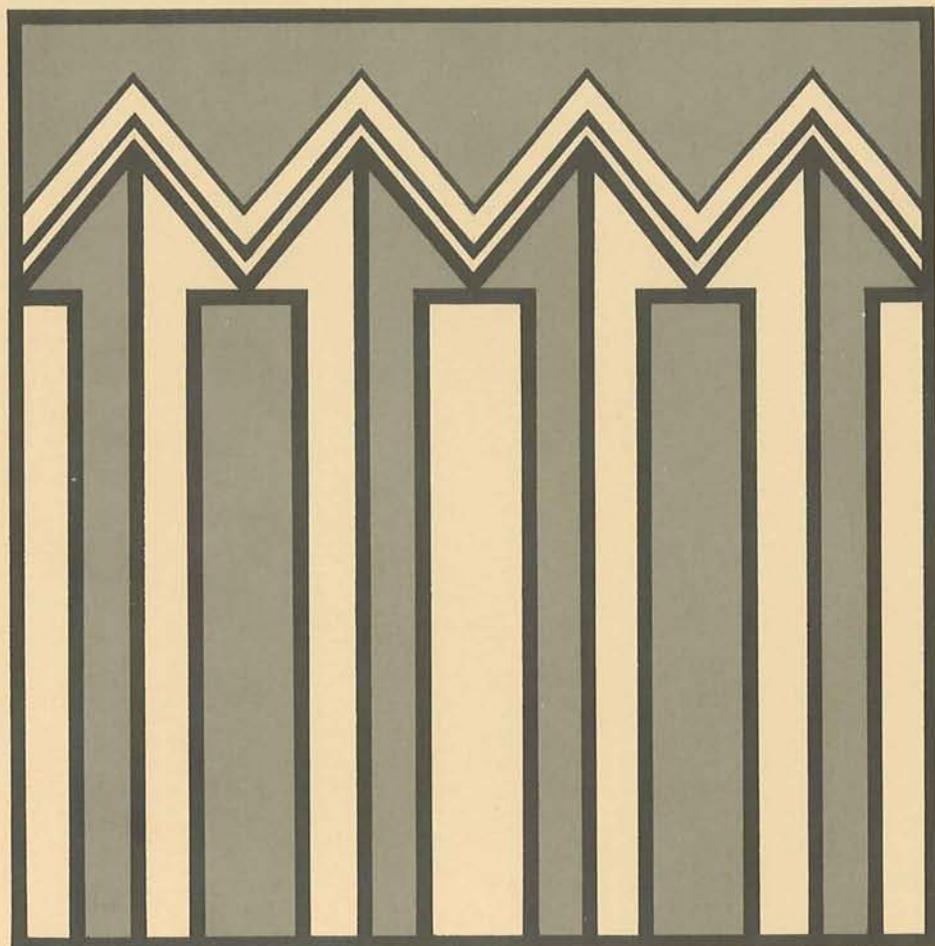


# Minority Business Development

November 22, 1976



Conference Sponsored by Federal Reserve Bank of Boston

# Minority Business Development

Proceedings of a Conference

Held at

Boston, Massachusetts

November, 1976

Sponsored by

**THE FEDERAL RESERVE BANK OF BOSTON**

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NOVEMBER, 1976

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# Introductory Remarks

Frank E. Morris, President  
*Federal Reserve Bank of Boston*

This is the 17th in our Conference Series. For each of our conferences the Federal Reserve Bank of Boston has tried to select an issue important for the future, and to gather a group of people with expertise on the subject matter. Subsequently we publish a volume of the proceedings of the conference which we hope will be a contribution to the literature on the subject. About six months ago Ken Guscott organized a meeting of black businessmen in Boston to try to identify the issues of greatest concern to minority business development. The structure of this conference reflects the decisions made at the meeting. I am pleased to see that we have such a distinguished turnout for this conference, and I am particularly pleased that the Governor of Massachusetts is with us today to begin our program.

The Honorable Michael S. Dukakis, Governor  
*Commonwealth of Massachusetts*

Thank you very much, Frank, and thank you all. I'm going to be very brief because this is not a session or a day in which we want to listen to a lot of politicians. It's a day for work and a lot of constructive deliberation and, I hope, some very good, solid recommendations for those of us on the political front, who can then begin to implement them for you and with you. But let me first just say how pleased I am to be here and to join with Frank Morris, Ken Guscott, and all of you in this conference. The Federal Reserve Bank here in Boston has been an enormous asset and source of strength to all of us in state government over the course of the past 22 months, while we've been struggling with some fiscal and economic decisions on the state level. I can only say that this conference seems to be just another example of what can happen when you have that kind of creative leadership at the Bank on a regional basis.

Some of the seeds that have been sown by the Bank in this region can begin to flourish and grow under the kind of leadership and in the kind of environment and atmosphere that, I believe, we're going to see in Washington, particularly as it relates to the Northeast. Many of you know that Frank, Dick Syron, and others from the Bank joined us in Saratoga with people from government and the private sector from eight northeastern states, for a very important two-day conference on the special economic problems of the Northeast and our hopes for national action to

deal with them. But even during that conference, a number of us — myself included — were attempting to sound, if not a warning note, at least a moderating note on the subject of massive Federal assistance to the Northeast or to any other area of the country.

I think it's very important that we meet in conferences like this to discuss and work on solutions to special problems, whether they're regional problems or problems of small business and minority business, or whatever, and that we prepare an agenda that is realistic and achievable and that works. Those of us in state government obviously have an obligation to use the resources at our command to deal with these kinds of problems at the regional level. As many of you know, we've been struggling mightily and with some degree of success, I might add, not only to correct a great many mistakes here in Massachusetts that were of our making — not somebody else's — and to get this state moving economically, but at that same time to do some things as part of that economic development effort which are tailored to the problems of small and minority business.

Here in Massachusetts over the last couple of years we've been able to do a number of significant things. There may be others that we should be doing, and that's one of the reasons why I'm looking forward to the results of this conference and to your recommendations. We transferred our State Office of Minority Business Assistance out of the Community Development Secretariat and into our Economic Affairs Secretariat so as to make it a part of the economic development effort of the State. That's a structural change, but is already bearing fruit. There was no reason to have that small business and minority business office sitting up there in the housing agency, if I can use that term, when in fact we're trying to pull together all of the pieces of our economic development effort and our minority business effort has to be a very important part of it. We were able, with the help of our Office and strong support in the Legislature, to win passage of the Small Business Purchasing Act, which for the first time in this state provides for a 5 percent set-aside in effect for small and by implication, minority business. We are now in the process of implementing that Act. I signed it just a few weeks ago and with the help of the State Office of Minority Business Assistance we're going to attempt to implement it in a way which will provide real support for small and minority businesses.

Many of you are familiar with my Affirmative Action Executive Order, which was signed last year, and which, assuming that the good people in the Urban Massachusetts Transit Administration will move on it, is now in a position to provide substantial employment and business opportunities for minority contractors in what will probably be a billion dollar investment in construction in the metropolitan transit system of this state. Although somebody down there is apparently hung up about our 30 percent guideline, I hope that they will move things as quickly as possible, because we have literally miles to go before we have a transit system that we can be proud of. And with all the interstate highway money that

Congress has now made available to us for transit construction, it's absolutely inexcusable that we lose a week, let alone a month, as we squabble over what is a state-imposed and state-initiated minority business and minority hiring requirement of that program.

We've also been able to win passage by the Legislature of a couple of bills creating two financing mechanisms: our Massachusetts Industrial Mortgage Insurance Agency and, more specifically, the Community Development Finance Corporation (CDFC), which is designed to provide state funds on either a loan or equity basis for businesses, particularly in our older urban communities. Last fall the CDFC was funded with a \$10 million bond issue, which will now be made available for specially targeted sensible and promising investments, particularly in such older urban communities.

Now that's just what one state has been doing to try to utilize its resources and its talent to aid and strengthen the cause of minority business, here in the State of Massachusetts. But I'm sure I don't have to tell any of you in this audience that despite all of these efforts at the state and regional level and whatever can be done at the national level, the most important single thing which will aid minority business is improvement in the overall economic health of the country. I'm not suggesting that an improvement in the economic picture may not bypass certain important groups in our society, particularly minorities who oftentimes are passed by even when there is general economic improvement in the country. However, there is nothing like a strong, vital, growing national economy to support and undergird these specialized efforts that you and I are going to be making on behalf of small and minority businesses.

I'm very encouraged by the attention that the President-elect is already paying to matters economic. I think we're going to see an action plan or program, whether it's a tax cut or a speed-up in processing of already authorized and appropriated funds for Federal programs, or a combination of the two, just as soon as Mr. Carter becomes President. But I think that if we expect our new national leadership to do the kind of job that will provide real opportunity for minority citizens and minority businesses in our country and in this region, we must come in with our own practical agenda, one that we can reasonably expect the new administration and Congress to undertake and to accomplish with our support and our help. And I only say, again, that I'm delighted that you're meeting here in Boston; I'm very, very pleased with the leadership that our Federal Reserve Bank of Boston has taken in putting this conference together, and we'll do everything we can, Frank, to support and implement your recommendations. If state government can do it, fine. If we must go to Washington in a coordinated and collective way to make it happen at the national level, then I'll be very pleased to join you in that effort. Thank you very much for having me and thank you for having this conference.

## Frank E. Morris

Ken Guscott is the inspiring force behind this conference. Ken, in addition to running his own business, Ken Guscott Associates, is involved in a great many public affairs, including service as a Director of the Federal Reserve Bank of Boston. When Ken came on board I told him that I wanted to get some action on our Affirmative Action program; and I can tell you, if you want somebody that prods you and keeps things moving, you can't get a better man on your Board than Ken Guscott. This Conference is his idea. He has participated in the planning from the very beginning, so I think it would be very appropriate to ask him to come up and give us a little keynote talk.

### Kenneth I. Guscott, Director *Federal Reserve Bank of Boston, and President, Ken Guscott Associates*

Thank you very much, Frank. My task is very easy, because we have such capable people to do the job that has to be done. I'd just like to give you a little bit of background, and then get on with the job that we're here for. I was asked to be a Director of the Federal Reserve Bank about three years ago, and at that time I was busy in a lot of other things. Because Frank has served on some of the boards that I had asked him to serve on, I said I would serve on the Board at the Federal Reserve Bank, but I would not be the token black director. Andy Brimmer can tell you that we've had many debates when we get together on the subject of: "Are you the black director or are you the director who happened to be black?", and I guess we'll continue to argue that question until we are long past being directors and it's not of any importance.

The important thing is that once you're on a board you use the power that is in that board. And that's why we're here today. We're here because the Federal Reserve System is a respected institution in this Nation and can serve as the catalyst for bringing together minority businessmen. And I stress that point. We're pulling together those who have to meet that payroll every Friday and don't know where they're going to get their next dollar to do it. We want to dwell on the problems as they see them, and we want to set up an order of priorities. As the Governor said, we want to come up with things that are obtainable and achievable. And to do this, the first thing that we did was convene the heads of the seven minority business organizations in the Greater Boston area to meet with us at the Bank and to tell us what their problems were. The problems may be a little different from what the academicians say they are.

The heads of the organizations told us the number one priority problem of the minority businessman in this region is crime. Now this was

long before the police report of two weeks ago, but crime was listed as the number one priority: first, because the shopkeepers on Blue Hill Avenue, on Morton Street, and on other streets have insurance costs five times higher than shopkeepers in other districts; second, they have to have steel grillwork and electronic surveillance devices around their buildings — these cost money; and third, people are afraid to come into their shops and instead go downtown and shop at Filene's. When you start putting these pieces together, you see their problems.

The second order of priority is access to the market place. By access to the market place we mean an equal opportunity to compete in the American system. Some of our minority vendors, who have been trying to supply goods and services to the majority communities, have found out that they cannot compete with the existing system until they have equal access into the system. So that's priority number two.

The third order of priority concerns our minority contractors. The private sector has led the way, and the greatest dollar volume of minority business in this region is now with minority contractors. The U.S. Department of Transportation under Bill Coleman as the Secretary also led the way by saying "Yes, we will spend close to \$1 billion in the northeast sector." The Federal Government has now provided by statute that the minority businessman shall have an opportunity not just to have something given to him, but to compete. So that is priority number three.

Now how do we tie this all together? The Federal Reserve System's primary role is to determine and set monetary policy. I suggest to you today that a secondary role of the Federal Reserve System could be to use its resources both to deal with the problems delineated by minority business people and to serve as a catalyst to pull together other resources to deal with these problems. I contend that one of the reasons that we've had a lot of racial problems in this country is because we have never been able to identify our problem areas correctly and to identify the resources that can deal with them. And I'm convinced that here in America we can deal with any problem that we make up our minds to deal with. Thank you very much.

# Progress of Minority Business: An Update

Alex M. Armendaris\*

I have been asked to give a progress report on minority business and an update on where we are today and where we are headed, with possibly a little bit about the future. If we look back over the past four years, we can probably see the whole picture of what has been happening in minority enterprise. In the previous 200 years minority enterprise remained at an almost completely horizontal level. The vertical movement started to occur only in the past few years and has taken place in spite of inflation and difficult economic times. During this time — since 1969, for example — minority businesses have grown some 40 percent. Since 1969 there has been an increase in retail sales of 30 percent, and in gross receipts of 34 percent.<sup>1</sup> For 1977 we anticipate total gross receipts of minority business of about \$32 billion. By 1982 that should double to \$64 billion. So the minority business impact is starting to be noticeable.

During the past few years we've also seen growth in national institutions; for example, savings and loans institutions have increased in number from 43 to 78 since 1969, and from \$350 million to \$800 million in assets.<sup>2</sup> Minority banks have increased from 24 banks to 71 banks currently, and from \$290 million to \$1.3 billion in assets. Life insurance companies have grown from \$2.5 billion in insurance in force to a projected \$12 billion next year. Construction offers tremendous opportunities, also. Construction by minority businesses has grown some 16 percent annually since 1973. I think these are important figures. Maybe now we're going to get the evidence that minority businesses aren't the "mom and pop" operations they were perceived to be, and that they are getting into industries that have much greater pay-off and much greater benefits.

It's important to develop new markets, and I think they are developing. Only a small amount of goods and services, some \$40 million, was purchased just a few years ago by major corporations from minority firms. Next year's goal is \$1 billion from corporate sector firms.<sup>3</sup> Federal procurement from minority firms has grown in just the last few years from

\*Director, Office of Minority Business Enterprise, U.S. Department of Commerce.

<sup>1</sup>U.S. Bureau of the Census, Special Report Minority Owned Businesses, February 1975.

<sup>2</sup>Special Reports by the U.S. Treasury.

<sup>3</sup>Report of the National Minority Purchasing Council, Projection for 1977.

\$10 million to \$700 million annually. This expands those markets, and such expansion usually leads to further opportunities for growth. Minority businesses are playing an important role even in these most difficult and critical times.

We've attempted to move into exciting new areas such as technology utilization, urban commercial revitalization, and railroad revitalization. All offer minorities opportunities as well as problems. Urban commercial revitalization should have been started 20 years ago, but not until recently has some effort been made to deal with the revitalization of our urban neighborhoods. Technology utilization is an interesting program. No coordinated Federal effort has been made to provide technology for new developments. The Office of Minority Business Enterprise has moved in this area and has made arrangements, both with Federal agencies and with the private sector, to generate opportunities for minorities to have a ground-floor start on new products with potential markets.

During these times of change — and changes have been made as the program has developed — we have also encountered many problems. There are always going to be problems in promoting minority business enterprises, because until they are participating equally with other businesses, an accelerated pace of promotion will be necessary. We've had to deal with problems that relate to the deterioration of our central cities, the declining real income across the country, and the changes in the balance of the cities when industries move from the north to the south. Such moves create problems as well as opportunities. For example, when I spoke in Memphis about a week ago I had the opportunity to meet with a group of minority individuals, and learned that no minority firms had yet been able to make a sales agreement with the new industry that had moved into that part of the state.

A more basic problem is the decline in importance of entrepreneurial spirit in this country. Today 9 million small businesses represent 95 percent of all U.S. business firms. The government defines as "small" any business with less than \$7½ million in assets or \$250,000 in net annual income. The balance of the country's capital is tilting to the big companies, and only 1½ percent of the work force is self-employed or owners or managers. I think we have to be concerned with this trend since it concerns our basic values. We lose the stimulation of the economy which only new and small businesses can provide. Access to capital for small business is difficult to obtain, and that should be dealt with. Present government policy does not necessarily encourage small business either, by providing quota systems to help minority enterprise. Tax incentive plans do not necessarily encourage investment in new enterprises. And I think this brings us to the basic differences among the small businesses that we deal with in Federal and other agencies.

We at the Office of Minority Business Enterprise consider ourselves the promoters or the advocates of the development of minority businesses. The Small Business Administration provides a retail source for financing for small business. We concern ourselves with providing the major ad-

vocacy for obtaining private as well as Federal resources. We have learned over a number of years that minority businesses have been overdependent on set-aside markets. While we think that such markets are important for minority businesses to start with, it's very dangerous for a minority business to depend on a set-aside market as a major source of business. We think we have done an inadequate job of generating enough private and outside resources for those businesses to create the independence needed for that business to survive and become successful. In terms of the development of new businesses, it is important not to go back to where we started four or five years ago. At that time minority enterprise activity was primarily concerned with starting new businesses, packaging businesses, and getting bank approval. Now we have to think in terms of starting a business related to the atmosphere in which that business is going to be living. I think that that's very important. We no longer can afford to start businesses in a vacuum simply on the basis of receiving a business loan or an approval. I think this is a very bad error. In order to start a business today we have to look at the entire environment, study the market potential down the line, to insure that that business is going to survive and be successful.

Among the factors that have contributed to the success of minority enterprise over the past few years is the successful partnership between the government, the private sector, and the community. Look at what's been happening. Look at what the Office of Minority Business Enterprise has been able to do and create, what local leaders, minority leaders as well as non-minority leaders, have been able to provide in the form of support for this type of activity. When we look at what private majority corporations and individuals have done to generate this interest; at what President Ford and his administration have done to support this program over the years; at what Congress has done by generating a national debate on how to use minority enterprise — not on whether it should be done — then we see that this partnership has created one of the most exciting programs that the Federal Government has engaged in.

Admittedly, the Federal Government has failed time after time to generate programs with sufficient impact on communities. Federal programs that have been based on a give-away aspect or some kind of a hand-out program are never really accepted by the American people. But minority enterprise, in my opinion, is a program that does pay off. It's one of the few programs with interesting cost-benefit figures. It's one of the few programs that provides an opportunity for people to do something and receive something in return. It provides an opportunity to give the community something long-lasting, and that is, allowing people to become employers rather than employees — an opportunity that has made this country as strong as it is. I can assure you that I will continue to work in the minority enterprise effort, that I will continue to support this concept, because to me as a taxpayer this is probably one of the most exciting things that I could do.

