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Who Benefits from Business Assistance Programs?

Results of the ERS Rural Manufacturing Survey

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Over 60 percent of rural manufacturing establishments benefited from government business assistance programs (State and local tax breaks, training and technical assistance, loans, and industrial parks/enterprise zones), and 28 percent found these programs to be very important to their operations over the last 3 years. Manufacturers using advanced technologies benefited more than other manufacturers. However, some regional differences in program benefits suggest these programs may add to interregional economic disparities. Large businesses were more likely to benefit than small businesses, though small businesses appeared to face more problems and benefited more when they received assistance. Programs also were only slightly more likely to benefit manufacturers in distressed nonmetro areas than in nonmetro areas generally.

Introduction

Government business assistance programs can, at least in theory, provide valuable assistance to help rural manufacturers compete in today's global economy. Many States have responded to recent global challenges by establishing innovative business assistance programs, such as small business development, modernization of manufacturing, high-tech development, and international activities including export assistance and recruitment of foreign investment (Bonnett, 1993, pp. 62-64). Federal programs promote many of these same activities, with the added objective of helping economically distressed individuals or communities. Thus, government aid to businesses addresses both economic efficiency (competitiveness) and equity (fairness).

Initial findings from a nationwide survey, presented here, indicate the extent to which government programs help rural manufacturers and who exactly is benefiting from these programs. More specifically, the survey

responses tell which places benefit, if distressed areas particularly benefit, the kinds of manufacturing establishments that benefit, how much they benefit, and if the programs address specific problems that these manufacturers face.

The 1996 Rural Manufacturing Survey (RMS), a nationwide sample of 3,909 manufacturers (see "About the Survey," p. 8), sought feedback on some of the most common business assistance programs: tax incentives, government loans (direct, insured/guaranteed, and revolving), industrial parks and enterprise zones, and training and technical assistance (see box, "Business Assistance Programs," p. 6). Company officials were asked how important each type of program was for their business operations over the past 3 years: (1) very important, (2) somewhat important, or (3) not important or not used (see box, "Survey Questions," p. 2).

General Findings. About three-fifths (61 percent) of the nonmetro manufacturing establishments surveyed said they had benefit-

Survey Questions

Question 58 of the ERS manufacturing survey asked, “For each program, please tell us how important that program has been for your business’s operations in the last 3 years?” Six program categories were listed: (1) direct loans from a government agency, (2) government insurance or guarantee for loans, (3) revolving loan funds run by a nonprofit organization, (4) tax breaks by State or local government, (5) government-assisted industrial parks or enterprise zones, and (6) government-assisted worker training or technology assistance.

Question 59 asked, “Are there any other government assistance or programs important to your business’s operations? If so, please specify.” The responses varied—including such programs as export assistance, marketing programs, and assistance from the Forest Service—but no one program was mentioned by more than a dozen respondents, so our analysis focused on responses to question 58.

ed (program was either somewhat important or very important to them) from at least one government program in the past 3 years; and over a quarter (28 percent) reported at least one government program to be very important. State and local tax breaks benefited the largest proportion of nonmetro establishments (46 percent), followed by training and technology assistance (29 percent), industrial parks/enterprise zones (21 percent), direct loans (15 percent), guaranteed loans (13 percent), and revolving loan funds (9 percent).

The pattern was similar in metro areas, though metro manufacturing establishments were slightly less likely to benefit from all types of government programs than were nonmetro establishments (fig. 1). The largest metro/nonmetro difference was in loan programs. Nonmetro establishments were particularly more likely than metro areas to benefit from direct loans and revolving loans.

With regard to relative importance, State and local tax breaks were said to be very important by 19 percent of nonmetro establishments. Other types of assistance were less likely to be rated very important, ranging from 4 to 8 percent. Metro responses were similar.

Program Benefits Versus Perceived Problems. Although State and local tax breaks are often criticized as wasteful, our findings and other recent research suggest that taxes can be an important factor for manufacturers and other capital-intensive industries, significantly affecting their investment decisions (Bartik, 1993, p. 43). Moreover, the RMS survey (McGranahan, 1998, p. 2) found that 64 percent of nonmetro manufacturing establishments considered State and local tax rates a problem, with 22 percent considering them a major problem. Those that benefited from tax breaks were slightly more likely to say taxes were a problem (68 percent) than those that did not (62 percent).

