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Access to Capital and Technical Assistance

Richard J. Ward, Ph.D.

This article summarizes and analyzes the views of select leaders in business, labor, banking, the government, and academia with regard to the constraints, obstacles, and recommendations to achieve economic growth in Massachusetts. The role of the state government in addressing these issues receives special attention. Access to capital and technical assistance had been regarded by many as the key constraint, particularly during the recession of the early 1990s. The author analyzes inconvenient government systems, bottlenecks, and bureaucracy as throttling the flow of capital to small-business entrepreneurs. The analysis concludes, however, that unless the state cum federal government finds ways to improve the macroeconomic environment, the incentives to invest, expand, and venture will not prove adequate in comparison with the risks. Among other questions, the article asks, In the absence of dynamic and pervasive state policies and programs to improve the state and regional macroeconomy, can the private sector alone stop the investment drain and bring back full employment to Massachusetts and New England?

In the face of poorly performing national and state economies, business access to capital and technical assistance is a critical area of concern. The number of bank failures in recent years and overall vulnerability of the banking system in many states, exacerbated by the sharp drop in value of the extensive real estate assets held by banks, combined with the aftermath of the national savings and loan crisis, forced banks to tighten credit, call loans, and reject potentially creditworthy business loans. The result was the so-called capital crunch.[1] In Massachusetts, the president of the Boston-based Federal Reserve Bank, along with many CEOs of Massachusetts banks, also blames Congress, which pressed regulatory agencies (Comptroller of the Currency, Federal Deposit Insurance Corporation, and the Federal Reserve System) — hence bank regulators — to pursue the practice of forcing all New England banks to cut back on loans to creditworthy borrowers.

Despite these official acknowledgments of the squeeze on loanable funds available to business, some bank CEOs, while sharply criticizing the role of insensitive and rigid out-of-state regulators in stiffening loan/asset ratios and collateral requirements, still

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maintain that their institutions have adequate liquidity (low loan/asset ratios), but that the real problem is one of severely limited volume of financially viable loan projects from the private sector.

In this context, the commonwealth's Office of Economic Affairs, in cooperation with the University of Massachusetts, sponsored regional conferences to engage representatives of local, regional, and state agencies and private-sector financial, industrial/commercial leaders, investors, and marketing specialists in the topic "Ensuring Access to Capital and Technical Assistance."

The conclusions and recommendations derived from several topical conferences around the state provided inputs to the state's strategic economic development plan for the future. The focus of concern for the business community, and in terms of the economic progress for the state as a whole, was primarily on what role state agencies or public-purpose institutions generally might play in stimulating the state economy and, in one specific conference, in filling the gaps in access to capital and technical assistance for the state's business community. This assessment summarizes the views of the business and political representatives, as well as the one expressed by specialists in some of the contemporary literature of reports with respect to the difficulties perceived in accessing capital and technical assistance, recommends a role for the state and its agencies in improving access, and finally, addresses the issue of the role of the state in promoting an economic climate in which both financial institutions and private-sector entrepreneurs can operate more profitably and comfortably with each other.

Critique of the Current Development Environment

The Massachusetts business community, particularly small-business entrepreneurs, venture capitalists, and potential business and financial investors in new or expanding enterprise, has been highly critical of various banking practices. It has alleged that banking practices of late have contributed to the following perceptions:

1. The role of regulators in clamping down on the banks after the horse got out of the barn has been negative. The banks could least afford the stringent requirements during recession, regarding what they were allowed to accept as collateral. Local bankers knew the character and expertise of their clients and should have been allowed to make their own judgments as to the creditworthiness of those clients. A period of house cleaning has dominated the financial institutions, and internal problems, reorganizations, and personnel shifts put a halt for a time to most small-business lending.

2. During the recent recession, banks lost their appetite for tax-exempts, found public-fund deposits dried up, and feared loaning to business. They called in good loans to meet new loan/asset standards, even rejecting sound collateral and good risks. In a number of instances, regulators downgraded or rejected firm receivables, land, and other loan collateral, placing constraints on business opportunity and growth.

3. Working capital is the most critical need for small business. Even as owners have sold their homes to provide such capital, participants felt that banks have not been forthcoming. Lack of such capital forces smaller companies to reject profitable bids on projects, turning away business. This is perceived to show both a lack of creativity and a lack of commitment to the business environment on the part of bankers.