Oftentimes one hears the question of what is going to happen in the future. I told you that the President and the administration, particularly the Secretary of Commerce, had given this program strong support. I can also report that Congress has given this program its strong support. Four sessions ago no bills were introduced in Congress that affected minority enterprise to any degree. And then three sessions ago there were two bills. Two sessions ago there were eight. During this last session 17 bills have been introduced in Congress that have an impact on minority enterprise. What does this mean? This means that a national debate has started on how to improve on this minority enterprise concept. This means that there is momentum, and this momentum is carried on beyond the Congress to the communities. What has happened over the past few years in the communities? An awareness has been created, so that minority leaders and business persons are going to demand that this program continue because it has been so popular. And the reason it's so popular is because it's so successful. It's not a give-away program or a civil rights program or an equal employment opportunity program. It is a business program that gives minorities an opportunity to participate in America's most exciting experiment: free enterprise.

The Federal Reserve Bank of Boston deserves a lot of credit, because institutions like it have provided the opportunities. These institutions have made the cutting edge that's necessary to make others aware that something can be done. They have been leading the country in this respect, and their continued support is very necessary. I encourage the Federal Reserve Bank of Boston to keep up the good work: to continue to review its deposits by the banking industry and the savings and loan industry; to encourage the support by the banking industry of the Small Business Administration bank loan and guarantee program and the Minority Enterprise Small Business Investment Corporation program; to encourage support of the National Minority Purchasing Council, which has a billion dollar goal next year; to encourage support of the insurance industry for the \$5 billion increase in insurance in force deposits for minority insurance companies; to encourage the greater use of minority business development organizations, the business development organizations, the Construction Assistance Center, the Business Resource Center and all of those groups that the Office of Minority Business Enterprise and the Small Business Administration have been supporting in this area; to continue giving them support and to demand better performance from them, because only that way can we survive and make progress.

I strongly believe that the commitments that are made to minority enterprise will continue. I think that the administration can't help but give this program a great deal of support. I certainly think that the next Congress of the United States is going to give it a great deal of support. The minority enterprise program, in my opinion, is not going to disappear. It will expand — and not just because we want the Federal system to get bigger. I think we will expand at a very high level — so that five, ten, or

twenty years from today, we will no longer need a Minority Enterprise Agency. Then the Federal Government can step aside. And then the private sector and the communities can work together to provide all Americans and American business with the great, great support that this country really needs.

# Economic Growth, Income Trends, And Prospects for Black-Owned Businesses

Andrew F. Brimmer\*

Businesses owned and operated by blacks appear to be expanding slightly their relative position in the Nation's economy. However, behind this modest improvement are several trends which may pose a challenge to black businessmen in the years ahead. These underlying changes can be seen in the pattern of income trends in the black community compared with gross receipts of black-owned firms. Moreover, the distribution of black businesses with respect to the expected pattern of growth of different segments of the economy may also intensify the problems which these firms already face.

These are the main conclusions which emerge from a careful analysis of the status and prospects of black-owned businesses in the United States. Before presenting more fully the evidence on which the conclusions rest, the main results can be summarized briefly:

- The black community as a whole has been slowly increasing its share of total money income in the United States.
- With rising incomes, an increasing proportion of the better-paid black families are migrating out from the central-city neighborhoods (which are the principal service areas of black-owned firms) to suburban areas.
- Partly reflecting this trend, black firms are encountering growing competition for the black consumer's dollar. In this competition, black businessmen are barely holding on to their share of the black community's total income.
- While black businesses are diversifying their activities, they are still concentrated mainly in traditional lines — such as retail trade and personal business services.
- Moreover, lines in which blacks are heavily represented are projected to grow more slowly than the economy as a whole over the next decade.
- Nevertheless — with greater diversification, increased efficiency, greater investment of equity capital, and improvements in

\*President, Brimmer & Company, Inc. From March 1966 to August 1974 Dr. Brimmer was a member of the Board of Governors of the Federal Reserve System.

managerial skills — blacks do have an opportunity to strengthen their position in the Nation's economy in the years ahead.

### *Long-Term Economic Outlook*

Before turning to an assessment of income trends in the black community and their implications for black-owned businesses, it might be helpful to sketch in broad outline the main contours of the American economy over the next decade. The figures in Table 1 are useful for this purpose. These data show trends for the period 1955-72 and projections for the years 1968-85 for U.S. population; labor force, employment, and unemployment; and gross national product (GNP) and its principal components. The figures are from the U.S. Bureau of Labor Statistics.

A number of highlights should be emphasized. By 1985, the population of the United States may be in the neighborhood of 241 million — about 15 percent above the 1972 level (and roughly 12.6 percent higher than the U.S. Census Bureau's estimate of 214 million for 1975). During the next decade, the country's population may rise at an average annual rate of just under 1.0 percent — or about two-thirds the rate recorded in 1955-68. However, the black population is projected to advance at an average annual rate of just under 1.5 percent over the same period — more than 1½ times the rate projected for whites. So by 1985, blacks should number 29.1 million (vs. 23.4 million in 1972 and 24.6 million in 1975). They would represent 12.1 percent of the total population by 1985 — about the same fraction as in 1972.

By 1985, there may be 105.7 million persons in the civilian labor force — that is, holding jobs or looking for work. In 1972, the number was 86.5 million. Thus, by the mid-1980s, the country's work force may have increased by 22 percent. However, the projected rate of growth in 1968-80 is considerably above that projected for the years of 1980-85. The projected level of employment is derived on the assumption that the unemployment rate would be equal to roughly 4 percent in both 1980 and 1985 (in contrast to 4.8 percent in 1972 and 8.5 percent in 1975).

After correcting for inflation, gross national product (real GNP — measured in 1963 prices) may expand at an average annual rate of 4 percent during 1968-80 and by 3.25 percent in 1980-85. The differential rates reflect the expected slowing in the rate of growth of the civilian labor force in combination with a moderate slackening in productivity advance (with output per hour climbing at an average annual rate of 2.8 percent compared with over 3.0 percent in the last two decades). Nevertheless, over the next decade, a sizable improvement in real per capita income is anticipated.

The share of real GNP absorbed by the government sector is expected to diminish somewhat. Gross private domestic investment is projected to rise moderately faster than real GNP as a whole through 1980 — and moderately slower during the subsequent five-year period. Personal con-

TABLE 1. LONG-TERM ECONOMIC OUTLOOK FOR THE UNITED STATES, 1972-1985

PROSPECTS

BRIMMER

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CATEGORY	1955	1968	1972	PROJECTED		AVERAGE ANNUAL RATES OF CHANGE <sup>1</sup> PROJECTED		
				1980	1985	1955-68	1968-70	1980-85
<b>U.S. Population (millions)</b>								
<b>Total</b>	165.9	200.7	208.8	225.7	243.3	1.48	0.92	1.01
White	-	176.6	182.8	199.7	206.9	-	0.90	1.00
Black	-	22.3	23.4	26.7	29.1	-	1.50	1.40
Other races	-	1.8	2.6	4.3	5.3	-	7.50	4.20
<b>Labor Force (millions)</b>								
<b>Total</b>	68.1	82.3	89.0	101.8	107.7	1.47	1.79	1.13
Armed Forces	3.0	3.5	2.4	2.0	2.0	1.17	-4.59	.00
Civilian Labor Force	65.0	78.7	86.5	99.8	105.7	1.50	2.00	1.10
Employment	62.2	75.9	81.7	95.8	101.5	1.60	1.90	1.10
Unemployment	2.9	2.8	4.8	4.0	4.2	-.09	2.95	1.16
<b>Gross National Product (bil., 1963 \$)</b>								
<b>Total</b>	468.7	759.2	848.9	1,228.2	1,441.5	3.78	4.09	3.25
Government Output	48.8	74.0	76.1	89.6	100.1	3.25	1.61	2.24
Private GNP	419.9	685.2	772.8	1,138.6	1,341.5	3.84	4.32	3.33
<b>Personal Consumption Expenditures</b>	291.2	481.8	559.6	799.9	941.9	4.0	4.3	3.3
Durables	42.8	79.9	102.7	146.0	170.1	4.9	5.2	3.1
Nondurables	136.2	205.1	229.4	316.8	364.0	3.2	3.7	2.8
Services	112.2	196.8	227.4	337.2	407.7	4.4	4.6	3.9
<b>Gross Private Domestic Investment</b>	78.7	109.3	128.0	192.7	224.2	2.6	4.8	3.1
<b>Net Exports of Goods and Services</b>	3.4	1.3	- 1.6	6.3	7.2	-7.1	14.0	2.6
<b>Government Purchases of Goods &amp; Services</b>	95.3	166.8	162.9	229.3	268.2	4.4	2.7	3.2
Federal Government	54.7	84.4	65.7	80.1	88.9	3.4	-.4	2.1
State & Local Government	40.7	82.3	97.2	149.1	179.3	5.6	5.1	3.8

<sup>1</sup> Compound rates of change between terminal years.

Source: U.S. Department of Labor, *The Structure of the U.S. Economy in 1980 and 1985*, Bulletin 1831, 1975.

Population: U.S. Bureau of the Census

sumption expenditures may climb slightly faster than real GNP through the mid-1980s. This is especially so with respect to consumer spending for durable goods through 1980 — and of spending on services throughout the entire period.

Other aspects of the long-term outlook for the Nation's economy could be cited. However, a few key points should be kept in mind: real GNP through the mid-1980s may rise at an average annual rate of about 4 percent, and the government sector will account for a smaller share. The expansion in outlays for services is expected to be especially strong. These prospective developments will pose a number of implications for black-owned businesses in the years ahead.

### *Trends in Income*

Money income received by the black community in 1975 is shown in Table 2. Last year, blacks' income amounted to \$69.9 billion, representing 6.9 percent of the \$1,008.4 billion received in the Nation as a whole. In 1968, blacks' income amounted to \$29.7 billion — representing 6.1 percent of the total of \$488.4 billion. However, the income gap remains quite large. For example, as noted above, the black population was estimated at 24.6 million in 1975 by the U.S. Bureau of the Census — which also put the total population at 214 million. Thus, blacks represented 11.5 percent of the total. If they had also received 11.5 percent of total income, their cash receipts in 1975 would have amounted to \$116.0 billion — or \$46.1 billion more than they actually received. The explanation of this shortfall is widely known: a legacy of racial discrimination and deprivation has limited blacks' ability to acquire marketable skills while barring them from better-paying jobs.

Another dimension of income trends in the black community holds even more significant implications for black-owned businesses: while blacks represent an increasing percentage of the population in central cities of metropolitan areas — where most black-owned firms are also located — the share of total money income received by blacks in central cities is declining. This conclusion is suggested by the figures in Tables 3 through 6, showing money income of families, by residence and race, in 1968 and 1975. A comparison of the figures in Tables 4 and 6 yields the following picture: in 1968, black families in the central-city segment of very large metropolitan areas represented 37.3 percent of all black families, and they received 42.8 percent of the income in the black community. By 1975, central-city black families had grown to represent 37.9 percent of all black families, but their share of total income had shrunk slightly to 41.5 percent. In sharp contrast, blacks in suburban segments of the largest metropolitan areas lifted their share of black population from 8.6 percent to 11.7 percent and their share of income from 11.5 percent to 14.3 percent between 1968 and 1975. A similar pattern is evident with respect to population and income trends in smaller metropolitan areas.

TABLE 2. TOTAL MONEY INCOME IN THE UNITED STATES, FAMILIES AND UNRELATED INDIVIDUALS, BY RACE, 1975 (BILLIONS OF DOLLARS)

CATEGORY	FAMILIES AND UNRELATED INDIVIDUALS		TOTAL INCOME	
	NUMBER	PERCENT DIST.	AMOUNT	PERCENT DIST.
<b>Families</b>				
Total	56,245	73.5	\$874,385	86.7
White	49,873	65.2	803,504	79.7
Black	5,586	7.3	58,100	5.8
Other	786	1.0	12,781	1.2
<b>Unrelated Individuals</b>				
Total	20,234	26.5	\$134,010	13.3
White	17,503	22.9	120,088	11.9
Black	2,402	3.1	11,806	1.1
Other	329	.5	2,116	.3
<b>Families and Unrelated Individuals</b>				
Total	76,479	100.0	\$1,008,395	100.0
White	67,376	88.1	923,592	91.6
Black	7,988	10.4	69,906	6.9
Other	1,115	1.5	14,897	1.5

Source: U.S. Department of Commerce, Bureau of the Census, "Money Income and Poverty Status of Families and Persons in the United States: 1975 and 1974 Revisions" (Consumer Income, Series P-60, No. 103, September, 1976—Advance Report), Tables 1 and 7.

## MINORITY BUSINESS DEVELOPMENT

TABLE 3. MONEY INCOME OF FAMILIES, BY RESIDENCE AND RACE, 1968  
(NUMBER IN THOUSANDS; AMOUNTS IN MILLIONS OF DOLLARS)

CATEGORY	ALL FAMILIES		BLACK FAMILIES	
	NUMBER	MONEY INCOME	NUMBER	MONEY INCOME
United States	50,510	\$488,432	4,646	\$29,697
Nonfarm	47,880	470,565	4,489	29,192
Farm	2,630	17,867	157	505
In Metropolitan Areas				
Total	32,600	\$343,474	3,403	24,110
1,000,000 or More				
Total	17,599	197,355	2,134	16,118
In Central Cities	7,543	75,596	1,731	12,719
Outside Central Cities	10,055	121,759	403	3,399
Under 1,000,000				
Total	15,001	146,119	1,270	7,992
In Central Cities	7,201	66,782	1,004	6,367
Outside Central Cities	7,800	79,337	265	1,625
Outside Metro. Areas				
Total	17,911	144,958	1,243	5,587

TABLE 4. MONEY INCOME OF FAMILIES, BY RESIDENCE AND RACE, 1968  
(PERCENTAGE DISTRIBUTION)

CATEGORY	ALL FAMILIES		BLACK FAMILIES		PERCENT OF TOTAL
	NUMBER	MONEY INCOME	NUMBER	MONEY INCOME	
United States	100.0	100.0	100.0	100.0	6.1
Nonfarm	94.8	96.3	98.3	98.3	6.2
Farm	5.2	3.7	1.7	1.7	2.8
In Metropolitan Areas					
Total	64.5	70.3	73.2	81.2	10.4
1,000,000 or More					7.0
Total	34.8	40.4	45.9	54.3	8.2
Central Cities	14.9	15.5	37.3	42.8	16.8
Outside Central Cities	19.9	24.9	8.6	11.5	2.8
Under 1,000,000					
Total	29.7	29.9	27.3	26.9	8.5
Central Cities	14.3	13.7	21.6	21.4	13.9
Outside Central Cities	15.4	16.2	5.7	5.5	3.4
Outside Metro. Areas	35.5	29.7	26.8	18.8	6.5
					3.1

TABLE 5. MONEY INCOME OF FAMILIES, BY RESIDENCE AND RACE, 1975  
(NUMBER IN THOUSANDS; AMOUNTS IN MILLIONS OF DOLLARS)

CATEGORY	ALL FAMILIES		BLACK FAMILIES	
	NUMBER	MONEY INCOME	NUMBER	MONEY INCOME
United States	56,245	\$874,385	5,586	\$58,100
Nonfarm	54,045	845,264	5,497	57,460
Farm	2,200	29,121	89	640
In Metropolitan Areas				
Total	37,801	630,710	4,281	47,451
1,000,000 & More				
Total	21,446	373,632	2,770	32,412
Central Cities	8,225	122,799	2,115	24,109
Outside Central Cities	13,221	250,833	655	8,303
Under 1,000,000				
Total	16,356	257,078	1,511	15,039
Central Cities	7,588	113,501	1,157	11,147
Outside Central Cities	8,768	143,577	354	33,892
Outside Metro. Areas				
Total	18,443	243,675	1,305	10,649

TABLE 6. MONEY INCOME OF FAMILIES, BY RESIDENCE AND RACE, 1975  
(PERCENTAGE DISTRIBUTION)

CATEGORY	TOTAL		BLACK	
	NUMBER	MONEY INCOME	MONEY INCOME	PERCENT OF TOTAL FAMILIES
United States	100.0	100.0	100.0	9.9
Nonfarm	96.1	96.7	98.9	10.2
Farm	3.9	3.3	1.1	4.0
<b>In Metropolitan Areas</b>				
Total	67.2	72.1	81.7	11.3
<b>1,000,000 or More</b>				
Total	38.1	42.7	55.8	12.9
Central Cities	14.6	14.0	41.5	25.7
Outside Central Cities	23.5	28.7	14.3	5.0
<b>Under 1,000,000</b>				
Total	29.1	29.4	25.9	9.2
Central Cities	13.5	13.0	19.2	15.2
Outside Central Cities	15.6	16.4	6.7	4.0
<b>Outside Metro. Areas</b>				
Total	32.8	27.9	18.3	7.1
Central Cities				4.2
Outside Central Cities				2.7

Still other features of the data in these tables could be spot-lighted. However, black entrepreneurs ought to be troubled by the overall effects of the general trends: since these businessmen — for the most part — are concentrated in the older neighborhoods of central cities, they are witnessing a gradual (but steady) out-migration of better-paid blacks who could provide an expanding demand for the products and services sold by black businesses.

### *Trends in Black-Owned Businesses*

In 1972, according to the U.S. Bureau of the Census, there were 194 thousand black-owned businesses in the United States — a gain of 19 percent over the 163 thousand black firms reported in 1969 (See Table 7). These firms represented 1.5 percent of all firms in the country in 1972 compared with 1.4 percent three years earlier. Black-owned enterprises had gross receipts of \$7.2 billion in 1972 and \$4.5 billion in 1969 — accounting for 0.29 percent of all business receipts in 1972 and for 0.24 percent in 1969. Thus, while black-owned firms expanded slightly their share of the Nation's business activity over the period, their overall situation remains a modest one.

To sharpen the perspective, one should note that, in 1972, blacks received 6.7 percent of the total money income in the United States — compared with 5.5 percent in 1969. So, over the three-year period, black firms raised their share of total business receipts at a pace that was moderately slower than the black community raised its share of total income.

Still further insight into the status of black-owned businesses is provided by the data on sources of income. In 1974 (the latest year for which figures are available), blacks received 6.8 percent of total money income. However, they got only 2.3 percent of the total earnings from nonfarm self-employment and only 0.9 percent from farming. Moreover, they received only 1.0 percent of the income derived from property ownership (i.e., from rents, interest, dividends, royalties and inheritances). Within the black community, self-employment income accounted for 2.2 percent of the total — in contrast to 7.4 percent in the country at large and 7.8 percent in the white community.

