

(All program categories combined)

Benefit-cost ratios—by principal industries

1. Manufacturing.....	2.56
2. Transportation.....	1.59
3. Wholesale trade.....	1.33
4. Construction.....	1.25
5. Services.....	1.12
6. Retail trade.....	.80
All industries combined.....	1.73

SBA area benefit-cost ratios

1. Mid-Atlantic.....	1.91
2. Southeast.....	1.88
3. Pacific coast.....	1.87
4. Midwest.....	1.85
5. Northeast.....	1.85
6. Rocky Mountains.....	1.33
7. Southwest.....	1.27
8. New York.....	1.07
U.S. total.....	1.73

It will note that the benefit/cost ratio for all loans was 1.73—well above the break-even point. Questions may be raised as to the accuracy of the break-even measure because of unavoidable limitations of data and methodology and because of certain assumptions in the study. The very high average ratio indicated by these results, however, supports the general conclusion that this program has not only benefited individual borrowers, but has also contributed to the growth of the general economy. Further, other indirect benefits resulting from the improved competitive posture of small concerns are additional to those indicated by the measure of economic growth.

The higher ratio shown for manufacturing reflects the rapid profit growth rates realized by borrowers in this industry. Retail trade, on the other hand, falls below the assumed break-even point. This has been a highly competitive industry, and this is reflected in the earnings of small proprietors. Also, most of the loans to this industry were relatively small and were placed with relatively small firms, resulting in a high administrative cost per dollar of realized returns. Since the growth rates for these borrowers were encouraging, we conclude that, while no overall contribution to economic growth is evident, competitive gains have been achieved.

Finally, retail concerns are highly sensitive to economic trends in the communities in which they are located. Thus, the results of the loans to borrowers in this industry reinforce our conclusion that our assistance programs will yield best results when applied in coordination with active community development programs.

Significance of the Results.—In all candor, I must caution that what I have just presented reflects the initial results of a comprehensive analysis which is still undergoing refinement and elaboration. As far as I know, this is the first time an analysis of this kind has been attempted for any Federal lending program. The results, so far, lead to several principal conclusions. Briefly, these are:

Small firms assisted by this lending program have thereafter experienced very satisfactory growth in their respective competitive markets. Their growth appears to compare most favorably with industry-wide experience.

The firms receiving assistance were high risk, marginal firms which had been unsuccessful in their efforts to secure private financing on reasonable terms. Yet, they survived and prospered. This indicates that the financial needs of credit-worthy small business concerns are still not adequately served by private sources—a basic assumption underlying the financial assistance provisions of the Small Business Act.

This lending program has in fact contributed to the “preservation and expansion of * * * competition,” as contemplated in the statute.

The program has been carried out at a modest net direct cost to the Government in relation to benefits achieved. It is safe to assume that direct benefits to the economy and indirect monetary benefits to the Government through increased tax revenues more than offset this direct net program cost. The favorable cost/benefit ratio of SBA loans tends to confirm this conclusion.