic finance and management
knowledge. Many, maybe even most, minorities have inadequate education in business financial matters or proper business management techniques. Often there is an inadequate understanding of financial statements and, therefore, an inability to use them to gauge the success or failure of their businesses until they are forced to liquidate.

Another major problem is the lack of financial resources. In most instances, minorities must borrow funds to begin their businesses. There are few avenues open to minorities to obtain these funds.

Availability of monies for speculative ventures. I believe it is harder for minorities who have had bad experiences with financial institutions to borrow the necessary monies to start businesses.

Small businesses themselves. With the economy being somewhat unstable, the difficulty in keeping a small business going intensifies driving a higher proportion out of business.

Expertise. There has been and still is a relatively small percent of minorities who have formal business educations. This makes it more difficult for these people to establish and run a small business.

Working Capital. The lack of technical and managerial know-how that comes about by having a track record established.

Ability to get loans to start business.

Ability to acquire skill, experience and knowledge to compete with established majority businesses.

Acceptance and confidence by the community in the skills of the minority business.

Involvement in informal networks with other business persons to share experiences, exchange business ideas, etc.

Loan Requirements. Lack of knowledge about running a small business. High rents on office or building space.

Many of our minority business owners are first generation business people, therefore, there is considerable:

a. lack of business knowledge, experience and education,

b. inability to understand the necessity of a good accounting system,

c. inadequate borrowing power,
d. insufficient capital (working capital),

e. poor management, development plans, or none,

f. lack of good business judgment.

This group has the same obstacles as any other group. They are: capital of the ownership, borrowed capital, management know-how and business motivation. Of these, business motivation is probably the most critical. If the ownership is properly motivated and has the desire to put forth the effort and make the necessary sacrifices, success can come even with most modest beginnings.

Lack of equity investment.

The heritage of business ownership and business management skills.
What programs does your organization have to overcome those obstacles?

At present the city conducts an aggressive outreach program. This agency combats racial discrimination by enforcing the Iowa Civil Rights Act.

Currently, the department has a Division of Minority Business Enterprise which provides advisory assistance to new or established minority-owned firms. Assistance is limited due to the lack of state fundings available for a larger technically-oriented staff. Technical assistance requests are currently referred to the Center for Business Development which is being funded with federal funds and provides assistance for minority-owned firms. In addition, specific assistance requests are referred to the various state universities or private financial institutions. At the present time, the state of Kansas is establishing a small and minority-owned business act set-aside program which will make ten percent of the state's total purchases available to such firms.

Financial assistance (loans); procurement assistance (government contract opportunities); and management assistance. The Small Business Administration regularly conducts a variety of workshops aimed at improving the basic business knowledge of potential and existing small business owners. The Pre-Business Workshops, held monthly at the Wichita District Office and at various other times throughout our 77-county district, detail major aspects of owning and operating a small business. The Financial Management Workshops, held periodically throughout our 77-county district, address specific aspects of financial management, i.e., understanding financial statements, setting up proper bookkeeping records, cost control methods, inventory and cash flow problems, etc. These seminars are open to the public at a fee of $1 and free of charge to SBA borrowers.

As a training program for the disadvantaged, we have helped these companies mainly with providing them with manpower. This is accomplished by providing the companies with employees who have been trained by CETA through vocational training institutions. Also we have furnished these companies with on-the-job training and work experience participants. Other ways we have helped the minority business indirectly is to have a high percentage of minority participants in all programs and to fund community based organizations with public service employment positions.

The Human Relations Department is in the process of identifying minority businesses. These businesses will be apprised of opportunities with the city of Iowa City. A workshop explaining the bidding process, specifications and legal technicalities is planned.
The Waterloo Chamber of Commerce formulated the Small Business Development Association to assist all small businesses by providing a central agency for the dissemination of materials and resource expertise available to them. We then, through a grant from the Department of Commerce, Office of Minority Business Enterprise, added TAP (Technical Assistance Program) to our services. This program is designed just for minority businessmen. We can provide paid consultants to go in and help in any phase of the business with the exception of legal. A scope of work for the program and brochure are enclosed.

To help with the financial problems, we have loans available, either direct or in participation with banks. These are loans and have to be repaid from earnings of the business. To help with management problems we have individual counseling from retired executives, currently active executives and SBA personnel, as well as a limited amount of professional counseling from consultant agencies. We have educational programs which we sponsor or co-sponsor. These programs are addressed to specific topics and may last several hours or may take several sessions of two to three hours each. These programs can only open the eyes of those who participate because it takes long periods of practice to actually achieve management sufficiency.

Management Assistance Division sponsors workshops in business management in minority area. SBA provides counseling to small business owners through our 'SCORE' (Service Corps of Retired Executives) program. SBA can also sponsor outside consultants to counsel and advise in all respects of business management.

Pamphlets and textbooks for individual learning opportunities are also available from SBA.
COMPLETE RESPONSES TO SUGGESTIONS QUESTION

What suggestions do you have for future programs concerning minority participation in small business?

Establish a minority Business Service Center in each state that will offer bonding, business training, loans and government contract information.

Joint ventures by financial institutions to finance stable or marginally stable loans from minority communities. Further, assistance in planning and operating a business venture should be provided. Both financing and technical assistance could be provided by an umbrella agency created by lending institutions.

More and better information relating to opportunities, financing and assistance must be made available to minorities who are interested in entering business. Additionally, assistance programs and financial packages must be easily accessible at minimal cost to assist new minority-owned businesses.

More extensive and intensive business education programs. Also programs established to provide equity funds for minority entrepreneurs could be of significant benefit.

Assistance with venture capital and starting a local development corporation.

Programs which would make it easier for minority businesses to get started.


More outreach programs such as workshops focusing on different aspects involved in a business such as: how and where to get loans, agencies that can provide technical experience, etc.

Explaining the procedure for application for SBA loans. Workshops on financial and bookkeeping process. Advertising techniques.

Sincere efforts exerted to see that minority business owners receive the proper business education through seminars and workshops they can relate to by bringing in more successful minority business owners as speakers and instructors.

As researchers, I am sure you are aware of commitments by SBA, OMBE and EDA to encourage more minority business ownership through their programs. I'd like to see these
programs expand beyond what they are doing now and make every effort to live up to their commitments. If set-aside is the answer then use set-asides.

Minority business owners should be informed of the importance of having adequate working capital, multi-ethnic traffic, market research, feasibility studies and diverse businesses prior to entering a particular business.

I have no suggestions for future programs unless it would be one intended for general public consumption. That would be an informational program to improve the image of business. Business has been pictured as bad and has been levied upon heavily for taxes, which makes it difficult to acquire funds for the necessary capital improvements. If the public could perceive that business is good, that adequate profits are necessary, that the source of all income ultimately is business which pays taxes as well as its employees, that if there are no profits, there would be no taxes to support those who gain their living through tax supported endeavors.

A source of equity investment for promising minority entrepreneurs.
APPENDIX IV

OFFICES CONTACTED BY TELEPHONE

Bureau of Census, Economics Survey Division, Department of Commerce

Reports Management Division, Small Business Administration, Department of Commerce

United States Chamber of Commerce

Small Business Administration, Public Information Office, Department of Commerce

Director, Iowa Chamber of Commerce

Muscatine Community College

Small Business Administration, White House Conference, Office of Advocacy, Office of Economic Analysis

Small Business Administration, Kansas City Regional Office, Public Information Office
APPENDIX V

ADDITIONAL DATA AND COMMENTARY COMPARING REGION VII AND THE U.S.

TABLE

A-1.  Sex and Race Characteristics of Small Firms in 1972 for Region VII and the U.S.

MINORITIES:


FEMALES:


SOURCE: All data are from either the Survey of Minority-Owned Business Enterprises: 1972, or the Women-Owned Businesses: 1972 unless otherwise noted.
Table A-1
SEX AND RACE CHARACTERISTICS OF SMALL FIRMS
IN 1972 FOR REGION VII AND THE U.S.

<table>
<thead>
<tr>
<th></th>
<th>All Firms</th>
<th>Firms With Paid Employees</th>
<th>Firms With No Paid Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Receipts ($1,000)</td>
<td>Number</td>
</tr>
<tr>
<td>Male-Minority*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII</td>
<td>7,226</td>
<td>306,236</td>
<td>1,364</td>
</tr>
<tr>
<td>U.S.</td>
<td>348,125</td>
<td>15,719,661</td>
<td>70,263</td>
</tr>
<tr>
<td>Male-White</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>U.S.</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Female-Minority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII</td>
<td>720</td>
<td>15,585</td>
<td>103</td>
</tr>
<tr>
<td>U.S.</td>
<td>33,810</td>
<td>836,731</td>
<td>5,152</td>
</tr>
<tr>
<td>Female-White*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII</td>
<td>13,850</td>
<td>276,077</td>
<td>1,897</td>
</tr>
<tr>
<td>U.S.</td>
<td>368,215</td>
<td>7,309,270</td>
<td>47,993</td>
</tr>
<tr>
<td>Total Male</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>U.S.</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Total Female</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII</td>
<td>14,570</td>
<td>291,662</td>
<td>2,000</td>
</tr>
<tr>
<td>U.S.</td>
<td>402,025</td>
<td>8,146,001</td>
<td>53,145</td>
</tr>
<tr>
<td>Total White</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>U.S.</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Total Minority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VII</td>
<td>7,946</td>
<td>321,821</td>
<td>1,467</td>
</tr>
<tr>
<td>U.S.</td>
<td>381,935</td>
<td>16,556,392</td>
<td>75,415</td>
</tr>
</tbody>
</table>

* Data were derived from totals for females and for minorities less d. for minority female firms in 1972.
Sex and Race Characteristics of Small Firms in 1972 for Region VII and the U.S.

1. Composition of the table reflects data problems. Women Owned Businesses: 1972, provides data regarding the number, receipts and number of employees for minority firms owned by women, and all firms owned by women for the U.S. and for each state. Apparently comparable data for all minority owned firms is available from Minority-Owned Business Enterprises: 1972. Thus, from the two sources one may derive estimates for firms owned by male minority group members, and white females. However, no public source provides comparable data about the total number of firms, number of white male-owned firms, or other data which would permit completion of the table.

2. Region VII's minority firms constitute about 2 percent of all such firms in the U.S. and generate almost 2 percent of such firms' receipts. Though minority firms with no employees constitute about 80 percent of all minority firms in both Region VII and the U.S. (81.5% and 80.3% respectively), those in Region VII produce a slightly smaller proportion of total minority firms' receipts (24.4%) than do those in the U.S. (27.1%).

3. Female-owned firms in Region VII comprise only 3.6 percent of national female firms and their receipts, but about 4.2 percent of their employees. Though female firms with no employees comprise about 86.5 percent of all female firms in both VII and the U.S., those in the region account for a slightly smaller proportion of receipts in the region than in the nation (40.1% and 42.8% respectively).

4. Region VII's female firms are a larger proportion of the nation's female firms than VII's minorities are of the nation's minority firms. Though there are almost twice as many female-owned as minority-owned firms in VII, the female firms produce only about 90 percent of the receipts produced by minority firms in the region. In the U.S. female and minority firms are nearly equal in number, but female firms produced only 40 percent of the minority firms' receipts.
Table A-2

FIRMS WITH PAID EMPLOYEES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>2.6%</td>
<td>1.5%</td>
<td>2.4%</td>
<td>1.7%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.3</td>
<td>0.7</td>
<td>1.0</td>
<td>0.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Transport &amp; Utilities</td>
<td>1.1</td>
<td>1.4</td>
<td>0.7</td>
<td>0.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>0.7</td>
<td>0.6</td>
<td>0.8</td>
<td>0.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>13.6</td>
<td>12.5</td>
<td>8.5</td>
<td>8.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Finance etc.</td>
<td>1.0</td>
<td>1.0</td>
<td>0.8</td>
<td>0.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Services</td>
<td>6.0</td>
<td>5.4</td>
<td>5.0</td>
<td>4.9</td>
<td>2.0</td>
</tr>
<tr>
<td>All others</td>
<td>1.7</td>
<td>1.7</td>
<td>0.5</td>
<td>0.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Subtotal</td>
<td>28.0</td>
<td>24.8</td>
<td>19.7</td>
<td>18.5</td>
<td>2.0</td>
</tr>
</tbody>
</table>

FIRMS WITH NO PAID EMPLOYEES

<table>
<thead>
<tr>
<th></th>
<th>1969</th>
<th>1972</th>
<th>1972</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>7.6</td>
<td>7.0</td>
<td>8.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.2</td>
<td>0.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Transport &amp; Utilities</td>
<td>6.3</td>
<td>9.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>1.0</td>
<td>0.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>16.5</td>
<td>15.9</td>
<td>22.0</td>
</tr>
<tr>
<td>Finance etc.</td>
<td>5.7</td>
<td>4.5</td>
<td>4.0</td>
</tr>
<tr>
<td>Services</td>
<td>25.5</td>
<td>29.4</td>
<td>26.3</td>
</tr>
<tr>
<td>All Others</td>
<td>9.3</td>
<td>8.2</td>
<td>8.9</td>
</tr>
<tr>
<td>Subtotal</td>
<td>73.1</td>
<td>75.1</td>
<td>79.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>101.1</td>
<td>99.9</td>
<td>98.7</td>
</tr>
</tbody>
</table>
1. Regional minority employers were concentrated less in construction, manufacturing and wholesale trade than are U.S. minority employers regardless of whether or not the firm had paid employees in 1969 and 1972. They are concentrated more in transportation and utilities in the region, regardless of number of employees and year.

2. In service firms the region generally had a greater concentration of firms without paid employees and a smaller concentration of firms with paid employees than was characteristic of the entire U.S. in both 1969 and 1972. However, in 1972 the proportions were nearly identical for firms with paid employees.

3. The proportions of all minority firms engaged in retail trade in the region and the country have remained nearly equal regardless of number of employees or year.
Table A-3


<table>
<thead>
<tr>
<th></th>
<th>MINORITY FIRMS WITH PAID EMPLOYEES</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>7.3%</td>
<td>7.0%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.9</td>
<td>2.5*</td>
<td>7.1</td>
</tr>
<tr>
<td>Transport &amp; Utility</td>
<td>2.4</td>
<td>3.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>8.2</td>
<td>7.0*</td>
<td>10.1</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>42.9</td>
<td>40.7</td>
<td>32.3</td>
</tr>
<tr>
<td>Finance etc.</td>
<td>4.3</td>
<td>4.7</td>
<td>4.2</td>
</tr>
<tr>
<td>Services</td>
<td>9.3</td>
<td>9.4</td>
<td>8.4</td>
</tr>
<tr>
<td>All others</td>
<td>3.5</td>
<td>3.1</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>83.8</strong></td>
<td><strong>77.9</strong>*</td>
<td><strong>73.0</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>MINORITY FIRMS WITH NO PAID EMPLOYEES</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>1.6%</td>
<td>2.0%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.2</td>
<td>0.1*</td>
<td>0.6</td>
</tr>
<tr>
<td>Transport &amp; Utility</td>
<td>1.3</td>
<td>2.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>0.6</td>
<td>0.3*</td>
<td>0.8</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>5.7</td>
<td>6.2</td>
<td>12.8</td>
</tr>
<tr>
<td>Finance etc.</td>
<td>0.8</td>
<td>0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Services</td>
<td>4.4</td>
<td>2.7</td>
<td>4.6</td>
</tr>
<tr>
<td>All others</td>
<td>1.5</td>
<td>3.2</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>16.1</strong></td>
<td><strong>17.3</strong>*</td>
<td><strong>27.1</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>99.9</strong></td>
<td><strong>95.2</strong>*</td>
<td><strong>100.1</strong></td>
</tr>
</tbody>
</table>

* Total < 100 due to deliberate omissions used to protect firms' identities.
Industrial Distribution of Minority-Owned Firms' Gross Receipts for Region VII and the U.S., 1969 and 1972

1. Data for Region VII are not complete. Gross receipt data were not reported in some states for some industries to avoid identifying specific firms.

2. Whereas in 1969 the regional and national receipts for minority firms in construction were comparable proportions of total minority firm receipts, by 1972 construction's proportion was smaller in VII than in the nation for both firms with and firms without employees.