Finally, since black firms still make most of their sales within the black community, one can ask about the extent to which they are capturing the black consumer's dollar. No data are available to test the strength of this competition, but a rough indication is provided by a comparison of black firms' sales with money income in the black community. In 1969, such sales amounted to 13.5 percent of black income, and the fraction rose to 13.9 percent in 1972. Thus, while black-owned businesses appear to be holding on to their share of the black consumer's dollar, the gains remain fairly modest. Again, the situation facing black firms is made more difficult by the increasing tendency of better-paid black families to leave the central city.

TABLE 7. BUSINESS AND INCOME TRENDS IN  
THE BLACK COMMUNITY, 1969-72.

CATEGORY	1969	1972	PERCENT CHANGE
<b>Business Trends</b>			
<b>All Industry</b>			
Number of firms (thousands)	12,021	12,978	8.0
Gross receipts (\$ billions)	1,889.6	2,494.7	32.0
<b>Black-Owned Firms</b>			
Number of firms (thousands)	163	194	19.0
Gross receipts (\$ millions)	4,474	7,168	60.2
<b>Black as Percent of Total</b>			
Number of firms	1.36	1.49	9.6
Gross receipts	0.24	0.29	20.8
<b>Income Trends</b>			
Total Money Income (\$ billions)	603.3	773.0	28.1
Black Income (\$ billions)	33.2	51.7	55.7
Black as Percent of Total	5.5	6.7	21.8

Source: Business Trends: All Industry, Internal Revenue Service, *Statistics of Income*; black firms, U.S. Bureau of the Census, "Minority-Owned Business: 1969" (August, 1971), and "Minority-Owned Businesses: Black," *1972 Survey of Minority-Owned Business Enterprises*, November, 1974.

*Size of Black-Owned Firms*

As is generally known, black firms are principally owner-managed with no employees. For instance, of the 194 thousand firms reported in 1972, only 32 thousand (or only 16 percent of the total) had any paid employees. In fact, this represented a drop of 17 percent since 1969 — when 38 thousand (or nearly one-quarter) of the 163 thousand had paid employees. However, among the black firms with paid workers, the average number of employees per firm rose from four to six. In actual numbers, black firms had 196,569 workers on their payrolls in 1972 compared with 151,996 in 1969. Since blacks held roughly 7.7 million jobs in 1969, black-owned firms (virtually all of whose employees are black) provided jobs for only 2.0 percent of all black workers in the country in that year. By 1972 black employment averaged about 7.9 million, so black firms' employees represented about 2.5 percent of the total. Thus, although the number of black firms with employees declined over the three-year period, those that still offered jobs were providing a slightly greater range of opportunities.

*Industry Distribution of Black Firms*

As is generally recognized, most black-owned businesses grew up behind a wall of racial segregation and discrimination. The legacy of this historical experience can be traced clearly in the industry distribution of business firms. In Table 8, the main types of activity of black-owned businesses are shown in terms of the percentage of all black firms found in each field along with the proportion of gross receipts accounted for by each industry. The corresponding figures for the economy as a whole are also shown.

The extremely heavy concentration of black-owned firms in retail trade is clear. This line accounted for over two-fifths of gross receipts and more than one-quarter of the number of all black-owned businesses in 1972 — more than twice the proportion of receipts and 1½ times the proportion of firms registered for all American industry. Although not shown separately, within the retail trade sector, automobile dealers and gasoline service station operators (mainly the latter) represented about the same proportion of firms in both groups; but the share of total receipts in this category for black firms (about one-seventh) was nearly three times that for all firms (around 5 percent). In the case of food stores, the ratios for black-owned firms were more than double for those of businesses in general. Also reflecting the historic discrimination against blacks in terms of access to public accommodations, a particularly large fraction of black-owned businesses is still found under the category of bars and restaurants and other eating and drinking places, amusement and recreation outlets, hotels, and motels.

The legacy of racial discrimination against blacks in the provision of life insurance coverage and the effects of residential segregation are still evident in the pattern of black business activity. For this reason, the

TABLE 8. ORGANIZATIONAL FORM AND INDUSTRY DISTRIBUTION OF BLACK-OWNED BUSINESSES, 1972,  
AND PROJECTED ANNUAL GROWTH RATES BY INDUSTRY, 1968-80 AND 1980-85

LEGAL FORM OF ORGANIZATION AND INDUSTRY DIVISION	NUMBER OF FIRMS (THOUSANDS)				TOTAL				GROSS RECEIPTS				PROJECTED GROWTH RATES: AVERAGE		
	TOTAL		BLACK		TOTAL		BLACK		TOTAL		BLACK		ANNUAL RATES OF CHANGE		
	NUMBER	PERCENT DIST.	NUMBER	PERCENT DIST.	AMOUNT (\$ bil)	PERCENT OF TOTAL	AMOUNT (\$ bil)	PERCENT DIST.	AMOUNT (\$ bil)	PERCENT OF TOTAL	AMOUNT (\$ bil)	PERCENT DIST.	1968- 1980	1980- 1985	1985
All Industries	12,978	100.0	195	100.0	2,495	100.0	100.0	7,168	100.0	0.29	4.3	3.3			
Legal Form of Organization															
Sole proprietorship	10,173	78.4	183	93.8	276	11.1	11.1	4,144	57.8	1.50	—	—			
Partnership	992	7.6	8	4.1	104	4.2	4.2	809	11.3	0.78	—	—			
Corporation	1,813	14.0	4	2.1	2,114	84.7	84.7	2,215	30.9	0.10	—	—			
Industry Division															
Construction	1,010	7.8	20	10.3	143	5.7	5.7	820	11.4	0.57	2.4	1.7			
Manufacturing	436	3.4	4	2.1	855	34.3	34.3	537	7.5	0.06	4.2	3.1			
Transportation and Public Utilities	431	3.3	22	11.3	172	6.9	6.9	425	5.9	0.25	5.9	4.2			
Wholesale trade	558	4.3	2	1.0	349	14.0	14.0	764	10.7	0.22	4.7	2.7			
Retail trade	2,332	18.0	57	29.2	470	18.8	18.8	2,925	40.8	0.62	4.2	2.4			
Finance, insurance and real estate	1,467	11.3	8	4.1	148	5.9	5.9	457	6.4	0.31	4.5	4.0			
Services	3,181	24.5	68	34.9	146	5.9	5.9	1,054	14.7	0.72	5.1	3.8			
Other industries	3,432	26.4	14	7.2	102	4.1	4.1	186	2.6	0.18	—	—			

relative positions of black and white firms were quite similar in 1972 — as shown in the category of finance, insurance, and real estate.

On the opposite side of the canvas, one can also see the relative lack of representation of blacks in those lines of business where the perversely protective cloak of racial segregation and discrimination was not so evident. For instance, the modest participation of blacks in manufacturing is unmistakable. The proportion of black firms operating factories was only three-fifths that for American industry as a whole. In terms of gross receipts, the black proportion was only one-fifth that for businesses in general. Moreover, where blacks are represented in manufacturing to some extent, the activity is related to the blacks' historical situation in this country. For example, their presence in chemical products is mainly a legacy of the black-owned cosmetics companies which developed in response to the special needs of blacks for personal services — particularly through black-operated beauty and barber shops. Their presence in printing and publishing, of course, is primarily a mirror of black-oriented newspapers — although a few magazine and book publishers have also made considerable headway in recent years. Blacks producing lumber and wood products consist almost exclusively of a few small-scale sawmills in the South. A scattering of black-owned food processing firms have been in existence for some years. Yet, it was only in the last decade that at least one of those companies made a breakthrough in the general market on a noticeable scale. In the last few years, the range of manufacturing activities by black firms has become somewhat broader (particularly in fabricated metal products and in electrical and electronic equipment), and even more examples of diversification can be expected in coming years.

Black firms have been able to make some headway in transportation, but the net results are both mixed and limited. In some segments of this industry, black firms have been long accepted as part of the existing transportation capacity. This is especially true of trucking and warehousing. Here the experience accumulated by blacks as skilled workers as well as laborers served as a basis for subsequent launching of businesses. On the other hand, the rest of the black firms engaged in transportation activities consist almost exclusively of taxi operators.

In the case of wholesale trade, one has to look hard to find black-owned firms outside of food distribution. It will be recalled that the operation of retail trade outlets is the most important form of activity among black businessmen. So the meager participation of blacks in wholesale trade means that blacks are essentially missing in one segment of the distribution network in this country.

### *Economic Growth and the Industry Position of Black-Owned Firms*

As indicated above, a disproportion of black firms is concentrated in those lines of business for which long-term growth prospects are below-average. This can be seen clearly in the figures in Table 8. These data show the U.S. Bureau of Labor Statistics' (BLS) projection of average annual

rates of change in real output originating in each broad industry division of the U.S. economy during the periods 1968-80 and 1980-85. The distribution of all firms and black firms among these industry divisions is also shown. Several points stand out in these data. Between 1968 and 1980, the average growth rate for all industry is 4.3 percent; for the 1980-85 period, the figure is 3.3 percent. Among the broad industry divisions, the 1968-80 growth rates range from a low of 2.4 percent for construction to a high of 5.9 percent for transportation and public utilities. Both manufacturing and retail trade have projected 1968-80 growth rates of 4.2 percent. It is in retail trade that the vast majority of black-owned firms are found.

Even further insight into the concentration of black-owned firms in relatively low-growth industries is provided by a much more detailed analysis of data for 1969 that can only be summarized here. Twenty-five major industries were ranked according to the share of gross receipts of black-owned firms accounted for by each industry group. The corresponding proportions for all firms were also calculated. Sixteen of the industries were in the trade sector, six in services, and only three in manufacturing. Collectively, these 25 industries accounted for four-fifths of total business receipts of black-owned firms in 1969—compared with less than half of total business receipts in the economy as a whole. Moreover, half of the 25 industries which are so important to black firms have projected growth rates below the 4.3 percent anticipated for the U.S. economy as a whole during the period 1968-80. Twelve of the 25 key industries for blacks have projected growth rates below that figure.

In fact, for nine of them, growth rates below 4 percent are anticipated. In contrast, only 4 of the 25 industries have projected growth rates of 6 percent or above. Finally, the 12 industries with below-average projected growth rates accounted for 40 percent of gross receipts of black-owned firms in 1969 — compared with 21 percent for all firms in the country.

These data point to consequences of serious proportions for black businesses: because they are heavily represented in industries that are likely to grow rather slowly in the future, they are — unfortunately — caught on a downhill course.

#### *Diversification into High-Growth Areas*

Yet, black businessmen need not allow themselves to be pulled along on this downward path. Instead, they can reorient themselves onto a new course of enhanced growth. But to do so will require black businessmen to overcome several obstacles. These include a mastery of the increased technical and managerial requirements of modern industry; the fairly large-scale size of firm required for efficient operation, and greatly increased capital requirements. Of course, this short list by no means exhausts the range of barriers, but it probably covers a major part of the ground. Moreover, no one understands the nature of these obstacles better than the black businessmen already trying to make their way in a frequently inhospitable environment. But for those on the outside — or for those

contemplating careers as businessmen — it may be well to summarize the nature of the problems which must be confronted. A few suggestions about approaches to overcome them may also be helpful.

In the case of managerial talents and technical skills, one ought to distinguish among at least three situations (1) the case of a person considering business for the first time; (2) the case of a person already owning his own business who needs to improve his own capabilities, and (3) the case of a person who is currently employed in a technical or managerial capacity by a major white firm. As far as the first category is concerned, the counsel to be given is straightforward: such an embryonic businessman ought to study the principles of business administration in college or technical school — or he should get a job and accumulate the skills required while serving an apprenticeship in someone else's business. For those in the second category, a number of private and publicly supported options already exist, and these need not be catalogued here. They include counseling by numerous locally based small business development centers and offices of the Federal Government's Small Business Administration. With respect to the third category, black-owned firms might find it to their advantage to search much more vigorously among blacks now employed by major corporations for persons who could help strengthen the management of black-owned businesses. After more than a decade of effort by large corporations to attract black college graduates to their organizations, a substantial number of blacks have developed considerable know-how in the field of business management. Undoubtedly, some of them might be attracted to careers in black firms — if the terms and prospects are made sufficiently promising.

The task of increasing the size of black-owned firms is more difficult. Most of the high-growth industries require a sizable increase in equity capital. Unfortunately, as shown in Table 8, black-owned firms — far more than in industry generally — still rely predominantly on the proprietorship as a form of legal organization. To raise a significant amount of equity capital, they will have to turn much more frequently to the corporate form.

And above all, blacks will have to look beyond their own community if they wish to expand their participation in business ownership in a meaningful way. This is true with respect to both technical and managerial assistance and equity capital.

In the case of equity capital, blacks have displayed little eagerness to invest their resources in risk-taking ventures. This reluctance is understandable: given the low level of income of the typical black family — and the widespread inability to make long-range plans for family security — it is not surprising that blacks have not rushed into the purchase of common stocks. But, if black-owned firms are to be expanded and strengthened, both blacks and whites must become increasingly willing to come forward with a much greater volume of equity capital. And given the existing tax

and other obstacles which dampen the incentive to invest in equities, we clearly need some form of tax incentives to encourage investors to supply more equity capital. Black businesses would benefit especially from such a move.

# The Importance of Urban Policy to Minority Business Development

Monsignor Geno C. Baroni\*

I am happy to be here for a number of reasons. I'm not going to compete with the illustrious and incomparable Dr. Brimmer at all, but rather try to give another perspective to what black business enterprise or minority business development might be in terms of an urban policy, particularly for our urban centers in the Northeast and the Midwest. The National Center for Urban Ethnic Affairs (NCUEA) has done a study for the U.S. Department of Commerce of 18 cities and 87 neighborhoods entitled "Who's Left in the Neighborhood?" We are also concerned with trying to develop neighborhood economic revitalization corporations for local business development companies (LBDCs) in 11 cities. We have 50 LBDCs being developed now in all these cities. Over a six-year period, I've been trying to promote these community development corporations in northern urban cities. But I'm not here to talk about NCUEA.

I am here to raise some important questions about the destiny of American cities, and the climate for creating a national urban policy conducive to the development of minority business enterprise. We have studied 75 cities from Baltimore to Boston and from St. Paul to St. Louis. In these cities, if you look at the increasing black and brown, or black and Hispanic, population, then you ask yourself "Who are the whites left in the city? Who are the whites who live next to blacks and growing Hispanic communities in our northern urban cities?" Ken Gibson says if you want to see where cities are going, come to Newark. Newark is increasingly becoming black and brown. Will Newark also become black, brown, and broke? That appears to be the prospect for many of our northern urban cities in terms of the lack of a national urban policy over the last eight or ten years.

If our cities continue to decline, then our cities might become black, brown, and broke. And they might develop a new kind of American apartheid, surrounded by increasingly hostile suburbs. As noted, we've not had a national urban policy. In 1972, I brought together 74 or 76 different neighborhood groups: black, white, Hispanic, in Chicago. We looked at the lending practices of two or three banks in Chicago. By analyzing the loans made in one zip code area, we found that banks had taken \$36 million out of that neighborhood, and had only put back about \$90,000 to \$100,000. We traced that money all over the country, to Miami Beach con-

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dominiums and a lot of other places. We saw that that neighborhood, that changing neighborhood, black, Hispanic and white, was being disinvested. And then when the people wanted to borrow their own money, they were being red-lined. It took three years from that Chicago meeting to pass the Federal Home Loan Mortgage Disclosure Act. That first red-lining bill in the Congress was passed by one vote in the House, and one vote in the Senate on New Year's Eve, 1975, and it was signed late New Year's Eve by President Ford. That piece of urban legislation came not from academics, not from the Congress, not from the financial industry, but from neighborhood groups. There's another key bill in terms of urban policy, a National Neighborhood Policy Bill, that has also come from neighborhood groups who are concerned that our cities are going to be black, brown, and broke unless we somehow have new kinds of urban development and neighborhood revitalization.

That's what we're concerned about, but first I think we ought to take a look at American society. One of my problems was being a coal miner's son; my father spent 47 years in the mines getting black lung and singing his favorite song, "Sixteen tons and what do you get, another day older and deeper in debt." You know, sell your soul at the company store. I came out of the coal mines and by accident ended up in the inner city. Then, also somewhat by accident, I became a fellow at Harvard studying pluralism, neighborhoods, and politics, and by accident tried to respond to Mayor Gibson or Mayor Hatcher, who said come and help us deal with whoever those white folks are who are left in Newark and Gary — the people who are going to shape and share the burden of social change in American life. As Dr. Brimmer said, the people who are going to share our northern urban industrial cities will be increasingly large numbers of blacks and Hispanics, and the remaining whites. Those remaining whites happen to be very heavily first, second, and third generation people, who may be stuck and want to move or who may not want to move. We find, however, that a lot of them don't want to move, even out of a city like Newark that has its share of problems — and tragic ones at that. This is also true in cities like Toledo, Youngstown, and many others.

One of the things that bothers me, and one of the things that I am very interested in, is that despite the great American myth, in terms of race in our cities the fact is that we don't know how to live together. I was taught the myth of the melting pot, I was raised on it, and had come to believe it. But after the deaths of Dr. King and Robert Kennedy, I began to go back to see who lived next to blacks in Baltimore, and in our other cities. The Kerner Commission was right in saying that there was an inevitable group conflict between the rising aspirations of minorities and the white, working middle class who were left in our cities. And so we have an increasing polarization in terms of competition for jobs and for housing. That's one very serious problem. All through the 1960s and 1970s we have had this kind of polarization.

America doesn't have a national sense of identity. Who are we as

Americans? On the one hand you have Indians, Chicanos, and blacks. And then you have a lot of people, particularly the working class, lower and middle class whites, who come from an eastern and southern European background and lived in Gary, Newark, Toledo, and Pittsburgh, in the older neighborhoods of our industrial cities. Those people were from a Democratic left. Remember at the Chicago Democratic Convention, the police were called pigs. Well, we went to study Chicago policemen, and 67 of them were PIIGS, Polish, Irish, Italians, Greeks and Slavs. And I'm one of them. They were not college educated. They were not social workers or Ph.D.s or anthropologists. They were, at best, high school educated.

One of the great tragedies of American society, greater even than the American depression, is the dying of our American cities. Part of it is because we have never understood America's ethnic, racial, and cultural diversity. We all thought that everybody was going to look like Virginia Slim or the Marlboro Man. We all learned more about John D. Rockefeller, Carnegie, and Mellon than about our own family backgrounds. I was taught not to learn Italian but to study hard to be somebody. I was never taught anything about my background or blacks' background or Appalachian background or anybody else's. But we learned there was some kind of mythical melting pot.

What's the result? My nephew is named Rodney Rogerio and lives in Newark five blocks from blacks. He's afraid of them. He lives three blocks from Puerto Ricans, he's afraid of them. He's a working class kid. He's afraid of blacks, of people with a different life-style, of the professors, and of the Puerto Ricans. He doesn't know who he is. And guess what he studies in school — Eskimos. He thinks they're great. One of the great tragedies in terms of creating a new kind of urban environment is that our society has never made it legitimate to be "ethnic" or "racial" or to have a "different" life-style.