Three-fourths of businesses that benefited from training and technology programs claimed their computer skill requirements had increased in the last 3 years (for more skills analysis, see Teixeira, 1998). By comparison, only 60 percent of establishments that did not benefit from such programs said their skill requirements had increased. While many businesses would be expected to make

good use of government training and technology programs, even without experiencing a change in skill requirements, such programs appear to be more useful to manufacturers facing increasing needs for skilled labor.

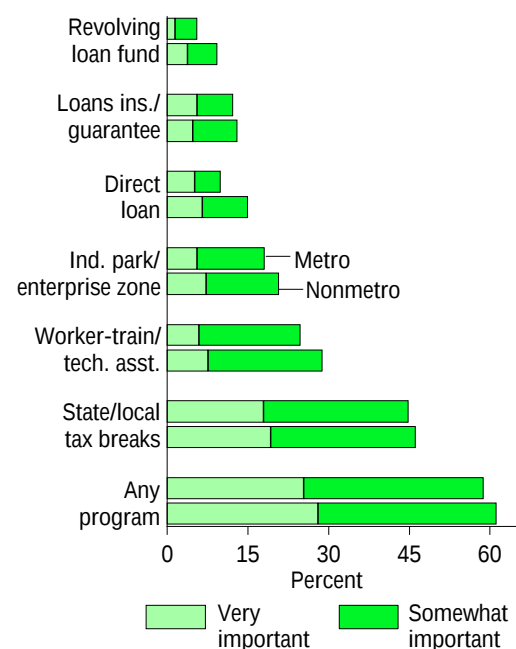
None of the three categories of loan programs benefited more than 15 percent of rural establishments. But 23 percent of rural manufacturers benefited from at least one government-sponsored loan program. As noted before, loans were more important to rural than to urban manufacturers. Upon further analysis, we found that government loans especially benefited establishments expected to have particular credit problems, including newer and growing establishments, businesses located in totally rural counties (no town of 2,500 or more) where bank competition may be limited, and businesses with self-reported problems accessing financial markets.

Nonmetro Responses Vary by Place and Establishment Type

By Region. Business assistance programs benefited a higher proportion of nonmetro manufacturers in the Northeast and the Midwest, where 65 percent of the establishments benefited from one or more programs, compared with 58 percent in the South and 55

Figure 1

State/local tax breaks were most frequently cited as important for company operations



percent in the West (fig. 2). Manufacturers in the Northeast reported the highest level of benefits. About a third of the establishments in the Northeast reported one or more programs to be very important, while only 27 percent in the other three regions found government programs that valuable.

By type of assistance, direct loan programs were more common in the Northeast than in other regions, benefits from revolving loan funds and tax breaks were most common in the Midwest, benefits from industrial parks and enterprise zones were most common in the South and Midwest, and benefits from training and technical assistance were most common in the Northeast and Midwest (table 1). Manufacturers in the West were least likely to benefit from business assistance of all types, except for revolving loans. Manufacturers in the South were least likely to benefit from such loans.

By Type of Distressed Area. We selected three types of distressed nonmetro counties for examination: high-poverty, high-unemployment, and population-decline counties (see box, “Definitions,” p. 5). While some places may suffer from more than one of these conditions, poverty, unemployment, and population decline are typically not very highly correlated with each other (Reeder,

1990), hence they represent largely distinct forms of distress. Some types of business assistance programs appear targeted to establishments in distressed counties, but the degree of targeting seems modest, or marginal, depending on the type of program and area.

Population-loss counties had the highest percentage of establishments benefiting from one or more business assistance programs, 67 percent (fig. 3). The other two types of distressed areas benefited at roughly the same rate as nonmetro areas overall, 61 percent.