4. Large banks in particular turned away from smaller, more costly loans. There is a need for loans from $10,000 to $50,000 or even $150,000, but the large banks shun these smaller loans as not being worth their time and expense. The minimum amount banks would like to loan is $250,000, but they would prefer and seek to negotiate loans of more than $1 million; that is the lament of small-business people who require less capital.

5. The desperation for smaller-business borrowers has been heightened by the decline in the value, hence equity, in their own homes, as well as decline in other sources of public or private venture capital. In this climate, small-business owners have been burdened with high-cost "loan shark" credit or rescued by prominent and sympathetic local businessmen, who provided credit from their own company resources on concessionary terms. Banks, which need more flexibility in the requirements they set for small business, must provide more asset-based lending and accept receivables as well as the reputation and known character of borrowers against good-risk loans.

6. Banks have failed to provide adequate technical assistance services in preparing loan applications or improving business plans and financial statements. They lack outreach and guidance in their approach to loaning to small entrepreneurs. More mentoring and follow-up with business borrowers is needed, more visiting places of business and acting as genuine partners in promoting the success of their borrowers.

7. Technical assistance may well be widely available through incubators, small-business development centers, or other public agencies, but it is not readily transmitted to those who need it. The many state quasi-publics and local community development corporations (CDCs) and municipal or other community development agencies may be there, but small-business owners seeking such help find it difficult to connect meaningfully and cost-effectively with that technical assistance. Often, small operations go bankrupt for lack of know-how in rescuing their companies or see their product or marketing ideas die for want of knowledge about accessing the expertise.

8. Some entrepreneurs acknowledge that capital can be acquired, but stress the time-consuming tenacity necessary, in the nonpromotional or nonforthcoming climate of the financial community, for small-business owners to get the capital they need.

9. Bank participants declared their commitment to the lending process and stressed the constraints under which they have been operating, but also pointed to the lack of professionalism in loan applications, business plans, balance sheets, and sometimes expertise, of prospective borrowers. It is not cost effective for them to provide all the technical help that business borrowers need, suggesting that such assistance must come from other, probably public sources. Others recommended that more mentoring be provided, not only from banks but from mature companies — to their smaller suppliers, for example — and from numerous public and quasi-public institutions at the municipal, regional, and state levels.

10. Venture capitalists are critical of the withdrawal of banks from cooperating with them in filling the gaps between the equity capital they provide and the full financial needs of new, promising ventures. A study reported that of 848 banks surveyed, only six

reported any interest in lending to high-technology firms.[2] This inhibits the role of venture capitalists.

The Role of the State in Promoting Development and Capital

Direct Role

State governments must be aware that when businesses within their borders realize lower returns on capital relative to alternative returns for banks and venture capitalists, capital seeks higher returns in out-of-state investment. States should assist in offsetting this differential by making available to business — small business in particular — through a variety of public and private institutions, including banks, more liberal access to working and equity capital. However possible, the state should galvanize these organizations to facilitate loans and technical assistance to business. For example, Massachusetts, like most states, has a long list of quasi-public institutions that provide developmental assistance.[3]

States should be more forthcoming in making vast pension fund resources available for venture capital through these agencies and in partnership with existing private venture capital firms, while guaranteeing protection to pensioners. For instance, the Massachusetts treasurer announced a program designed to utilize such funds for affordable housing for low- and moderate-income families. A small percentage of state pension funds could pump $200 million into assisting expansion and new ventures in business, with Michigan and Pennsylvania serving as models.

Michigan allocated 5 percent of its $6 billion public pension fund in partnership with private venture capital firms. The Michigan Treasury Department identified potential start-up companies with promise and committed $300 million to venture seed capital toward assisting the development of new companies. Similarly, the Ben Franklin Partnership Fund of Pennsylvania provides challenge grants or seed money — $5,000 to $100,000 — for research and development, advanced technology, and start-up companies, grants of up to $35,000 to small companies for new product or process development, and seed venture capital funds for working capital and technical assistance for incubator companies.[4]

States could channel some of these funds through the quasis to local banks, incubators, or community economic development offices, enabling them to provide capital and technical assistance to small businesses in their areas. Such funds could also be used to buttress (ensure) collateral support for small-business loans, for example, guarantees against firm receivables, through local banks.