Somehow, in some way, there has to be another dimension to our urban policy, that will recognize the fact that people mostly live in neighborhoods. That's where their emotional investment is, and sometimes that's where their economic investment is, especially people who own their houses. People live in neighborhoods that continue to die, and cities die. The central ward in Newark has cancer, which might be so bad that it needs some strong removal. If you look at other wards in Newark, they also have cancer. If a drug store closes up and if a market closes up, then you think "Why should I fix my house, two blocks away?" All these disincentives are going to make our cities black, brown, and broke, unless we take some realistic stands. We must begin to look at our American society in its diversity: ethnically, racially, culturally, regionally. Politicians go around eating blintzes and cornbread and pizza and all that on election day. Then the rest of the time they forget.

There are two kinds of issues. When I was a fellow at Harvard, Boston school integration began. And I said, "Boston, 60 colleges, the home of the abolitionists. It isn't Alabama." But here in Boston, they

didn't know how to integrate their schools. Why? They placed the burden on the least able people. I would put the Ph.D.s on the first bus, and the M.A.s on the second bus, and the other people on the next bus. We have never even begun to understand that there's a class separation. And it's not black and white. There's another separation we don't understand, and that is diversity in American life. For an improved climate for minority business enterprise, or any kind of enterprise, for the survival of our cities, we've got to broaden the constituency that believes in revitalization or urban society.

Now with Federal, state, and local governments becoming stronger and more complicated, and with larger corporations, banks, and industries, you have two big sectors. But I think these two big sectors alone cannot bring about an urban policy that would benefit minority business enterprise or anyone else, in terms of neighborhood vitalization as a critical part of pluralistic urban society. You need all kinds of customers. You've got to compete not only among your own people, but also at large. And you shouldn't be denied access. Right now we've got five people competing for every three jobs. That means extra polarization. Twenty-eight million families are going to be looking for housing and we have a housing supply of only 18 million units. In essence, 28 families are looking at 18 houses. We've got trouble.

I saw all those forces that were stifling the development of human life in our center cities. I also saw the millions of people that live in our midst without hope: some because of poverty, some because of race, and some because of both. I also saw Americans move away from cities and the urban crisis. I also saw and still see that we don't understand the diversity of American life. To create an urban policy that might lead to a new climate for business development, minority business development, black business development, in terms of revitalizing American cities, we must put together not only the public sectors and private industry, but the community, the neighborhood. If that neighborhood piece does not become a partner with the public and private sectors, then the neighborhoods will continue to die. Because if my neighbor moves, I might move. It's the same with business, it's the same with houses, and it's the same with all those disinvestments which bring death to our neighborhoods. And as those neighborhoods die, then our cities continue to die. That's the kind of climate we're in.

I think that we have to find out how to help people to understand diversity. Alex Haley is right in terms of his book *Roots*: people without roots can't fly. You've got to know who you are. Indians have talked about cultural genocide and the lack of a cultural democracy and cultural justice. Chicanos, Hispanics, and other groups have talked about identity and diversity in terms of culture. Blacks have raised that question in terms of identity being the vital factor in revitalization of their own culture and their own life. And then you have this white middle class group that's not sure, that doesn't understand what's going on. It doesn't understand what happened in terms of the counter-culture students and what happened with

blacks. The whites get caught in the middle. They don't understand that the melting pot really is a myth.

I'm afraid that as whites continue to flee to the suburbs they'll become anti-urban, which will lead to a further polarization and a continued development of an economic apartheid, as Dr. Brimmer indicates. Also, there might develop a new kind of American apartheid between the abandoned cities and hostile suburbs. I think that the way we look at ourselves as a people, as a Nation, is the number one item on the agenda to be dealt with. That's the first thing.

And the second thing we must do is to listen to what people are saying about urban policy. Paul Porter talks about the recovery of American cities. But he wants to move the poor people out, and that probably means mostly black people. I'm leery of that kind of solution because we've tried that with urban renewal, then with freeways. I never saw a freeway go through a golf course; I saw it go through older neighborhoods. But how about urban policy? Is Roger Starr right when he writes in the New York Times that some neighborhoods just should be written off? Is Anthony Downs right when he says there is a triage? Just let the neighborhoods die. If we have no governance in South Bronx, or in Longdale or in Chicago, that's going to affect the body politic, because we're all interconnected, we're all interrelated. I don't think you can write cities off. In *The Public Interest* recently, William Baer said certain neighborhoods ought to be allowed to die so that others may live. That's a real triage theory. And then Richard Nathan talks about a Marshall Plan for the cities, and he's a very bright economist in Washington, but you know he never mentions race. We've never learned how to deal with that; and we have to deal with it.

A number of things must happen in American society. We must discover who we are as Americans. Let's throw out the melting pot idea, that everybody's going to be the same. Not only is there the danger of the death of our urban communities, in the sense of an urban pluralistic society which would be conducive to black development and minority business development, but there is the danger of our becoming culturally bankrupt. People have to know who they are. If people don't know who they are, they're going to be afraid of others: that black businessman, that Puerto Rican or Spanish person, and that person with a different life-style. I'm talking now about whites. We are afraid of each other, and our increased polarization comes from not being able to understand the intercultural imperative of American life, that the whole thing is a multi-cultural village and we've got to be sensitive to the diversities.

Who shapes and who shares the burdens of social change in our urban society? It must be a pluralistic venture. So we need to revitalize; the mayors need money to pay for the necessary services. Who's going to develop the new services at the neighborhood level: health services, services for the elderly, and so on? Who's going to develop the businesses that will provide new kinds of services at a community level? Who's going to

develop the business climate in terms of customers? Mayor can't do it all; business can't do it all; we need to develop incentives and strategies for neighborhood reinvestment by small and large businesses for economic revitalization. And we need to sell the idea of a pluralistic urban society. I think that's essential if we're going to create a new kind of urban policy.

How are we ever going to learn to live together if we don't understand that diversity? Now I have to know who I am, I have to know what my story is; I have to be together, as the kid says in the street. I have to be together if I'm not going to be afraid of somebody else that looks different. Our society failed, our school systems failed, they all failed when they tried to level out everybody, and the race thing wouldn't go away. The Indian thing never went away. The Chicano thing, the Spanish thing never went away, and there's an ethnic factor that really won't go away. So how do you legitimize that racial, ethnic, cultural diversity that is the heart and soul of American cities? That's the kind of challenge I think we face. What then are the new reinvestment strategies and how are we going to create the kind of legislation and policy that establish the neighborhood as a vital factor in the revitalization of the city? Of course the mayors need new bonding power. Of course we need to revise the tax structure. But people live in neighborhoods and if those neighborhoods aren't revitalized, then we're in trouble.

We must recognize that what is broadly referred to as the "urban crisis" can be seen in microcosm as a series of struggles by urban neighborhoods to maintain or secure the amenities of life for their residents. We must explore ways to stabilize and revitalize our neighborhoods. We need to restructure financial institutions, reorient government programs, and develop strategies and programs for a neighborhood urban policy. We need to restructure the procedures of government through a mixture of centralization and decentralization of services. We need to restructure some of our financial institutions and systems with emphasis on subsidy and new kinds of incentive programs. We need the provision of oversight over the relevant regulatory bodies in the context of neighborhood problems.

I want to be able to talk about a third century that believes in cultural justice and cultural democracy, as well as economic liberty and justice for all. And if we don't have a healthy sense of America's diversity, then there'll be no climate for anybody's business in terms of our urban society: I think that's the challenge we face. I'm for a pluralistic American society that can create an urban policy that will increase the opportunities for black minority businessmen and for people to work together to revitalize and rebuild our cities. I hope that we'll have lots of support from the National Urban Coalition and other groups in terms of neighborhood revitalization and neighborhood reinvestment strategies at the community level, the public level, and the private industry level. Perhaps then we can create a new kind of American city with a new kind of climate and a new kind of urban policy, and that would be a great blessing.

# The Problems of Business Operations in the Ghetto

J. Bruce Llewellyn\*

It seems fitting that on the 200th anniversary or birthday of our country the Federal Reserve Bank of Boston should convene a meeting here to talk about minority business. For over 200 years ago in this city, minority businessmen worked hard at trying to be successful and held such jobs as ship chandlers, bootmakers, and others. They started to prosper until they impinged upon the overall economy. When that happened, they were literally wiped out. We then started another turning and twisting of the so-called idea of capitalism, but in my opinion there is no such thing as black capitalism. There is a game called capitalism and black people would like to get into the game, which has been a kind of historic pattern. We had bankers back in the 1900s up until the 1920s, but the crash wiped them out. Now we have come back with another series of banking and savings and loan operations, but historically we have been denied an opportunity to be in the business mainstream. I would like to thank the Federal Reserve Bank of Boston for sponsoring this conference to get some of the ideas and myths out on the table and maybe disabuse you of some of the things you have heard this morning.

I don't want to go into a lot of history. And since Dr. Brimmer gave you a lot of numbers, I will try to give you just a few to set the parameters of the problem. Then I will go into details and specifics about the problem as I have experienced it, operating a food chain in the South Bronx predominantly and being the Chairman of the Board of one of the largest minority banks in the country for a little over three and a half years. I will speak also from the context of being the first black regional director of the Small Business Administration back in 1964-65 for Region 2, which is the largest region of the Small Business Administration and includes New York State, Puerto Rico, and the Virgin Islands. I have also served as the Deputy Commissioner of Housing for the City of New York.

A statement was made back at the time of the founding of this country right here in Boston in regard to black businessmen in particular, and the statement was: "those Negroes who keep shops, live moderately, and never augment their business beyond a certain point . . ." Now that was in a Boston paper here describing black business of the 1700s. The tragic part of that is that it is still true, and it is still true to a great extent because the barriers and problems that beset black businessmen then continue to beset

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them, no matter what they do. The numbers that you hear about in terms of minority business are horrible. You will read about the top black 100 businesses in *Black Enterprise Magazine*, and I think my company now ranks number five, the number one company being Motown Records doing \$41 million worth of business a year. We do \$36 million a year and next year we will do about \$75 million, but the whole thing put together does not really make any kind of impact. We haven't even become the 500th largest business in Fortune's 500. The reason is that we don't have the leverage to make an impact and make meaningful changes that are really necessary to make a society viable, not just for black people, but for all people. Businessmen historically have set the pace in this country in terms of where we are going and how we are going to get there, but as you heard from Dr. Brimmer, black-owned businesses constitute less than 2 percent of all businesses in the country. And barely 2 percent of them are incorporated. I cite that especially because I am really a lawyer by profession. Of the total aggregate business, 94 percent that blacks own are single proprietorships, 84 percent have average yearly receipts of \$13,000, and less than 20 percent have any paid employees. So when you add all of these numbers up, it turns out to be a real disaster. If we are ever to have any impact, we must achieve some kind of economic muscle.

I have been to South Africa twice, and without a doubt it is one of the most beautiful places on earth and one of the greatest living hells that I have ever seen for black people. To me South Africa represents what this world is all about. There, Indians are considered a minority and black, mixed-blooded are considered colored and black, blacks are considered black, the Chinese are considered a minority, and all of them are relegated to being outside of the city, outside of the mainstream of society except to provide labor for the system. One group of gentlemen walk proudly through South Africa and are considered honorary white men. These gentlemen are businessmen from Japan. If you go to Durban, the third largest seaport in the world, you will see 250,000 ton and 500,000 ton tankers flying the flag with the rising sun, and you will find out that South Africa is one of the world's largest sugar producers and the Japanese economy takes over 65 percent of that sugar. As you drive down the superhighways of South Africa that are just like Interstate 95, it is Datsun Motors that assembles cars and trucks right there in South Africa, and South Africa dares not turn its back on its Japanese trading partners. That's the kind of leverage I am talking about.

I have said all this to tell you about what I consider to be reality. I was the Chairman of one of the largest minority banks in the country for a little over three years. I took over the Freedom National Bank basically at the moment of crisis. The bank had been founded by Jackie Robinson, a very good ball player and a man of good intentions, but a very bad banker. The bank had operated for approximately ten years, and had tried to do something about the problems that are endemic to every ghetto area in this country, namely, a lack of mortgages. The bank was a commercial

bank that was overcommitted to the point of having 55 percent of its assets tied up in long-term mortgages. According to the Comptroller's office, a bank Freedom's size should not have more than 20 percent of its assets tied up in the long-term mortgage market. Then the neighborhood started to turn on us. We had disinvestment on the part of the major institutions, while a little bank like Freedom was trying to ride to the rescue with its miniscule deposits.

The problem with trying to do good is that you must be able to do justice to those people who invest in your institution. The mother and father and small grandmother in tennis shoes who came in and put their last \$100 in the Freedom National Bank expected to be able to get their money back. The grandmother who bought stock in the institution expected to get a dividend. She did not expect to hear that the bank was taking write-offs on an annual basis because its loans were not being repaid, its housing base was being eroded, and it was having all types of other problems. She wants her money back. She needs her money. So now the bank has begun to be rather hard-lined about where it invests. It still invests in the minority community but it also looks at borrowers in terms of their ability to repay. If the bank cannot be repaid, then it cannot make the loan. Notwithstanding what a lot of people might say, we are not running a social work agency. We are running a profit-making institution. If we don't have profits, we don't have an institution. And if we don't have an institution, then we don't have a community. That's something that a lot of people in our community may have difficulty in understanding. "Profits" is not a dirty word. Profits are the fuel that fires the engines of development, and of accomplishment. Without profits, there will be no accomplishment.

Now that brings me around to some of the problems in the neighborhood areas themselves. Many people think that we should have a coalition of people to try to work in these neighborhoods. The problem is the cost. I operate stores in ghetto areas and I try to provide as up-to-date and modern facilities as possible. Our newer stores have electronic cash registers and will have electronic scanning systems and even mini-computers. The last store that went up cost over a half a million dollars for 14,000 square feet. The costs are prohibitive. Right now I am carrying a payroll of \$5,000 a week for 32 guards and two supervisors to cover all the stores. These are nonproductive costs. They bring no profit to the stores and they are overhead to the customers. Beyond that, we are also paying approximately \$1,500 a week for an armed courier service. It sends an armored car to every store to make pickups from drop safes in the stores that can only be opened by the manager to put the deposits in, and can only be opened by the courier service to take the deposits out and to get them to the bank. We have difficulty getting holdup insurance, and when we do get it, it is prohibitively expensive. It is almost impossible to get plate glass insurance, forcing us to act as a self-insurer for plate glass. And the final blow came about four weeks ago. We had a three-year fire and

comprehensive liability package with a major insurance company, but we were notified that the insurance would not be renewed. The cost of our insurance package until that time was \$180,000 for three years or \$60,000 per year. I tried everywhere to get new coverage. Literally no insurance company would write new coverage. Finally, through a contact, I succeeded in getting an underwriter to come to my office and let me drive him all over the South Bronx and prove to him that all our stores had sprinklers, ultrasonic alarm systems, and a few other things. In the end, he agreed to write the package for \$225,000 for one year. Now if you want to talk about doing business in the ghetto and trying to do the right thing, I want to tell you that you cannot do the right thing if the ghetto won't let you live. Therefore, we must talk about what we can do to turn the ghetto around.

I should tell you we employ about 500 workers, most of whom are youngsters. Most of them are part-time and work after school. We have a very long and stringent test which applicants must pass. We hand them a can of peas marked 3 for \$.29 and we ask what one can costs. I get some of the damndest answers you ever heard in your life. And then finally I hear my people outside getting very, very disturbed as I sit there asking what is half of 50. And many cannot give you half of 50, and I don't mean 1 out of 10, I mean 7 out of 10. I am telling you that the City of New York spends \$1 billion or more for an educational system that is turning out functional illiterates. I don't mean blacks, whites, or Puerto Ricans; I mean all of them, across the board. They cannot function, they are not worth a dime to themselves, their parents, or society. And they are going to cost us dollars, not dimes.

Now, these are some of the inherent problems in the community and when you combine them with the disinvestment process on the part of banking institutions and others, which only accelerates and exacerbates the problems, then you don't really have a fighting chance. The only reason why sales continue to rise is that almost every year some of the major chains have opted to move out. They don't want any part of it. They don't want to have holdups at 5 o'clock on a Saturday afternoon with the store loaded with 200 or 300 women when three fellows with shotguns come walking through the door and everybody starts diving to the rear and the carriages start to fly everywhere. They don't need it. They don't want people, community groups, or others coming in and telling them how to operate their stores — who should be manager, and which area kids should be hired from. We have a policy, for example, that no youngster who lives within five blocks of any store can work in that store. Period. Because we don't want them to be tempted by their friends or what have you, it just doesn't make good sense, and it is better to have them work in another store.

We cannot operate businesses representing investments of a half a million dollars apiece and have other people dictating our policies. We must protect our investments. For example, I have borrowed a piece of the rock — eight years ago I borrowed \$2,750,000 from Prudential Life In-

insurance Company. I have paid back \$1,750,000 in principal and \$2,550,000 in interest. That is a fair and square deal. That's what everybody does and that's what we should do, too. I really appreciate the fact that McNoughton, the Chairman of Prudential, and Ed Honneymeir gave me the loan, and that I have been able to pay it back. That's my job and that's what they should do, and that's what everybody should be looking at in terms of where we are going to go. Instead of talking about disinvestment or exacerbating conditions, they should be talking about how to improve conditions. But by the same token the shoe fits on the other foot as well. There is a concomitant commitment on the part of minority businessmen to do something about what goes on in the communities, and not just to stand there and say my job is to rip them off, or to make money and get out of here as fast as I can.

We have tried in New York City through an organization called the Hundred Black Men, which has over 500 members including the Borough President of Manhattan, Earl Gray who is a publisher, and other businessmen, to get them involved in what goes on in the City and start to place them on every commission and board, and any other institution that brings about material or meaningful changes in our community — whether it be the Blue Cross/Blue Shield, the Legal Aid Society, the Board of Education, or the Mayor's Temporary Commission on Finance, you name it, we have tried to put them there. I think it is most important that we have that kind of input. It is most important, for example, that a man like Ken Guscott is on the Board of the Federal Reserve Bank here in Boston. I recommend that Federal Reserve Banks in all regions have a minority member on their banking boards.

It is not that I think that white people are venal or mean or don't give a damn about us. I believe that, for the most part, white people come with an open and clear heart, but they are concerned with their own business and if they don't come in contact with you and don't understand what your needs or wants are, then it just follows that they are going to do things that fit their own needs and wants. The way to get around some of that is to bring minority people into these decision-making bodies. It is most important. And if we don't do that, then we are failing to live up to our role as citizens in the community. Further, I think that as businessmen in our communities who make profits there, we should be prepared wherever possible to be involved in our own organizations — whether it be the YMCA, the YWCA, the NAACP, or the Urban League. That is also incumbent upon us. But beyond all that, we cannot survive without the proper milieu and climate in which to operate and do business.