Figure 2

Rural manufacturers in the Northeast and Midwest more often cite government programs as important for their operations

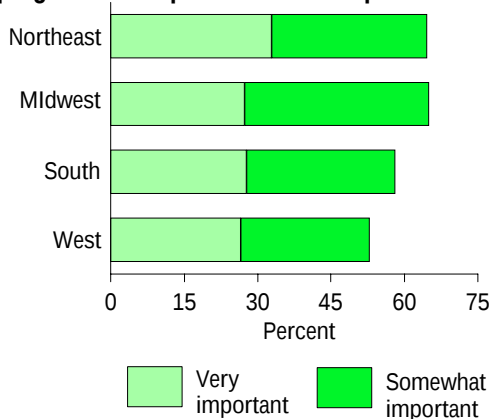


Table 1—Percentage of nonmetro manufacturing establishments benefiting from government programs, by region¹

Program type	Northeast	Midwest	South	West	Nonmetro total
<i>Percent ²</i>					
Direct loans	22.3 (10.4)	15.7 (6.5)	12.8 (5.5)	12.9 (6.4)	15.0 (6.6)
Guaranteed loans	16.9 (6.5)	13.9 (5.2)	11.2 (3.4)	13.2 (6.7)	13.1 (4.8)
Revolving loans	10.9 (4.4)	12.2 (4.2)	6.1 (3.1)	8.8 (4.3)	9.3 (3.8)
Tax breaks	45.0 (19.5)	50.4 (18.8)	45.4 (20.5)	36.4 (16.4)	46.2 (19.3)
Industrial parks/ Enterprise zones	17.8 (5.7)	21.7 (8.1)	22.1 (8.1)	15.6 (3.5)	20.8 (7.3)
Training/technical assistance	30.5 (7.0)	30.9 (7.9)	28.9 (8.7)	20.5 (3.6)	28.9 (7.6)

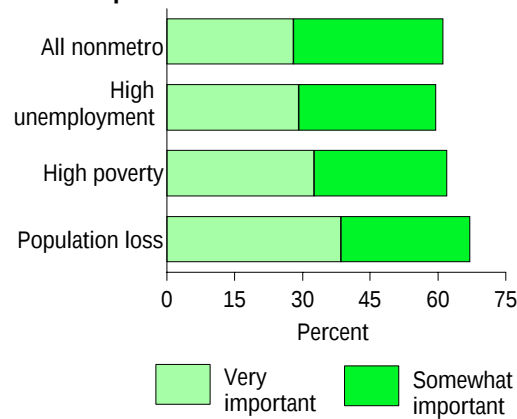
Bold numbers imply that differences among regions are statistically significant at the 0.05 level. ¹ Census regions ² The percent benefiting from a program was computed as the percent finding the program to be either somewhat important or very important. The percent indicating the program was very important is shown in parentheses. Source: ERS Rural Manufacturing Survey, 1996.

Population-loss counties also scored notably higher in the percentage of establishments finding these programs to be very important to business operations.

Population-loss counties had a higher-than-average percentage of establishments benefiting from loans (table 2). Many, if not most, of those benefiting from direct and revolving loans in population-loss counties indicated the programs were very important. High-poverty counties benefited disproportionately from industrial park/enterprise zone programs and training and technical assistance.

Figure 3

Rural counties with population loss more often cite government programs as important for their operations



Some of our findings were a bit surprising. For example, lacking sufficient collateral to secure many loans, businesses in high-poverty counties might be expected to have a particular need for startup and expansion loans. However, we did not find evidence that loans particularly benefited manufacturers in these places.

By Establishment Size and Type. Survey responses varied for different sizes (large, medium, and small) and types (branch plants; high-tech establishments) of nonmetro establishments (see box, “Definitions,” p. 5). Large establishments (250 or more employees) were much more likely to benefit from government programs than were small establishments (10-49 employees). Over three-fourths of large nonmetro establishments benefited from one or more programs, compared with slightly over half of small establishments (fig. 4). Large establishments were almost twice as likely to benefit from tax breaks as small establishments, and more than twice as likely to benefit from training and technical assistance. Large establishments also disproportionately benefited from industrial parks and enterprise zones (table 3).

Only for government loans, the main form of assistance provided by the Small Business Administration, were small establishments

Table 2—Percentage of nonmetro manufacturing establishments benefiting from government programs, by type of distressed county

Program type	High poverty	High unemployment	Population loss	Nonmetro total
<i>Percent²</i>				
Direct loans	16.6 (6.9)	15.7 (6.4)	24.6 (12.1)	15.0 (6.6)
Guaranteed loans	12.4 (3.7)	12.5 (5.2)	18.5 (5.5)	13.1 (4.8)
Revolving loans	7.9 (4.1)	5.6 (4.2)	16.4 (9.2)	9.3 (3.8)
Tax breaks	48.4 (22.2)	47.2 (20.3)	48.2 (24.5)	46.2 (19.3)
Industrial parks/ enterprise zones	27.2 (10.0)	21.8 (9.1)	21.0 (9.1)	20.8 (7.3)
Training/technical assistance	33.4 (10.6)	29.3 (8.4)	32.52 (6.8)	8.9 (7.6)