3. In 1972, Region VII's manufacturing receipts constituted a smaller proportion of total receipts than in the nation for firms with paid employees. The gap has narrowed since 1969.
<table>
<thead>
<tr>
<th></th>
<th>Black</th>
<th>Spanish</th>
<th>Asian, Am. Indian</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>194,986</td>
<td>120,108</td>
<td>66,841</td>
<td>381,935</td>
</tr>
<tr>
<td><strong>STANDARD METRO AREA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cedar Rapids, IA</td>
<td>17</td>
<td>2</td>
<td>15</td>
<td>28</td>
</tr>
<tr>
<td>Columbia, MO</td>
<td>59</td>
<td>11</td>
<td>48</td>
<td>71</td>
</tr>
<tr>
<td>Quad Cities, IA-IL</td>
<td>114</td>
<td>24</td>
<td>90</td>
<td>174</td>
</tr>
<tr>
<td>Des Moines, IA</td>
<td>162</td>
<td>24</td>
<td>138</td>
<td>213</td>
</tr>
<tr>
<td>Dubuque, IA</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Kansas City, MO-KS</td>
<td>1,494</td>
<td>229</td>
<td>1,265</td>
<td>1,802</td>
</tr>
<tr>
<td>Lincoln, NE</td>
<td>29</td>
<td>6</td>
<td>23</td>
<td>59</td>
</tr>
<tr>
<td>Omaha, NE-IA</td>
<td>235</td>
<td>64</td>
<td>171</td>
<td>318</td>
</tr>
<tr>
<td>St. Joseph, MO</td>
<td>38</td>
<td>4</td>
<td>34</td>
<td>48</td>
</tr>
<tr>
<td>St. Louis, MO-IL</td>
<td>3,619</td>
<td>617</td>
<td>3,002</td>
<td>3,975</td>
</tr>
<tr>
<td>Sioux City, IA-NE</td>
<td>22</td>
<td>6</td>
<td>16</td>
<td>29</td>
</tr>
<tr>
<td>Springfield, MO</td>
<td>31</td>
<td>4</td>
<td>27</td>
<td>53</td>
</tr>
<tr>
<td>Topeka, KS</td>
<td>79</td>
<td>18</td>
<td>61</td>
<td>138</td>
</tr>
<tr>
<td>Waterloo--</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cedar Falls, IA</td>
<td>51</td>
<td>13</td>
<td>38</td>
<td>71</td>
</tr>
<tr>
<td>Wichita, KS</td>
<td>262</td>
<td>54</td>
<td>208</td>
<td>399</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>6,215</td>
<td>1,077</td>
<td>5,138</td>
<td>7,394</td>
</tr>
<tr>
<td>Total Excluding</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quad Cities &amp;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>St. Louis</td>
<td>2,482</td>
<td>436</td>
<td>489</td>
<td>3,248</td>
</tr>
</tbody>
</table>

Table A-4
MINORITY FIRMS IN THE U.S. AND REGION VII's STANDARD METROPOLITAN AREAS IN 1972, BY MINORITY
1. Fifteen Standards Metro Areas (SMAs) are in VII, but the Quad Cities and St. Louis areas spill over into Illinois. Since the proportion of Black firms is higher in St. Louis than in any other SMA in VII, analyses excluding St. Louis and the Quad Cities may give different results than analyses based on all 15 SMAs. For example, using all 15 SMAs Black firms constitutes over 84 percent of minority firms in VII, but using only 13 SMAs reduces the figure to 76 percent.

2. The racial composition of VII's firms varies significantly from that in the U.S. Region VII has more Black and fewer Spanish and Asian minority firms, at least in its SMAs.

3. The racial composition of VII's firms varies significantly within the region. Unsurprisingly, the larger the SMA the greater the proportion of Black firms.

4. Only a minority of VII's minority-owned firms are in SMAs. The 15 SMAs "include" about 17 percent of the region's minority firms, but the figure is misleading because some of the firms are outside VII. The 13 SMAs (excluding the Quad Cities and St. Louis) include only 7.4 percent of the region's minority-owned businesses.
Table A-5
MINORITY FIRMS AVERAGE GROSS RECEIPTS PER FIRM IN THE U.S. AND REGION VII's STANDARD METROPOLITAN AREAS IN 1972, BY MINORITY ($1,000)

<table>
<thead>
<tr>
<th></th>
<th>Black</th>
<th>Spanish</th>
<th>Asian &amp;</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>160*</td>
<td>13**</td>
<td>129**</td>
<td>220*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>16**</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>160*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STANDARD METRO AREA</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cedar Rapids, IA</td>
<td>168</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Columbia, MO</td>
<td>60</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quad Cities, IA-IL</td>
<td>196</td>
<td>9</td>
<td>130</td>
<td>14</td>
</tr>
<tr>
<td>Des Moines, IA</td>
<td>152</td>
<td>7</td>
<td>75</td>
<td>12</td>
</tr>
<tr>
<td>Dubuque, IA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kansas City, MO-KS</td>
<td>149</td>
<td>11</td>
<td>142</td>
<td>14</td>
</tr>
<tr>
<td>Lincoln, NE</td>
<td>5</td>
<td>21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Omaha, NE-IA</td>
<td>167</td>
<td>10</td>
<td>110</td>
<td>12</td>
</tr>
<tr>
<td>St. Joseph, MO</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>St. Louis, MO-IL</td>
<td>147</td>
<td>13</td>
<td>186</td>
<td>11</td>
</tr>
<tr>
<td>Sioux City, IA-NE</td>
<td>13</td>
<td>68</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Springfield, MO</td>
<td>38</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Topeka, KS</td>
<td>111</td>
<td>8</td>
<td>50</td>
<td>7</td>
</tr>
<tr>
<td>Waterloo-Cedar Falls, IA</td>
<td>131</td>
<td>13</td>
<td>135</td>
<td>6</td>
</tr>
<tr>
<td>Wichita, KS</td>
<td>140</td>
<td>17</td>
<td>82</td>
<td>15</td>
</tr>
</tbody>
</table>

**NOTE:** Omitted figures have been deleted to avoid identification of firms.
* Firms with No Paid Employees
** Firms with Paid Employees
Minority Firms Average Gross Receipts per Firm in the U.S. and Region VII's Standard Metropolitan Areas in 1972, by Minority

1. Among reporting Black firms in VII's SMAs, only those in the Quad Cities area exceeded the national average for Black firms with paid employees. Only those in the Wichita area exceeded the national average for Black firms with no paid employees. Unless those Black firms outside the SMAs, had substantially higher gross receipts than those in the SMAs, Black firms tended to have significantly lower gross receipts in VII than did Black firms in the nation.

2. For Spanish-owned firms with paid employees which were reported, half the SMAs showed average gross receipts which were less than the national average. Of the half, none were in Missouri and all were in the smaller SMAs in terms of population. Only one of the reported SMAs indicated an average gross exceeding the nation's average for Spanish firms with no paid employees. Because the firms with no paid employees greatly outnumber those with paid employees, it appears that typically most Spanish-owned firms in the region have smaller receipts than is true nationwide.

3. Among Asian and American Indian firms with paid employees, only two of eight reporting SMAs gross receipts exceed the national average (Quad Cities and St. Louis). The remaining six are significantly below the national average. Among Asian-American Indian firms with no paid employees, the region fares better. Only three of ten reporting SMAs had average gross receipts below the national average, and two of the three were close to the average. Overall it appears that Asian-American Indian-owned firms do better than the national average if they have no paid employees, but worse if they have paid employees.
<table>
<thead>
<tr>
<th>Industry</th>
<th>U.S.</th>
<th>Region VII</th>
<th>( \frac{\text{Region VII}}{\text{U.S.}} )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>0.6%</td>
<td>0.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.4</td>
<td>0.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Transport &amp; Utility</td>
<td>0.1</td>
<td>0.2</td>
<td>4.0</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>0.4</td>
<td>0.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>6.5</td>
<td>7.3</td>
<td>4.1</td>
</tr>
<tr>
<td>Finance etc.</td>
<td>0.6</td>
<td>0.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Services</td>
<td>4.3</td>
<td>4.3</td>
<td>3.6</td>
</tr>
<tr>
<td>All Others</td>
<td>0.3</td>
<td>0.3</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>13.2</td>
<td>13.8</td>
<td>3.8</td>
</tr>
</tbody>
</table>

**Firms with No Paid Employees**

<table>
<thead>
<tr>
<th>Industry</th>
<th>U.S.</th>
<th>Region VII</th>
<th>( \frac{\text{Region VII}}{\text{U.S.}} )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>3.1%</td>
<td>2.6%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.5</td>
<td>1.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Transport &amp; Utility</td>
<td>1.6</td>
<td>1.9</td>
<td>4.1</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>0.9</td>
<td>0.6</td>
<td>2.4</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>26.6</td>
<td>27.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Finance etc.</td>
<td>8.7</td>
<td>7.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Services</td>
<td>33.3</td>
<td>34.9</td>
<td>3.8</td>
</tr>
<tr>
<td>All others</td>
<td>11.0</td>
<td>10.8</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>86.7</td>
<td>86.4</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>99.9</td>
<td>100.2</td>
<td></td>
</tr>
</tbody>
</table>
Industrial Distribution of Female-Owned Firms for Region VII and the U.S. 1972.

1. In 1972 the industrial distribution of female-owned firms in the region was not dramatically different from that in the nation.

2. A comparison of Tables A-2 and A-6 shows that in 1972 the industrial distribution of female and minority-owned firms differed significantly. In the region and nation female-owned firms participated less in construction and transportation than did minority firms, regardless of number of employees. However, for firms with employees, minority firms were slightly more concentrated in retailing than were female-owned firms. The distribution of ownership was similar for females and minorities in the remaining industrial categories.
Table A-7

**FIRMS WITH PAID EMPLOYEES**

<table>
<thead>
<tr>
<th>Category</th>
<th>U.S.</th>
<th>Region VII</th>
<th>100 VII U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>3.5%</td>
<td>2.8%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2.6</td>
<td>2.3</td>
<td>3.1</td>
</tr>
<tr>
<td>Transport &amp; Utility</td>
<td>0.8</td>
<td>1.3*</td>
<td>5.9*</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>6.1</td>
<td>7.7*</td>
<td>4.6*</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>30.9</td>
<td>30.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Finance etc.</td>
<td>2.9</td>
<td>2.6*</td>
<td>3.2*</td>
</tr>
<tr>
<td>Services</td>
<td>9.2</td>
<td>10.5</td>
<td>4.2</td>
</tr>
<tr>
<td>All Others</td>
<td>1.3</td>
<td>4.7*</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>57.3</td>
<td>61.9*</td>
<td>3.8*</td>
</tr>
</tbody>
</table>

**FIRMS WITH NO PAID EMPLOYEES**

<table>
<thead>
<tr>
<th>Category</th>
<th>U.S.</th>
<th>Region VII</th>
<th>100 VII U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>2.5%</td>
<td>2.0%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.9</td>
<td>0.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Transport &amp; Utility</td>
<td>1.0</td>
<td>1.3*</td>
<td>4.5*</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>1.1</td>
<td>0.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>20.8</td>
<td>20.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Finance etc.</td>
<td>3.7</td>
<td>2.4*</td>
<td>2.4*</td>
</tr>
<tr>
<td>Services</td>
<td>9.2</td>
<td>8.6</td>
<td>3.4</td>
</tr>
<tr>
<td>All others</td>
<td>3.5</td>
<td>2.0*</td>
<td>2.0*</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>42.7</td>
<td>38.1*</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100.0</td>
<td>100.0*</td>
<td>3.6</td>
</tr>
</tbody>
</table>

* Indicates data are not reliable due to omissions used to avoid identifying firms.
Industrial Distribution of Female-Owned Firms' Gross Receipts for Region VII and the U.S., 1972

1. The desire to protect the identity of specific firms makes it difficult to obtain useful data for many industries in Region VII. Tentatively it appears that construction receipts constitute a smaller proportion of receipts in the region than they do in the nation for female-owned firms, regardless of whether or not the significant difference between the region and the nation in the contribution of the retail trade sector to total receipts of female-owned firms.
### Table A-8

FEMALE OWNED-FIRMS IN THE U.S. AND REGION VII's
STANDARD METROPOLITAN AREAS, 1972

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Paid Employees</th>
<th>No Paid Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>402,025</td>
<td>53,145</td>
<td>348,880</td>
</tr>
<tr>
<td>Region VII</td>
<td>14,570</td>
<td>2,000</td>
<td>12,570</td>
</tr>
<tr>
<td>Cedar Rapids, IA</td>
<td>182</td>
<td>27</td>
<td>155</td>
</tr>
<tr>
<td>Columbia, MO</td>
<td>155</td>
<td>15</td>
<td>140</td>
</tr>
<tr>
<td>*Quad Cities, IA-IL</td>
<td>556</td>
<td>99</td>
<td>457</td>
</tr>
<tr>
<td>Des Moines, IA</td>
<td>439</td>
<td>58</td>
<td>381</td>
</tr>
<tr>
<td>Dubuque, IA</td>
<td>83</td>
<td>14</td>
<td>69</td>
</tr>
<tr>
<td>Kansas City, MO-KS</td>
<td>1,911</td>
<td>205</td>
<td>1,706</td>
</tr>
<tr>
<td>Lincoln, NE</td>
<td>64</td>
<td>6</td>
<td>58</td>
</tr>
<tr>
<td>Omaha, NE-IA</td>
<td>272</td>
<td>38</td>
<td>234</td>
</tr>
<tr>
<td>St. Joseph, MO</td>
<td>172</td>
<td>19</td>
<td>153</td>
</tr>
<tr>
<td>*St. Louis, MO-IL</td>
<td>3,873</td>
<td>633</td>
<td>3,240</td>
</tr>
<tr>
<td>Sioux City, IA-NE</td>
<td>121</td>
<td>22</td>
<td>99</td>
</tr>
<tr>
<td>Springfield, MO</td>
<td>381</td>
<td>33</td>
<td>348</td>
</tr>
<tr>
<td>Topeka, KA</td>
<td>162</td>
<td>14</td>
<td>148</td>
</tr>
<tr>
<td>Waterloo-Cedar Falls, IA</td>
<td>177</td>
<td>29</td>
<td>88</td>
</tr>
<tr>
<td>Wichita, KA</td>
<td>449</td>
<td>44</td>
<td>405</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8,937</td>
<td>1,256</td>
<td>7,681</td>
</tr>
<tr>
<td><strong>Total Excluding</strong>*</td>
<td>4,508</td>
<td></td>
<td>3,988</td>
</tr>
<tr>
<td>% of Region VII-Total</td>
<td>61.3%</td>
<td>62.8%</td>
<td>61.1%</td>
</tr>
<tr>
<td>% of Region VII-Total Excluding***</td>
<td>30.9%</td>
<td>26.2%</td>
<td>31.7%</td>
</tr>
</tbody>
</table>
Female-Owned Firms in the U.S. and Region VII's Standard Metropolitan Areas, 1972

1. Most female-owned firms in the region appear not to be in the Standard Metropolitan Areas if one excludes the two SMAs which spill over into Illinois. However, if those two are included, most female-owned firms in the region are in the SMAs (contrary to the conclusion for minority-owned firms). This interpretive problem cannot be resolved with available data.
<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
<th>Paid Employees</th>
<th>No Paid Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>8,146,001</td>
<td>230,049</td>
<td>3,482,734</td>
</tr>
<tr>
<td>Region VII</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cedar Rapids, IA</td>
<td>291,662</td>
<td>9,688</td>
<td>116,975</td>
</tr>
<tr>
<td>Columbia, MO</td>
<td>3,359</td>
<td>119</td>
<td>888</td>
</tr>
<tr>
<td>*Quad Cities, IA-IL</td>
<td>10,364</td>
<td>437</td>
<td>3,821</td>
</tr>
<tr>
<td>Des Moines, IA</td>
<td>7,466</td>
<td>287</td>
<td>3,204</td>
</tr>
<tr>
<td>Dubuque, IA</td>
<td>2,492</td>
<td>39</td>
<td>664</td>
</tr>
<tr>
<td>Kansas City, MO-KS</td>
<td>36,117</td>
<td>1,488</td>
<td>13,224</td>
</tr>
<tr>
<td>Lincoln, NE</td>
<td>1,332</td>
<td>39</td>
<td>444</td>
</tr>
<tr>
<td>Omaha, NE-IA</td>
<td>5,919</td>
<td>170</td>
<td>1,928</td>
</tr>
<tr>
<td>St. Joseph, MO</td>
<td>2,185</td>
<td>90</td>
<td>1,374</td>
</tr>
<tr>
<td>*St. Louis, MO-IL</td>
<td>79,451</td>
<td>2,616</td>
<td>29,654</td>
</tr>
<tr>
<td>Sioux City, IA-NE</td>
<td>2,630</td>
<td>122</td>
<td>956</td>
</tr>
<tr>
<td>Springfield, MO</td>
<td>5,787</td>
<td>136</td>
<td>3,517</td>
</tr>
<tr>
<td>Topeka, KA</td>
<td>1,986</td>
<td>81</td>
<td>847</td>
</tr>
<tr>
<td>Waterloo-Cedar Falls, IA</td>
<td>4,205</td>
<td>260</td>
<td>731</td>
</tr>
<tr>
<td>Wichita, KA</td>
<td>12,230</td>
<td>356</td>
<td>3,057</td>
</tr>
<tr>
<td>Total</td>
<td>179,199</td>
<td>6,307</td>
<td>65,460</td>
</tr>
<tr>
<td>Total Excluding*</td>
<td>89,384</td>
<td>3,254</td>
<td>31,985</td>
</tr>
</tbody>
</table>

% of Region VII-Total: 61.4% 65.1% 56.0%
% of Region VII-Total Excluding*: 30.6% 33.6% 27.3%
Female-Owned Firms' Gross Receipts in the U.S. and Region VII's Standard Metropolitan Areas, 1972

1. See comments in Table A-9. Gross receipt patterns parallel those for numbers of female-owned firms in the SMAs.
### Table A-10
PROPORTION OF U.S. MINORITY AND FEMALE FIRMS IN REGION VII
IN 1972, BY INDUSTRY

<table>
<thead>
<tr>
<th>Minorities (M)</th>
<th>Females (F)</th>
<th>F/M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firms with paid employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>1.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.6</td>
<td>2.8</td>
</tr>
<tr>
<td>Transport &amp; Utilities</td>
<td>2.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>1.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>2.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Finance etc.</td>
<td>1.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Services</td>
<td>2.0</td>
<td>3.6</td>
</tr>
<tr>
<td>All Others</td>
<td>2.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Subtotal</td>
<td>2.0</td>
<td>3.8</td>
</tr>
</tbody>
</table>

| Firms with no paid employees | | |
| Construction | 1.8% | 3.0% | 1.7% |
| Manufacturing | 1.1 | 2.7 | 2.5 |
| Transport & Utilities | 2.9 | 4.1 | 1.4 |
| Wholesale Trade | 1.2 | 2.4 | 2.0 |
| Retail Trade | 2.1 | 3.8 | 1.8 |
| Finance etc. | 2.3 | 2.9 | 1.3 |
| Services | 2.5 | 3.8 | 1.5 |
| All Others | 1.5 | 3.5 | 2.3 |
| Subtotal | 2.1 | 3.6 | 1.7 |
| TOTAL | 2.1 | 3.6 | 1.7 |

**Source:** Tables A-2 and A-6.
Proportion of U.S. Minority and Female Firms in Region VII in 1972, by Industry.

1. Region VII contains a larger proportion of the nation's female-owned firms (about 3.6%) than it does of the nation's minority-owned firms (about 2.1%). That is, VII accounts for approximately 1.7 times as many of the nation's female-owned firms as it does its minority-owned firms.