I told you that FEDCO Food Corporation will do about \$75 million of business next year because we are going to acquire another chain of stores. I plan to mix the locations of stores and try to mix the clientele, thus lessening the burden of crime and all the other problems. I cannot continue to push every living dime up on top of the volcano where it might just blow up, and blow me out with it. So what I'm trying to tell you is

that the answers to all of these problems can be solved with commitment on the part of everyone, but the commitment begins with the small businessman himself. The commitment begins with the people in our own community. I don't believe white people will ever solve our problems; they haven't solved their own. If you don't believe that, take a ride into West Virginia, take a ride into the Ozark Mountains in Missouri, and you will see that a lot of work has been left undone. So therefore, those who have to pick up the first stone must be our own people. And we're going to have to promote the idea that we are prepared to do our own work. Of course, we need and want all the help and assistance that we can get.

I worked for Jimmy Carter and wrote the Minority Economic Task Force Report. In that paper I asked him to reorganize and redo the Office of Minority Business Enterprise, which has turned out to be a big political boondoggle in which money was placed not so much to aid the recipients as to make a political impact on the area. When that happens, little is accomplished and the needs and overall problems remain. I have also asked for a type of reconstruction finance corporation or bank which would provide some of the new capital necessary in our communities at a lower interest rate than is available in the normal market place. Dr. Brimmer told you this morning about increasing capital and equity positions. If we can't get equity investment, then we will have to borrow and pay for the loans. At this time, \$350,000 is not a large enough loan to achieve what needs to be done. Even building a good supermarket today requires \$500,000 to \$1 million. These are just some of the things I recommended, some of the things we have asked for.

Housing is a big problem. We haven't had any housing programs in our communities for over three years, since Richard Nixon closed them down. We need housing. But if somebody gives me a choice between housing and jobs, I will choose jobs every time. We need people off the unemployment rolls and onto the work rolls. We need people paying taxes. If there is one proposition that I can sell to anybody in this country, it is to say that if you follow my directions for investing in certain areas and making an impact on certain problems, you will lower your own taxes in time. You will lower crime problems. Years ago when I grew up, the drug problem was in the minority areas of New York City. Now, the drug problem is in Scarsdale and in the suburbs. Good middle-class young white kids are hooked on heroin and other things. The drug problem is everywhere and needs to be addressed. That is the essential proposition: to try and talk to people in terms of how to settle things in their own self-interest — not in the righteousness of the cause, but because it is in their own self-interest. Again I would like to thank Mr. Morris, the President of the Federal Reserve Bank of Boston, and Mr. Guscott, a member of its Board of Directors, for giving me the opportunity to address you here today.

# The Effect of Crime on Minority Business

Willie J. Davis, Moderator\*

Our first speaker is Commissioner A. Reginald Eaves, from the Office of Public Safety, Atlanta, and formerly of Boston.

A. Reginald Eaves\*\*

Whatever gains the black community has achieved through the years, especially in the financial area, have come through hard work, determination, suffering, and sheer perseverance. Business in the minority community was usually built on the blood, sweat, and tears of people who had saved for years to attain the necessary capital to implement the enterprise. Many times the owners of these businesses operated at a loss in order to pay the day-to-day expenses.

When criminals strike at business in a minority community, much more than a burglary occurs. Often the work of a lifetime is destroyed, leaving the owner in the same position he was in previously financially, and probably much worse off emotionally.

When we have black-on-black crime, we have a tendency to feel that only the one or more individuals involved are affected. But crime in our neighborhood affects all of us. When a life is taken, we lose a brother or a sister; when a corner drugstore is robbed, we all lose.

We lose because the proprietor has to raise his prices to offset the loss, and you and I pay. The typical minority business operates on a small scale and the enterprise is usually of a personal nature, for example a beauty parlor, barber shop, funeral director, et cetera. Or the business serves the residents of a specific area. The black businessman himself bears an increasing amount of the cost of crime: the cost of providing security for a business, the income he loses by having to close his business early, the customers he loses because they are unable to pay the high prices for goods, and the services lost through criminal victimization.

I just have to emphasize that price for a moment. Many of our small businessmen are confronted with the very serious problem of having to carry this added burden because of the atmosphere of our community. And the added burden makes them raise their prices. In many cases, they are priced out of business because customers are trying to save money and as a result move beyond the community into the larger department stores and grocery stores, in order to save the few dollars that they have. Often

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\*\*Commissioner, Office of Public Safety, Atlanta, Georgia

people accuse blacks of being very poor businessmen. But it doesn't take very close scrutiny to understand that that kind of decision by the customer is not based on a lack of managerial skills on the part of the black businessman. The fact is that black people, who have limited resources, cannot go to a store and pay one-third more for a commodity than they would pay at another store.

Yet we know that if we didn't have security problems, if we didn't have to put in elaborate alarm systems, if we didn't have to hire guards or security officers to stop the shoplifting in the business, we would go out of business anyway. So it's a Catch-22 for the black businessman. It is very difficult for minority businesses to get adequate insurance coverage, which presents a very difficult problem for black business people. Since many of the areas in which these businesses are located are high crime areas, insurers classify them as high risk areas. When coverage is available, its cost is usually exorbitant. And if businesses are robbed or burglarized more than once, their insurance policies are often cancelled. So black businessmen should become educated to the techniques of securing their property against illegal entry by working with law enforcement agencies.

Usually owners cannot sustain more than one loss because they're not strong enough economically. Their counterparts, the white businessmen, may be able to get a loan after a loss, but the black businessmen would find it almost impossible to get one. When we accept the fact that the only one who prospers now is the criminal, then we can begin to look for meaningful alternatives to counter the negative impact of crime on businesses in the minority community. It's high time that black businessmen join hands with the community folk, but more important, it's high time that black businessmen join hands with those in law enforcement to make sure that we cut down on alibis. We must create the kind of atmosphere that will produce a community where a man can move on his ability, where we do not have to double our prices, where we do not have to have more security people than other personnel. Coupled with all the economic problems we have, I think the most severe blow to minority business in a minority community is the effect of crime, and I submit to you as a law enforcement agent that it is our joint responsibility to make our community safe again.

### Mr. Davis

Next we ought to hear from somebody who can tell you firsthand about the effects of crime on minority business, a person who has felt the brunt of it. In other words, "a person who has felt the cold blade of steel at his neck," a phrase I use so well because I've felt it myself and I know what it feels like. So we'll ask the President of the Dudley Merchants Association to tell you about the effect of crime on minority business from the businessman's point of view. Mr. Charles T. Calvey, please.

### Charles T. Calvey\*

I assume that this audience consists mostly of business people. There's little I can say about crime against business that you don't already know. All you have to do is get into your car and drive through our minority business area and the story will be evident. I don't like to elaborate too much because it could discourage shoppers. That's one of our biggest problems. When I was asked to speak on the effect of crime on small businesses, I was most impressed with the fact that somebody cared. As small businessmen we have almost given up. Those of us who have stores are just holding on, and when we get a break or a holdup, it makes our break-even point even higher.

Crime discourages big business as well as small business. As a small businessman, I can't survive unless I can compete with bigger businesses that have the customers. However, crime doesn't only affect small business, it affects all business.

### Mr. Davis

Thank you, Mr. Calvey.

Next we're going to hear from an agency which is not a business per se but it is involved because one of its functions is to provide aid directly and indirectly to all businesses, especially minority businesses. So we'd like to hear what that representative has to say about the effect of crime on minority business. To that end, I'd like to call on Mr. George J. Morrison, the Executive Director and founder of the Roxbury Action Program.

### George J. Morrison\*\*

Those of you who live in the Boston area have been inundated lately with news about the effect of crime on economics and specifically on businesses. The Christian Science Monitor of September 17th had this heading: "ECONOMIC CRIME. IS IT OUT OF HAND?" The Herald: "... every time I see someone come in here, I wonder if he's carrying a gun now." That's September 23rd. And again the Herald, September 24th: "SMALL TIME PILFERAGE COSTING BAY STATERS A FORTUNE." It's serious. I'm sure we all know that. Let me say that I don't have the answer but I know that something has to be done. The reality, however, is that it's such a problem and has such widespread effects that it's hardly a pretty picture.

\*President, Dudley Merchants Association

\*\*Executive Director, Roxbury Action Program

I'm convinced that the single greatest obstacle to success for minority businesses is crime, specifically shoplifting, armed robbery or "cold steel," as somebody has already mentioned, employees' pilferage, and to a lesser degree, breaking and entering. You've already heard about what you must do about those things, the mechanical kinds of things, the people you have to employ to try to eliminate some of these factors. I suggest that none of the proposals is totally successful.

I say this based, unfortunately, on hard firsthand experience. Somehow the rhetoric of pride in ownership, in the community and in accomplishment, as well as meeting the need for goods and services at the neighborhood level, is not enough.

Consider specifically a pharmacy, for which the need has been so well documented; few pharmacies serve the Roxbury community. And it is also documented; few pharmacies that most of those that do serve us tend to rip us off in terms of high prices, but that has nothing to do, necessarily, with crime. None of the stores that remained from the early days stayed open after the sun went down. So a combination of 1) scarcity, 2) high prices, and 3) unavailability at urgent times, created an instant market and certainly a need at the community level.

The need and supply and demand factors seemed favorable, and we thought we could depend pretty much on an exclusively black marketing area, which ought to be more than enough to support several pharmacies. Those of us who live in the black community realize that there are very few. However, despite this leverage of a marketing place (Roxbury, Dorchester, Jamaica Plain, and to some degree, the South End), it's difficult if not impossible to have a neighborhood pharmacy survive. There is a high cost of doing business in the black community at the retail level. The cost of remaining open after dark, which is critical, is one of the problems. It has been proven in our case that it's not worthwhile to increase the time of being open because of the high cost of extending the service, and even if you change the hours by opening up later in the day, it's still not worthwhile in terms of dollars.

There is another factor, and that is the fear that the people have of leaving their homes after dark. That's not just due to the crime in stores, but rather the general crime, the crime in the community, prevents people from coming to a place of business, even though it's there to serve. Therefore, they continue to do without the medicines, or go elsewhere, perhaps somewhere safer. However, the problem is not just enumerated crimes but also a more general problem related to crime in the community: fear of walking in the streets, especially after dark; fear of small groups that congregate close to or in front of the place of business which obviously bring to mind mugging, handbag snatching, and so forth.

It's impossible to calculate how much more it costs a minority business person to do business in his or her own community at the retail level. However, it's clear that the odds are overwhelmingly against success, and I have not yet even touched on management, capital needs, continuity

of cash flow, especially as it relates to third-party payments. It gets even tougher. In terms of retail trade — and that is the most obvious example — people bring stolen goods to locations near the local entrepreneur's place of business, and then sell them. The businessman cannot compete with the sale prices of these goods, which are sold at a fraction of their original cost.

In 1973, the Roxbury Action Program started out on its first business venture, a full-service neighborhood pharmacy. We started with lots of positive things going for us, more than most first-time entrepreneurs. We had a team of Harvard Business School students prepare an in-depth market and feasibility study of the pharmacy; we had a joint partner, Circle Capital Venture Fund, to help us with management, inventory pricing, marketing systems, and controls. We had a close relationship with a former principal of a major discount pharmacy chain, who negotiated for us to share in purchasing with a chain of discount stores, and after a year we had a 30-second TV ad that ran 7 times a week for 13 weeks on one of the major television stations. And that's a lot going for you.

A year and a half later we added a convenience food department, receiving extensive technical assistance from one of our major convenience food store chains. In addition we had the resources of an established bookkeeping department at our institution, with experience in management and cash reserves.

Today, three years after it started, the pharmacy/food store may be going out of business, and RAP has lost thousands of dollars it spent in trying to keep the store afloat. The reason — theft, \$1,000 a month.

At first, when our profit and loss statement showed a gross profit of \$10-\$12,000 less than it should have, we thought it might have been poor pricing. Although we used a surveillance camera, armed guards, and everything else we could think of, we could not beat the shoplifting and pilferage. We could overcome the problems of pricing, marketing, and inventory control — but not theft.

I don't know what the answers are specifically in terms of retailing practices. Our ventures were developed basically on needs expressed by the residents of Highland Park. Being able to see the need and hear the voices of citizens crying, demanding, and begging for services at the retail level, it has been very distressing to us to find it almost impossible to continue. In the final analysis, it seems that at the retail level one has to be able to depend on a greater market, a market that simply is not available to a pharmacy or other small business located in the heart of the black community.

## Mr. Davis

Our last speaker will be the man who probably will receive the full brunt of your wrath if crime in the area does not drop, and pretty soon. It is my pleasure to present to you the new Boston Police Commissioner, Joe Jordan.

## Joseph M. Jordan\*

After I sat and listened to each panelist give his statement about some of the problems that exist in the minority business area, it would really be very foolish of me, I think, to get up and say, "Well, you know, we're doing a great job about this," especially when the gentleman from the Dudley Street Merchants Association was so overcome that he probably couldn't even tell you some of the problems that they have. All I can say is, I'll tell you what we have been doing, what we've done in the past, and what we intend to do in the future.

My predecessor, Commissioner DiGrazia, placed great stress on training and on the recruitment of minority candidates for police service. I think it's very important to continue these two aims. When we go by any area of the city — a minority area or any other — and see a large group of abandoned stores, clearly everyone has failed. Now, however, people are beginning to show a tremendous concern about their neighborhoods. I remember talking to the merchants of the Dudley Street area about a year ago and they had problems then as they do now, so we developed walking patrols. But still it's not enough. And to be quite honest, I don't think that between the merchants and the police we're going to be able to do the job; I think it's got to be a real effort on everybody's part. I'm talking about the community, other municipal departments, and other agencies that may be involved in trying to prevent crime or save some of these minority businesses.

In our department, we have stressed training programs. We still are a very traditional department; we still have areas that we must really be concerned about in terms of trying to be an effective force in this city. As you all know, in order to be effective, your police department really has to have the support of the community. I've seen some things develop, especially around the Dudley Street station, where we've had a hard job in controlling the youngsters. That was one of the complaints that the police addressed themselves to. But evidently we need other types of support agencies to really become effective in that particular type of situation.

We have initiated a computerized dispatching system. We've got a 911 number and we know that people are constantly complaining that the police don't respond within a reasonable time. But one thing I want you to know: I am perfectly willing to admit that we have some deficiencies. And we're going to try to improve. We learn about our deficiencies when people say: "Hey, this kind of a situation developed and the police did this or the police did that." Then we can investigate, and if we were negligent, we can try to correct our errors.

As we all know, living in urban areas has problems. I'm going to try to make sure that we respond to whatever problems the minority business area has. We're going to put our best foot forward and try to correct some of the problems, but I don't think that we're going to be able to really ad-

\*Police Commissioner, The City of Boston

dress ourselves to the whole situation. We need other support and assistance to make sure that these businesses survive. I think we all have a duty and a responsibility to do that, and certainly as Police Commissioner, I am quite aware of it. And as I review some of the problems that have developed in minority businesses, I can see that the Police Department must have the support of every segment of our city so that we can develop some really meaningful plans.

We have all kinds of preventive programs. We have a robbery suppression unit that we utilize in Roxbury once in awhile, and also a crime prevention program, where personnel can go in response to business queries to make recommendations about the type of locks and alarm systems that should be installed. Those items have really been very important because in the areas where they have been utilized, they have helped to reduce the number of reported incidents.

## Crime and Business: Some Highlights of the Question and Answer Session

*Mr. Davis:*

Thank you very much, Joe. Now you've heard about the effects of crime on minority business. Let's get down to the business at hand. What do we do about it? That's what you all want to hear, I'm sure. Now, to get things started, I think I'll exercise another prerogative and pose the first question myself and throw it out to any member of the panel.

It's a two-part question — first of all, do you believe that the courts are too lenient on people who have committed crimes affecting business in the minority community and are apprehended? And, if so, do you feel that this lenient attitude has in any way affected or contributed to the increase in crime against minority business? Mr. Commissioner, would you like to respond?

*Mr. Eaves:*

I have to take the unpopular position, and that is, I do not believe that the courts are too lenient per se.

*Speaker:*

Not down in Georgia, we're talking about Boston.

*Mr. Eaves:*

Not even in Massachusetts. The solution is clearly not in just sentencing the individuals who are found guilty of committing a crime. Many times the courts have no alternative. If they were to send everybody who was proven guilty to jail, we would not have room in our institutions to hold them.

As taxpayers, we do not regard prisons as sexy items and as a result we do not support our penal institutions to the extent that we could in terms of adequate facilities, personnel, and finally programs to provide alternatives for those who are incarcerated.

Consequently, the judges are in a dilemma. Do you send a boy or a girl, or a young man or a young woman, to prison for a crime that is insignificant compared to other major crimes, only to have that person come out of prison a hardened criminal, one who is far more schooled in crime than he was when he went in?

I think the question is very complicated. If you are asking about sending criminals away, then the answer is, no, judges do not send enough people away. But if you're talking about a solution, then I think we'll have to be realistic about it: we have to look at the entire criminal justice system, we have to talk about prisons, the impact jail has. We have to be realistic enough to understand that 95 percent of those people come back into the community, and unless we send them to an institution that will provide alternatives when they return, they will be schooled in a world of crime far exceeding that which they knew when they went in, which is far more detrimental in the long run. So it's a Catch-22.

*Mr. Calvey:*

But at issue here is the effect of crime on business.

First, the hands of the police are tied — they can't run as fast as youngsters that are committing crimes today, right? It doesn't matter how elaborate a security system a businessman has — crimes will be attempted anyway. Then when the police come in, the youngsters will flee. The police can't fire a warning shot and they certainly can't catch them.

If we do catch one, he's taken up to the station and he's out on the street before we can clean up the mess of glass or wall or ceiling he's knocked down. When he appears before the judge, he is not considered to have committed a violent crime. Breaking and entering against a business is almost like a misdemeanor; after all, we are the "fat cats."

They don't know we have to break even. They don't know we pay ourselves last and we're outcasts if we don't pay our bills. Nobody cares about that. That's why I say, I didn't come here to make our shopping areas look bad because, as business people, we have the worst image, second only to the police. They regard us as "fat cats" who can afford to get our windows smashed. We can afford to be broken into two or three times a month until our insurance companies don't believe us. I think something else needs to be done. As business people, we don't have the power to do anything.

*Mr. Davis*

What do you think about the high rate of recidivism that we have? Do you think it would be lower if these people had been sent to jail in the first instance, rather than the 5th, 6th, or 7th time that they committed a crime? That's the first part. Secondly, what do you think about short sentences being the carrot that we hoped that they would be? For example, in England they believe in short hard sentences; in other words, it's not a bed of roses over there when you go to jail; it's not like Norfolk where you have a dormitory style facility and nearly everybody has a TV in his room and radio and what have you, and if you don't want to work, you don't. It's not that type of system in England. Wouldn't short hard sentences operate as a deterrent, which is what we actually need if we're going to

stem the rising tide of crime? The deterrent would not only be to the person himself, but to those who might want to follow. What do you say about that, Commissioner Eaves?