State agencies or quasis should be prime facilitators in providing technical assistance support at local levels, through local incubators, assisted by Small Business Administration bodies, since banks seem to be unable to aid in loan or business plan preparations or in identifying gaps in small-business expertise needed to render business viable.

Provide grace periods on capital gains taxes during start-up of small businesses and other forms of tax relief during development stages, such as relief on workmen's compensation, unemployment insurance, medical costs, and other costs of doing business, where safe and sound state criteria can be met.

Compare commonwealth tax-exempt bond programs with those of other states for effectiveness and improvement. For example, New Jersey has a tax-exempt bond program (private activity bonds) providing low-interest loans of up to $10 million to manufacturers and nonprofits for funding fixed assets, working capital, and loan

guarantees of conventional loans up to $1.5 million. New Jersey also provides working capital loans — a revolving line of credit of up to $250,000 per export contract — to promote export marketing.

States can effect reductions in long delays in handling business loan or other assistance proposals, as well as in payment of their own bills to small businesses. Actions through some state agencies and quasis can allegedly take months — far too long to accommodate short time lines and working capital constraints of small-business owners.

Grant more protection for providers of capital to guarantee safe exit of investors from their commitments with close to expected returns. Streamline approvals and turn a more empathetic system toward the service of suppliers of capital. Current regulations inhibit safe return to local venture capital funds, owing in part to the drain of local funds to capital cities and even out-of-state banking institutions. Remote transaction modes put local venture capitalists in vulnerable positions.

Link tax (reduce bank tax to corporate rate) or other relief measures for banks to increase loanable funds and establish a guarantor program for small business or sound start-ups (don't expect banks to provide equity; they are moneylenders).

More forceful use of link deposits (state bank deposits) to encourage banks holding such deposits to offer loans for developmental purposes. States could set up performance measures by which to judge the status of particular banks with respect to the development impact of bank activity. For example, Illinois, through its link deposits, encourages minority business loans; California presses energy-conservation loans; Ohio links its public deposits to institutions inclined to consider loans to small business favorably.

A persistent and pervasive need, as indicated by Massachusetts conference participants, was for simplification and localization of all state and federal services. Small-business owners, in particular, direct their strongest criticism to the absence of one-stop shopping at the local level for their capital and technical service needs. The services of state agencies and quasis, as well as loan services, tend to be Boston-based and so diversified as to confound their efforts to gain sympathetic support for their proposals, projects, capital, and technical assistance. There is a critical need for the state to move its agency and quasi representatives out to the local communities through local bodies such as small-business development centers and other community development organizations or local banks, so that business professionals can gain the information they need locally and from one source. Massachusetts has responded effectively to this recommendation by localizing some of its services to small business, as discussed below.

Indirect Role

Assist banks to localize regulatory function of federal agencies; it has not helped local banks to have "inexperienced and insensitive" regulators and examiners reviewing their portfolios and bank practices. Massachusetts banks were reviewed by regulators from Iowa! "Local," in this case, does not meant from Boston, but agents closer to the regions who understand the areas' special needs, business, and banking practices and tend to grant local CEOs more discretionary management of their credit systems.

The cost of doing business in Massachusetts remains unfavorable in the eyes of business; the state could continue to press through legislative action or moral suasion measures that will reduce costs, that is, workmen's compensation, insurance costs, utility,

energy costs, disincentive taxes, while providing tax relief or incentives for investment to produce real growth in the economic base of the state. As to the tax burden, Robert Tannenwald has indicated in his studies that of all of these, only Massachusetts taxes are not out of line with its competitor states.[5]

Urge the banking system to be more aggressive in carrying out the Community Reinvestment Act (CRA), as applied to business. Many banks still hold back. Federal funds can help. For example, U.S. Department of Housing and Urban Development (HUD) Community Development Block Grants are being used by cities to complement and stimulate bank loans to small businesses in economically depressed areas. This includes technical assistance subsidies, direct loans, and loan guarantees. Matching funds from banks are being used for microenterprise loan pools managed by CDCs. HUD also provides, through private contractors, training, technical assistance, and business development activities with a goal of requiring bank involvement.[6] New federally urged geocoding of small-business lending is there to assist the process.[7]

In a review of ten banks in southeastern Massachusetts, for example, examiners rated three outstanding and seven satisfactory (reported at length in the *New Bedford Standard Times*, July 26, 1992). However, not all area business community personnel would agree with all these ratings. The state has an economic (and political) stake in the rating of these performances and should play a proactive role in mobilizing bank activity under the CRA rules in local banks around the state.