Bold numbers imply that county type is statistically different from other counties at .05 level. ¹ See Definitions box for description of distressed county types. ² The percent benefiting from a program was computed as the percent finding the program to be either somewhat important or very important. The percent indicating the program was very important is shown in parentheses. Source: ERS Rural Manufacturing Survey, 1996.

more likely to benefit than large establishments, and this difference was significant only among those reporting that loans were very important to their operations. Small establishments, however, often reported more problems typically addressed by business assistance programs. For example, the RMS survey found that small establishments reported major problems with both taxes and costs of land and facilities more often than large plants, and they also reported more problems with credit. The main exception to this pattern was in training access, where large establishments reported more problems than small establishments.

The percentage of establishments benefiting from government programs increases with size of establishment for tax breaks and training programs (fig. 5). However, the percentage benefiting from industrial parks / enterprise zones and loan programs increases only slightly with establishment size, peaking in firms with 51-100 employees, and then decreasing as size increases.

While large establishments were generally more likely to benefit from most of these programs, of those that benefited, small establishments were more likely to report the programs to be very important to their operations. This was true for all the programs we

examined, and especially for loan programs. About half the small establishments receiving such assistance claimed it was very important, while only a fourth of large establishments receiving such assistance said it was very important.

Nonmetro branch plants, which tend to be relatively large, exhibited a pattern similar to that of large establishments: an above-average share benefited from tax breaks and from industrial parks and enterprise zones. Although they benefited more than the aver-

Figure 4

Large plants and high-tech plants more often cite government programs as important to their operations

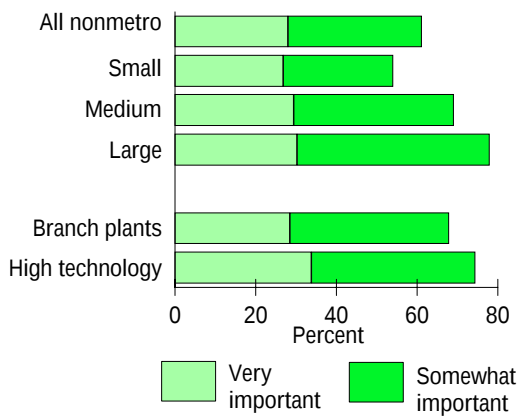


Table 3—Percentage of nonmetro manufacturing establishments benefiting from government programs, by type of manufacturing establishment¹

Program type	Large	Medium	Small	Branch plant	High-tech	Nonmetro total
<i>Percent²</i>						
Direct loans	13.5 (3.5)	16.7 (5.2)	14.3 (7.7)	13.1 (3.4)	16.2 (5.9)	15.0 (6.6)
Guaranteed loans	10.4 (2.4)	14.8 (3.5)	12.6 (5.8)	11.3 (2.2)	13.4 (3.9)	13.1 (4.8)
Revolving loans	5.9 (1.3)	9.4 (3.1)	9.8 (4.5)	8.3 (2.8)	8.7 (2.5)	9.3 (3.8)
Tax breaks	66.2 (24.6)	54.3 (21.5)	38.9 (17.3)	59.8 (23.3)	62.0 (26.2)	46.2 (19.3)
Industrial parks/ enterprise zones	27.5 (8.0)	24.3 (9.5)	17.9 (6.1)	26.1 (9.0)	30.2 (10.6)	20.8 (7.3)
Training/technical assistance	52.2 (12.1)	35.0 (9.9)	21.9 (5.7)	35.9 (10.2)	43.5 (12.6)	28.9 (7.6)

Bold numbers mean establishment type is statistically different from other establishments, or differences among sizes are statistically significant, at the .05 level. ¹ See Definitions box for description of manufacturing establishment types. ² The percent benefiting from a program was computed as the percent finding the program to be either somewhat important or very important. The percent indicating the program was very important is shown in parentheses. Source: ERS Rural Manufacturing Survey, 1996.