*Mr. Eaves:*

First of all, I want to set the record straight. Many of you may not know it but I did have a small business in Roxbury on Dudley Street. I was robbed on the average of once a month; I was put out of business by crime. I'd like to tell you two stories. First, my nephew was working in the store one evening and a guy came in and put a shotgun in his mouth and told him if he moved he would blow his head off. Meanwhile, his partner robbed the place and took out all the beer and wine he could and they took off. The police came and my nephew failed to give a description because he didn't want to turn a brother in.

The second one is, while I was Penal Commissioner of Deer Island, another fellow robbed my place and came one-eighth of an inch from killing my brother. That man became a wardee at Deer Island under my administration.

Thank God for the tax write-off, but still I was forced to close my business because of repeated robberies. So I have had the kind of pain and suffering that you're talking about. But the point that I was trying to make is that unless you're going to address the entire system, I don't believe that you can say that the judges are being too lenient. I think that their hands are tied because there's no place to send the criminals. If I were a judge, I would close Deer Island down before sending anybody there. It may have improved since I was Commissioner, but it was a place that I wouldn't want to spend the night in.

In reply to the question about why recidivism is too high, the answer is that everyone comes out believing that he can now commit the perfect crime because of all the discussion in prison of what went wrong. And everybody knows, "If I don't do A, I'm going to do B, if I don't do X and I don't do Y, when I go outside I can commit the perfect robbery." And then if he wants to go straight, he can't get a job, so he turns to the perfect crime so that he can hit and make it. But he gets caught, and he's sent back to prison.

I think what you need to do is try to put the guards and the correctional officers out of business. In Atlanta every day I sent more than 50 percent of the population out into the city. We were sending them back on work release programs, where they developed work skills so that they would be able to get a job when they got on the outside. We sent them out to educational release programs and also to therapeutic release centers for drug problems. We saw recidivism reduced more than 50 percent in two years. I am of the opinion that given the opportunity, the resources, and the personnel, correctional supervisors could make the difference. But until you put that kind of revenue in, until you give that kind of support to

those people, then the judges are in a dilemma: should they send them off and make hardened criminals out of them or allow the circle to continue as is.

*Speaker:*

That's all right for treating people, but in order to survive as businessmen, we have to think in dollars and cents. When people commit crimes upon a business, they put our businesses in the red because of theft and glass repair work. We don't have restitution in our ghetto courts. I don't want to see any youngster go to jail but I certainly would like to see him pay for the damage he creates. You know, these youngsters can throw a brick through a glass and create \$500 or \$600 damage.

It seems to me that Mr. Eaves infers that the penal system is unnecessary because prisons simply put more criminals on the street. Therefore, let us put anybody who is a criminal back on the street and supervise him and we'll solve crime. We have more police officers than we have criminal supervisors and they cannot solve the problems, so I don't see how that recommendation can really be the answer to the problem.

I would now like to ask a question of Commissioner Jordan. One, will the Boston police system set up a program of community training whereby police officers will be selected to go into the schools to give lectures on crime and crime prevention? Two, will the police department set up police-community relations programs? Such programs would include influential people within the community, such as priests, school teachers, leaders of business and various organizations, and establish a movement in the respective communities to deal with crime by augmenting the force of the police department with the activities of the community. Are you thinking along these lines and do you consider this a means for beginning to deal with the problems of crime in the respective communities?

*Mr. Jordan:*

I believe that the whole thrust of meetings such as this should be developed so that we can utilize to the fullest all the agencies that we possibly can bring to bear on this problem.

We must continue to look at the delivery of police service in the city of Boston, certainly in the minority areas as well as any other area. We have established an inspection team that comprises superior officers who will be constantly on the street monitoring the performance of our personnel, to see that they're responding to calls, that they're making the proper disposition of cases, and that they clear their calls so they're ready for the next one. We have a small group of police officers going out into the schools, talking to our youngsters — maybe that's something that really should be explored further. We also have a community service program by which we try to contact and keep some sort of rapport with the business community and the community leaders, trying to make them aware of our

mutual problems. But in many cases you deal with a very limited number of people — the same people come to all the meetings, the same business people are always concerned.

We're going to be in there trying to respond and to do our share to solve the overall problem. I think that there has to be a complete involvement here. That includes the business community, the police, the courts, the social agencies, and Youth Activity workers. By the way, that is a large organization that can really get in and work with some of these youngsters. Recreational facilities, all of these things have got to be brought to bear before our friend from the Dudley Street Merchants Association will feel that the city is responding to the needs of the minority businesses.

*Speaker:*

Something was said during that exchange that brought to mind the fact that whenever we see crowds of youth gathering on the corner or something, the first thing that comes into mind is that they're planning to hit someplace. Years ago if such activity were engaged in, the police officer would ride by and say, "Okay, Jack, get off the corner," and the kids would generally obey. Today the police officer cannot do that, and he cannot do it because of numerous Supreme Court decisions establishing constitutional rights under the First Amendment, freedom of association and so forth. So that it could well be that we have talked ourselves into something that we want to get out of now and find no way to extricate ourselves.

*Jo Holley:*

I understand that this workshop is about the effects of crime on minority businesses, and we've heard them expressed very well. Everybody knows I've been burglarized; I was put out of business, and I'm a businesswoman, not man.

As a businesswoman, I took time away from my business to come here because I felt that perhaps there would be some far-out solution or some kind of reward, some hope, or something that could come out of this workshop. Instead I keep hearing "I don't know the answers." So I want to offer what I feel may be part of the answer.

Number one — jobs, employment. People need; people want; people must survive. What are they going to do? They're going to break in; they're going to rob; they're going to snatch pocketbooks; they're going to do all these kinds of things. We want to put all the blame on the drug addict, but that is really not the case.

I have a young man in my school today who is trying to survive. He has no place to live, no job, and he's trying to go to school. I have been all over this city trying to find some resources for this young man. What's going to happen to him? He's going to rob. This young man needs help, but

everywhere I go, there is no help for him. He doesn't qualify. Multiply him by the thousands who are out there who must have help.

Number two — training. There are funds coming through this city geared mostly toward training for public service jobs, but after a year's employment, there's no hope. But there are many minority businesspeople who could employ three, four, or five of these young people if somehow or other some of that CETA money could come down into the community where it really needs to be.

Right now it is not working, and people like myself and Mr. Calvey have no input. For example, I have a building that's boarded up because of vandalism. In my area, you don't see a policeman. I have to call up and ask them, and then they'll send up a policeman for that one time. But we need police visibility. I'm not against policemen. I've been robbed so many times and felt sorry for the policeman because he couldn't catch the thieves.

What I am saying is that something has to come out of these meetings, more than just talking and trading ideas and opinions and observations. And I'd just like to have something positive come out of this.

*Mr. Davis:*

Jo, you have made us very painfully aware that we have the wrong people on this panel. I tell you why I say that. Because you have hit upon the solution to the problem, and there's not a single one of us up here that can do anything about it.

It all comes down to a matter of economics, as you have suggested. And I'm sure Commissioner Jordan is unable to tell you how you're going to be able to get more jobs out there in the community. I'm sure Mr. Eaves is not going to be able to do it. George Morrison has been trying, but none of us here is in a position to give any real insight whatsoever into that one solution which is absolutely critical. And I think there's no one here who would disagree with that.

*Ken Guscott:*

I would have to disagree with Jo. This morning when we started this conference series, we said that we have institutions in this country that are capable of doing the job if they know what the problems are and if they are used properly. It happens that the Federal Reserve Bank can certainly respond to some of the things that are being put on the record.

At the Federal Reserve Bank, every two weeks a vote is taken, with regard to the setting of the discount rate, which in turn affects monetary policy, and which is weighed in terms of its effect in controlling inflation versus its effect on unemployment. People who have been traditionally in the banking field know all about the ravages of inflation. But the question of the ravages of unemployment, which was very clearly laid out by the panel and also by Jo Holley, must be understood also and I would much

prefer that people like Jo stand up and say what is happening so that it goes on the record. The record will be published. It will go the Board of Governors, and that is one way that you can start to utilize the Federal Reserve Bank to try at least to alert the Nation. The cost of crime must be taken into consideration in the formulation of economic policy.

# Minority Purchasing and the Vendor Issue

George R. Guscott, Moderator\*

The purpose of this workshop is to define the problems that are encountered by minority business people in the area of procurement. We have a panel of four people who have been directly involved in the field of procurement and associated areas.

Our first speaker is Ed Gooding from the Federal Reserve Bank of Boston. Mr. Gooding is experienced in business situations regarding minorities and in purchasing also. He directs the Bank's Urban Affairs Section, and his involvement has been primarily with minority business people and their problems.

Edwin C. Gooding\*\*

Today I would like to set the stage for our discussion of programs to aid minority vendors and try to point out what such programs, if successful, might mean to our society.

A minority vendor program as part of the larger minority business enterprise program is *not* going to be a panacea which will solve all our race relations problems and/or poverty problems. In the past, I have seen some advocates of minority business programs use them as an excuse for phasing down or out manpower training, education, and community development programs, which are just as necessary in our struggle to make the United States truly an equal opportunity society.

In fact, it may come as a surprise to some, but many minority firms that are benefiting and will benefit from the minority vending effort are located in the inner city and may not have a significant proportion of minority employees. Of course, other minority firms that benefit from the vendor program do operate in a minority community and employ predominantly minority workers. The point is that the primary purpose of the minority vendor program is and should continue to be to foster the growth of firms which are owned and operated by individuals of minority

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background. To the extent our minority vendor program is successful, we will integrate minority owners more fully into the system by giving them the opportunity to earn a "piece of the action." If successful, a vendor program will increase the number of minority people who have significant economic power in our society. The hope is that our minorities then will not feel shut out of the Horatio Alger dream, but will be more comfortable with "the system" if full access to it is not denied them on the basis of race.

What lessons have the major companies learned about how to run an effective program? Probably the most important lesson is that if the program is to be truly effective, the chief executive officer of the company must be committed to the program's success. If this commitment is there, corporate policy then must allow some discretion in modifying ever so slightly the purchasing efforts of the corporation. Typically, the purchasing function has three high priorities: delivery, quality, and cost. The way a buyer is most likely to lose his job is to shut down the assembly line for lack of parts. Consequently, new suppliers of *any* background may be suspect and "not worth the risk." Given the inherent minimum-risk disposition of a typical buyer, corporate goals must be set and broken down to each buyer, so that there are rewards for performance in this area and, implicitly, some penalties involved for non-performance.

There are several ways a company and its buyers might productively modify purchasing procedures to create a successful minority vendor program. The first step is to make a special effort to identify the minority vendors, their products, and their capacity to deliver. The regional Minority Purchasing Councils such as ours in New England can be very helpful in this effort. Our Council has in fact just published a directory of minority vendors which will be periodically updated to facilitate buyers' efforts. Of particular value to both a minority firm and a prospective buyer is the information that a minority vendor has successfully sold and made delivery to another major firm. Consequently, the format of the Council's directory was designed to include this information. If a buyer places carefully selected minority vendors on appropriate invitation-to-bid lists, he or she has taken a giant step toward developing a program.

However, that first step alone is not really enough. Most companies' invitations to bid reserve the right to accept or reject any bid submitted. Consequently, corporate buying practice should be quietly modified to permit the acceptance of a somewhat higher bid from a minority firm in order to develop that business as a supplier. That practice can and does occur for other purposes, such as developing an alternative supplier if the buyer feels the need for one. Thus, companies and buyers deviate from standard operating buying procedures to accomplish other objectives, and if they want a successful minority vendor program, they must use their creative energies to that end as well.

I should point out that the cost of such efforts need not be high and may be offset by savings from low bids from minority suppliers. It is not

necessary or desirable for a firm to pay an inordinately high premium in the name of a minority vendor program. One very large company did a survey of the premiums paid by its buyers in the fourth or fifth year of a program which has \$18 million of purchases in its latest year. This company found that it has only paid a premium of \$40,000 to accomplish this substantial amount of purchases. That premium, a gross cost, represents  $\frac{1}{4}$  of 1 percent. It is entirely possible that the premium may have been more than offset by bids from minority vendors that were lower than those submitted by other vendors competing for the business.

Buyers are conscious of their responsibility to keep their suppliers from feeling they are being treated arbitrarily or capriciously. Majority suppliers are understandably resentful of losing business to a firm "just because the firm is minority-owned." There is no easy way around this problem. Although some minority suppliers are fully competitive, if their number were proportional to the minority population, the need for a special program would be significantly less. When a buyer has identified a minority vendor, an alternative to the bid process is the negotiated price, particularly if an approximate market price can be determined. A bid negotiated with a minority supplier avoids inviting a majority vendor to bid on a job he is unlikely to get.

A buyer has some special responsibilities once he is engaged in a minority vendor program. If a bid from a minority vendor is unrealistically high, an attempt should be made to determine whether the vendor can become competitive, perhaps by referring him to a technical assistance agency. Alternatively, the bid might be extremely low. Again, an effort should be made to determine if the firm can deliver the goods at the bid price without going into bankruptcy.

There is a real possibility that a minority firm can be seriously hurt and perhaps ruined with too much business. I remember a case of a minority contractor who went bankrupt on a municipal job that was about ten times his previous annual volume. I have also heard a tale of officials of a large majority company making every effort to break down a \$10 million order to units of \$1 million to encourage minority vendor participation and wondering why they still received no bids. This story illustrates the huge gap between the scale of major industrial firms and the capacity of most minority firms. The minority vendor must also realize the limits of his firm's ability to deliver.

Some buyers in large firms are guilty of tokenism. This is, placing a single \$200 order with a firm which may need an order of \$1,000 or more to break even on that business. I firmly believe that a majority firm should concentrate on developing a relatively small number of minority businesses by giving them recurrent and economically significant orders. It is only through profitable, recurring orders that a strong base of minority vendors can be built.

A few minority businessmen confuse their roles in the black political movement with their roles as businessmen. It is probably necessary to keep the political focus on the Federal and state legislators, to make sure

minority vending efforts are a major priority in our society. However, it is usually disastrous to resort to political posturing when you are representing your business to a buyer or a purchasing manager. At that level, the most successful approach is usually to act as a businessman who just happens to be minority.

Another cold reality is that, as with majority firms, only a relatively few firms will be successful suppliers to majority companies. But some chosen few should be able to do extraordinarily well. Given all the obstacles to making a minority vendor program a success, I am pleasantly surprised by the relatively good start I see in the program and the long-term commitment developing in both the public and private sectors to make such a program work. Remember, the national minority vending program is still in its infancy.

Not all the minority vendors in our audience today will benefit from the program. In the longer term, the business will go to those who can compete effectively with majority suppliers. A minority vendor program gives minority businesses access to the track and some extra help in running the first few laps. Remember what has happened in professional athletics since the racial barriers in major league sports were broken. I don't mean to suggest that the problems of minority business ownership will be solved as simply or as rapidly as those of minority participation in professional sports. But I do believe that most of us here today are working for a day when the phrase "minority vendor" will have no meaning, because a person's racial background will no longer affect the way one person behaves toward another.

## Mr. Guscott

Out next speaker is James Hill of Raytheon Corporation. He was also first President of the New England Minority Purchasing Council, and he has been involved in the field of procurement for many years. Mr. Hill will speak on Corporate and Buyer Perceptions of Minority Purchasing.

## James M. Hill, Jr.\*

When a corporation decides to increase the volume of purchases awarded to minority-owned suppliers, it may base its decision on a keen perception of its role as a corporate citizen, on what is generally called "enlightened self-interest," or on an absolute contractual requirement to perform. Normally the decision is founded on some combination of motives, accompanied by an awareness of certain practical problems that will arise as a consequence. The depth of certain problems and the frustrations generated by a predictable larger-than-expected gap between expectations and performance are at the root of many of the misunder-

\*Director of Procurement for the Raytheon Company and the first President of the New England Minority Purchasing Council, Inc. (1975-76).

standings between well-intentioned companies and the minority business community.

The individual singled out to execute the corporation's decision to engage in minority procurement is, of course, the buyer. He must clearly understand management's purpose and must know the ground rules for carrying out this singular objective, particularly in whatever respect such rules change or modify his basic charter to satisfy cost, schedule, and quality objectives. His perception of the risk of job performance failure must be adjusted to reflect as nearly as possible the intent of management, in order to relieve him of, at best, puzzlement or, at worst, frustration in reconciling the new role management expects him to play. Whether it is puzzlement or frustration, lack of definition inevitably leads to procurement patterns that satisfy neither the corporation nor the minority business community.

The role of the regional Minority Purchasing Councils is to alleviate the misunderstandings, dissatisfactions, and frustrations as much as possible by communicating the ingredients of successful corporate programs. Information is exchanged about policy, organizational planning, and experiences in implementation. Regional market opportunities are defined and vendors are identified to ease the search for sales and purchases that will support the objectives of both groups.

### *Corporate Perception*

At best the corporation chooses to implement a minority vendor program in a positive effort to support an economically deprived portion of the business community, in its role as a corporate citizen. Corporate character asserts itself to correct an unjust situation for purely moral reasons.

"Enlightened self-interest" as another motive suggests that purchasing from profitable minority-owned enterprises provides a preferred alternative to paying the cost of welfare subsidies in meeting the economic needs of minority groups. Competitive procurement from a special brand of suppliers is economically superior to increased taxation. Indeed, there is economic value in broadening the base of the regional infrastructure, and there may even be lower-cost purchases available from small firms operating with little overhead and low labor rates.

Finally, companies may be motivated quite simply by the terms of the contracts they hold with Federal, state, and municipal governments, requiring that minority vendors be included in the procurement plans for execution of contracts held.

Whatever the combination of motives, corporations are usually aware that the decision to buy from minority vendors will bring with it a set of problems. Most obvious is the need to communicate the decision throughout the organization, and especially to those who will execute the program—the buyers. It is also assumed, sometimes erroneously, that a minority-owned supplier cannot compete on equal terms with existing

suppliers. Exceptionally supportive activities and attitudes may be necessary, subsidies of price or effort may be required, and a greater risk of supply failure is to be expected.

Less obvious to the decision-maker as a problem is the difficulty of shifting business from existing suppliers to new suppliers. If the volume of purchases is stable, this problem is reasonably manageable, and if the volume is increasing, the problem is minimized. But if volume is declining, it is quite a difficult situation for the buyer to control. Another subtle variation of the same problem is the shifting of components previously manufactured by the buyer or his firm to procurement from a minority source. Manufacturing management becomes concerned with the loss of direct production control and the increased quality risk, while employees and unions are concerned with the effect on employment. Again, the problem varies with increasing, decreasing, or stable shop load.