Tax increment financing (TIF) is proposed by some Massachusetts industry groups as a means of bringing private-sector needs and the necessity for more jobs and taxes together through public-private partnerships. TIF permits the amortization of revenue bonds issued by the municipality to fund development paid for by taxes generated from the project. Forty-one states already have this legislation, but Massachusetts is not one of them.[8]

State agencies could more aggressively assist local institutions and businesses with knowledge and technical assistance in obtaining federal grants, loans and accounting, bonding assistance, export marketing, legal advice, and special expertise needs. It was anecdotally said that since localized services are readily available for welfare recipients, why can't they be for business?

An example of federal, state, and private-sector cooperative efforts at development is the New York/New Jersey Regional Alliance for Small Businesses. This combines technical assistance inputs from senior officers of private-sector firms with direct loans and loan guarantees from government sources to complement and encourage loans (debt) provided by cooperating banks. Cities help by pledging funds from HUD Community Block grants.[9]

Catalyze private-sector suppliers, especially those in economically depressed regions, by providing incentives for business to supply infrastructure needs like parking garages, industrial park construction, public works commitments on buildings, roads, and other infrastructure, as well as provision of office materials and supplies for public offices and functions. The state voucher system could be expanded to channel this type of business to depressed area suppliers. For example, to the extent feasible, the state bodies highly concentrated in Boston could direct more of their supply orders to firms in other economically depressed localities in Massachusetts. Combining this with large corporations' additional mentoring of their small suppliers in times of distress could sustain many companies during periods of deep recession.

Reach out to county, municipal, and local government bodies to help remedy and

reduce costs of complying with regulations, codes, zoning factors, permit systems, fees, licensing requirements, and other obstacles that inhibit doing business in their respective areas.

Make a more significant commitment to higher education in the state, which ranks among the lowest in the country in support of its public system. The quality of the workforce, skills needed, and research results available for business development is directly affected by the quality of the graduates of the public system. This quality has been deteriorating in recent years and state support is critical to turning it around.

In addition to general support for quality faculty, services, and research efforts, the state could initiate industry-oriented industrial parks, incubator-type facilities, health service and health research projects, or centers on or near university campuses. As one source puts it, "States with significant university R&D venture capital and highly skilled labor have the most potential for implementing a successful competitive strategy based on entrepreneurial new firms."[10] A number of campuses have extensive unutilized acres for these purposes. Some university locations could also serve as the one-stop coordination centers for area or regional businesses, under the aegis of the state offices of economic development. One such office, formerly located in Boston, was officially opened by the commonwealth in July 1994 on the campus of the University of Massachusetts Dartmouth. It has a budget of $1 million and projected staff of five to six professionals. Four other such regional offices are being established by the state to bring information on access to capital, technical assistance, and other matters relevant to business — for example, land availability, regulations, export markets, and so forth — closer to the source of the need.

Many models or prototypes at universities around the country could provide the information leading to such mutually beneficial activity between the needs of business and the research potential of higher education. The Research Triangle near the University of North Carolina, the industrial park at Syracuse University, and many others could be replicated in a large number of states.

Once this positive business environment has been put in place with the help of the state, based on a proeconomic development structure of taxation, state and local agency and quasi-publics' support of business, there could follow an active effort to disseminate far and wide that affirmative image as the reason companies should locate in a particular state. Until the positive business climate measures are put in place, however, that invitation will not be very persuasive.

States should avoid duplication of agencies and personnel. It was perceived in Massachusetts that no new agencies or bureaucratic infrastructure are needed to carry out the above improvements in the business environment; the state can utilize existing institutions. In a sense, the current system of service to business is both distant and choked up. It has been likened to the man in the hospital bed, gasping for breath, trying to speak, his eyes wide. His visitor leans over to listen better, only to hear a barely audible whisper: "You're standing on the oxygen hose!"