Definitions

Distressed Nonmetro County Types:

High-poverty: poverty rates greater than 20 percent in each of 1959, 1969, 1979, and 1989

High-unemployment: average county unemployment 1993-1995 greater than 7.5 percent, the 1992 average

Population-loss: population loss 1980-1995 greater than 10 percent

Establishment Types:

Small: 10-49 employees in 1995

Medium: 50-249 employees in 1995

Large: 250 or more employees in 1995

High tech: Based on sum of answers to questions concerning production technology, work organization, and telecommunications. If more than 9 questions were answered affirmatively, the establishment was coded as high technology.

Branch plant: part of a multi-establishment corporate entity

age establishment from training and technical assistance, branch plants were less likely to benefit than were large establishments.

Three-fourths of nonmetro high-technology manufacturers (a much higher share than for other nonmetro manufacturers) benefited from one or more business assistance programs. High-technology establishments benefited disproportionately from tax breaks, training and technical assistance, and industrial parks and enterprise zones. Moreover, the degree to which a firm adopts advanced technologies was found to be proportional to the likelihood that it benefits from government programs (fig. 6).

Conclusions

Business assistance programs benefited three-fifths of rural manufacturing establishments, and over a quarter of rural manufacturers claimed these programs were very important to their operations. This means that these programs already play an important

role in the economy, and efforts to improve their performance could have important economic payoffs.

Business assistance comes in many forms, from many sources, and serves many goals at Federal, State, and local levels. Although our survey cannot really address the question of whether individual programs effectively attain their individual goals, it does provide insights into the entire system of assistance and its consistency with broader national or regional objectives, such as economic efficiency and equity.

For example, the regional variations we found in program benefits suggest that program availability varies significantly depending on where a business is located. This raises the question: do regional differences in the potential payoffs from business assistance exist that might make this pattern justifiable from economic efficiency grounds, or does this pattern reflect mainly different rates of government subsidy resulting in re-

Business Assistance Programs

Loan Programs. Direct loans are loans that government makes directly to businesses. Guaranteed or insured loans are made by intermediaries (usually banks), where government agencies guarantee all or some portion of the loan in case of default. Government-assisted revolving loan funds (RLF's) are at least partially capitalized by government, and are often operated by nongovernmental entities, such as nonprofits.

Most Federal business loan assistance comes from the Small Business Administration, which guarantees loans to small businesses and provides direct loans to firms affected by natural disasters, and from several smaller programs, including the USDA's Business and Industry (B&I) program. Several Federal programs provide funding to capitalize RLF's, which typically make loans to risky ventures or microloans to very small firms. In addition, a growing number of States have established venture or seed capital programs that offer direct loans and other types of financial assistance to new and smaller firms (USDA/ERS, 1995, pp. 77-85). Some States have direct loan programs, used mainly to retain or attract firms.

State and Local Tax Breaks. State and local government tax breaks include such things as local property tax abatement and reductions in State sales and corporate income taxes.

Industrial Parks and Enterprise Zones. Industrial parks and enterprise zones assist firms located in a specific industrial site or zone. Industrial parks are tracts of land that government (usually local government) develops and subdivides for groups of compatible businesses, which benefit from the park's convenient access to transportation, utilities, labor, and other inputs. Funding comes from many sources, including private banks and investors and Federal development programs, such as highway, water, and sewer programs. Enterprise zones (EZ's) are local areas with high levels of socioeconomic distress (unemployment, poverty, etc.) that receive special government assistance to encourage their development. Most State EZ programs use State tax incentives to encourage firms to invest or add jobs in the zones. The Federal Empowerment Zone/Enterprise Community (EZ/EC) program, like some State programs, includes both tax incentives for firms and grants for development organizations.

Worker Training and Technology Assistance. Technology programs may involve developing new technologies for clusters of firms or providing technical assistance to specific firms. Many training and technology programs are run by States, through their university and community college systems, with the help of Federal funding. Federal programs, such as the Manufacturing Extension Partnership, provide technical assistance. Local schools and local development organizations also help in preparing and training the workforce and providing technical assistance.

duced national economic efficiency. In addition, since rural areas in the Northeast and Midwest tend to have relatively high incomes, our finding that these same regions benefited most from these programs suggests that the programs themselves may have contributed to interregional economic disparities.

The mixed results found by the survey for manufacturers in distressed nonmetro areas were unexpected, since some Federal programs are targeted to such places. These findings raise questions about whether business assistance programs significantly improve economic equity.