Corporate frustration generally results from a misunderstanding of the intensity of effort required to cope with the obvious problems. A statement of purpose must be repeated many times, not only to convey the original decision accurately but also to emphasize management's determination to carry out the program. In a large organization it is difficult to reach every individual who can influence procurement either directly or subtly and to institutionalize the desired attitude. Further, in executing the program, innumerable procedural problems arise, creating an ever-increasing need to communicate more and more detailed instructions. The degree of necessary management involvement usually far exceeds original expectations.

Another problem of unexpected magnitude may be found in the amount of guidance the buyer needs in order to provide unusual support to the initial efforts of a new minority supplier to become qualified. Granted that a new minority firm may need extra help at the outset, the buyer still wants to know how much extra time he should allow for performance, how much of a price premium (if any) should be paid, how much functional talent should be provided, and on what basis to judge ultimate viability. The buyer needs more than general philosophical guidance from management, as we shall see later.

Corporate communication of motive and policy to the minority business community is often frustrating. The minority businessman, who generally has no reason to believe that the "majority" community wants to be of service, is certainly skeptical of public statements of support. If the corporation reveals the ground rules for its program, and many do not, the experience of the new minority supplier as he seeks business may add to his skepticism, if he finds to his dismay that the company's own buyers do not behave as he expects. The result may be a rebuffed and wounded corporation on the one hand, and a cynical minority businessman on the other.

Finally, the corporation may discover eventually that it can achieve results only if it institutionalizes its minority vendor program. Usually this must add to existing administrative systems, increasing the administrative

burden and cost in an unexpected way and leading to further frustration. The ultimate objective of completely "normal" relationships with minority companies need not be abandoned, but the transition period becomes longer and more difficult than anticipated.

### *Buyer Risk*

The buyer's charter is to obtain materials that meet performance, quality, cost, and schedule objectives. He constantly seeks to reduce the organization's risk of failure due to supplier or material inadequacies. Thus, he is not a risk-taker by virtue of his basic mission.

When management introduces a new program such as minority purchasing, the buyer's perception of added risk colors his attitude toward the new requirement. If he believes the use of minority companies as sources of supply will increase his risk of failure, he will either attempt constructively to help minority firms achieve a sort of equivalence to "regular" suppliers by extraordinary efforts or he will resist the program. Either way, he is attempting to return the level of risk to what has been tolerable for him in the past.

The buyer who chooses to resist will often hope the program is temporary and will watch for signs that it is just another management fad. Some may consciously or unconsciously seek minority suppliers unsuited to the requirements at hand to prove that the program cannot work.

The buyer who chooses to cooperate must often provide unusual support to his new minority sources so that the manufacturing process does not experience any change in the reliability of supply. Neither the corporation nor its customers can tolerate any change in the final product, so whatever differences exist at the beginning of the acquisition process because of the introduction of new suppliers must be compensated for, by the time material reaches the production floor. The buyer's efforts to achieve this are often misinterpreted by the minority businessman as unfair "extra" demands, but the sincere buyer is trying to bring what he sees as unusual risk down to an acceptable level.

Whether the buyer is willing or unwilling, it must be made clear that management expects performance. It must also be clear whether or not management will accept abnormal measures to achieve program goals — measures such as price subsidies, dual sourcing, special financing, or the furnishing of materials.

In addition, management should demonstrate its support by rewarding success and penalizing failure. Most important, the buyer should be forgiven for a minority vendor's failure, providing he has taken reasonable measures to protect the corporation's requirements. The buyer, as the individual responsible for the execution of procurement policy, can easily become puzzled or frustrated as he tries to carry out a minority purchasing program which has been mandated by management but which runs counter to his instinct to reduce the risk of supply failure. He becomes

even more puzzled or frustrated when minority suppliers interpret his protective over-reaction as antagonism.

### *Role of the Council*

The New England Minority Purchasing Council sees its role as one of helping the corporation establish a minority vendor program with minimum frustration, helping the buyer overcome the apparent threat to his minimum-risk charter, and helping the minority business community to find market opportunities. The Council may also encourage the growth of minority business by generating a better understanding by both buyer and vendor of the problems that may arise despite genuine efforts to succeed.

The Council can help the corporation by providing the outline of a successful minority vendor program. Model policy statements are available, for example, along with implementation guidelines such as commitment by the chief executive, setting of goals, organization, and performance measurement. The Council can assist the corporation in the development of clear statements for the guidance of buyers with regard to subsidies, special efforts, short-term/long-term vendor support, and citizenship. In addition, buyer training is available in the perhaps unfamiliar process of dealing with minority vendors. At the practical level, the Council identifies local or national minority suppliers that can fulfill the buyer's requirements.

The Council further enhances minority business development by referring minority companies to market opportunities. It also provides sales training to improve the minority supplier's ability to capitalize on these market opportunities. It attempts to bring together both sides as often as possible under favorable circumstances to speed up the courtship phase of a new supplier/customer relationship through trade fairs, general seminars, the "matchmaker" program, plant seminars and other "mixers."

### *Summary*

The minority business community should try to understand the corporation's need to maintain product integrity and competitive costs. It should also understand that these corporate objectives drive the buyer to seek low-risk supply systems.

Corporations that choose to support the growth of minority firms, on the other hand, must accept the costs in real dollars and effort associated with such a program. They must also accept the requirement that the organization, and especially the buyer, understand both the commitment and the boundaries for unusual means of implementation.

The result in the long run will almost surely be savings in social costs, both real and intangible. There may also be a more immediate and quite genuine saving as new suppliers become competitive and the corporation supply base is broadened.

## Mr. Guscott

We come now to Mr. Gene Roundtree. Gene operates a company dealing in stainless steel and is one of the most successful minority businessmen in the New England area. His firm is one of the 100 top black businesses in the country, and Gene is an authority on the problems that are associated with minority business.

### Eugene V. Roundtree\*

I don't believe minority business is going to take a giant step forward until Congress passes an Act requiring it. This is something that basically none of us wishes to see because it means more government involvement, which is costly. However, as I look at the history of industry, it appears inevitable.

Majority companies saw the unions coming and yet did very little to improve the workers' plight until the unions forced them to. These same companies saw environmental protection coming and again did nothing. They saw OSHA coming and did nothing; they saw EEO coming and are still fighting it. Now minority business is here. It has been talked to death, organized through a myriad of organizations, and still for all practical purposes is at a standstill.

It has been argued that the majority companies will handle it on a voluntary basis, but that isn't happening.

I have heard every possible excuse — to list a few:

1. We can't find the minority companies which sell what we need.
2. They are not competitive.
3. They do not provide quality.
4. They do not deliver on time.
5. They lack expertise.
6. They are not aggressive.

I hear the excuses but I do not see the efforts of majority companies to overcome these supposed problems.

I believe the major problem in minority companies getting business is that it means some white company will lose out on that business, and the majority company buyers can't make that adjustment. This is why in many instances minority companies can't get the opportunity to quote. If we quote, are competitive, and can deliver, some white company does not get the order.

As an example, I quoted one company on \$500,000 of stainless on a contractual basis. I was advised that I was 2 percent high and could I adjust. I replied I would reduce my prices by 3 percent if I could be guaranteed I had the contract for the material. I could not get an answer. I did get the contract for their companies' fastener business and they can't get their buyers to honor the contract.

\*President of All Stainless, Inc., the largest minority company in the New England Minority Purchasing Council, Inc.

I have another national contract with a major corporation originally estimated at \$130,000 to \$150,000 a year. So far in five months we've done \$4000 of business.

I don't believe the problem is the minority companies' capabilities as much as what becomes of the company the minority company replaces. I have witnessed the plea of the white company which is about to lose out and have seen the minority company sacrificed, even though its bid was low and correct.

If we as minorities sold a product everybody needed and no one else sold, we would not have a problem, but this is not the case. If we get the order, someone loses (usually someone white) and this is the problem. This is true even though we get to keep very few of the dollars we win in contracts. I promised no statistics but I heard we barely keep six cents on the dollar because we control no natural resources or utilities. If we get the order we must in turn buy from the majority companies to supply our needs.

So, in conclusion, I must restate: If we wish to avoid legislation we must get business now, not sometime in the future. Now!

### Mr. Guscott

We conclude by calling on Robert Royster, President and Treasurer of the Lewis H. Latimer Foundation. The Latimer Foundation was founded principally to provide expertise to minority business people in the fields of sales and market representation, which again deal directly with procurement.

### Robert S. Royster\*

There are probably as many questions regarding the minority purchasing and vendor issue as there are people at this conference. Based on my experience, I have not observed a comprehensive solution to this question. Some isolated instances of effective programs have been directed to the minority business effort. I will review several of these later in my presentation.

Let's first look at the question of the need for a minority purchasing program and compare the effort to that for non-minority business. Before I begin, let me try to impress on you my desire not to make this a black/white issue but just to point out the fact that business is conducted in a variety of ways.

If we could be honest with ourselves, we would have to admit that America's minorities have been almost totally disenfranchised as far as our economic system is concerned. It is this condition which perpetuates the climate and maintains those attitudes which continue to strangle our society. Therefore those programs and efforts directed towards minority

\*President of the Lewis H. Latimer Foundation, Inc., a publicly and privately funded effort to aid minority businessmen by helping them develop their marketing and sales ability.

business development are viewed as a "dole" and not as the investment in America which they really are. One must truly understand this climate before any constructive development can take place.

A great deal of controversy has arisen recently over efforts of the Federal Government to assist the development of minority enterprise. Sparked initially by the civil disorders of the mid-1960s, "Black Capitalism" programs were highly touted as the way to give minorities an economic stake in the survival of their own communities.

Today, however, the pressure for such programs has eased. The cities are quiet and other issues have taken precedence over those loosely labeled "civil rights." The generally poor state of the U.S. economy has brought into the open resentments and frustrations over government programs which single out minority-owned companies for special assistance.

One of the victims of this change in attitude has been the highly controversial "8(a) Program," under which certain Federal contracts may be taken out of the usual procurement processes and "set-aside" for performance by qualified minority companies. The Administrator of the Small Business Administration (SBA) was given authority to negotiate such contracts by Section 8(a) of the Small Business Act of 1958. However, it was not until 1970 that regulations directed the SBA to use this authority to assist "socially and economically disadvantaged" small businesses. The purpose of the program was to provide potentially successful minority-owned businesses with a relatively stable source of (government) business during their "start-up" years — the period during which more than 50 percent of new minority businesses fail.

There is no doubt that the program has been successful, both in channeling government business to minority firms and in helping those firms to become better able to compete with other companies for competitive government and private contracts. In fiscal year 1975 minority firms received 8(a) contracts worth \$321.5 million, up from \$8.8 million in fiscal year 1969. More significantly, in fiscal year 1975 minority firms won 57 percent of their Federal contracts on a purely competitive basis, while in 1969 only 30 percent were won competitively.

Opponents of the 8(a) Program complain that it gives minority companies an unfair advantage in the scramble for Federal contracts. However, in reality, even with the help of 8(a), minority firms continue to receive far less than their fair share of government business. While minorities own 4 percent of America's businesses, they still receive approximately 1/2 of 1 percent of all government contracts. In addition, contracts awarded under the 8(a) Program tend to be smaller than those awarded in other ways. In 1972, for example, the General Services Administration (GSA) (the largest civilian purchasing agency in the Federal Government) awarded 415 contracts under the 8(a) Program, 72 percent of which were for less than \$50,000.

It is also interesting to note that opponents of the 8(a) Program have not been heard to complain about "sole source" or "negotiated" Federal

contract awards, also made without open competitive bidding. These procurement methods account for a significant percentage of all Federal contracts and pose a far greater threat to "open competition" than the relatively small 8(a) Program.

Minority firms are hardly the only companies that have been given an "advantage" in the Federal procurement process. "Small business" — as a class — also benefits from an SBA set-aside program, and additional preferences are given to companies located in "labor surplus areas" or those hiring hard-core unemployed, graduates of certain training programs, or the handicapped. In all, the Federal Government operates almost 40 social or economic "programs" through preferences in the procurement process.

The 8(a) Program and other Federal efforts to assist the development of minority enterprise must be viewed as an investment in the future economic and social stability of this country. Over the years, we have been willing to commit billions of dollars to the economic development of other nations. Yet there has been no similar commitment to develop our own economic resources within the minority community.

Stable, successful minority companies could contribute much to our national economic recovery. They are customers as well as suppliers; they are taxpayers, located for the most part in those major metropolitan areas — like Boston — that find their tax base continually eroding; they provide employment for community residents, helping to ease the burdens of welfare and unemployment. And, perhaps most importantly, minority firms are a reservoir of, as yet, untapped talent that could help solve some of our most urgent problems.

Over the past several years, the New England economy has experienced a severe recession that has thwarted the growth and development of most small businesses. However, in spite of these conditions, major accomplishments have been made in this region by a number of minority-owned businesses. These firms have overcome racial as well as economic conditions to make extraordinary strides toward stability and success.

The minority firms in this category cut across a broad spectrum of business activity — from construction and manufacturing to research and development and professional services. They have been awarded large dollar contracts requiring technical expertise long thought to be far beyond the capabilities of minority industry.

Electronics has been a field of major development for minority firms. A Cambridge-based firm currently holds contracts in excess of \$600,000 for the development of unique computer software systems for the Federal Aviation Administration, the Department of Transportation, and the Electronic Systems Division of the United States Air Force. Another minority firm is doing similar work for the General Services Administration and the U.S. Navy. Minority electronic assembly and fabrications firms in Connecticut are manufacturing parts for Federal facilities throughout New England and as far away as California.

Data Signal Corporation, a Watertown company, has designed and developed the most technologically advanced supervisory control systems in the world. A major midwestern municipal gas company has contracted with Data Signal for the development of a completely automated system to control and monitor the status of service to all of its customers. This system is to be one of the largest of its type ever built. Other Data Signal systems have been installed by public utilities in Boston, New Hampshire, and Maine. These contracts alone represent nearly \$350,000 in new business for this minority firm.

Even in the field of construction, where minority firms have long been relegated to the role of minor subcontractors, the picture has brightened over the past few years. Three Boston-area contractors are currently serving as general contractors on projects worth nearly \$2 million, and prospects are good for substantial minority participation in the multi-million dollar Southwest Corridor project in Boston.

Other examples in the service industries are:

- a South Shore-based stainless steel distributor has opened branch plants in Midland, Michigan and Freeport, Texas;
- a cleaning contractor landed an \$800,000 contract to provide services to the Portsmouth, New Hampshire naval facility;
- a minority caterer continues to provide mess attendant services for the entire Weymouth Naval Air Station.

Such achievements have not been limited to black-owned businesses. Firms owned by Spanish-surnamed men and women have also been quite successful. Currently in New England, at least three such firms have gross sales in excess of \$1 million, and three others have sales of between \$500,000 and \$1,000,000.

Why have these minority firms been able to grow and prosper despite the social and economic obstacles in their paths? The programs and policies of the Federal Government have certainly played a role. As the Nation's largest consumer, the government provides an excellent market for minority-produced goods and services of all types—a market that has been tapped with slowly increasing success. Several local institutions also have had confidence in the capabilities of minority enterprise and a vision of the importance of its future role. Harvard University has awarded over \$2 million in business to minority firms during the past year and hopes to increase that amount to \$4 to 5 million next year. Digital Equipment Corporation of Maynard probably has one of the most creative and growth-related vendor programs in the New England region. The First National Bank of Boston has continued to be a leader in making loans to minority firms. Adequate capitalization is an essential, yet often missing, ingredient in the development of successful minority enterprises. This is not to say that other institutions have not taken a similar position toward minority business, but these are the leaders in their respective fields.

While these factors have been important, in the end it is the talent and dedication of the minority entrepreneur that has been and remains the

most important. New England minority firms have performed extremely well on those contracts they have received, and they have earned the confidence and respect of skeptical procurement officials and purchasing agents. For example, the default rate for minority firms on Federal contracts in this region is extremely low — less than 3 percent out of more than 550 contracts. Minority entrepreneurs have also been particularly adept at identifying “growth industries” and creating new companies to meet the demands of these industries. Data Signal Corporation is a prime example of a firm designed to meet the new challenges of energy management and conservation.

Even with the successful completion of major contracts and the growth of a number of minority firms, much remains to be done. The Latimer Foundation, as a catalyst in the process of minority economic development, has seen the emergence of strong leadership and power within the New England minority business community. Mergers, acquisitions, and joint ventures will join new businesses as the next step in the economic building process. In addition, minority firms expect to participate fully in such projects as the New England Regional Bank (proposed by Rep. Michael Harrington of Massachusetts), the Northeast Corridor Railroad Revitalization Project between Boston and Washington, D.C., and the Solar Energy Research Institute. Minority enterprise intends to make its mark in New England.

The present controversy surrounding minority business assistance efforts may well serve to help weed out ineffective programs. It should serve to stimulate a new, comprehensive strategy in the coordination of these efforts. However, it must not be allowed to obscure the clear and continuing need for a national commitment to minority economic development.

If our goal is to save the free enterprise system and have American minorities participate fully, then everyone must be willing to view the investment as significant as that we make to ourselves.

## Summary

This panel was asked to explore some of the fundamental issues and operating problems encountered by large companies in their efforts to increase the number and dollar volume of purchases from minority-owned businesses. Mr. Gooding noted that efforts in the minority vendor area, though highly significant, should not be considered a "panacea" for all our social ills, but rather as one of many activities needed by our society to provide equal opportunity.

Both Mr. Gooding and Mr. Hill emphasized the need to obtain the commitment of the chief executive officer of the large firm as an essential first step in developing a successful minority vendor program in that firm. They also recommended that the company provide every buyer with a clear, quantifiable goal and also let him fully understand that it will be his responsibility to meet that goal.

Mr. Hill emphasized the value of the collective effort of the majority companies in the form of a Regional Minority Purchasing Council. Such a council provides for a more effective means of developing each company's purchasing program by facilitating the exchange of information.

Mr. Royster argued that it is necessary to understand that the almost total exclusion of minorities from points of power in our economic system necessitates seeing the minority vendor effort as an "investment in America" and not as a "dole." He also emphasized the need to continue and expand the governmental 8(a) set-aside contracts for minority businesses.

Mr. Roundtree argued that, from his vantage point as a relatively successful minority vendor, it may ultimately be necessary to have governmentally-mandated minority purchasing performance standards for majority companies. Only if substantial amounts of business are provided for minority owners in the immediate future, will such legislation become unnecessary.

# Minority Purchasing and Vendors: Some Highlights of the Question and Answer Session

## *Question:*

What is the real motivating force behind the vendor program, and is the help provided to minority vendors really different from standard operating procedure?

## *Mr. Hill*

I think that the help, as you call it, really isn't any different from that required in the development of any new supplier. When one decides to broaden the supply base for any reason — competitive reasons, a supply and availability problem, continuity of availability, or whatever — the problems I refer to are common to the development of any new supplier. There is still a saleable attitude in terms of supporting our own (local) community. I think that it is still very saleable. The other point is simply enlightened self-interest. There's value to it. I didn't mention the fact that some companies become more competitive than other small companies with whom we do business.