2. Among firms with employees, female-owned firms in VII constitute disproportionately more than minority-owned firms in the wholesale, retail and financial services industries. They contribute proportionately less only in the transportation and miscellaneous industries.

3. Among firms with no employees, female-owned firms in VII constitute proportionately more than minority-owned firms in the manufacturing, wholesale, trade and miscellaneous industries. As in the case of firms with paid employees, female-owned firms in VII constitute a smaller proportion of the firms in transportation than do minority firms. In contrast to those firms with paid employees, female-owned firms in VII constitute proportionately fewer of the firms in the nation engaged in the financial services and service industries than do minority firms in VII.
THE STATUS AND OPPORTUNITIES
FOR SMALL BUSINESS AND FOREIGN TRADE

Barbara J. Fischer
International Business Associates
Cedar Falls, Iowa

RESULTS

The subject of small business and foreign trade is at the intersection of two topics of current policy concern. The revitalization of small business is essential to the health of the domestic economy. Increasing U.S. exports is vital to the health of the dollar and the place of the United States in the international community. Fortunately, this combination is a complementary one. One way to aid small business is to expand the market for products and services to the rest of the world. This will not only increase but stabilize sales since demand will come from different countries with different business cycles. At the same time, the greatest potential for improving U.S. balance of payments lies in encouraging small companies to begin exporting. Increasing small business exports will make positive contributions to some of the most important economic problems, such as:

1. Decreasing unemployment,
2. Stabilizing the dollar,
3. Decreasing imported inflation, and
4. Revitalizing the entrepreneurial spirit, which is one of the foundations of American economic and political philosophy.

This chapter will attempt to examine only a small part of this vital juncture. Foreign trade has three distinct aspects:

1. Exports of U.S. products and services abroad.
2. Imports of foreign products and services into the U.S.
3. The impact of foreign imports on U.S. companies producing for the domestic market.

In the context of current issues, this discussion will concentrate primarily on how to improve the opportunities in exporting.

Statistics from the U.S. Department of Commerce will describe the history of exporting in the states of Iowa, Nebraska, Kansas and Missouri for the past ten years. Since the government statistics do not separate exports generated by small businesses, a mail survey was sent to approximately 1,900 small business exporters in the four-state
region. The results of this survey are used to estimate the portion of 1978 export sales generated by businesses with less than 500 employees. Through these statistics, a brief profile is drawn of small business export activity in the region.

Also included are a series of specific recommendations for changes in current U.S. foreign trade policy, law, rules, regulations, programs and procedures to improve the climate for small business exporters. This format was chosen since the primary objective of the White House Conference is "to develop a series of proposals that will chart an agenda for federal policies impacting small business for the decade of the 1980s and the 1990s."

In keeping with the President's additional charge--to see that these recommendations come from the small business community--these ideas were elicited from the people in Region VII who are knowledgeable about small business exporting. As a result, this is by no means a complete review of current government programs and policies. Many excellent programs, such as the work being done by the Department of Commerce field officers and the District Export Councils to assist and educate small business exporters are not discussed. Neither is there any mention of the excellent programs at the state and local level through the State Development Commissions and local Chambers of Commerce.

Space does not permit describing all of the programs or laws referenced in the recommendations. Therefore, it is assumed that the reader has a basic knowledge of, or access to, this information.

These recommendations are intended to serve two basic purposes:

1. To indicate the current areas of concern of small business exporters in Region VII, and
2. To present some alternative approaches to policies, programs and laws which are worthy of additional consideration.

Since this is a collection of ideas from around the four-state area, they are not always consistent or complete. This is not an alternative program; however, it does represent some of the best thinking of some of the best minds in the four-state area on the subject of improving the opportunities of small business in foreign trade.

The recommendations are organized in outline form under the general headings of:

1. Market Development
2. Finance
3. Transportation
4. Regulations
5. Legal Aspects
6. Other Aspects
Since it is hoped that this will be used as a "working document" by various staffs, the recommendations have been numbered consecutively from beginning to end for easier reference.

Names of some of the people in Region VII who have experience in foreign trade are also listed with the products or services their company provides and the specific areas in which they have the greatest knowledge and interest. Those with an asterisk next to their name have provided written input for this study. Various federal offices such as the Department of Commerce field offices and SBA Regional office have also provided considerable assistance for this study, although it is assumed that the reader is familiar with these sources.

The people on this list could be contacted for additional information, detailed suggestions or Congressional testimony in their areas of specific interest. The Department of Commerce field offices, District Export Councils and local foreign trade committees could provide additional names in each state. The author wishes to thank all those people, inside and outside government, who provided information, assistance and ideas for this study; with special thanks to Paula Henry of the Des Moines branch, U.S. Department of Commerce.

METHODOLOGY

HISTORICAL STATISTICS

Exports in the four states of Iowa, Nebraska, Kansas and Missouri have grown tremendously since the mid 1960s. They have been summarized from the State Export Series of the U.S. Department of Commerce. While these figures do not distinguish small and large businesses, they do give an indication of the product categories which account for the greatest portion of the area's exports and export growth.

Table 1 shows manufactured exports for the region. Total exports of manufactured goods in 1976 (the latest statistics available) were over $4.7 billion. The largest category was nonelectrical machinery with $1.1 billion. This is where most of the agricultural equipment sold from the region would appear. The second largest category was transportation equipment, with food and kindred products third. These represent the region's expertise in the agribusiness industry with equipment for raising, transporting and processing food products. Kansas also leads the nation in exports of general aviation aircraft. The other categories, representing the remaining third, indicate the diversity of manufacturing activity in the four-state region.

Region VII exports have grown on a percentage basis as well as in absolute dollars. The last two columns show the percent increase in the decade between 1966 and 1976 as well as the increase from 1972 to 1976. The total growth in exports for the decade was 442 percent, with 256 percent during the last four years. The 1972 statistics were not compiled in the same detail as the other years, so some growth factors are not calculable. The groups with the greatest growth in the decade included: rubber and plastic products (853%), petroleum and
Table 1
REGION VII GROWTH IN MANUFACTURED EXPORTS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>521</td>
<td>920</td>
<td>1387</td>
<td>1584</td>
<td>4066</td>
<td>256%</td>
<td>442%</td>
</tr>
<tr>
<td>Machinery, except electric equipment</td>
<td>150</td>
<td>266</td>
<td>288</td>
<td>397</td>
<td>1110</td>
<td>279</td>
<td>417</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>54</td>
<td>174</td>
<td>451</td>
<td>151</td>
<td>1060</td>
<td>658</td>
<td>609</td>
</tr>
<tr>
<td>Food and kindred products</td>
<td>139</td>
<td>164</td>
<td>233</td>
<td>312</td>
<td>634</td>
<td>203</td>
<td>386</td>
</tr>
<tr>
<td>Electric and electronic equipment</td>
<td>38</td>
<td>71</td>
<td>96</td>
<td>116</td>
<td>400</td>
<td>344</td>
<td>563</td>
</tr>
<tr>
<td>Chemicals and allied products</td>
<td>32</td>
<td>68</td>
<td>76</td>
<td>108</td>
<td>291</td>
<td>269</td>
<td>427</td>
</tr>
<tr>
<td>Fabricated metal products</td>
<td>15</td>
<td>29</td>
<td>44</td>
<td>37</td>
<td>147</td>
<td>397</td>
<td>506</td>
</tr>
<tr>
<td>Rubber and plastic products</td>
<td>4</td>
<td>15</td>
<td>24</td>
<td>25</td>
<td>128</td>
<td>512</td>
<td>853</td>
</tr>
<tr>
<td>Instruments and related products</td>
<td>--</td>
<td>6</td>
<td>12</td>
<td>*</td>
<td>41</td>
<td>N.A.</td>
<td>683</td>
</tr>
<tr>
<td>Primary metal industries</td>
<td>2</td>
<td>13</td>
<td>23</td>
<td>18</td>
<td>38</td>
<td>211</td>
<td>292</td>
</tr>
<tr>
<td>Misc. manufacturing industries</td>
<td>33</td>
<td>45</td>
<td>47</td>
<td>13</td>
<td>37</td>
<td>284</td>
<td>(18)</td>
</tr>
<tr>
<td>Stone, clay and glass products</td>
<td>8</td>
<td>19</td>
<td>19</td>
<td>18</td>
<td>37</td>
<td>205</td>
<td>194</td>
</tr>
<tr>
<td>Printing and publishing</td>
<td>4</td>
<td>13</td>
<td>13</td>
<td>10</td>
<td>24</td>
<td>240</td>
<td>184</td>
</tr>
<tr>
<td>Lumber and wood products</td>
<td>3</td>
<td>4</td>
<td>8</td>
<td>*</td>
<td>23</td>
<td>N.A.</td>
<td>575</td>
</tr>
<tr>
<td>Paper and allied products</td>
<td>2</td>
<td>6</td>
<td>7</td>
<td>*</td>
<td>19</td>
<td>N.A.</td>
<td>316</td>
</tr>
<tr>
<td>Petroleum and coal products</td>
<td>--</td>
<td>2</td>
<td>3</td>
<td>*</td>
<td>15</td>
<td>N.A.</td>
<td>750</td>
</tr>
<tr>
<td>Apparel and textile products</td>
<td>4</td>
<td>4</td>
<td>8</td>
<td>*</td>
<td>14</td>
<td>N.A.</td>
<td>350</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>--</td>
<td>3</td>
<td>4</td>
<td>*</td>
<td>8</td>
<td>N.A.</td>
<td>266</td>
</tr>
<tr>
<td>Leather and leather products</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>*</td>
<td>7</td>
<td>N.A.</td>
<td>700</td>
</tr>
<tr>
<td>Textile mill products</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>*</td>
<td>--</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>Tobacco manufactures</td>
<td>--</td>
<td>1</td>
<td>1</td>
<td>*</td>
<td>--</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

*Not available separately.
SOURCE: State Export Series, U.S. Dept. of Commerce
cool products (750%), leather and leather products (700%), instruments (683%) and transportation equipment (609%). It is interesting to note that the second largest category (transportation equipment) was also one of the top five growth areas, with a total dollar increase of $886 million in ten years.

The agricultural exports from Region VII are shown on Table 2. The fiscal year 1977 total was nearly $4.8 billion, with $1.65 billion in feed grain exports and $1.1 billion in unprocessed soybeans. Wheat and flour were third with just under $700 million. Growth in total agricultural exports almost matched manufactured goods for the decade with an increase of 439 percent. Exports of feed grains, soybeans, protein meal and meat all grew between 550 percent and 600 percent.

Although these four states are often considered primarily agricultural, their exports are 54 percent agricultural products and 46 percent manufactured goods. Iowa and Missouri are in the top half of the states in exports of both agricultural and manufactured goods. Iowa is the most active exporter of the four states with over $3.5 billion in total exports. Missouri is second with approximately $2.4 billion, while Kansas reports $1.6 billion and Nebraska $1.3 billion. These figures should continue to grow dramatically as more recent statistics become available. (For example, the Iowa Development Commission estimates Iowa exports in 1978 were over $4 billion.)

CURRENT STATISTICS

In order to determine the current status of small business exporters in the region, a survey was mailed to 1,863 companies in the four-state area in 1978. These firms are shown on their State Development Commission's list of manufacturers as having fewer than 500 employees and either actively engaged in, or interested in, international trade.

Table 3 shows the breakdown of these firms by state, and compares them to the total small business manufacturers in each state as determined by David Birch of MIT. Exporters range from 16 to 17 percent of Iowa's and Nebraska's small manufacturers to less than 6 percent of Missouri's small manufacturers.

Table 4 shows the responses from these companies. In Iowa, two metropolitan areas (Cedar Falls/Waterloo and Cedar Rapids/Marion) do their own annual surveys of local exporters and made the results available for this study. Added to the mailed replies, this gave Iowa the highest response rate of over 31 percent of the eligible firms. Kansas was second with nearly 23 percent. The lowest response rate came from Nebraska. Although, with nearly 16 percent replies, this is still an excellent return for this type of survey. With many small businesses overloaded with government forms and survey requests from many quarters, this level of response indicates a keen interest within the small business exporting community to assist efforts on their behalf.

Table 5 shows the raw data results of the survey. Each company was asked to list 1978 export sales and import purchases. Since these are primarily manufacturers, the imports are almost exclusive.
Table 2
REGION VII GROWTH IN AGRICULTURAL EXPORTS

<table>
<thead>
<tr>
<th>Product</th>
<th>Export Value/Millions of Dollars</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964</td>
<td>1968</td>
</tr>
<tr>
<td>Total</td>
<td>1066</td>
<td>1092</td>
</tr>
<tr>
<td>Feed grains</td>
<td>243</td>
<td>284</td>
</tr>
<tr>
<td>Soybeans</td>
<td>144</td>
<td>198</td>
</tr>
<tr>
<td>Wheat and flour</td>
<td>394</td>
<td>315</td>
</tr>
<tr>
<td>Protein meal</td>
<td>16</td>
<td>40</td>
</tr>
<tr>
<td>Meats and products</td>
<td>37</td>
<td>35</td>
</tr>
<tr>
<td>Lard and tallow</td>
<td>62</td>
<td>50</td>
</tr>
<tr>
<td>Hides and skins</td>
<td>20</td>
<td>32</td>
</tr>
<tr>
<td>Soybean oil</td>
<td>18</td>
<td>20</td>
</tr>
<tr>
<td>Cotton</td>
<td>19</td>
<td>4</td>
</tr>
<tr>
<td>Dairy products</td>
<td>19</td>
<td>13</td>
</tr>
<tr>
<td>Poultry products</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Vegetables and preparations</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Rice</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Cottonseed oil</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Tobacco, unmanufactured</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Fruits, nuts and preparations</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other products</td>
<td>87</td>
<td>95</td>
</tr>
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</table>

Table 3
PERCENT OF SMALL BUSINESS EXPORTERS

<table>
<thead>
<tr>
<th>Manufacturers*</th>
<th>Exporters</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iowa</td>
<td>4,125</td>
<td>691</td>
</tr>
<tr>
<td>Nebraska</td>
<td>2,144</td>
<td>370</td>
</tr>
<tr>
<td>Kansas</td>
<td>3,621</td>
<td>379</td>
</tr>
<tr>
<td>Missouri</td>
<td>7,901</td>
<td>452</td>
</tr>
<tr>
<td>Total</td>
<td>17,791</td>
<td>1,892</td>
</tr>
</tbody>
</table>

*Birch, David L.--MIT Program on Neighborhood and Regional Change.
Table 4
SURVEY RESPONSE RATE

<table>
<thead>
<tr>
<th></th>
<th>Sent</th>
<th>Replied</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iowa</td>
<td>691</td>
<td>215</td>
<td>31.1</td>
</tr>
<tr>
<td>Nebraska</td>
<td>370</td>
<td>58</td>
<td>15.7</td>
</tr>
<tr>
<td>Kansas</td>
<td>379</td>
<td>86</td>
<td>22.7</td>
</tr>
<tr>
<td>Missouri</td>
<td>452</td>
<td>82</td>
<td>18.1</td>
</tr>
<tr>
<td>Total</td>
<td>1,892</td>
<td>441</td>
<td>23.3</td>
</tr>
</tbody>
</table>

Table 5
SURVEY RESULTS: RAW DATA

<table>
<thead>
<tr>
<th></th>
<th>1978 Exports</th>
<th>1978 Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iowa</td>
<td>$356,804,320.79</td>
<td>$35,921,233.84</td>
</tr>
<tr>
<td>Nebraska</td>
<td>101,098,215.39</td>
<td>5,867,384.13</td>
</tr>
<tr>
<td>Kansas</td>
<td>67,498,400.01</td>
<td>2,511,754.43</td>
</tr>
<tr>
<td>Missouri</td>
<td>35,714,975.12</td>
<td>2,601,443.43</td>
</tr>
<tr>
<td>Total</td>
<td>$561,115,911.31</td>
<td>$46,901,815.83</td>
</tr>
</tbody>
</table>

components of manufacturing. A comprehensive estimate of import dollar volume would have to consider finished goods purchased for direct sale in the U.S. market as well as raw material and parts imports.

In a survey of this type, it is dangerous to project from the replies to an estimate of the total. Since the respondents selected themselves, there is no way of knowing whether they represent a true cross-section of the population. It could be argued that the two extremes—companies with no export dollar volume and companies with a large volume—would be the most likely to respond.