The economic plan for the state should project to a strategy for implementation at the regional and local levels by empowering local institutions and especially local community leaders and people at that level, not as directives from the state. The state should steer but not row the boat. A state plan without a localized implementation strategy is guaranteed to fail. Models for such implementation abound in states around the country. Pennsylvania, Michigan, New Jersey, Minnesota, North Carolina, and others provide examples of successful implementation and empowerment of the private sector through

state guidance.[11] A microcosmic model for such empowerment is Baltimore's Life Sciences Vision, which mobilized the resources of the business community — developers, bankers, business leaders, and other interest groups — to produce a highly successful business climate.[12]

It is the localized focus and convenient availability and implementation of these technical assistance measures, services, and information — hand holding, if you will — and its link to more empathetic sources of capital that the business community sees and feels acutely is part of the cure for this problem.

Obligations and Impacts of the State Role

Some private-sector leaders are concerned about the degree of involvement by state government in directly affecting private-sector business or investment decisions. Should the public sector be investing tax dollars to support private business? What effect do state decisions have on assistance to the private business sector? Do they provide unfair competitive advantage to some, denying it to others? Does the state have a mandate to take risks that should essentially be taken by the private sector? Taxpayers consider technical assistance to private-sector companies a hidden cost of doing business. Are they obligated to pay these costs when such public subsidies seem to help certain eligible firms and not others?

The answers to these questions are that the state is obligated to provide services to businesses that pay taxes. While its constitution precludes the state from investing directly in private enterprise, it can and should stimulate private-sector investment aggressively through the medium of state agencies and quasi-public institutions. Moreover, the state must recognize the economic, social, and political costs of failing to assist private businesses, which generate the tax revenues to support myriad other necessary services and the public infrastructure needed to support society. The following statement concerning the state's role in acting to promote economic growth aptly summarizes the views of many:

> State government can be the major force that determines whether this growth is retarded or accelerated. The most effective way to accelerate the creation of jobs by the private sector is for the state government to provide laws, infrastructure, and incentives and to assist in the financing to aid that growth. State policies which facilitate and stimulate technology transfer from our world-class universities, and commercialization by our businesses will absolutely foster industrial growth and jobs creation.[13]

State Role in Recession: Low-Confidence Environment

The greatest constraint on private investment and economic growth has been the recent recession and the general deficiency in overall spending and demand for durable products, nondurable products, and services. Repeated Federal Reserve reductions in the interest rate have not turned pessimism into unalloyed optimism as far as Massachusetts workers and consumers are concerned. Some bankers have detected positive signs in improvement of loan applications and the business climate. The Bank of Boston's $3 billion special loan fund for business reported receiving 3,000 loan applications, while some financially untroubled local banks claim to have plenty of liquidity for loaning and are seeing better business-loan prospects coming through their doors.

The mergers of New England banks in the past few years, and the mergers with

national banks to come, will also have a dramatic impact on the availability of loan funds for business, though not necessarily for small-business loans. Loaning will become much more depersonalized as the sources of funds and approval become more distant from localities.[14] It has also been said that the lack of geographical diversification has often proved fatal to banks. Said one source, "During the 1980s, nine of the ten largest Texas banks failed because of concentrated exposure to their own state's economy. In the late 1980s ten of the largest New England banks failed because of concentrated exposure to their regions' economy."[15] Also, concentration of portfolios on single-industry areas, for instance, real estate, produced disastrous results in Massachusetts. Diversification geographically and by industry seems to be the way of the future; in this way banks increase enormously their loaning capacity and ability to accommodate the bad loans with more access to loans with favorable risks.

At the same time, with many new financial loaning institutions arriving on the scene, brokerage houses, insurance companies, commercial finance/factoring firms, leasing companies, suppliers, venture capitalists, and even giant retail chains, which are allowed more flexibility in loan practices than banks — loans to small business are likely to become less attractive to banks. This process could be accelerated should the federal government secure the small-business loans of all these quasi-financial firms through the "Velda Sue" legislation (Venture Enhancement and Loan Development Administration for Smaller Undercapitalized Enterprises).[16] These trends could become confusing to small-business owners and aspirants; it will be essential for the appropriate state agencies to be readily available to assist business borrowers in ascertaining to which sources of capital small-business borrowers can best gain access.

Many states are still a long way from being out of the recession. For example, in the fall of 1992, the Conference Board's Consumer Index had dipped to 61 percent nationally, but by July 1994 had risen to 91.6 percent; yet the Confidence Index for New England in July 1994 was a low 57.5 percent. Based on 1985 = 100, it reflected the uncertainty and even fear that pervades the general public in New England about the direction of the economy and the security of their jobs.[17]

This makes it difficult for business investors, banks, and other New England suppliers of capital to feel comfortable with the prevailing risk environment. If people are not buying, it is difficult to launch and promote incentives to invest that are inevitably tied to forecasts of final product sales. Entrepreneurs do not want to borrow and bankers resist lending, even at what seem to be highly favorable costs of capital, if the expectation of survival, let alone profit, is in question.

