

Factors Affecting Spatial Variation of Microenterprises in the Rural U.S.

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What are microenterprises?

- The smallest of small businesses.
- A sole proprietorship, partnership or family business that has fewer than five employees (Aspen Institute and the Association for Enterprise Opportunity)
- Mostly self-employed individuals.
- Our measurement: establishments that have 1-4 employees plus nonemployers.
- Nonemployers:
 - The Census Bureau's definition: entities with business receipts of at least \$1,000, but without paid employees.
 - Can include part-time, home-based businesses in which the owner works for less than 40 hours per week.

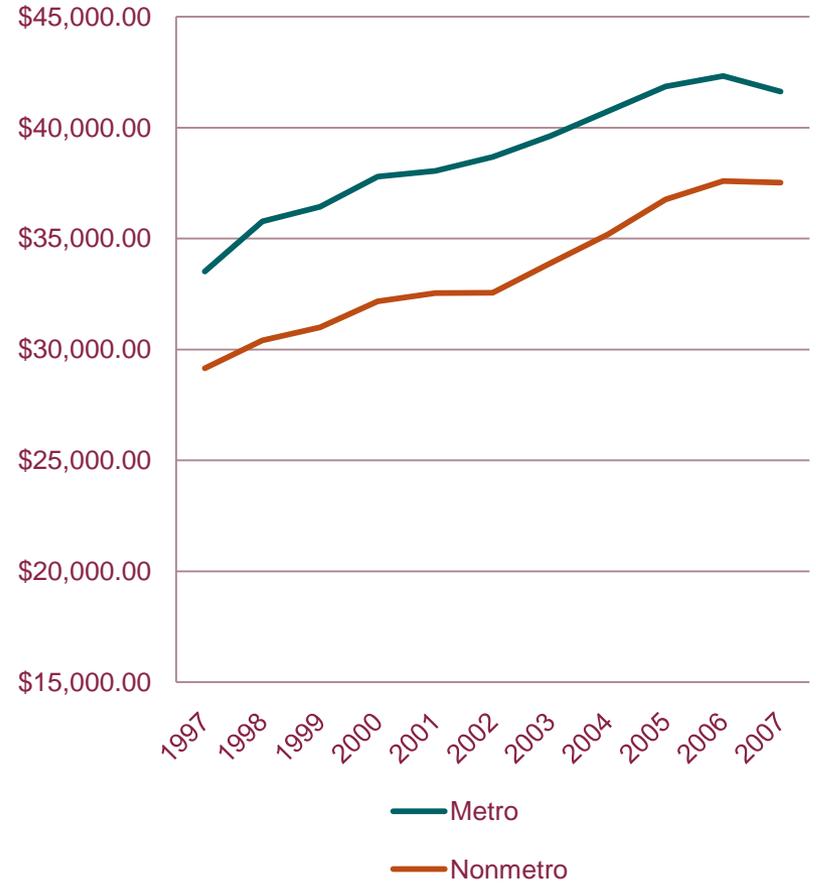
Support for Microenterprises

- Creation of employment
- Alleviation of poverty
- Movement from welfare to work
- Decrease in population loss
- Improvement of farm and nonfarm earnings, and
- Increase women employment

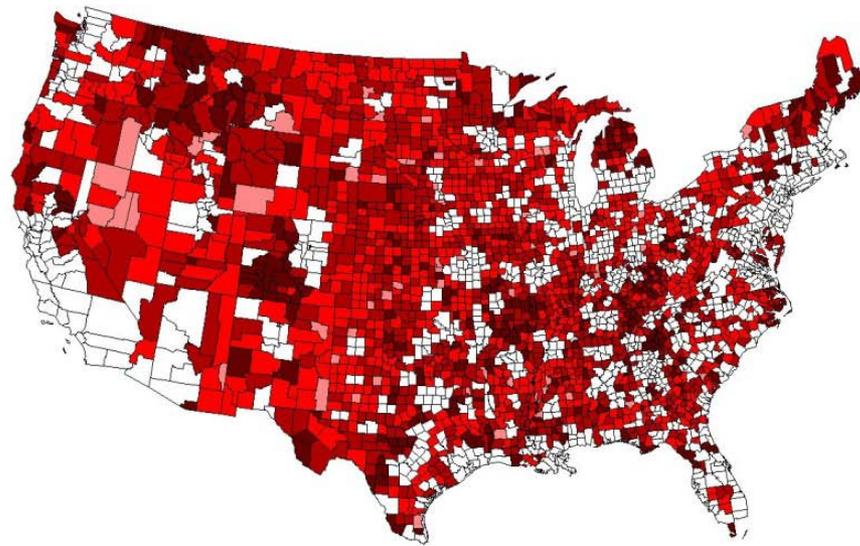
Microenterprises as a percent of total employment, 1997-2007