In order to examine the response pattern, the companies were divided into categories by their export dollar volume. Tables 6 and 7 and Figure 1 depict this breakdown. The zero category was identified separately. It includes both companies with no international trade activity during 1978 and those who only imported items. While companies with less than $100,000 in export sales dominated the responses, in no state were they predominantly companies with no export activity. On the other end, the number of companies who had more than $1 million in export sales did not seem to dominate the replies. Without any knowledge of the true distribution, the replies do not seem to be an unreasonable mixture.
Although no statistical significance can be attached to any projection from this sample base, an estimate was prepared of the total export dollar volume generated by all of the small business manufacturers in Region VII for 1978. Table 8 shows the results. If the other Iowa firms performed at the same level as those who responded, then Iowa small business manufacturers were responsible for over $1.1 billion of export sales in 1978. (This figure is comparable to estimates prepared by the International Division of the Iowa Development Commission.) Nebraska would be second, with approximately $650 million. Kansas small businesses would have contributed roughly $300 million of their state's export sales and Missouri small manufacturers almost $200 million. The small business manufacturers of Region VII as a whole would have contributed $2.3 billion to the U.S. balance of payments in 1978.

Table 6

<table>
<thead>
<tr>
<th>Export $</th>
<th>Iowa</th>
<th>Nebraska</th>
<th>Kansas</th>
<th>Missouri</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>25</td>
<td>8</td>
<td>13</td>
<td>16</td>
<td>62</td>
</tr>
<tr>
<td>1 - 50,000</td>
<td>57</td>
<td>18</td>
<td>25</td>
<td>26</td>
<td>126</td>
</tr>
<tr>
<td>50,000 - 100,000</td>
<td>24</td>
<td>6</td>
<td>7</td>
<td>11</td>
<td>48</td>
</tr>
<tr>
<td>100,000 - 250,000</td>
<td>34</td>
<td>7</td>
<td>19</td>
<td>6</td>
<td>66</td>
</tr>
<tr>
<td>250,000 - 500,000</td>
<td>24</td>
<td>7</td>
<td>7</td>
<td>8</td>
<td>46</td>
</tr>
<tr>
<td>500,000 - 1 million</td>
<td>17</td>
<td>8</td>
<td>5</td>
<td>5</td>
<td>35</td>
</tr>
<tr>
<td>1 million plus</td>
<td>34</td>
<td>10</td>
<td>10</td>
<td>8</td>
<td>58</td>
</tr>
<tr>
<td>Total Number of Companies</td>
<td>215</td>
<td>86</td>
<td>82</td>
<td>441</td>
<td></td>
</tr>
</tbody>
</table>

Table 7

<table>
<thead>
<tr>
<th>Export $</th>
<th>Iowa</th>
<th>Nebraska</th>
<th>Kansas</th>
<th>Missouri</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>12%</td>
<td>14%</td>
<td>15%</td>
<td>19%</td>
</tr>
<tr>
<td>1 - 50,000</td>
<td>26</td>
<td>31</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>50,000 - 100,000</td>
<td>11</td>
<td>10</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>100,000 - 250,000</td>
<td>16</td>
<td>12</td>
<td>22</td>
<td>7</td>
</tr>
<tr>
<td>250,000 - 500,000</td>
<td>11</td>
<td>12</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>500,000 - 1 million</td>
<td>8</td>
<td>14</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>1 million +</td>
<td>16</td>
<td>7</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
FIGURE 1. SMALL BUSINESS EXPORTS BY EXPORT DOLLAR VOLUME

- Export Dollar Volume per Company

**Region VII**

- A: $0
- B: $1 - $50,000
- C: $50,000 - $100,000
- D: $100,000 - $250,000
- E: $250,000 - $500,000
- F: $500,000 - $1 million
- G: $1 million plus

**Iowa**

**Kansas**

**Nebraska**

**Missouri**

NUMBER OF COMPANIES

EXPORT DOLLAR VOLUME PER COMPANY
Table 8
ESTIMATED 1978 EXPORTS GENERATED BY SMALL BUSINESS

<table>
<thead>
<tr>
<th>State</th>
<th>$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iowa</td>
<td>1,142</td>
</tr>
<tr>
<td>Nebraska</td>
<td>645</td>
</tr>
<tr>
<td>Kansas</td>
<td>298</td>
</tr>
<tr>
<td>Missouri</td>
<td>197</td>
</tr>
<tr>
<td>Total Region VII</td>
<td>$2,282 million</td>
</tr>
</tbody>
</table>

No attempt was made in this study to examine agricultural export sales. In one sense, all agricultural sales come from small businesses since even the largest farms have fewer than 500 employees. However, the grain companies which control most of the export sales are large corporations. The reader will have to determine whether 1978 sales of agricultural commodities should be added to the manufacturing statistics above in arriving at the total small business contribution to export sales.

CURRENT EXPORT PROMOTION ACTIVITIES

Responsibility for export promotion activities is shared by federal, state and local groups. In states such as Iowa, these groups coordinate their efforts to maximize the benefit to the exporting community. The following represent only some of the areas where this cooperation has been effective in the Iowa experience.

Local Foreign Trade Committees

The Des Moines branch of the Department of Commerce has been extremely active in helping Chambers of Commerce establish and promote local foreign trade committees. The five committees which meet monthly have coordinated their schedules so they meet at different times during the same week. The Des Moines Field Office coordinates with the committees so that one speaker from the Commerce Department, State Department, Exim Bank, or visiting foreign nationals can attend all five committee meetings in one week. This enables the local committees to fill their programs with expert speakers who would otherwise not be able to justify the trip to Iowa.

Foreign Trade Missions

The International Division of the Iowa Development Commission works closely with both the Des Moines Field Office and the local trade committees. Their office plans the itinerary for at least one foreign trade mission each year. The trip is promoted through the local trade committees and planned using the Industry Organized, Government
Approved (IOGA) program of the Commerce and State Departments. The Des Moines Field Office helps coordinate plans and schedules with the various embassies and Washington staffs. Additionally, the participating companies cover the expenses for a person from the Iowa Development Commission to make a preliminary trip to each embassy. He briefs the embassy staff on the products of the companies and leaves product literature. A Development Commission International Divisions employee accompanies each mission as Director, making travel arrangements and coordinating with the embassy staff.

Seminars

All three groups--the Des Moines Field Office, International Division and local foreign trade committees--hold seminars in different parts of the state on aspects of international trade. The Department of Commerce office often acts as unofficial coordinator keeping everyone informed on which groups have seminars planned so they do not overlap schedules or topics.

World Trade Week

The Iowa District Export Council (DEC) coordinates their activities with the local foreign trade committees and others. The chairmen of the local committees are invited to the DEC meetings on a regular basis. Certain educational activities such as the annual World Trade Week promotions are organized jointly. The DEC arranges for art work, posters, billboards and media materials used on a statewide basis. The trade committees use these in their local activities--displays, seminars, equipment exhibits, newspaper/radio/TV coverage, etc. Members of the Iowa Development Commission attend DEC meetings regularly, and involve DEC members in preparations for the annual Governor's Export Conference.

Direct Company Contact

Field officers of the Department of Commerce office spend much of their time traveling the state calling on companies to discuss international trade. Many small companies are first exposed to the idea of exporting through their visits. The Field Office staff will help the company evaluate whether they should expand into international trade and provide them with the data available through freight forwarders, export management companies, international banking departments, and introduce them to those located in Iowa. The Iowa Development Commission and the international banks often refer companies to the Commerce staff for assistance.

Other organizations such as Center for Industrial Research and Service (CIRAS) located at Iowa State University in Ames also have field officers working with small business. They recently requested basic training for their staff on when a company should examine exporting and where to obtain further information. The Department of Commerce staff prepared a full day briefing for the CIRAS people, who now are encouraging some of their manufacturing clients to explore exporting.
The type of cooperation between these various private and government groups is the main reason for the export awareness of Iowa small businesses and the level of Iowa exports. (Cedar Rapids, Iowa exports more on a $/capita basis than any other city over 100,000 population in the United States.) The Department of Commerce reports that Iowa companies use more of the Department's programs and has more participants in Department-sponsored foreign trade shows than any other state in the U.S.

Kansas City has a very active international trade community which also sponsors seminars and exhibits. In addition, they have a Foreign Trade Zone—one of the first in the U.S. not near a major port. Shipments of products and parts are received in bond and used in manufacturing or prepared for distribution before clearing customs. Any items reexported are not subject to customs duties. The Kansas City zone is unique in that it is the only major zone not supported by either a large firm or government body. Unfortunately, this is the main reason it has not been more of a financial success. The parent company says its Foreign Trade Zone division has not made a profit since its creation in 1973. Some very important lessons can be learned from the experience of the Kansas City zone.

The private and government groups active in providing education and services to the export community are well equipped to assist a small company that wants to become involved in foreign trade. The biggest problem they face is identifying companies who should be exporting and convincing them to try it.

ANALYSIS OF DATA:
PROGRAM/POLICY RECOMMENDATIONS

MARKET DEVELOPMENT

U.S. Commercial Officers

Recommendation No. 1. Modify the President's reorganization proposal to assign the responsibilities for all embassy commercial assignments from the State Department to the new Department of Trade and Commerce. In small countries where the State Department currently has dual political/commercial assignments, give one commercial officer the responsibility for several countries.

The President's reorganization proposal acknowledges the difficulties many American businessmen have reported in obtaining assistance on commercial transactions from the State Department diplomatic corps. However, the proposal only goes part way toward remedying this by reassigning only the commercial attaches in the major trading partner countries to the Department of Trade and Commerce. The transfer should apply to all countries. Otherwise, trying to coordinate certain activities such as support for U.S. trade missions could be next to impossible. If half the countries on the trip had the commercial activities reporting to the State Department and the other half to Commerce, planning would be extremely difficult. It would be better to have one commercial officer from Trade and Commerce responsible for two or three small countries rather than cross organizational boundaries.
Recommendation No. 2. Embassy commercial officers should be recruited from business schools and private industry.

The State Department traditionally has not taken advantage of recruiting students with Bachelor's or Master's degrees in Business or people with private industry experience as has the Department of Commerce with their Trade Specialists and in their Industry and Trade Administration. As a result, many new MBAs interested in learning international business and living outside the United States have gone into international banking. After one year at headquarters, they are normally assigned for two years at a time to bank offices in different countries. This pattern has earned the name of "the foreign service of banking." Some of these students would make excellent Commercial Officers if actively sought. Government recruiters should give priority to students with actual business experience, either prior to returning for their Master's degree or during summer internships.

Even if the students chose to leave for private industry after three or four years, they would have had the opportunity to learn the cultures, business communities and needs of the local economies. The embassy would have had the benefit of some of the newest ideas from the top business schools and would have created government "alumni" in private business who are familiar with the programs and procedures. They would be in an excellent position to assist new companies investigating exporting or provide references for the new Commercial Officer in the embassy. Some of these students might choose to remain in the foreign service either in commercial or diplomatic careers. This would be a net gain to the government since currently these business school graduates are not actively exposed to foreign service careers.

Recommendation No. 3. The conflict of interest regulations should be modified to permit business people to serve two or three years as commercial officers and then return to private industry.

The Department of State has not only failed to actively recruit business students, they have also failed to recruit people already experienced in international business. Part of this stems from the conflict of interest rules which are intended to prevent members of a given industry from serving as government regulators of that industry and later return to it. While it is not a good idea to have the "rabbit guarding the lettuce patch," commercial assignments in the embassies are not subject to such a conflict of interest. Again, the Department of Commerce has recognized this in hiring many people from private industry into their State District Offices.

A number of international middle-management executives might enjoy the opportunity to broaden their knowledge of a country they have worked in—or try a new part of the world. The embassies would benefit from the experience and contacts of these executives, both during their tenure and after they return to private enterprise.

The conflict of interest issue which rose in the regulatory agencies has created a combination of laws, regulations and practices which have inhibited the exchange of talent between government and business in areas such as embassy assignments, where each would benefit.
Recommendation No. 4. The program to rotate embassy Commercial Officers into the State District Offices and the State Officers into foreign posts should be dramatically expanded.

It would be valuable for the commercial officers in the embassies to spend one tour of duty every few years in a state office contacting small businesses on the U.S. side. Coordination of trade missions and information requests would be easier if the personnel overseas had recent firsthand experience with the other end of the communication chain. On the other side, field officers would have a better idea of reasonable requests for overseas business assistance if they spent some time in foreign assignments. An effort should be made to rotate people into states (or countries) which trade the same categories of products and services as the post they just left.

Recommendation No. 5. The duties of an embassy commercial officer should be redefined after careful study of the current program requirements and business community expectations. Business leaders should be involved in this process.

Part of the dissatisfaction of the business community with the support provided by the embassy staff is the result of significant differences in what the businessperson expects and what the embassy staff feel they are committed to do. This is the time for a complete review.

For example, the Trade Mission literature says that the embassy staff will circulate product brochures provided to them and schedule a series of appointments for the business representative during the Trade Mission's two or three day stay in the country. Some embassy staffs interpret this to mean that they will circulate the literature and signup anyone who is interested. Other embassy staffs, and some businesses, expect the embassy to actively search for potential customers and/or dealers to fill the representative's schedule. Some embassy staffs attempt to sign up as many as possible, others screen the respondents to see if they really should talk to this company or not. The variety of expectations and results is bound to leave some business representatives feeling shorted and some embassy staffs feeling abused.

U.S. Trade Centers, Trade Shows And Trade Missions

Recommendation No. 6. Review the current management of U.S. Trade Centers for the quality of the top managers and staff and the type of incentives provided in their compensation.

Participants in Foreign Trade Missions and Trade Shows report that U.S. Trade Centers often charge more for their services and provide less satisfactory support than the U.S. Embassies or local trade show organizers. Foreign Trade Missions find that the Trade Center staff do even less active promotion than the embassy commercial officers in attracting potential clients or dealers. Once the Mission is booked, they seem to do the least amount of work possible. At the same time, the costs of interpreters and social functions at the Trade Center are considerably higher than most business representatives expect for the country or area where the show is held.
The executive compensation package for Trade Center managers should also be reviewed. If the manager is being rewarded for the number of functions held at the facility without reference to the quality of the services, this may need to be changed. One suggestion would be to have Trade Mission or Trade Show participants prepare a specific description of the support services desired before attending the show, and fill out an evaluation of the Trade Center's performance relative to the initial request when they leave. This would increase communication between the business executives and the management and provide a review of the quality of a manager's performance for staff evaluation purposes.

Recommendation No. 7. The U.S. government should establish a pool of funds to support small, new-to-market companies who want to attend trade shows.

Companies who participate in international trade shows are aware of the difference in the financial support other nations give their company participants. Of course, these cover the entire spectrum. Some governments pay for all expenses (equipment transportation, travel/living expenses of company sales representatives and show participation fees) plus an incentive paid directly to the company. The United States defines the other extreme where the companies pay for everything except the return freight on any unsold equipment. Most small businesses find these costs too high to allow for participation in these shows.

A study should be made of the support offered by other countries, and a policy established which places the United States in the center of current practice. Canada, for instance, pays for 50 percent to 100 percent of the representative's transportation, air freight for product displays and the show participation fees. The Canadian embassy staff provides complete logistics support, including airplane and hotel reservations. When companies see this type of export sales encouragement on the part of neighboring governments, it is easy for them to assume that the United States is not interested in increased U.S. sales.

Recommendation No. 8. Train embassy commercial officers to support trade missions by having them accompany an industry organized mission.

Embassy commercial officers should have the opportunity to go on an industry organized trade mission, where the businesses are paying their own way, to have an appreciation of the problems and expectation of mission participants. One trip on the "other side of the table" would help immeasurably in government/business communications.

Recommendation No. 9. Devise a procedure where the people who are paying for the trade mission trip have greater control over the costs incurred.

One of the frustrations the commercial officer who accompanies an industry trade mission will encounter is the complete separation between
those who control the spending and those who pay the bills. Mission members continually complain that the embassy organized social functions include far too many friends of embassy staff and political figures who have no control over purchasing. They feel the embassy staff looks at the trade mission functions as "free," since their budget center is not paying the bill.

One Iowa mission to Latin America discovered from the interpreters that the embassy had charged for more than twice the number of hours they had actually worked. This confirmed the participant's suspicion that the embassy was, in fact, trying to subsidize their operations by over-billing the trade missions. In three years the cost of the average trade mission has doubled. This level of increase cannot be explained by currency valuations and local inflation alone.

The business participants expect to pay their own way, but companies have different views on what spending levels are appropriate. A large company may be willing to spend more money, but $5,000 and two weeks of an executive's time is quite a commitment for a small business. Somehow, the accounting control procedure must be changed to allow greater control of the expenses by those who are footing the bill.

Cooperative Marketing Associations

Recommendation No. 10. Create a cooperative marketing effort for manufacturers and service industries similar to the agricultural commodities promotion programs established through PL480.

Industry associations and state development organizations should be able to establish nonprofit international market development subsidiaries with matching funds from the Department of Commerce. These subsidiaries should develop offices in various countries to supply marketing assistance to small companies. This assistance could include financial support for companies to attend trade shows, technical seminars on the state of U.S. technology and industry-trained staff to help with customer or dealer contacts.

This program could be a simple extension of the current one financed through the soft currency program of PL480. A larger percentage of these funds could be set aside for market development efforts -- for the manufacturing and service industries as well as agricultural commodities. The soft currencies could be exchanged for hard currencies to the extent necessary to support marketing operations in the advanced countries. (This is already done to some extent.) The same criteria and program administration for the Cooperators could be utilized.