Neither the federal nor state governments can ignore the insufficiency of demand (markets) as a significant source of the jittery prospects for private-sector investment in New England. At the height of the recession, close to 10 million people were unemployed nationally. The numbers who left the workforce or were underemployed were unaccounted for. The recession hit New England particularly hard, owing to the spillover effects of the national decline in manufacturing and the significant manufacturing orientation of the region.[18] Even in 1994, Massachusetts manufacturing firms were still downsizing or closing. With millions unemployed nationwide and continuing losses of jobs in Massachusetts, state government may have to focus on measures to stimulate demand before incentives for stimulating investment (hence supply of goods and services) can become more effective.

Pertinent to the themes raised by area business leaders, one hundred leading economists, including six Nobel laureates, urged the federal government to spend $50

billion a year on investment. This proposal was strongly supported by leading business CEOs around the country. The president and CEO of Sematech, Inc., a semiconductor firm, urged the federal government to invest in technology, research, and start-up prospects; the president of Tenneco, Inc., urged federal use of the peace dividend from defense savings to invest in infrastructure — airports, bridges, rail networks, education, training for skilled jobs, and investment in new fields of technology that promise the greatest growth; the CEO of Thermo Electron Corporation urged government to recognize the value to the private sector of government investments in the aerospace and defense industries, which paid great dividends in the fields of computers, energy, commercial aviation, and the environment, and to switch these funds to investing in new channels of private-sector research and technology development; prominent economists urged utilization of the idle capacity of the many technology firms to carry out federally funded research (formerly supplied by defense industries) for future growth.[19]

The state role in raising consumer confidence and spending, hence demand, may also have to include more direct measures by the state to invest in the following ways.

1. Seeking out every possible source of federal assistance applied to ongoing state programs in housing, enterprise zones, defense niches, HUD programs available to states, highway funds, construction of federal buildings or facilities, and harbor development. For example, speeding up already approved federal spending on the complex and occasionally stalled Boston Harbor project, the new federal courthouse in Boston, federally funded highway construction or improvements, the partially federally funded research-oriented laboratories and planned technical center buildings at our state universities, the numerous federally funded training programs, some already approved for Massachusetts, others needing to be sought after. The state's congressional delegation could be more strongly pressed to identify all federal sources of funding for state programs and activities. Massachusetts representatives are often preoccupied with issues, often international, which, while important in themselves, seem to have little to do with promoting the economy of their home state.

2. The state government could be more aggressive in committing funds to desperately needed infrastructural improvements of roads, bridges, transportation, health, and other sector improvements that can be made now at lower costs than will be the case when the economy — and prices — recover. For example, in fiscal 1993 the state of Massa-chusetts made use of $1 billion in federal highway and construction funds and expects to use about $700,000 million in federal aid for fiscal year 1994, much of it for the new road and tunnel complex through Boston. The state government committed over $100 million of the 1992 fiscal year surplus to accelerate spending on road and bridge repair projects. More of this type of direct job and demand stimulation is necessary and should have been aggressively implemented early in the recession. State economic plans should not hesitate to recognize the inadequacy of monetary policy alone to resolve the staggering economic performance that plagued the recovery in many states and in the country at large.

All these endeavors are necessary; they are not and should not be simply make-work. They represent refurbishing the seriously deteriorated infrastructure of facilities and services in the state which, when carried out, contribute to more cost-effective functioning of the private sector. Such investment is still needed and still lagging in implementation.

More directly to the issue of access to capital and technical assistance, these commitments of federal and state funds will provide jobs, revive spending on goods and services, generate taxable income to the benefit of the state budget, and by raising confidence, spur both private investors and banks to cooperate in a climate of better prospects for returns on investment for both borrower and lender. If the state economy continues to bump along far below levels expected by the public, by bankers, and by private investors, the issue of access to capital and technical assistance issue remains moot.