Per Capita Nonemployer Receipts 2007



. Spatial variation of microenterprises as a percent of total employment, 2007



% Microenterprises
Metro counties
0 - 10%
10% - 15%
15% - 20%
above 20%

Some descriptive evidence

- Census figures for 2007 report 25 million microenterprises and 3.5 million employers.
- Out of this, 21 million were nonemployers.
- 86% of all enterprises, 17% of nonfarm employment.
- Microenterprises for the entire country increase over 34.35% during 1997-2007.
- The microenterprises in rural areas over the same period of time have expanded from 3.39 million in 1997 to 4.11 million in 2007, a 21% increase.
- In 2007, the average nonemployer in metro areas earned \$ 41,623 and the average nonemployer in nonmetro areas earned \$ 37,519.

Focus of this paper

- The geographic variation in the proportion of microenterprises in rural counties.
 - What kind of local environment facilitate more microentrepreneurs?
- There has been no focus on the reasons for this variation.
- We make an effort to understand the factors affecting this variation.
- This variation may be due to multiple reasons.
- We study the effects of community level factors and local government tax and expenditure policies.

Factors affecting microenterprises

- Economic and labor force characteristics
 - returns to microenterprises,
 - wage and salaries from formal employment,
 - risk variables,
 - unemployment rate,
 - size of markets,
 - local economic growth,
 - home ownership,
 - median housing value,
 - Wal-Mart, and
 - access to formal financial capital.

Factors affecting microenterprises

- Demographic characteristics
 - Education, age, race, ethnic diversity, gender, and marital status.
- Government Policies
 - local taxes
 - Local expenditure on education
 - Expenditure on AFDC/TANF
- Regional Characteristics
 - Natural amenities
- Social and cultural capital
 - Social capital
 - Religious adherence

Results – all microenterprises

- Wage and salary per worker (-)
- Nonemployers receipts per nonemployer (+)
- Unemployment rate (+)
- Risk measure using nonemployer receipts (-)
- Owner-occupied housing units per capita (+)
- Median housing value (+)
- Per capita bank deposits (-)
- Wal-Mart stores (-)
- % High school only graduates (-)
- % College graduates (+)
- Median age (+)
- Female labor force participation rate (+)
- % African Americans (+)
- % Hispanics (+)
- Ethnic diversity index (-)
- % married households (+)
- Per capita gov't expenditure on education (-)
- Per capita gov't expenditure on AFDC/TANF (+)
- Natural amenity index (+)
- Social capital index (-)
- % religious adherents – Mainline (-)
- % religious adherents – Catholics (-)

Results – Comparison of two types

Variable	Est 1-4	Nonemp
Total personal income	(-)	
Per capita income growth	(-)	
Per capita bank deposits		(-)
Wal-Mart stores		(-)
% College graduates	(+)	
Female labor force participation rate	(-)	(+)
% Hispanics		(+)
Ethnic diversity index		(-)
% Married households		(+)
Per capita gov't expenditure on AFDC/TANF		(+)
Social capital index	(+)	(-)
% Religious adherents – Mainline		(-)
% Religious adherents – Catholics	(+)	(-)

Conclusion

- We try to answer the question that why some rural counties are more microenterprise friendly than others.
- We show numerous economic and labor market conditions, demographic, policy, regional, and socio-cultural factors affecting the regional variation.
- Our definition of microenterprise is not well-suited.
- Policy options: with respect to risk, bank deposits, Wal-Mart, family assistance.
 - For those who are CES practitioners