The agricultural cooperator program has been developed over a long period of time and proved successful. This formula should be utilized rather than try to "reinvent the wheel."
U.S. Tourism Promotions

Recommendation No. 11. Reorganize the U.S. Travel Service to interface with local travel agents and hotels as well as the state tourism bureaus.

Tourism is the third largest industry in the United States and the U.S. is now the best bargain for the money in the western world. This is the ideal time to increase tourism promotion at all levels.

Recommendation No. 12. Create more international airports in tourist areas. Encourage foreign tourist travelers to fly directly to inland cities, lowering the congestion at New York and Chicago.

Recommendation No. 13. Encourage banks to provide more foreign currency exchange facilities at airports and in tourist areas.

Department of Commerce Programs

Recommendation No. 14. In reviewing the Trade Opportunity Program's (TOP) classification system, utilize the experience of businesses who have had difficulty identifying their products in the current code well enough to receive valuable leads.

Efforts such as the one currently underway to revise the TOP classifications should not be carried out by government agencies in a vacuum. Businesses which have been involved should be contacted for suggestions on how to improve the system.

Recommendation No. 15. Review the New Product Information System (NPIS) program to extend coverage to more products.

The current program requires that the product not be sold in the United States for more than two years to qualify. Many small companies working on new product configurations need more than two years to define the final product and establish a large enough domestic market to justify exporting. This definition has arbitrarily eliminated some products from this program which are genuinely unique in technology and/or application.

Recommendation No. 16. Route trade leads through the industry specialists of the Commerce Department.

Under the new system, the trade leads are being routed into a general pool rather than through the industry specialists in that area. The people working with the general pool do not know the companies in the industry who should learn about a specific lead quickly. Since the embassies of several countries often obtain the leads at the same time, it is important to respond quickly before companies from other countries lock up the order. Under the new system, the key U.S. companies in a given technology are not able to obtain the leads fast enough to respond to international competition.
Recommendation No. 17. Use the NPIS program as a model to establish a product introduction system for new-to-market companies with products which are not considered new technology.

Several companies feel that the NPIS program is the only government information dissemination program which produces valuable sales leads. The difference is that NPIS uses product descriptions and photos instead of numerical code classifications. When a foreign prospect can read a description and see a picture, he has a much better idea of what the product will actually do. This format also bridges the gap for those products which "fall between the cracks" of a numerical code classification. Those companies who have used the NPIS program are amazed at the variety of responses from companies who have seen the description in embassy publications and private magazines. Many of these publications are ones the company would never have been able to identify on its own for placement of advertising copy.

AID Specifications And Bids

Recommendation No. 18. AID bids should be issued in two phases. The first publication should be a basic description of the product and the functions which any machinery will be required to perform. After receiving responses, detailed specifications should be issued as they are now.

AID specifications are currently issued in such a detailed form that machinery which could perform the same function is eliminated from the bid. Small companies feel they have no chance at AID bids because the multinational companies who have representatives in various foreign countries have assisted the local officials and/or the AID officer in writing the specifications. In the process, they have effectively eliminated any other company's products from meeting the specifications. (This same complaint has been made about U.S. government bidding procedures.)

Recommendation No. 19. Include provisions for sales of spare parts and repair services in the AID contracts, and adjust the regulations to permit the local agent to make a profit on sales of repair parts and service.

Without incentives for the companies to provide after sales service support for the equipment, many countries view equipment purchased under AID contracts as one-time sales that will not be useful after the first part breaks down.

Recommendation No. 20. Remove the political restrictions from performance of AID contracts.

Recently, AID awards to Egypt were delayed until after Egypt signed the Middle East Peace Pact. These were contracts which had been advertised and awarded, but funds were delayed to pressure the government into signing.
This is part of the issue of trade versus foreign policy discussed later. The U.S. government should honor its trade commitments, even concessional ones, once they have been made. The companies receiving the equipment will not be convinced they have a valid contract even after it is executed if the U.S. government plays political games with it.

**Recommendation No. 21.** Lower the level of bid and performance bonds required from small companies.

With inflation, it has become impossible for small companies to post the bid bonds and performance bonds that are required for many overseas contracts and still be competitive in price. One recent bid would have required a performance bond of $250,000 for 18 months from a small company. The cost of posting the bond for a company which must borrow at commercial interest rates is considerably higher than for large companies that can use commercial paper to finance the bond. That difference in cost alone may make the difference between who can submit the lower bid.

Small companies who have a good record of project completions should be able to post a smaller bond, or obtain government-supported financing at commercial paper levels. Companies who are offering their standard manufactured goods without unusual modifications should be exempt from bid and performance bonds. Where such bonds are required by foreign governments, vigorous negotiations should be undertaken by U.S. Embassy officials to get the bonding requirements reduced.

**Training Of Government Staff**

**Recommendation No. 22.** All government staffs which work with small businesses should have basic training in evaluating whether a company should investigate becoming involved in foreign trade.

Federal government agencies who are counseling small businesses from their inception are often in an excellent position to suggest that a company should expand into exporting. These people have gained the confidence of the entrepreneur and their advice will be seriously considered, while advice from someone new may be ignored. In this basic training, there should be a discussion of when a company is secure enough in its domestic market to be able to afford the investment of time and money required for foreign market development. It should also identify the key people in their area who can review a company's situation and give an expert opinion on whether they should expand into exports.

The variety of federal, state and local groups equipped to educate and assist small companies interested in exporting is quite sufficient. The primary problem is getting individual companies seriously interested in exploring the export market potential. The SBA, SCORE, ACE and OMBE counselors who have early contact with the small businesses are in the right position to interest such companies when they are, in fact, qualified for an export development program.
Recommendation No. 23. As government agencies increase their export assistance programs for small business and the advertising of those programs, they should be careful not to eliminate another category of small business—the export management firm.

There is always a fine line between assisting and replacing. As exporting moves into the spotlight of government concern, it is natural that more programs will be suggested to provide services at government expense. In the eagerness to aid the small business manufacturer, the government could place the small company which sells its expertise at increasing exports on the endangered species list.

Even if the authors of the programs are careful not to duplicate private services, the advertising and promotion of those programs may have the same effect. Already the increased promotion of government assistance programs has caused some small firms to question the value of their export management companies (EMCs). This is healthy if the EMC is not providing adequate service, and the comparison is accurate. However, if the busy entrepreneur simply hears that the government will locate a dealer for him for $25 per country and all the sales leads he wants for $.06 per name, he may misjudge the level of "free" assistance available and try exporting on his own. If this is a company which has used an EMC before, they may realize the error and return to the EMC if they do not have the staff to handle the transactions on their own. However, if the company is new to exporting and their initial experience is a disaster, it may be a long time before anyone can convince them to try exporting again under any circumstances.

Government Matchmaker Conferences, Department of Commerce field officers, international bankers, freight forwarders and others are often helpful in identifying companies which need the assistance of an EMC and steering them in the right direction. However, some of the promotional materials already issued and any new ones which are developed should be reviewed carefully for potential misinterpretation. The new Tailored Export Marketing Plans (TEMP) program outlined in the Business America issue of August 13, 1979 will be especially prone to misunderstanding if presented in capsule form.

A number of EMCs in the four-state region have already encountered companies with exaggerated ideas of what the government programs represented. It is tragic to see companies with good export potential headed for trouble. The company will probably lose some money, the country will lose additional exports and the EMC will lose a current or potential customer.

Trade Relationships

Recommendation No. 24. The approach to establishing normal trading relationships should be reversed. Instead of granting trade as a special favor (i.e., Most Favored Nation [MFN] status), trade should be assumed and only denied after serious consideration.

Since MFN status actually represents normal trading relations, perhaps it should be renamed and granted automatically as part of
normalized diplomatic relations. This would force the emphasis to be placed on denial of any aspects and the reasons for them. In reversing the approach, normal trading relations will automatically have top priority. Other foreign policy objectives, such as the Human Rights Policy, will have to present a strong case to justify revocation of trade relations.

There is no argument that under certain conditions (i.e., Uganda under Idi Amin) trade must be halted as part of U.S. refusal to condone certain activities. However, the business community feels the State Department has considered blocking trade as a minor action to be used as a first step in pressuring a foreign government to conduct their internal affairs in accordance with U.S. philosophy. Unfortunately, markets once lost are very difficult to regain, ultimately damaging the U.S. more than the other trading partner.

Hindrances to trade must be considered extreme measures with long term effects. Reversing the debate from "why trade" to "why not trade" will help give it the proper priority.

Recommendation No. 25. Review the developing country designation procedure to see if the concept of preferential access to the U.S. market is valid, and if the list should be revised more frequently to adjust for progress in the economies of these countries.

The entire idea of encouraging other countries to sell in the U.S. market while U.S. manufacturers are prohibited from selling in their markets is difficult for U.S. exporters to understand. This is especially true for companies like Nicholl Brothers, Inc. who find that the U.S. market is dominated by products from a developing country where Nicholl Bros. is not allowed to sell. If manufacturers from one country have a majority of the U.S. market for that product, do they really need to be protected from U.S. competition in their own country?

Recommendation No. 26. The Arab boycott legislation should be replaced by an addition to the Multinational Trade Negotiations (MTN) trading rules prohibiting any company from signing a third-party boycott agreement.

Third-party boycotts, like international hijackings, are problems which must be handled by all nations working together. As long as one nation will give hijackers asylum, planes from all nations are in jeopardy. As long as a country trying to enforce a third-party boycott can obtain goods and services from countries which allow the signing of such agreements, those countries—and their companies—will get the sales.

The process of forcing a company to take sides in a dispute between two sovereign nations is repulsive to the U.S. philosophy, as it should be to the major trading partners. However, one must be realistic. The United States has only three choices:

1. Improve the world's trading ethics by obtaining an international agreement not to participate in third-party boycotts.
2. Allow U.S. companies to operate under the current international trading standards.

3. Unilaterally continue to prohibit U.S. firms from signing these agreements and be prepared to forfeit all sales of products and technology which the Arabs can obtain elsewhere.

Evidence is beginning to build that the Arabs are shifting more and more purchases of goods and services to those countries which allow their companies to comply with their documentation requests. This issue is not going to fade away, as many Congressmen hope. The Arabs are searching for alternatives rather than changing their requirements.

Recommendation No. 27. Replace the Foreign Corrupt Practices Act with an addition to the MTN trading rules.

The same problem exists with the Foreign Corrupt Practices Act as with the Arab boycott legislation. The act does not define closely enough such terms as "favors" which are and are not legal to give to an employee who is a foreign national. The United States is the only nation which penalizes its businessmen by imposing its rules of business conduct on the customs of other countries.

In many countries the officials are expected to accept "favors" for expediting paperwork, etc. Their salaries, like those of waiters and waitresses in this country, assume additional income from the "customers." It is as absurd for the U.S. to penalize its citizens for following the local customs as it would be for Belgium to penalize its businessmen for leaving tips in U.S. restaurants. (In Belgium, a service charge is automatically included in the food bill and it is considered an insult to leave a tip.)

The U.S. should negotiate internationally accepted definitions as to what constitutes undue influence on a business associate or government official and enforce common standards.

FINANCE

Existing Programs

Recommendation No. 28. Establish a program to educate local bankers and lawyers on the basics of international trade transactions. These professionals, in particular, should recognize the standard forms and know how to work with the international divisions of their correspondent banks or major law offices on specific problems.

Bankers and lawyers outside of the major metropolitan areas need to have a basic understanding of international business so they are not discouraging to small businesses interested in exporting. Currently some local bankers are telling their clients not to get involved in foreign trade, and even threatening to withdraw their domestic credit lines if they do so. Most banks in the smaller towns will not send
personnel to the international finance seminars, even when they are in
the same area. (Possibly they are reluctant to acknowledge their own
lack of training in front of the local businessmen.) As a result, most
exporters are having to deal directly with the major city banks, often
in defiance of the local banks instead of with their encouragement.

Perhaps the best way to reach these nonmetropolitan bankers is
through their workshops and conventions where many of them update
their commercial skills. Presentations at these meetings by ExIm bank,
OPIC, FCIA and major international banks would be effective. Educa-
tional programs such as the University of Wisconsin's continuing educa-
tion offerings to bankers should also have an international banking
section.

Attorneys, too, often act as key advisors to small businesses and
they should have the training to encourage their clients to investigate
foreign trade opportunities. Currently many of them do not have
enough knowledge in this area, and yet they are not willing to attend
local and state level seminars or training sessions or to call in other
qualified consultants. Special attention should be given to bar associa-
tion meetings and legal continuing education programs.

DEFINITIONS:
ExIm--Export/Import Bank of the United States. Provides
export financing directly and through local commercial banks,
normally in the form of bank guarantees.

OPIC--Overseas Private Investment Corporation. Assists
U.S. companies investigate joint ventures and investments
outside the U.S.

FCIA--Foreign Credit Insurance Association. Provides insur-
ance against political and commercial risk on credit extended
to foreign buyers of U.S. goods and services.

Recommendation No. 29. The lending authorization of the Export/
Import Bank of the United States (ExIm) should not be classified as a
current expenditure in the Congressional budget.

One of the key problems holding down the ExIm Bank support
levels is the way Congress accounts for it in the budget. The total
amount of ExIm lending authorization is considered a cash outlay, just
as money appropriated for welfare payments. Since ExIm is self-
supporting on its loans, this is completely inaccurate. ExIm should be
able to retain its receipts for the next year as loanable funds for the next
year rather than returning all of their receipts to the Treasury. Many
of the Bank's activities involve loan guarantees which become liabilities
only when the principal is unable to repay the loan. A formula should
be developed to estimate the actual cash outlay for grant funds, admin-
istrative expenses and an allowance for bad debts. This is the amount
which should be charged to the budget.

Recommendation No. 30. ExIm Bank loan authorizations should be
raised to a level comparable to that of major trading partners.
Despite the much publicized increases in ExIm lending authority, the United States still falls far behind Japan and Western Europe in credit available to support export sales. U.S. firms have only 10 percent of the government loan guarantees available to the Japanese exporter. West Germany, France, England and Belgium all make more funds available than the United States on an absolute dollar basis. In terms of a more accurate measurement--credit lines as a percent of export sales--the U.S. is even farther behind. It is amazing to realize that the largest trading country in the world provides credit lines roughly equal to those of the Italian government. ExIm credit support should be brought in line with that of the rest of the world and U.S. businesses encouraged to use credit availability as a sales tool to increase exports.

Recommendation No. 31. Press for an international agreement on predatory financing.

Although the nations involved in the Multinational Trade Negotiations say they want to avoid a trade war, it is close to the beginning of one in the financing terms offered through the central banks. Tales abound of major contracts awarded to the company offering the best financing terms, even though their equipment does not match the specifications as well as another bidder or the price is not the lowest.

A small business in Iowa that has lost contracts to competitors offering lower financing terms received a letter dated July 9, 1979 seeking an American representative for a line of Argentinian steel processing equipment. Among the advantages of this line of equipment was the following:

**Excellent Financing:** Since the Argentinian government is actively encouraging exports, with 15 percent downpayment, the balance can be financed for up to 5 years at 8.5 percent simple interest.

When a foreign government offers dollar financing more than two points below the current U.S. prime rate, it is difficult for small American companies to compete either at home or abroad.

New Programs

Recommendation No. 32. Revise the credit loan analysis criteria for service companies.

The exporting community requires the assistance of a number of service companies, such as freight forwarders, export packers, export managers, document couriers and others. Without these service companies, exporting would be difficult if not impossible. Yet service companies have one common problem. They have difficulty obtaining adequate loan financing for their operations because their assets are people, not machines.

As the United States moves into the post industrial society, more and more of the Gross National Product is generated as services rather
than products. This is in conflict with the traditional definitions used in the banking community as to the sources of value. Current banking practices were developed in England during the 1800's when the Industrial Revolution was beginning to explode. The traditional land holders defined value in terms of the number of acres they owned. The new industrialists defined value in terms of the machinery and buildings they used to create products plus the product inventory on hand. These became the two basic sources of value in the new banking system. Money could be loaned against things which could be lifted, kicked, mined, or plowed. If the loan was not paid back, the banker was given the legal right to take title to the lands or goods and sell them to the highest bidder in order to recover the loan. Therefore, the banker was willing to loan somewhat less than the full face value of the properties. These definitions and procedures have been refined over the years in both law and practice.

The service company of the post industrial society poses a problem for these traditional definitions. While a customer of a service company recognizes the value of the talent and knowledge of the people involved, the banker finds no value there under his traditional definitions. If a manufacturer buys a $30,000 machine, he can borrow against it at the bank. However, if the service company signs an employment contract with a $30,000 per year specialist, he has no collateral for the banker.

The problem of how to provide adequate financial support for service companies is extremely difficult in that it deals with the fundamental definitions of value, risk and collateral in the banking system. Adjusting these definitions will not be easy or readily acceptable, but it will be essential if the Western World is to make the transition successfully into the post industrial society.

TRANSPORTATION

Containers

Recommendation No. 33. Review the current proposals for universal container pooling very critically. The suggestions which would limit the amount of control each container company has over the location and availability of its own equipment could be more detrimental than helpful.

One key problem for the international transportation companies is where to locate their empty containers between trips. Railroads are beginning to complain about moving the empty containers inland. If they are going to move them, the railroads themselves want to control how many containers go where and when. One suggestion is that the railroads have control of the containers, and each container supplier be given credit for X number of units. However, when the suppliers want to draw from the pool, they would have no idea whether the container delivered would be one of their own or someone else's, and they would have no control on the delivery date.
Currently the container companies and container leasing firms compete on the basis of equipment quality and availability. Many exporters receive a confirmed order in the form of a letter of credit or import license with a specific expiration date. Often the customer or his government has not consulted with the supplier on how much time is necessary to fill the order and the schedule is very tight. The container company with a unit nearby will usually get the order. In other cases, the supplier needs a certain sized unit, or a new, clean unit. If the railroad's proposal for universal pooling is adopted, part of this competition would be lost. The container company will no longer be able to expedite delivery to a customer to meet a tight schedule.