The "capital crunch" or credit shortage evolved from the recession, which was characterized by the sharp decline of durable and nondurable manufacturing in 1988, the savings and loan debacle, and the attendant collapse of value in banks' real estate portfolios. New England's manufacturing and its banks were hit particularly hard by each of these. A by-product of this phenomenon was the widespread criticism, elaborated here, among area business leaders of the deleterious role they perceived the banks and the state played in shutting off avenues to credit and technical assistance to existing and prospective business borrowers.

While bankers acknowledged mistakes in handling the problem, they also suggested that the soundness and qualifications of many loan applications and applicants, the extreme uncertainty of projecting favorable returns on investment in the recession climate, plus the jittery pall cast over the banking system by the S&L crisis, produced an atmosphere of intensified regulation — many said insensitively administered — by national agencies and justifiable caution by bankers. Bankers continue to aver that they have not been opposed to small-business loans and, in fact, insist that "80 percent of the borrowers in any given bank portfolios are small customers."[20] (Many of these, however, include nonbusiness borrowers.) Business leaders also criticized the state government for not being more responsive to assisting small businesses to overcome the credit crunch by promulgating both direct and indirect policies and practices to improve the Massachusetts business environment.

This article elaborates a considerable number of direct actions the state could take within its province, as well as indirect actions to promote a more favorable economic climate, and various incentives that could reach out to regions and institutions within the state that could assist small-business owners. Many business leaders feel that the state should take an even more responsible role in improving the Massachusetts economy so that the prospects of profitable investment will make it easier for providers of credit to respond to loan requests. A state with an anemic economy is in direr need of economic recovery than of credit. The state, it is believed, cannot simply wait for the federal government to bail out its economy; the state must seek and obtain constructive federal aid and programs wherever possible to contribute to a more vibrant level of economic activity. The state's own plans and policies should intercede dynamically to promote full employment evenly spread to cities, towns, and countryside by stepping up its own budget allocations and facilitating access to information and sources of funding for small-business borrowers.

Having elicited views from business leaders, the state and banks have demonstrated some responsiveness to critiques by increasing access to pools of small-business loan funds and establishing agencies that bring information and guidance to small businesses in the localities where they operate.

The rapidly evolving trend toward mergers, consolidations, and geographic industry diversification will undoubtedly strengthen and enhance banks' loaning capacity for

both large- and small-business borrowers. Yet owing to the vast and still-growing loaning capacity of new nonbank institutions, which are not bound by typical banking regulations and boundaries, plus the willingness of the federal government to approve legislation to secure nonbank loans and the trend toward nonlocal, depersonalized network banking, the small borrower faces even more complexity and perhaps indifference from the banking industry of the future. This is all the more reason for the state to play a more active role in facilitating access to capital and technical assistance for small business through localized agencies staffed to provide hands-on information and guidance that lead entrepreneurs to the source or courses of capital and business expertise relevant to each particular loan case and process. Massachusetts has undertaken the establishment of one-stop advisory offices around the state and making the numerous quasi-public agencies more approachable.

At the same time, given the continuing lag in the regional economy, with massive layoffs by many large companies — Digital, AT&T, merging banks, defense-dependent industries and bases — and the chronic levels of high unemployment in some New England cities,[21] the state should continue to play an aggressive role in bringing its economy back to a higher level of prosperity and employment so that entrepreneurs can forecast more likelihood of profits in their business plans. This in turn will attract lending institutions, including banks and venture capitalists, to provide the requisite capital. The state has gradually stepped up its role in fostering economic activity by, for instance, allocating highway funds to localities around Massachusetts and working with educational institutions to promote federally funded regional training programs and manufacturing partnerships. Banks, state governments, and increasingly, nonbank financial institutions must be far more cooperative and proactive in meeting the needs of businesses that seek to commence, to expand, to innovate, to contribute their entrepreneurial skills and the resultant job creation they can bring to society. Some real progress is being made in response to frustrations and criticisms voiced by business leaders who were in the throes of recession doldrums. The state government, including the legislature, received the message from the business community and has taken steps to meet at least some of the demands of small business.[22]

The banking community, for its part, is enthralled by its own consolidation and diversifying transformations, which may or may not produce a more abundant and friendly credit environment. Yet especially in New England, and certainly in Massachusetts, there is much more to be done to localize credit and technical guidance to small businesses, to bring in the rapidly growing nonbanking financial institutions in this process, and to stimulate the state economy vigorously to foster an economic environment in which creditable investment and job seekers at all levels can gain their just rewards. ❧

Notes

1. Joseph Peek and L. Rosengren, "The Capital Crunch in New England," *New England Economic Review,* May–June 1992. In contrast to the recent recession-driven capital shortage crunch, the mid-1970s saw a significantly inflation-driven capital shortage. See Richard J. Ward, "The Capital Shortage for Innovation," *Business and Economic Perspectives,* Fall 1976, 9 ff.

