

the Government will receive a direct return of 95¢ on each dollar expended. This is indeed a modest cost in relation to the benefits of the program I previously recited. In addition, there is substantial return in the form of increased taxes and decreased unemployment and welfare payments.

(3) *Benefits to the Economy.*—A cost benefit analysis was made to determine whether the granting of a government loan to a small businessman produced a benefit to the economy which was at least equal to the benefit accruing through private investment. An "opportunity cost" factor of 10% was used on the assumption that this represented a minimum annual return on private investments. The results showed that the average benefit-cost ratio for all SBA loans was 1.73. Since a ratio of 1.0 would represent a 10% annual rate of return, we believe the SBA program represents a significant contribution to economic growth.

Mr. Chairman, to my knowledge, this is the first time an analysis of this nature has been made of a Government lending program. We do not claim it to be perfect or precise. We know that the methodology and data base can be improved and we are working in this direction. However, we believe the analysis is reasonably good and the following conclusions drawn on the benefits of the program are not too far out of line.

SBA borrowers experienced very satisfactory growth in their respective competitive markets and compare favorably with industry-wide experience.

SBA borrowers were presumably high risk, marginal firms, unable to secure private financing; yet, they survived and prospered.

The program entails a very modest net cost to the Government in relation to the benefits achieved. The direct and indirect benefits to the economy and the production of increased tax revenues, almost without question, more than offsets the direct net cost.

The success achieved in this program has created an increased confidence in the private sector which has increased its participation in SBA loans in recent years, from 19.6% in 1961 to 47% in 1967 (Table 7); this trend is expected to continue in future years.

We plan to extend this type of comprehensive analysis to all of our loan programs in the current year.

Our program for FY 1968 and FY 1969 calls for significant increases over 1967 in total loan volumes and increasing private sector participation (Table 7). The 1967 level was 385.3 million of which 181.1 million (47%) was financed by the private sector. In 1968 the comparable figures are \$537 million of which \$330 million (61.5%) will be private sector financed, and in FY 1969, \$649.7 million of which \$388.7 million (59.8%) will be private sector financed.

(c) *Displaced Business Loans.*—Loans are made by SBA to small business concerns displaced by urban renewal, highway construction, or any construction conducted by or with Federal funds. Thus far, 1,308 loans for \$96.9 million have been made under the program (Table 15). Our program for 1968 and 1969 calls for \$54 million and \$56 million, respectively. Also, we are concentrating our efforts on increasing the private sector participation in this program from 3.8% in 1967 to 40% in 1969. Close liaison is maintained with other Federal agencies, such as HUD and DOT, to assure that early contact is established with potential displacees.

(d) *Economic Opportunity Loans.*—Responsibility for this program was transferred to SBA in November 1966. Considerable progress has been made since that time. The program was expanded and made available through all SBA offices. Our "management assistance" program has been made an integral part of the loan processing and counseling is provided to borrowers. We have clarified the loan eligibility criteria.

In the 13 months of operation under SBA, 3,712 loans for \$39.7 million were approved as compared with 2,585 loans for \$26.2 million in the preceding 23 month period (Tables 16 and 17). The budget allowances for 1968 and 1969 provide for \$39 million and \$47 million, respectively.

We look on this program as a key contributor to the President's program for bringing industry into ghetto and other depressed areas and for stimulating ownership and management of businesses by the economically disadvantaged. As in other programs, we are encouraging private sector financing to supplement SBA resources. Some progress has already been made in Connecticut and Illinois.

(e) *State Development Corporations (Section 501).*—We are pleased with success of the State Development Corporation program, particularly because it has not required extensive outlays of Federal funds. Thirty-nine (39) states have enacted legislation to establish the Corporations. Only seven have borrowed funds—\$14.5 million—from SBA (Table 18). Yet, 19 of the Corporations reported that