In this age of scarce energy, transportation costs are an increasingly important part of an export shipment's cost. The objective of making the most efficient use of container positioning is valid, but the proposal should try not to eliminate the incentive to compete for customers by providing high quality equipment and prompt service when necessary.

Recommendation No. 34. Develop a method for making containers available to companies in small communities.

In Iowa, 80 percent of the exporters are located in communities with less than 10,000 population. The current system makes it nearly impossible to provide containers to these companies. Containers are a safer, lower cost and more efficient means of transportation for many products. Yet many of these companies are still building custom wooden crates because they cannot obtain containers. The export price of these goods would be lower and more competitive in the world market if modern container shipping methods were available.

Recommendation No. 35. Provide discounts for export shipments, particularly of containers. Allow consolidation of unit trains across lines and over a larger distance.

Railroads in other countries often provide discounts for export shipments, partly as a national incentive to exporters and partly to build a steady volume business. This is especially true for container shipments. In the U.S., however, the railroads resent handling 20-foot containers at all. The fragmentation of the rail lines and lack of cooperation between them makes consolidation of 50 or 100 car unit trains for export extremely difficult for small shippers outside major metropolitan areas.

Transportation Brokerage Exchanges

Recommendation No. 36. Establish a series of centralized exchanges for matching cargoes and available modes of transportation.

A series of exchanges, similar to the barge exchange, should be established for trucks, ocean containers and air cargo containers. The rail car exchange system should be reviewed to see if it would need restructuring to be comparable. A central location, perhaps patterned after the Chicago Board of Trade, with "pits" for each mode of
transportation might be the most efficient. Brokers could match ship-
ments with available trucks, trains, containers, etc. This would seem
to be the most efficient way to match the shipper's needs with the
combination of time, mode and cost options available.

Standard Dimensions

Recommendation No. 37. Negotiate international standards on such
things as container weights and sizes as part of the Multinational Trade
Negotiations package and enforce them on U.S. lines.

At a recent meeting between the railroads and container companies,
the railroads said they did not want to bother with 20-foot containers at
all, and wanted the container companies to go to 45-foot instead of
40-foot units. Ports in many countries are not equipped to offload
anything larger than 20-foot containers. None of the lash barges or
standard container vessels can accommodate 45-foot units. Only Roll On
Roll Off (RORO) boats can handle them. The American railroads should
be required to meet international standards to prevent undue hardships
on exporters.

River Transportation

Recommendation No. 38. Examine the barge transportation situa-
tion on the Missouri River to see if slowing the current down through a
series of locks and dams would enable container barges to use the
waterway.

The Missouri is now deep enough to accommodate barges, but the
container barge companies say the current is so strong that the return
trip is too expensive. If the river could be slowed down, it might
provide the cheapest, most fuel-efficient way to transport containers to
the Gulf ports.

REGULATIONS

Export Declarations

Recommendation No. 39. Eliminate multiple copies of original
Export Declarations.

Instead of four original Export Declarations, have the shipper send
one original to the freight forwarder. Have the forwarder submit
monthly summaries to the various government agencies. These should
be acceptable in written form or through a computer connection. In
this age of computers and copiers, there should be no reason for mul-
tiple originals.

Recommendation No. 40. Permit small businesses to submit monthly
summaries of their export sales similar to the summaries currently
accepted from large corporations.
Import Duties On Reexports

Recommendation No. 41. Revise the import duty avoidance/reclaim procedure for imported parts that are later reexported.

The Treasury Department apparently did not approve of the legislation which was passed permitting manufacturers to either avoid or reclaim import duties paid on parts used in machines that were sold into export. One customs official acknowledged that the procedure established was deliberately intended to be so cumbersome and time consuming that the companies would find it cheaper to pay the duty. This would prevent any significant loss in customs revenues. It has succeeded. Rather than follow a specific part by serial number from importation through manufacturing to export in a specific unit, the manufacturers have simply paid the duties.

Congress recognized that these parts duties make the finished U.S. product less competitive on the world market. A simpler procedure would be to have the manufacturer submit every quarter (or every year) proof of import duties paid on so many parts and export bills of lading on so many finished units. The parts duties on the export units could either be rebated or credited against future imports.

Tax Incentives

Recommendation No. 42. The philosophy behind an export tax incentive should be to offset the additional expenses of international market development.

The approach of some international businessmen in the region toward export tax incentives is that some equalization is necessary for the additional expenses inherent in international marketing. Their thinking is that ideally a company deciding whether to expand its sales to a new area of the U.S. or to a new country should make the choice based on the real demand for the product in both markets. The net costs, including taxes, should be equal.

On a pretax basis, the international market is inherently more complex and expensive. Some of the costs, such as more highly trained personnel, cannot be recovered in higher product prices. Other costs, like transportation, are simply added to the product price and recovered from the customer. All of these unique expenses make international marketing more expensive by nature.

Market potentials are always more difficult to project than are costs. If there is a significant cost difference, the company is likely to make the decision on expense alone. If it will cost $30,000 more to open a foreign market without any assurance of greater sales, the company will probably stay home. In order to force the decision into a marketing analysis, the government needs to provide a tax break to equalize the aftertax expenses.

At this level, a tax incentive is not an export subsidy as defined in the Multinational Trade Agreement. Its presence has no distortive
effect on either the U.S. or foreign market. It will not affect the price of the product in either market, but may affect whether a product is offered in the foreign market. The foreign consumers will have a more equal voice in attracting products to their area if some of the market development barriers are equalized.

Recommendation No. 43. Review the IRS auditing procedures to make sure companies which take advantage of export tax incentives are not subjected to extra audits.

One of the reasons more small companies have not taken advantage of establishing a Domestic Internation Sales Corporation (DISC) is the impression that they will be subjected to more frequent, detailed audits. An IRS audit is an additional burden to a small company. It requires considerable time from the entrepreneur, the accounting staff and the corporate auditor. If the business uses an outside tax preparation or accounting service, there may be extra accounting or even legal fees to pay. In general, a small company will avoid doing things which are likely to "kick their return out of the computer" and trigger an audit.

Currently, the feeling among many companies is that becoming involved in exporting, particularly establishing a DISC, is an invitation to IRS harassment. The reasoning goes that the Administration was frustrated when Congress refused to eliminate the DISC, and is trying to pressure companies into abandoning them. One executive who asked why his company was being audited this year was told they had come because the firm had a DISC, and all DISC's in their territory were being audited this year. Whether this is actually IRS policy or not, the fact that companies have this impression is a disincentive to exporting. The Federal Government must persuade small business that it is sincerely interested in increasing exports and that all the federal agencies are committed to this policy.

Recommendation No. 44. An alternative form of tax incentive would be an Export Tax Credit, similar in structure to the Investment Tax Credit.

Two alternatives have been suggested here. The first would be a tax credit of 10 percent to 25 percent of new export sales. This would eliminate one of the objections against DISC, which is that the companies who really benefited from DISC are those who had significant export sales before the law went into effect. This would provide an incentive only to increases in export sales. The large multinational companies already heavily involved in foreign trade would not receive the same benefits as new or rapidly expanding exporters. If a company did $1 million of export sales in 1978 and $1.1 million in 1979, they would have a credit of 25 percent of $100,000 or $25,000 against their 1979 income taxes. A company just starting into exporting that had $100,000 of export sales in 1979 would receive the same tax credit.

The second suggestion is a two-tiered system. A tax credit of say 1 percent of all export sales, plus an additional credit of 15 percent of new export sales. This would provide some compensation for companies who are currently exporting, and discourage them from "taking a bath"
in their export sales one year so they could claim a tremendous increase the next year. At the same time, it would provide an extra incentive for new export sales. In the example above, the first company would have a tax credit of $26,000 for 1979 ($11,000 + $15,000) and the second company would have $16,000 ($1,000 + $15,000).

Both of these suggestions assume that some of the basic provisions of the Investment Tax Credit, such as seven-year tax credit carry forward, would be the same for the Export Tax Credit.

Recommendation No. 45. Change the taxation of expatriate income to coincide with standard international practice.

The Foreign Earned Income Act of 1978 made the United States the only country in the world which taxes the income of persons living abroad as if they were at home. Since the United States is currently one of the least expensive places to live, the additional tax burden makes it impossible for U.S. companies to utilize Americans in key positions. As any contractor will confirm, the engineer who is onsite usually specifies equipment from his native land. If an American is there, he specifies American equipment. Currently, an American contractor can hire two Korean engineers for the same amount as one American. However, the Koreans do not specify American equipment. A number of U.S. suppliers are starting to notice the difference since the American professional and purchasing staffs have been brought back to the U.S. in favor of other nationals.

American companies who have people traveling or living abroad usually know what those positions would pay if the individual were working on a domestic assignment instead. The companies could divide the compensation between base salary, cost of living adjustment factors and incentive necessary to induce the person to take the foreign assignment. The individual should only pay taxes on their base salary. The cost of living adjustments and required incentive should not be taxed. Corporations are not going to let these get out of hand, because they are additional expenses which must be paid from international receipts.

The issue is a sensitive one, especially for a domestic worker who has never tried to do business through an interpreter or educate his children in the public schools of another country. The situation has reached the point where Americans are not assigned overseas because American companies cannot afford the difference in total cost. The Americans who are still serving in international posts are facing such hardships from this tax law that, by one estimate, 90 percent are manipulating their tax returns in some way so they have enough to live on after taxes. This is a serious situation which harms the United States far more than any potential loss of tax revenue.
 LEGAL ASPECTS

Antitrust Legislation

Recommendation No. 46. Enact legislation clarifying the Webb-Pomerene Act on what forms of trade associations are exempt from antitrust prosecution.

The Webb-Pomerene Act of 1918 encouraging the use of export trade associations among U.S. exporters has not been utilized because of uncertainty as to antitrust implications. Such joint efforts would serve to increase exports. The Export Administration Act of 1979 (S.864) is a step in the right direction and should be adopted in some form. Several companion bills have been introduced. The success of this legislative effort should receive close attention. (A.J. Greffenius, letter of 7/14/79)

Recommendation No. 47. Increase efforts to educate businessmen and lawyers on Justice Department antitrust enforcement guidelines.

The Antitrust Guide for International Operations is excellent, but it needs greater circulation. Representatives from the Justice Department should be available for speaking engagements and seminars to explain current policy and answer specific questions. (See suggestions under section on education of bankers and lawyers.)

Patent And Trademark Protection

Recommendation No. 48. Congress should change U.S. trademark laws to allow issuance of trademarks prior to use, subject to cancellation if the mark is not used within three years.

The U.S. procedure of using a trademark prior to registration is unique in the world. Companies generally avoid the intent of the law by using the mark on one small isolated shipment before submitting their application. Most businesses would prefer to adopt the prior registration format.

Recommendation No. 49. The Senate should ratify the Trademark Registration Treaty once the U.S. law has been amended to conform to international standards.

Small business would benefit from having one application for trademark registration in multiple countries. The procedure is simple, there are no translation costs or expenses for local attorneys or agents in each country. If the U.S. ratifies the treaty, hopefully others will follow suit. This would be an important first step toward an international trademark system. Lowering the potential for trademark pirating would reduce one of the invisible barriers to trade, especially for small companies whose entire image may be built on one trademark.

The United States has made the greatest use of the Patent Cooperation Treaty in its first year of existence with 37 percent of the total
applications. U.S. firms could be expected to take the same advantage of the Trademark Registration Treaty.

Recommendation No. 50. Improve the techniques for protecting products and trademarks while the application is being processed.

Nicholl Brothers, a small Kansas City manufacturer of rechargeable, floating lanterns and flashlights has an interesting story. It took them two years to obtain a trademark and three years to obtain patents. Meanwhile, three months after product introduction:

... a U.S. Importer was on the market with an exact copy -- which included the same trademark, same box, same model numbers, same instructions, and pictures! ... Several large retail chains used "Dark Chaser" labels in ads but supplied the imported copy! (T.H. Nicholl, letter of 6/27/79, emphasis in original.)

A New York court ordered action delayed on the case until after the patents were issued. Meanwhile, the importer avoided U.S. customs orders enjoining importation pending legal resolution by repeatedly changing the port of importation, falsifying bills of lading and falsifying country of origin labels. After the patents were issued, the Customs Department said they could not tell the court how many units had entered the U.S. when, where or to whom assigned. Although three copyrights, two patents and one trademark had been violated, the company was advised by counsel that it would be a long, difficult case which would cost an estimated $40,000 to litigate. Since this was more than the total capitalization of the company at that time, the case was not pursued.

Actions in several areas could help prevent similar cases:

1. Act on patent and trademark applications as quickly as possible.
2. Permit the courts more flexibility in acting on cases involving violations of patent or trademark applications, particularly when the defendant is not protesting the application.
3. Increase enforcement of U.S. Customs orders, and the amount of information available on import shipments.
4. Provide small companies with some type of legal assistance or financial support for legal fees so they are not placed outside the protection of the law for lack of funds. (i.e., include all costs of litigation in the damages which must be paid by the defendant if found guilty. Provide the company with a government-guaranteed loan to pursue the case with no payments due on principal until after the case is decided.)
Relationships Between U.S. Companies And Foreign Governments

Recommendation No. 51. Provide Embassy and U.S. government support for U.S. companies in disputes with companies controlled by, or divisions of, foreign governments.

In situations where a company is dealing with a government, the dispute can often be resolved more quickly if the other government is brought into the picture. Smaller U.S. companies complain that the United States does not assist them to the degree that other governments support their firms. ("The Embassy helps the airplane manufacturers, but ignores us."

In some situations, merely elevating the issue to the appropriate political level cannot be accomplished by an independent corporation. Small businesses often do not understand the nature of a political bureaucracy to know where to go for a solution. U.S. Embassy officials should be more willing to counsel and assist Americans dealing directly with foreign governments.

Conduct Of U.S. Citizens And Corporations Abroad

Recommendation No. 52. Give the U.S. Ambassador in a country the power to temporarily revoke the passport of U.S. citizens who individually or as representatives of a U.S. corporation engage in unscrupulous business practices.

This issue has raised considerable controversy on several occasions. Some executives feel very strongly that the U.S. should enforce basic standards of ethics and honesty in its citizens operating abroad. They claim that if such people are allowed to retain their U.S. passports, it will seem that the United States condones this type of behavior. This group feels that the U.S. Ambassador is in the best position to determine if their actions are within the ethical standards of both the United States and the local business climate and remove the official support of the U.S. government from those who act outside the bounds of both.

The opposition feels this type of power is too vague and could too easily be abused. Also, that it places too great a burden on the U.S. Ambassador to determine the local business ethics and judge American citizens' actions. This group claims that if the people of a country strongly object to certain behavior, they probably have a law against it under which the American should be accused. If the local standards of business ethics are different from those in the U.S., the American should be free to adjust to that situation.

Both sides agree that in countries where local sponsorship is required, the sponsor should be able to withdraw his support. If another sponsor is not found within a reasonable period of time, this withdrawal should trigger revocation of the U.S. passport.
OTHER ASPECTS

Trade Negotiations

Recommendation No. 53. In both bilateral and multilateral trade negotiations, seek to obtain comparable levels of trade freedom, not comparable levels of barrier reduction.

The United States is a relatively free market for most of the world's producers. In negotiations with other nations, this should be recognized. The negotiations should aim for equal barriers (or lack of barriers) for products traveling to and fro, not an equal reduction in existing barriers. If they start with higher barriers to U.S. products than the U.S. has to their products, an equal reduction still leaves unequal terms of trade.

Canada is mentioned most often by Midwestern businesses as having unequal terms of trade on many products. One truck equipment manufacturer claims his Canadian competitors can send products to the United States for 5 percent, while he faces a 45 percent barrier trying to export to Canada. Brazil and Mexico are also mentioned as having unreasonable barriers. They embargo all U.S. products in a certain category if they have local production. However, the U.S. products are often of larger size or better quality and really do not compete for the same market. In these situations, negotiations should narrow the definitions to protect the local producers without eliminating access to the remainder of the market for U.S. goods.

Export Statistics

Recommendation No. 54. Add the zip code of the factory to the Export Declaration form along with the Employer Identification Number (EIN) for geographic place of origin statistics.

The addition of the Employer ID number to the Export Declaration is a step in the right direction in terms of making the data provided by the forms usable. However, it does not solve the problem of having accurate data on the geographic source of the exports. The Federal Register comments accompanying the new rule acknowledged that this number would not assist in determining the geographic origin, except to act as a check on the current Origin of Exports sample analysis. In order to determine the location of the exporter, the Commerce Department would have to match the EIN numbers to addresses through the IRS data base and then sort by the Census Department location code. It would be faster and less expensive to add the zip code to the original data base in the Commerce Department computer and sort on that field.

The current Origin of Exports analysis has two basic problems to anyone researching the geographic source of exports. First, the reports are only prepared every five years and take a full year to release the data. The exporting community needs a "scorecard" by state and region on who is doing well in increasing export sales. Without accurate, timely data there is no way to motivate exporters, state
development staffs and others to increase export sales. Efforts need to be rewarded by results in a reasonable period of time.