2. Technologic Partners, *ComputerLetter,* March 23, 1992, 1. The National Venture Capital Association reports that the 401 companies in its database created 58,000 skilled

jobs in the United States between 1985 and 1990, which required 30 percent less equity per job to create than positions in Fortune 500 companies. They also paid $610 million in taxes. See Coopers and Lybrand, "Second Annual Impact of Venture Capital Study, Executive Summary," n.d.

3. This is only a partial list of Massachusetts development-oriented organizations. Local business personnel are not familiar with all of them, nor with their specific functions and how they can help them. Local small-business development centers or regional bodies could provide this information. Descriptions and functions of these organizations can be found in Lynn Griesemer, "A Legislative Guide to the Massachusetts Quasi-Public Corporations" (Amherst: Donahue Institute, University of Massachusetts, 1989).

4. From an excellent report, "Biotechnology Industry Needs in the 1990's" (Cambridge, Mass.: Forest City Development, January 1992), 30.

5. Robert Tannenwald, "Massachusetts' Tax Competitiveness," *New England Economic Review*, January–February 1994, 31–36.

6. Jerome Groskind and Marcus Weiss, "Regulators Turn Up the Heat on CRA Compliance," *Bankers Magazine*, May-June 1990. See also Weiss et al., *Community Reinvestment Act:How to Implement Your Bank's Program* (Austin, Tex.: Sheshunoff Information Services, n.d.).

7. *CRA Bulletin 1*, no. 10 (July 1992).

8. Ibid.

9. Forest City Development, "Biology Industry Needs," 25.

10. Patricia M. Flynn, "Technology Life Cycles and State Economic Development Strategies," *New England Economic Review*, May-June 1994, 24.

11. David Osborne and Ted Graeber, *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector* (Reading, Mass.: Addison-Wesley, 1992). See also other state experiences provided amply in Forest City Development, "Biotechnology Industry Needs."

12. Walter Plosila, president, Montgomery County (Maryland) High Technology Council, "Reconfiguring Economic Development in Massachusetts: Catching the Third Wave," remarks made at a conference, University of Massachusetts Dartmouth, June 30, 1992.

13. Forest City Development, "Biotechnology Industry Needs," 16.

14. Larry A. Fried and Robert D. Hedges, Jr., "The Emerging Bank Consolidation Landscape," *Bankers Magazine* 177, no. 4 (July-August 1994): 20–31.

15. Jean E. Le Grand, "Diversity: Strength in Numbers," *Bankers Magazine* 176, no. 2 (March-April 1993): 65.

16. Cynthia A. Glassman, "The Erosion of Banks' Role in Financing Small Business," *Bankers Magazine* 177, no. 1 (January-February 1994): 52–55.

17. Source: Conference Board, New York, Fall 1992, July 1994.

18. Katherine L. Bradbury and Yolanda K. Kodrzycki, "What Past Recoveries Say About the Outlook for New England," *New England Economic Review*, September-October 1992, 21.

19. *New York Times*, July 10, 1992.

20. "Growth Conference on the Massachusetts Economy" (hosted by Governor William Weld and Senator John Kerry), World Trade Center, Boston, January 28, 1991, 77.

21. Unemployment in New Bedford had reached 17.3 percent in January 1994, although it was still 10.2 percent in April 1994; for Brockton, Lawrence/Haverhill, Springfield, and Fitchburg, the rates were at or above 7 percent. See Department of Employment and Training and Federal Reserve Bank of Boston, *New England Economic Indicators*, June 1994, 13. One must also remember that many of the unemployed are overqualified for the low-skill, low-paying jobs they have been forced to accept in the current environment.

22. Various regulatory reforms, tax relief measures, and tax credits for industry-sponsored research at Massachusetts educational institutions, as propounded in the William Weld–Paul Cellucci *1992 Economic Growth Plan* of January 1992 have been carried out.