Our survey findings suggest that most of the business assistance programs at least modestly addressed specific problems reported by businesses. For example, State and local tax breaks disproportionately helped establishments reporting tax problems, training and technical assistance programs disproportionately benefited establishments with growing skills requirements, and loan programs disproportionately benefited new and growing establishments—establishments that often have difficulty getting credit from the private sector. In addition, advanced technology manufacturers, which as a group reported more problems, also disproportionately benefited from business assistance programs.

However, our findings provide little evidence that government programs are giving much, if any, preference to small business development. Large establishments were significantly more likely to benefit from business assistance than small establishments, even though small establishments were more likely to report problems that could be addressed by these programs. In addition, among establishments that benefited, small establishments were more likely to rate these programs as very important, another indicator that the programs might be more effective in assisting small businesses rather than large businesses. This raises the issue of whether legitimate purposes, such as local economic objectives, are being served by the current pattern of assistance that appears to favor large businesses, or might economic efficiency be better served by programs that provide more assistance to small businesses and less to large businesses? ■

Figure 5

Tax breaks and training assistance favor large plants

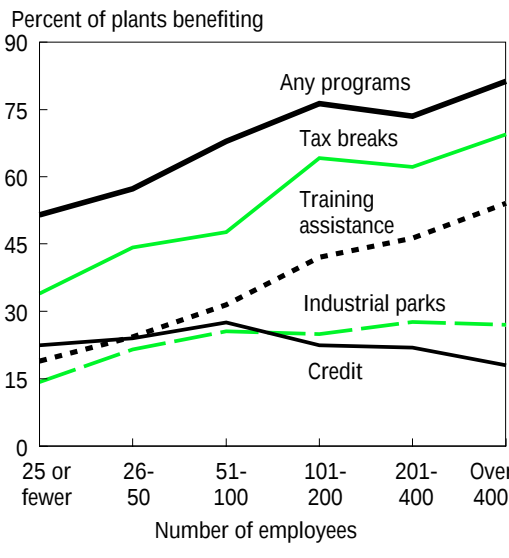
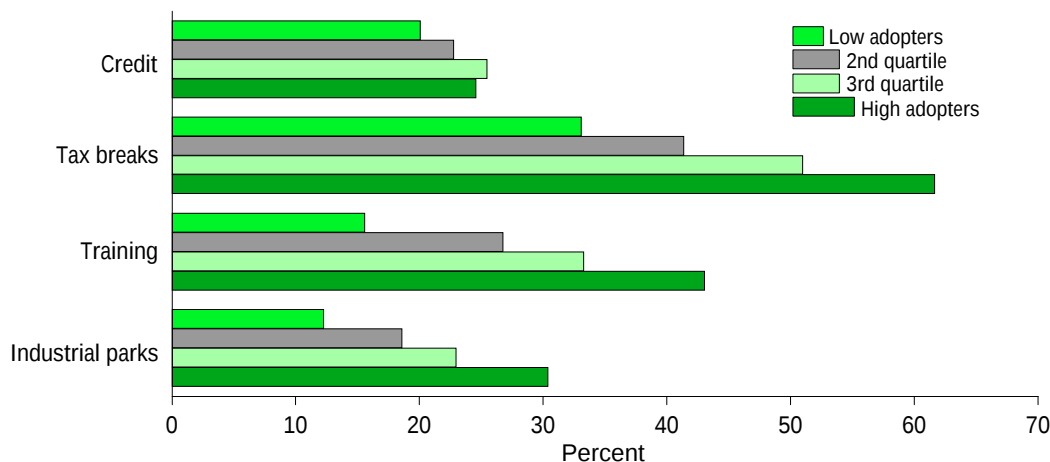


Figure 6

Advanced technology rural manufacturers benefit from more government programs



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About the Survey

The Rural Manufacturing Survey is a nationwide survey designed to investigate issues of rural manufacturing competitiveness and to better target rural development programs at national, State, and local levels. The survey is the most comprehensive to date on technology use, changing skill needs, and local problems facing rural manufacturers. The Economic Research Service developed the survey instrument and, in 1996, the Social and Economic Sciences Research Center of Washington State University conducted a telephone survey of manufacturers, national in scope, but with a rural over-representation, obtaining extensive information provided by 2,844 nonmetro and 1,065 metro establishments in most manufacturing industries. The survey response rate was 70 percent.

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