The second problem is the definition of "origin" used in the current government report. The states and regions want to know where the goods were manufactured so they can estimate how many local jobs are associated with export sales. At this point, Iowa's products sold by a Chicago exporter are counted as Illinois exports. By requiring the zip code of the primary manufacturing source (or showing the major percentage splits) the data will represent the areas of the economy that are benefiting from international sales.

The zip code is a common numbering code which would be relatively easy to obtain from the shippers.

**Foreign Trade Zones**

**Recommendation No. 55.** U.S. Embassy Commercial Officers should contact foreign companies exporting to the United States and encourage them to use foreign trade zones.

Foreign companies should be encouraged to utilize American labor and support services through Foreign Trade Zones. In Kansas City one company imports specialty canned goods and labels them for local food chains. Importing in bulk saves transportation costs. Labeling just prior to domestic delivery means they can adjust quantities to current demands and avoid unnecessary storage. A Kansas City company does all the printing and U.S. workers run the labeling machines. The International Foreign Trade Zone in Kansas City estimates that every $1.00 of product imported into the zone results in $4.50 for the local economy. This added revenue results from wages paid to U.S. workers and supplies and support services bought from local companies.

**Recommendation No. 56.** The Treasury Department should provide customs officers to foreign trade zones on the same basis as to seaports.

The newer foreign trade zones that are inland are required to pay salaries and other expenses of customs officials not charged to port authorities. This situation should be equalized since it affects the overhead charges and thus the competition for clients between the ports and inland zones.

**Recommendation No. 57.** Department of Commerce field officers should be briefed on the advantages and disadvantages of foreign trade zones so they can help advise communities on whether to pursue applying for one.

Although Foreign Trade Zones are derived from the medieval concept of Free Ports, they represent the newest idea to strike the imagination of the Midwestern trading community. Some people are claiming all sorts of advantages for them. Actually, the benefits are fairly narrow and primarily relate to cash flow and timing considerations. Due to the overhead, a large company or government should be
involved to insure enough financial support. (The International Foreign Trade Zone division of Great Midwest Corporation in Kansas City has not turned a profit since its creation in 1973.) A community in Missouri became very excited by the concept, but when a complete feasibility study was done, all they needed was a bonded warehouse. A field officer with some basic training and a checklist of questions could save a community from making an expensive mistake.
Below is a list of people in Region VII who are involved in international trade. Each of them has a special interest and expertise in certain areas. They would be good people to contact for additional information on specific problems or detailed recommendations. Those with an asterisk next to their name have made contributions to this study.

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<tr>
<td>11250 Hunter Drive</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bridgeton, Missouri 63044</td>
<td></td>
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</tr>
</tbody>
</table>

317
<table>
<thead>
<tr>
<th>Name</th>
<th>Occupation</th>
<th>Company/Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>*R.W. Fischer</td>
<td>export management company</td>
<td>Int'l Marketing Inc.</td>
</tr>
<tr>
<td>*Noreen Fischer</td>
<td>feed supplements, grain processing equip.</td>
<td>Cedar Falls, Iowa 50613</td>
</tr>
<tr>
<td>*Wayne Fox</td>
<td>exporter</td>
<td>Triple &quot;F&quot;</td>
</tr>
<tr>
<td>*Jim Freshwaters</td>
<td>international lawyer</td>
<td>Int'l Marketing Inc.</td>
</tr>
<tr>
<td>*Al Greffenius</td>
<td>international banker</td>
<td>2300 Financial Center</td>
</tr>
<tr>
<td>George Heller</td>
<td>international banker</td>
<td>Commerce Bank</td>
</tr>
<tr>
<td>*Ross Johnson</td>
<td>Static &quot;O&quot; Ring closure devices</td>
<td>SOR, Inc.</td>
</tr>
<tr>
<td>Mrs. Audrey Marsh King</td>
<td>stencil machines</td>
<td>Marsh Stencil Machine Co.</td>
</tr>
<tr>
<td>Don McKay</td>
<td>international banker</td>
<td>Merchants National Bank</td>
</tr>
<tr>
<td>*Fred McWhorter</td>
<td>truck alignment</td>
<td>Bee Line Co.</td>
</tr>
<tr>
<td>*Rich Mohr</td>
<td>ocean shipping</td>
<td>Delta Lines</td>
</tr>
<tr>
<td>*Tom Nicholl</td>
<td>flashlights</td>
<td>Nicholl Bros.</td>
</tr>
</tbody>
</table>

Arab boycott legislation
Int'l patent laws, foreign Corrupt Practices Act, DISC Boycott legislation
Export financing
Brazil-Mexico
Kansas/Missouri District Export Council
Export financing
Canada
Container Pooling
Trademarks, Patents
*William K. Rankin
C.S. Greene & Co.
P.O. Box 4682
Des Moines, Iowa  50306

*Charles Richardson
Corry's
P.O. Box 278
Bonaparte, Iowa  52620

Dick Rogers
Pace Products
81st & Indiana
Kansas City, Missouri

*Joseph Roldan
Roldan International
7777 Bonhomme
St. Louis, Missouri  63105

Warren Smith
Yellow Freight Int'l.
P.O. Box 490
St. Louis, Missouri  63166

Wayne Smith
Mercantile Bank
8th & Locust St.
St. Louis, Missouri  63166

Ernest Stokes
Western Lithoplate & Supply
3433 Tree Court Industrial Blvd.
St. Louis, Missouri  63122

Jack Southerland
Mercantile Bank
11th & Walnut
Kansas City, Missouri

*Dave Tremmel
Iowa-Des Moines Nat'l Bank
7th & Walnut
Des Moines, Iowa  50309

*Joe Wallace
Vanmark Corp.
215 N. Walnut Street
Creston, Iowa  50801

*Grant Wilsey
Viking Pump
406 State
Cedar Falls, Iowa  50613

freight forwarder
U.S. Trade Shows
Importance of int'l trade
to small companies
export management
company
Trade vs Human
Rights
freight forwarder
Transportation
international banker
Export Financing
printing
DISC
international banker
Export financing
international banker
Export financing
vegetable handling
& peeling
Embassy Commercial
officers
Transportation
fluid pumps
Reorganization of
Federal Government
trade activities
<table>
<thead>
<tr>
<th>Name</th>
<th>State Development Departments</th>
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<tbody>
<tr>
<td>Francis Zrostlik</td>
<td>small cranes</td>
</tr>
<tr>
<td>Iowa Mold Tooling Co.</td>
<td>Trade mission</td>
</tr>
<tr>
<td>Garner, Iowa 50438</td>
<td>support</td>
</tr>
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<td></td>
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<tr>
<td>Tom Miricle</td>
<td>Missouri</td>
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<tr>
<td>John Watson</td>
<td>Kansas</td>
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</tr>
<tr>
<td>Chuck Elliott</td>
<td>Industrial Development - Nebraska</td>
</tr>
<tr>
<td>Bill Wheeler</td>
<td>Economic Development - Nebraska</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Dean Arbuckle</td>
<td>Iowa</td>
</tr>
<tr>
<td>Max Olson</td>
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</tr>
</tbody>
</table>

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Small business failures are overwhelmingly attributed to poor business management. Often these faulty management techniques are a result of or exacerbated by a lack of relevant, timely information. It is logical to assume that supplying the entrepreneur or manager of a small business with relevant, timely information could enhance their chances of success. It however remains the case that no single source of centrally located small business information exists. Therefore, the small businessman is forced to make decisions based on a lack of information rather than on sufficient information.

After identifying this problem, the Center for Entrepreneurship and Small Business Management of Wichita State University decided that a library which would house books, journals, periodicals, tapes, films and other information related to small business would be a tremendous benefit to the small businessman seeking to solve practical problems. This research project has been involved in the identification of information sources on a regional and national basis. After the information has been identified, it must be compiled, classified, stored and a means created for effective dissemination. The scope, and indeed, the results of this research have led the Center to believe that a catalogue can be created. The contents of the catalogue include a working, restricted computer model which will make journal and periodical abstracts available to small business people in a relevant and timely manner.

RESULTS

One of the most rigorous tasks of this research project involved the classification of information sources. The first taxonomic differentiation divided information sources into their various types, e.g., books, periodicals, audiovisual material, organizations and associations, and university programs. The research has identified a total of 441 books, 1,593 periodical and journal articles (current from 1971), 55 films, filmstrips and tapes, 114 organizations and associations and 85 university programs consisting of nonprofit, government and for-profit organizations.

A catalogue will be used for distribution of these sources of information. Based on the information identified, it appears the catalogue will be approaching 250 pages in length. Within the catalogue, books are broken down into basic subject field categories, and then alphabetically ordered by author within each subject field category. There are 16 subject field categories within the section of books. Each book citation includes the title, author, date, publisher, cross reference and short abstract of the book. The cross reference listing indicates
other subjects related to the book in the catalogue. A quarterly supplement will be sent to all holders of catalogues as an update for books published within that three-month period.

The second source of information includes periodicals and journals. This source of information is divided into two parts: magazines, journals and newsletter listings not included in the computer search, and a computer information retrieval service which provides specific article citations. The listings provide the title of the magazine, address of publisher, cost and a short description of the source.

Because of the great number of journal and periodical articles created each month, it was decided to use a computer model for retrieving information. After lengthy investigation an existing information bank was located called the Lockheed "Dialog," SDI feature on the ABI/Inform data base. This existing computer model is ideally suited for the stated objectives.

The Dialog system contains over 88,000 abstracts and is growing at a rate of 1,900 additions a month. Even though the system uses a broad field of knowledge, it was decided by restricting the field to the areas of small business and entrepreneurship, one could develop a workable data bank for the small business subject area. This restriction was called the superfield descriptors, which limit the body of knowledge to the area of small business. The advantages of using this existing computer model are cost and the continuous update of information. The user only has to request information by subject field category and for a minimal cost of 5¢ per citation he will receive current periodical information. To reiterate, the decision to use computer updated information was considered necessary because of the proliferating number of periodical and journal articles written per month.

The third category dealing with audiovisual materials was found to be the most limited body of knowledge. After considering the relative expense of producing audiovisual materials, these limitations came as no surprise. Fifty-five tapes, film strips and films were located in this area dealing primarily with the subject matter of "The American Enterprise System" as well as small business and entrepreneurship. These sources are identified by title of the tape or film, mailing address where it can be rented or purchased, brief description, and rental or purchase price.

The fourth categorical source of information is that of organizations and associations. These organizations include nonprofit, government agencies and profit-oriented corporations. A number of these agencies were found to assist small business and propagate the free enterprise system. This category provides the name of the organization, address and a brief description of their activities.

The last category lists university programs. In recent years many universities have created chairs, centers and academic curricula for research on and teaching of small business. Provided within this source category are the name of the university, name of the program, address, person to contact, and description of their objectives and activities.
The amount of information accumulated in each of these categorical sources, which are represented above, has been in greater amounts than the researchers anticipated. With the amount of information which has been uncovered there exists a sufficient amount to develop a truly comprehensive catalogue. It is recognized that there still remains a tremendous amount of information to be uncovered, and of course the process of updating is a continuous process. The researchers expect to maintain an up-to-date catalogue in the future. Included in future works will be quarterly updated supplements and a complete revision and update of the catalogue every 18 to 24 months.

This catalogue will be distributed free of charge to interested parties. The only cost to the user will be the minimal citation charge for access to the "Dialog" periodical abstract service.

FUTURE RESEARCH NEEDS

The small business information catalogue will be a vital contribution to the aspiring small businessperson. Even though it is felt the catalogue being created will be a comprehensive and current information bank, there are recognized areas for improvement.

The method being used for dissemination of current periodicals and journals is limited to sending abstracts not the article itself. This means the users must select from the abstracts which articles they desire to read and then locate the article at the library. Future research improvement should involve the compiling and storage of the article in its entirety. This would allow the user to receive the article direct from the library.

In addition, the overall data bank could be improved by developing an information retrieval program at the Center. This process would force the researcher to screen the "Dialog" articles and some of the articles now included would be deleted. This would also allow the "Dialog" data bank to be expanded by adding additional articles from magazines not presently included in "Dialog."

A task which necessarily follows the creation of the catalogue is developing a means of communicating the existence and nature of the catalogue to universities, organizations, associations and the public at large. At present a diverse campaign is contemplated, including direct mail and advertisements in professional journals and trade magazines.

CONCLUSIONS

The catalogue and corresponding data bank will provide practical users and academicians alike with timely, relevant information. The study and importance of small business has been increasing at a prodigious rate in recent years. Availability to an expeditious source of information will undoubtedly facilitate the efforts of people interested in knowing more about the field of small business.

One of the most important facets of the information bank is the maintenance of continuously updated information, so that users may
receive current and contemporary information. The continuous entry and update of information in all classifications is considered the primary strength of this research effort.

POLICY RECOMMENDATIONS

The most important factors in evaluating the small business information bank will be based on the frequency of use and the bank's effective capability to yield and distribute relevant, timely information at an economical cost. There are several areas in which both economic and logistical support could improve the effort which was made.

An organization such as the Small Business Administration (SBA) could provide greatly needed support. For instance, if funds could be provided by SBA, a custom software information retrieval model could be written which would afford a significantly more detailed taxonomy. Relevancy would be enhanced, for the user could request more specific subcategories within subject areas e.g., Subject--Financing and Venture Capital, Subcategory 1--Equity, Subcategory 2--SBICs. The greater the specification, the more usable the information.

A new model would also allow adding information sources which are not presently included in the Dialog system. For example, trade magazines such as Venture Magazine and the Entrepreneur Magazine could be added to the data bank. Adding these kinds of magazines which have great value to the practitioner would provide for much greater breadth and flexibility.

Additionally, funds to pay for greater staff assistance would be beneficial. Thousands of staff hours are utilized in reviewing literature, films and the multiplicity of correspondence that has been received. Information such as conferences, seminars, new programs, and research being conducted at other universities and foundations are only found through the time consuming process of personally reviewing information received.

A task which necessarily follows the creation of the catalogue is developing a means of communicating the existence and nature of the catalogue to universities, organizations, associations, and the public at large. A diverse campaign is needed. The SBA and other private organizations and foundations could distribute flyers concerning this unique data bank through their extensive mailing lists. Also the SBA could possibly be of assistance in gathering and compiling the massive amounts of government information to be used in this data bank. To say the least, this task is ominous and any assistance would facilitate a more comprehensive job completed in a shorter period of time.

RESEARCH METHODOLOGY AND MODELS

The overall methodological approach included the identification of information, compilation, classification, storage and the ultimate dissemination of this information to the end users. The methodology does not resemble the scientific method. The methodology could be most
definitely described as a literature search and correspondence, with a
target audience, which are involved in the creation of small business information. Compilation of
information was accomplished simply by storing the information on
3 x 5 index cards. These cards were categorized in alphabetical order so they could be easily retrieved. The first classification involved dividing information sources into information source categories, which have been heretofore described. The next subdivision involved the division of information by subject area which was further divided and ordered alphabetically. This process was conducted with the catalogue in mind. That is to say, the divisions were made according to how they would eventually be displayed within the catalogue. One of the most demanding and time consuming tasks involved mailing correspondence to the many organizations and universities. A set of form letters which solicited information from organizations and universities was developed. With this letter the Center requested to be placed on their permanent mailing list so that it might receive all information concerning projects they were involved with on an ongoing basis. After receiving a response from these institutions their information was then placed on the Center's mailing list. This began the process of communicating with these institutions on a continuous basis. A very impressive array of information has been received from these institutions. All those institutions involved directly with the area of small business are included in the catalogue. The way in which this information is displayed is included in an enclosed sample.

The book literature search primarily involved the use of the Library of Congress, and the review of new book sheets which are sent to the Center weekly. The Center's staff is involved in a review of every piece of information which arrives. Whenever a new book is found, it is again transferred to an index card and put in a storage bin. These index cards will be used for the quarterly update supplement.

The third methodological area dealt with the decision as to how to maintain an update file for periodical and journal articles. Considerable deliberation and research was conducted with the purpose of creating a computer data bank at the Center and writing a program which would allow information to be retrieved by subject area. This decision to classify and retrieve information by subject area was made because of the feeling that people think by subjects, not by authors, or publishers, or any other consistent means of selecting relevant information sources. The decision as to which subject field categories to include for subject areas was one of the most difficult tasks.

As mentioned before, the ABI/Inform data base of information retrieval was located. After review and testing, it was decided that this system provided an economical approach to scanning information as well as a constantly updated bank of information. Periodicals and journals within the ABI/Inform system are maintained from 1971 to present. This provides a current body of knowledge. For example, they review 400 primary English language management and administration journals. The body of knowledge now contains some 88,000 abstracts and is growing at a level of 1,900 per month. The articles are
a minimum of one page in length with a mean average of six pages per article. Articles must also have content which is of lasting value rather than passing value. The ABI/inform system also provides an abstract which is 150-200 words in length and includes complete bibliographic information.

The way in which this vast body of knowledge was narrowed to the area of small business was to use what was defined as superfield descriptors. These superfield descriptors include entrepreneurship, small business management, free enterprise and private enterprise. The descriptors of free enterprise and private enterprise were selected as a great deal is written about small business under the auspices of "Free Enterprise." Each of these superfield descriptors were compared to the other to eliminate duplication. Through the utilization of these superfield descriptors, the relevant small business data bank was reduced from the 88,000 abstracts down to approximately 1,600 abstracts.

The last step entailed the selection of subject field descriptors. The purpose of these subject field descriptors is to provide the user with a more finite set of subjects to choose from. These 15 descriptors are identified on the enclosed instruction sheet to the abstract order form.

**DATA BASE**

This section will show a sample of the proposed catalogue described in the preceding sections. A sample Table of Contents appears in Figure 1 with sample entries following.
Figure 1.

TABLE OF CONTENTS

| INTRODUCTION | XX |
| BOOKS |
| Entrepreneurs | XX |
| Women Entrepreneurs | (sample enclosed) |
| Minority Entrepreneurs | XX |
| Foreign Entrepreneurs | XX |
| Small Business Management |
| Accounting, Record Keeping and Data Processing | XX |
| Case Studies | XX |
| Financing and Venture Capital | XX |
| Franchising | (sample enclosed) |
| Innovation, Technology and Research and Development | XX |
| Laws, Regulation and Taxation | XX |
| Management | (sample enclosed) |
| Marketing, Advertising and Sales Management | XX |
| Personnel, Training, Benefits and Labor Relations | XX |
| Problems and Failure | XX |
| Start-up and Acquisition | (sample enclosed) |
| American Enterprise | (sample enclosed) |

PERIODICALS

| Computer Data Bank - Limited Access Model (Dialog) | (sample enclosed) |
| Journals and Magazines | (sample enclosed) |
| Newsletter | (sample enclosed) |

AUDIO VISUAL MATERIAL

| Entrepreneurship and Small Business Management | (sample enclosed) |
| American Enterprise | (sample enclosed) |

ORGANIZATIONS AND ASSOCIATIONS | (sample enclosed) |

APPENDIX A - Small Business Administration | XX |
APPENDIX B - Publishers | XX |
APPENDIX C - SBIC's | XX |
APPENDIX D - University Programs | XX |
INDEX | XX |
SAMPLE ENTRIES

WOMEN ENTREPRENEURS

A Woman's Guide to Her Own Franchised Business
New York: Pilot Books 1978
Cross Reference: Franchising

This book is addressed to women of all ages. Franchising is a field that is particularly adaptable to women. This book tells why and how.

Hilton, Terri Small Business Ideas for Women and How to Get Started
New York: Pilot Books 1975
Cross Reference: Startup

A guide to the field of self-employment which provides information on businesses which can be started with a modest investment, many that can be operated from the home on a part-time basis. It shows how to make extra income by judicious use of spare time.

Jessup, Claudia and Genie Chipps The Woman's Guide to Starting a Business
Cross Reference: Case Studies

The first part of the book deals with the information and sources needed for striking out on your own. The second part illustrates how it all becomes a reality through the case studies of successful women entrepreneurs. Contains an excellent appendix of additional sources of information that would be of particular interest to women.

Seltz, Mary Leslie and David D. New Businesses Women Can Start and Successfully Operate: A Woman's Guide to Financial Independence
Cross Reference: Start-up

Food, writing, research, selling, animals and promotion are some of the topics evaluated in the book's 16 chapters. Good appendix of information sources.

FRANCHISING

A Woman's Guide to Her Own Franchised Business
New York: Pilot Books 1978
Cross Reference: Women Entrepreneurs

This book is addressed to women of all ages. Franchising is a field that is particularly adaptable to women. This book tells why and how.
Buyerism: How to Buy a Franchise or Small Business  
Rochester, New York: WWWWW Information Services, Inc. 1970  
Cross Reference: Acquisition

Gives step by step directions on how to evaluate a small business or franchise offer. Includes the questions which should be asked of the seller, ideas for new businesses and sources for more information.

1979 Directory of Franchising Organizations  
(Revised Annually) New York: Pilot Books 1979

A comprehensive listing of the nations top money-making franchises with concise description and approximate investment. Includes important facts about franchising and evaluation checklists.


A comprehensive overview of the nature, scope, and history of franchising as well as practical advice and information to students of marketing, potential franchisors and franchises.

MANAGEMENT

Baumback, Clifford and Kenneth Lawyer How to Organize and Operate a Small Business, Sixth Edition  

A fresh look at the essentials of small business organization and operation including: (1) a comprehensive "how to" discussion of the principles and problems of small business management (2) the definition of the role of small business in the economy (3) a discussion of the international aspects of small business and (4) much, much more.

Harmon, Paul Small Business Management: A Practical Approach  
New York: D. Van Nostrand Company 1979

This book presents a practical approach to the study of small business management. Its principle purpose is to provide the practical information a person needs to start his or her own business. It offers guidelines, warning signals and sources of help to keep the inexperienced from stumbling.

Schollhammer, Hans & Arthur H. Kuriloff Entrepreneurship and Small Business Management  
New York: John Wiley & Sons 1979  
Cross Reference: Case Studies

Drawn from academic sources and from the practices of actual entrepreneurs, this text provides in one source the theory,
general principles, and practice required to initiate and manage a small business successfully. Part I provides a historical survey of entrepreneurship. Part II presents the requirements of successful management. Part III shows actual case studies.

Steinhoff, Dan  Small Business Management Fundamentals 2nd Edition  

A straightforward, clear and concise text covering all aspects of small business management. The plan of the book is first to describe the small business scene and then to proceed in short, digestible chapters with examinations of a series of planning and operational areas for a contemplated firm. Special management areas and problems are discussed in a management consultants checklist.

STARTUP AND ACQUISITION

Albert, Kenneth J. How to Pick the Right Small Business Opportunity: The Key to Success in Your Own Business  

Tells how to evaluate personal capabilities and limitations, develop business selection criteria, make a list of business types and select the right business opportunity by getting the facts.

Bennett, Vivo and Cricket Clagett  1001 Ways to be Your Own Boss  
Cross Reference: Advertising, Laws

Section on the importance of advertising and promotion and on business organization and legal requirements. 1001 business ideas, each with a short discussion and often with sources of additional information.

Kuriloff, Arthur H. and John M. Hemphill, Jr. How to Start Your Own Business... and Succeed  

This is a practical three ring loose leaf workbook/resource manual for the person considering starting a service, retail, or manufacturing business. The information and suggestions contained in this book will benefit present and future small business owners.

Taylor, John R. How to Start and Succeed in a Business of Your Own  
Reston, VA: Reston Publishing Company 1978
Cross Reference: Problems, Case Studies

This book is written from the standpoint of one who has been involved in small business management. Therefore it contains more illustrations of failure and more "do not" advice than in standard works. The illustration stories are true.
Cramer, Clarence H. American Enterprise - Free and Not So Free
Boston: Little, Brown and Co. 1972

A history of the American Enterprise System from the coloni-
zation of the New World to the managed money supply of the
twentieth century. The book points out the benefits and
hazards of our American Enterprise system.

Dethloff, Henry C. Americans and Free Enterprise

This text is a concise narrative history of the American
experience with capitalism. It reviews from the perspective
of the average American in today's society those concepts and
problems most pertinent to life today--the land and environ-
ment, government's changing role in the economy, the "value"
problem of authority versus liberty, the role of technology,
and the concepts of abundance, welfare, economic growth,
and free enterprise.

Grahn, Gerald H. Business: The Process of Enterprise
Chicago: Science Research Associates, Inc. 1977

An excellent text with the student in mind. Interesting
reading with a good glossary and bibliography and also an
appendix on how to write a resume.

Gross, Eugene L., Adrian R. Cancel and Oscar Figueroa Small
Business Works!: How to Compete and Win in the Free Enterprise
System
New York: AMACOM 1977

This is a "why to and when" book based on thousands of
actual case studies, which tells the businessperson what
business is really all about, and what the businessperson
must know in order to run a business successfully and com-
petitively.

COMPUTER DATA BANK--LIMITED ACCESS MODEL (DIALOG)

Periodicals can provide some of the most timely, up-to-date and
accurate information available to the small businessperson. They are
not, however, utilized to the extent warranted due to the difficult and
time consuming nature of library and newsstand searches. Lockheed's
Dialog computer retrieval program with the ABI/Inform data base pro-
vides a simple solution to this frustrating problem.

The ABI/Inform data base currently contains 88,000 abstracts from
over 400 different periodicals which are reviewed on a continuous basis.
In order for an article to be included in the data base it must contain
meaningful management ideas or concepts, usually defining or describing
a method, technique, tactic or strategy that would be of value to a
manager or administrator. Usually, the article must be one page in length; the average is over six pages. Each abstract is 150 to 200 words in length and contains full bibliographical information. After reviewing the abstracts, the reader can determine which articles would be of greatest value and obtain them from the local library.

To insure the articles are of particular interest to the small business person, the output has been restricted with such keyword descriptors as small business, entrepreneurs and sole proprietorships.

A set of field descriptors has been developed to further reduce the output and to provide abstracts only on those areas of interest to the user. The field descriptors are as follows:

1. Women in Business
2. Minorities in Business
3. Accounting and Record Keeping
4. Data Processing
5. Financing
6. Franchising
7. Innovation, Technology, Research and Development
8. Laws and Regulation
9. Taxation
10. Production
11. Retailing
12. Marketing, Advertising and Sales Management
13. Personnel, Training, Benefits and Labor Relations
14. Problems and Failures
15. Insurance

To obtain abstracts one simply fills out the abstract order form and circles one or more of the numbers corresponding to the field descriptors above. The cost is five cents per abstract. A sample of abstracts from the area of franchising is shown in Figure 2.

ABSTRACT ORDER FORM

Name_____________________________________
Street Address_________________________________________ Apt.____
City________________________ State_____________ Zip_____
Phone (___) __________________

Please send me article abstracts on the areas which I have circled.

1   4    7     10  13
2   5    8     11  14
3   6    9     12  15

I understand I will be billed 5 cents for each abstract received.

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The continued existence of the small-business, the part of our economy strongly supported by governmental action since the 1930's, depends upon the small-business achieving optimum size (that necessary for minimum costs), the number and size of industry entrants (businesses), the costs of entry, institutional conditions, the ability to differentiate itself from other firms, and the sound economic judgment of short-lived enterprises. In 1972 solely owned businesses accounted for 70 percent of all enterprises in the small-business class (excluding franchises), but corporations accounted for 84 percent of all business receipts. Firms with one to seven employees declined from 1962-1972 from 76.6 percent to 69.5 percent of all businesses. In 1972 only 4 percent of all businesses were minority-owned. Over the past 25 years, small-business size, number, and activity have been stable. Tables.

The most serious threat to small retailers is found in the increasing efforts of large retailers to seize for themselves the traditional advantages of small businesses. Two examples of this are - 1. Large retailers may establish boutique departments with personalized services. 2. There is an increasing tendency for franchisors to substitute direct company operation of retail units for conventional franchising arrangements. Small retailers can still take advantage of their ability to act faster than larger firms because of fewer levels of management and fewer resources to divert. No opportunities or emerging difficulties can be met by - 1. Identifying significant change early, 2. Analyzing the change so as to adapt the organization if necessary, and 3. Maintaining organizational flexibility to avoid undue resistance to change. In the foreseeable future, small business could possibly best be helped by government support for consultants.
SAMPLE ABSTRACTS

JOURNALS AND MAGAZINES

Entrepreneur Magazine
631 Wilshire Boulevard
Santa Monica, CA 90401
Monthly, One year--$35.00, Two years--$45.00

A quality magazine, and every issue filled with new business ideas. Very interesting reading, especially for those desiring a different angle for getting into business themselves.

Journal of Small Business Management
929 North Sixth Street
Milwaukee, WI 53203
Quarterly, One year - $10.00, Two years - $18.00

Each issue is centered around a theme such as international business, marketing?franchising, small business failures, etc. Articles are academic in nature and are written mostly by college professors from across the country.

Free Enterprise
1212 Avenue of The Americas
New York, NY 10036
Bimonthly, One year - $7.50

A magazine with feature articles that would be of interest to both the entrepreneur and the potential entrepreneur. Contains ideas for getting into business and tips and information for those already in business. "The magazine that makes you money."

Venture, The Magazine for Entrepreneurs
35 West 45th Street
New York, NY 10036
Monthly, One year - $15.00, Two years - $30.00

Most issues of Venture will report on 20 to 30 businesses at length and perhaps another two dozen in less detail. A quality magazine with very readable articles.
NEWSLETTERS

Business Opportunities Digest

Straw Enterprises, Inc.
312 Franklin Street
Clarksville, TN  37040

Monthly, One year - $36.00, Two years - $68.00

A listing of available capital, business opportunities and miscellaneous products and services. Listings are published free of charge.

Small Businessman's Clinic

Austin M. Elliott
113 Vista Del Lago
Scotts Valley, CA  95066

Monthly, One year - $21.00

A brief four page monthly letter written by an organization analyst and management consultant to advise the small businessperson.

Small Industry Development Network Quarterly Newsletter

Office of International Programs
Engineering Experiment Station
Georgia Institute of Technology
Atlanta, GA  30332

Quarterly, Free

The newsletter is concerned primarily with small industry development and appropriate technology in less developed countries.

The Voice of Small Business

National Small Business Association
1604 K Street NW
Washington, DC  20006

Monthly, One year - $30.00

This brief four to six page monthly letter keeps its subscribers up-to-date on government policies and issues of interest to small business.
"The Bricklin Story" (16mm, 27 min., color)
Vantage Communications, Inc.
P.O. Box 546
Nyack, NY 10960 (914) 358-0147

This film tells the story of Malcolm Bricklin, an energetic entrepreneur who tried to challenge Detroit with the first new North American automobile company in 30 years.

Rental: $20.00, Sale: $200.00

"If The Fergi Fits, Wear It" (16mm, 22½ min., color)
Walt Disney Educational Media Company
500 South Buena Vista Street
Burbank, CA 91521 toll free (800) 423-2555

Randy, 19 years old and his 15-year-old sister, Nicki, start a small business—manufacturing silk screen T-shirts. Viewers learn how business begins with a concept, prototype, production, capital outlay and merchandising. A basic business vocabulary is introduced in this film.

Sale: $345.00

"Planning A New Business" (16mm, 30 min., color)
Nebraska Education Television Council For Higher Education
Box 8311
Lincoln, NB 68501 (402) 472-3611

Explores the personal qualities, the kinds of planning, and the various sources of assistance and advice necessary to starting a new business. More than a dozen business and professional people contribute suggestions and information about engaging in business.

Preview: Free (only on videotape) Rental: $35.00 Sale: $275.00

"Small Business Keeps America Working" (16mm, 28 min., color)
National Chamber Films
Chamber of Commerce of the United States
1615 H Street, NW
Washington, DC 20062

An interesting and personal live-action motion picture that captures the spirit of the American private enterprise system, told by the people of small business themselves.

Rental: $10.00 for 3 days, $15.00 for 7 days, Sale: $150.00
"Freedom 2000" (16mm, 22 min., color)  
National Chamber Films  
Chamber of Commerce of the United States  
1615 H Street, NW  
Washington, DC 20062

Animated by Hanna-Barbara, the film explains the enterprise system through the comments of observers from another planet visiting earth. Designed to correct common misinformation about business, viewers speak of the way it brings home ideas.

Rental: $15.00 for 7 days, $10.00 for 3 days, Sale: $140.00

"Sam's Song: The Legacy of a Free Economy" (16mm, 13½ min., color)  
Modern Talking Picture Service  
2323 New Hyde Park Road  
New Hyde Park, NY 11042

Produced by the Sun Company, Inc., this animated movie deals with the formation of a nut company by an enterprising young squirrel named Sammy. This furry entrepreneur sees the demand for a product and organizes a company to supply that demand. Raising capital, establishing factories and providing research and development for the future. Comes with a teaching kit that includes a wall poster and six spirit masters.

Rental: Free

"Some Call it Greed" (16mm, 52 min., color)  
Karol Media  
East 36A Midland Avenue  
Paramus, NJ 07652 (201) 262-4170

Produced by Forbes Magazine to mark its 60th anniversary and narrated by Orson Wells, Lowell Thomas and Robert McNeil, the film provides a compelling perspective on how America arrived at where it is today. It is a story about motivation, profit--or, what some call greed.

Rental: $65.00, Sale: $500.00
"The Incredible Bread Machine" (16mm, 32 min., color)
World Research, Inc.
11722 Sorrento Valley Road
San Diego, CA 92121

This award winning movie portrays the crippling effects of excessive government intervention and demonstrates how personal and economic liberties are mutually dependent.

Rental: $25.00, Sale: $350.00

ORGANIZATIONS AND ASSOCIATIONS

Association of Women Business Owners
1000 Connecticut Avenue, NW
Suite 1101
Washington, DC 20036
Ms. Susan Hagar, President

The association sponsors workshops and seminars for women entrepreneurs and publishes a newsletter.

Bank of America
Dept. 3120
P.O. Box 37000
San Francisco, CA 94137 (415) 622-2491

The world's largest bank publishes an excellent series of booklets called Small Business Reporter. The series is organized into three areas: Business Profiles, which deal with specific businesses and their requirements; Business Operations, in which are described and explained various aspects of business management and operations; and Professional Management, which discuss the business side of practice for professionals. Current issues are free at any Bank of America community office, or they can be purchased by mail.

The Center for Entrepreneurial Management, Inc.
311 Main Street
Worchester, MA 01608 (617) 755-0770
Joseph R. Mancuso, Executive Director

The nonprofit center provides a management resource for entrepreneurial managers and the professionals who advise them. The center sells texts, courses, essays and audio tapes and holds seminars and conferences in reviewing the philosophy of entrepreneurial management.
In addition to publishing the monthly magazine, *Entrepreneur* (see periodical section for details), I.E.A. produces hundreds of startup and operations manuals for all types of businesses. They also hold conferences and workshops.