## *Mr. Gooding*

There are people who like the extra dimension of doing something a bit beyond a relatively narrow definition of their job; they will be turned on by that challenge. The trick is to make it happen to every individual: some people are turned off, too. But I would say that a successful strategy is to get the chief executive officer to say that we're going to do this, in addition to meeting all other management objectives. We on the Board of Directors of the Purchasing Council are constantly discussing how we can get more chief executive officers involved in the minority purchasing effort. A corporation should develop its successful buyers, the ones that are really into the program, and build on that strength, and maybe a spirit of competition will develop within that corporation.

## *Mr. Guscott*

I realize that I am the moderator, but I feel that I have to comment on this particular thing also. And that is to put to bed the idea that a minority supplier needs extra help, that it is imperative that you supply extra help to

all minority suppliers. The fact of the matter is that most large companies in need of a particular product which was not available have in many instances encouraged their present suppliers to go out and find someone with the potential of supplying that product, and they give all possible help to develop that product for their company. So we should remember that it is not only minorities that require this service, and not only minorities that receive it.

*Question:*

How can a majority company ensure a successful program, despite the supposed lack of qualified suppliers?

*Mr. Royster*

One example was at Harvard University, where they specified that a certain portion of the contract should involve minority participation as subcontractors. When the general contractor came in and said, "I'm sorry, we can't find any," the answer was, "I guess you don't want the business." So, the contractor reevaluated his ability and found a contractor who could perform \$2 million worth of work on that contract. In this particular case, the University had to bond the subcontractor because he could not get a large enough bond himself. We believe in the American system, and the American way, but we do want to be part of it. Don't keep us on the outside.

*Question:*

How can you make sure that members of the New England Minority Purchasing Council have a sincere commitment?

*Mr. Hill*

It is the expectation that majority companies that join the New England Minority Purchasing Council will have a sincere commitment and make an effective effort. There is a need to recognize that different companies would make different progress at different rates of speed. Each member of the Council was asked to identify its goal each year and report (to a third party) its performance at the end of the year.

*Mr. Gooding*

We feel that at this stage, it is very important to get large businesses into the system. Some companies are doing very good jobs in terms of dollar purchases and in the rate of growth of dollar purchases from minority businesses. There may be a few firms that will get a relatively free ride as members of the Council. However, on the part of the Board of Directors, we feel that there should be a sincere commitment over time. In three or

four years, the Board will review members who are not participating in the full sense of the word in Council activities. There are ways other than seeing the numbers to know how effective a company's program is. There is an informal grapevine and the Council does get feedback from minority vendors. We have an Advisory Board of minority vendors and while the system is not perfect, it's a lot better than the efforts we were making a few years ago.

*Mr. Roundtree*

The Purchasing Council does not care where a firm starts, but only wants to see, in time, how much progress it is making.

# Minority Involvement in the Construction Industry and Urban Mass Transit

Talbot DeG. Bulkley, Moderator\*

Our first speaker, Mel Barkan, comes to us with wide experience. In addition to wide professional experience he has taught at MIT and at the United States Army Training School, and has lectured at the Boston Architectural Center. He is president of the Barkan Construction Company in Brookline.

Mel A. Barkan\*\*

In attempting to talk to you about the role of minority groups in the construction industry, I think perhaps you should understand the perspective from which I speak, because only with that understanding can you appreciate the narrowness of my comments. I am in the building construction business — and what I am about to say really has to be taken that way.

In looking at the question of minority roles, it seems to me that there are two issues: opportunity on the one hand, and implementation on the other. The question of opportunity must be subdivided into opportunity for individuals and opportunity for minority businesses and corporations. In the instance of individuals, the impact of Federal funding through the Department of Housing and Urban Development, and in particular through the Federal Housing Administration, has implemented programs like the Boston Plan — controversial and acceptable or not, but in any event plans which are aimed at some form of quota system. These quota systems establish minimum statistical bases for achieving some level of minority involvement. I find that the quota system as a goal or target has some limitations as well as some real advantages. To mention one limitation, setting and achieving *realistic* goals is extremely difficult.

It is easier to set up a program. For those of you who are involved in establishing criteria, you must take into account as many factors as possible to make the criteria realistic. In that regard, I think that a local agency which does an outstanding job is the Massachusetts Housing Financing Agency. It is close enough to the local situation and is able to deal with

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each problem on an individual basis, and it can encourage many of the minority utilization commitments and the goals that are implicit in those areas. Overall — I recognize that not everyone will share my feeling — I think that the construction industry is making good progress in terms of minority hiring, and, under the existing pressures and programs, will continue to make better progress. It has not been easy. For instance, on occasion unions have been difficult to deal with. But interestingly enough, my own experience has been that they can and will come to grips with the problem if you take a strong enough position.

The question of opportunity for minority business is a wholly different one. Several agencies in this area are effective, including the State Office of Minority Business Assistance (SOMBA), which is a very good source for the identification of qualified minority subcontracting firms, from the standpoint of both the purchaser of construction services and the end user. Clearly, the outstanding issue that we all face is where or how do you find people who can and want to undertake this work?

Once you have established a program for minority utilization, either in terms of manpower or in terms of entrepreneurial efforts, the question is implementation. And there I think no matter how many programs have been formulated, none of them comes to grips with the fiduciary role that some of us must play in these activities. The general contractor particularly must play a fiduciary role, because the issue of dealing with a minority subcontractor or a minority general contractor is no different from dealing with other young businesses. Basically they all exhibit the same characteristics. And when I say "all," I mean white or black, Spanish-speaking, American Indian, or any other majority or minority new company. They all have the same difficulties. Do they understand the job? Does their price make any sense in relation to the competitive marketplace? Do they have adequate experience? Particularly, do they have adequate experience in the area of management activities? In my view, this is the area of greatest weakness in the present system and in the present programs. I personally have not found any programs which really come to grips with training managerial people to operate a small company. I think that this program should not be left to the EEO officer of a company, or to the purchasing department of a company. Middle management or upper management, either of the end user or of the general contractor, must provide the minority business with additional management input to insure a greater degree of satisfaction on everyone's part.

Greater involvement on the part of minority businesses, as in Mr. Salvucci's aspirations, I think, is going to produce some problems. I don't know that it is reasonable or feasible to achieve minority involvement beyond the existing network and capabilities of the companies. I think it will force us to go outside the area to seek larger and larger companies.

Clearly the role of corporate sureties is an area which has to be examined. My own feeling on that subject is that responsibilities in the total program have not been recognized to date. It has not been possible for

small minority businesses to achieve or produce payment and performance bonds in the same way as the rest of the community. Until the responsibility and risk inherent in doing business with any new business is accepted, there will not be great progress toward the involvement of minorities. All the resources are available. The only question is how to put them together in a little more comprehensive package than currently exists. In our own company, we have tried to bring some of these elements together, and can claim varying degrees of success.

### Mr. Bulkley

Our second speaker will be Fred E. Salvucci, a name familiar to us in the Commonwealth of Massachusetts, where he is Secretary of Transportation and Construction. He has also served the City of Boston as Executive Assistant to the Mayor on Transportation and in other positions, and has been a transportation planner for the Boston Redevelopment Authority.

### Frederick P. Salvucci\*

I would like to review briefly some of the activities we have undertaken within the transportation agencies, and throw out a couple of thoughts that we may be able to come back to in our discussion. Within the transportation agencies, we adopted minimum minority hiring requirements in all construction contracts. I realize we are talking here about minority business opportunities, but I think that a reasonable strategy toward getting a much higher level of minority participation in construction must realistically begin with the work force. So I think that the minority requirements in state and also in city construction contracts at this time are very important as a first step toward an integrated construction industry.

About a year and a half ago some fairly extended negotiations took place between the black community and the majority union representatives and principally white construction contract interests. They reached the presumed agreement that 30 percent of the jobs in the so-called impact area — in those portions of the City of Boston particularly where more than half of the people are either black, Puerto Rican, or of Spanish surname — should go to minority persons within each trade; that in the remainder of the City of Boston, 10 percent of those jobs were to go to minority persons, and in the remainder of the metropolitan Boston area, 5 percent of the jobs. Similar provisions were established for other areas. Those numbers had been agreed to as goals. What we did was to write them in as requirements. We took the attitude in state government that if

\*Secretary, Massachusetts Executive Office of Transportation and Construction

people were serious about this, there shouldn't be any problem writing numbers in as construction contract requirements, and that's what we did. So far, by and large, the numbers have been exceeded on most of the contracts that we have been implementing. So the numbers that we have been dealing with don't seem to be a terrible problem.

There are some problems in implementing the provision that these numbers ought to be respected trade by trade. Quite typically it is easier for contractors to comply in the so-called categories of laborers and carpenters than in other trades such as electricians or heavy equipment operators. I guess one of the things that I would like to throw out for thought is that that problem is less significant in reality than on paper. We are committed to those percentages, and we are implementing them. But by and large, in terms of paychecks into people's pockets, the largest number of workers on any construction site tend to be laborers and carpenters. The easier jobs and higher-paying jobs tend to be the equipment operators and electricians. For psychological reasons, I think it's important that we implement these requirements on all of the trades.

In terms of the goal of getting the largest number of minority people into decent jobs, the laborer and carpenter jobs certainly should not be looked down upon. They are good jobs, they pay well, and they are a good way into the construction industry. By and large, in those trades it is possible to exceed the minimum requirements now being written into the state contracts, and I think that is an aspect that ought to be looked at very carefully. I think an intelligent strategy to getting a better foothold in the construction industry should take advantage of the fact that it is possible to do better than these minimum requirements in these trades, and not look down on them because they may not be as well-paying as the electricians' jobs. In terms of numbers of jobs, that's where the bulk of the jobs are. And again, they are good-paying jobs.

The second major effort that we have been making, which is more recent, is to put specific requirements for the involvement of minority contracts into our construction contracts. The Massachusetts Bay Transportation Authority (MBTA) has a 30 percent requirement on a job which involves rehabilitating some stations on the Orange Line in Jamaica Plain and Roxbury. That job has gone reasonably well in terms of meeting the terms of the contract, which requires that 30 percent of the dollar volume of the contract be subcontracted to minority contractors. From that experience, and in response to the continual pressure from the community — which I think is a reasonable pressure — to expand this precedent, we have written into several Department of Public Works (DPW) highway contracts — I think the number is five at this time — rather small minority contract provisions, roughly 2 to 4 percent of the dollar volume of the job. We have written into one MBTA job, the so-called South Cove Tunnel, which is the first piece of the Southwest Corridor, the requirement that 30 percent of the dollar volume of that job either be subcontracted out to minority subcontractors, or somehow put into the hands of minority con-

tractors. When I say, "somehow," the other possibility in our view would be a joint venture, which would bring in a minority contractor to the tune of at least 30 percent of the value of the job.

I would now like to comment a little on the difference between the approach taken at the DPW and the approach taken at the MBTA. Before I do that, I would point out that each of the steps that I have talked about has been accompanied by lawsuits, trying to stop us from doing these things. My predecessor was sued when he first set in a significant way minimum employment requirements on a state job at a state college; we won that suit. When we went to the 30, 10, and 5 percent provisions, there were further suits. We also won those. We are now being sued on the DPW and MBTA minority contracts. I hope we will win those. But each one of these steps is met with considerable resistance and I think that is something people should keep in mind.

The differences between the DPW and MBTA approaches, I think, are of some interest. In the case of the MBTA, the job is a part of the Southwest Corridor job, which is principally located in the minority community of Boston. At the MBTA, rather than dealing with small set-aside numbers of roughly 2 to 4 percent, as we did with the Department of Public Works, we tried to write in a 30 percent requirement. We have not yet succeeded in opening the bids on that contract, because of action taken by the white construction community in bringing pressure to bear on the Federal agencies. Since I have indicated it was the white construction companies which took us to court and have filed certain procedures, I suppose I should also note the fact that the U.S. Secretary of Transportation is black. We have not yet received approval to open the bids on that contract from either the Secretary of Transportation or his agency; his agency in this case is run by an Italian — if we're going to go along with the ethnic thing — named Petrocelli, at the Massachusetts Transit Administration.

I guess what I would like to comment about is the question of whether this is a reasonable approach. I'd like to say, as someone who has worked in the construction industry and someone whose father is a subcontractor, that I really don't like this approach. I think that minimum requirements concerning minority subcontractors are really a bad thing. I think that I can fully understand the frustration that white subcontractors feel, because they generally believe they don't have much control over their own destiny, and tend to get bounced around by the generals. In a construction economy which is very slow, as it is now, I can fully understand that; in fact I see every morning over coffee with my father the frustration that the white subcontractors are feeling with the general lack of work. Even though I don't like this approach to the problem, I am trying to carry it out, and I am committed to carrying it out, because I don't see a better approach. And I think that if we are serious about achieving an integrated construction industry and we don't have better ways of doing things, we have to deal with the methods at hand. I am not going to try and pretend that there aren't disadvantages to these methods but they are the best way that I have seen to get some movement.

The speaker before me raised the issue of whether 30 percent is excessive, and whether it can be met locally. I'd like to say that I don't care whether it can be met locally. There may be American Indians in this room but there aren't many, and just about everybody in this room came here from somewhere else, or at least their families did. Particularly in the construction industry, people move all over the map in order to go into jobs. My family wouldn't be in this country if it hadn't come to America to help build dams and roads and the rest of it. So I don't see any problem at all that the 30 percent minimum requirement might not be met locally, but might be met by a minority subcontractor who comes into the state. What we are after is an integrated construction industry. I don't see any more problem with a minority subcontractor coming in, if that's the only way to meet the need, than there is with the Perini Corporation of Massachusetts going to Washington to help build the Metro in a city which is predominantly black. That's not very political, but since that's being hinted at, I think we might as well bring it out into the open. I see no serious problem with that. Or rather I do see some problems, but again I don't see any better method of integrating this industry, and if somebody doesn't come up with a better method, we'll try to do it that way.

I want to mention another point and then I'll stop so that we can get on to some dialogue with people from the floor. I think it's very important that people in the minority community think about institutionalizing what we are getting right now. The methods that we are using to integrate the construction industry are creating a lot of opposition. I don't think that it is productive or truthful to characterize the people who are in the opposition as racist or anything else. Unemployment in the construction industry is very high. It reaches 50 percent in some trades. That the white construction workers are out of work has nothing to do with race. They get very upset with minority set-asides which they view as keeping them out of jobs. Realistically you have to recognize that this situation creates pressures. I think the way we are handling the minority subcontract question is something that generates a lot of opposition and I think it's unwise to base a long-run strategy on continuing these tools, particularly when we recognize that they aren't very good.

I think there are two ways to deal with that. One, as a larger political strategy, I think that everyone, white and black, with any interest in the construction industry has an interest in seeing more dollars go into the construction sector and particularly into the cities, so that there is less tension in the situation as we try to accomplish integration in this industry. And second, I think it's important that those minority people who are already in the business be very careful to try and institutionalize themselves. For one thing, I think that there's a real danger when people try to go beyond their capacity and try to grow too fast. There will be political pressures, even from people like myself who are trying to meet these numbers, to say "grow a little faster, because you can handle this job." That's a real mistake. Don't bite off more than you can chew! If it means that we have to do something politically unpopular, like depending

on a contractor coming in from out of state, that's not the end of the world. It will be worse to have contractors grow faster than they are capable of properly handling the work, because then nothing solid has been built. And a year from now when you are trying to compete with a white contractor in some other part of the city or the region where there are no set-asides, you won't be able to get the job.

So I think it's very important that people clearly understand their own current capacity and their own capacity for growth and try not to exceed them, which is a tough thing to do. The other thing, and this goes back to the luncheon speaker a bit, is that it would be very wise for minority businesses, to the maximum extent feasible, to try and get work outside of the impact area, to test themselves in competition with the white construction interest, and to do jobs in places such as Arlington and beyond Route 128. And as quickly as possible, institutionalize into the majority framework, because that's the world that you are going to have to compete in, if the base that we are building is to achieve any stability.

### Mr. Bulkley

Ted Landsmark is presently the Executive Director of the Contractors' Association of Boston. His many other jobs have included teaching and research at Yale University, both in political science and in architecture.

### Theodore C. Landsmark\*

I want to spend just a moment talking about what the Contractors' Association of Boston (CAB) is. CAB was set up in 1965 as a trade association, very much like the Associated Builders and Contractors for non-union contractors or the Associated General Contractors for unionized contracts, or the construction industry's organization for people in the horizontal construction trades. At that time it was set up like most other trade associations. It was supported by a dues structure and members elected a Board of Directors, or did for the first four or five years. It did the kinds of things that most trade associations do and served as a benevolent society.

Back in the very late 1960s or early 1970s, the proposition was made that it might make sense to have a professional staff on board to assist the contractors. Since the base from which the minority contractors were working was smaller economically than the base of other organizations, the contractors clearly were not able to purchase the expensive services of people like myself, or an estimator, or other persons on the professional staff. So proposals were written. CAB was initially funded through the

\*Executive Director, Contractors' Association of Boston, Inc.

Ford Foundation and Model Cities and EDA, and more recently AMBDI, to provide a technical assistance program to minority contractors in the greater Boston area. Because my background is in architecture, I review contracts and do a lot of procurement work. We also have a full-time staff estimator, and a full-time financial manager who is probably the only person in the greater Boston area who has worked for the past six years full-time doing financial management exclusively for minority contractors. We have what I believe is a very professional staff which works with a number of other technical assistance programs in the area — the SBDC and the SBA and the people at the Urban Finance Office of the Federal Reserve Bank — to provide overall technical assistance to minority contractors.

Early on, after I had been with CAB approximately two and a half years, despite all of our best efforts to get all contractors on an equal competitive footing, it was clear that minority contractors had intrinsic problems which prevented them then and now from entering the mainstream of the construction trade without some other incentive being provided. Minority contractors by and large, for example, tend to be located in minority communities. Overhead is higher; insurance, bonding, and construction management services are all more difficult to obtain. Once minority contractors are on the job, they tend to have a somewhat higher commitment to training programs, which means that they tend to do their jobs less efficiently. Other kinds of social pressures are brought to bear on minority firms which many other small businesses don't have. So it was clear to us that minority contractors were not going to be able to compete absolutely equally — particularly not in Boston, although possibly in Atlanta, New York, or Detroit. Maybe they would be able to in New Haven, where the minority population has had a more substantial effect on the political and social community than has been the case in Boston. But particularly not in Boston.

So we started to look at some incentives to getting minority contractors more directly into the business. Among the incentives that seemed to be logical was the so-called minority contract, the set-aside provision — the provision in a contract which requires that the authorities award a certain percentage of the job to a minority firm or firms. I am no longer so naive or idealistic as to believe that I ought to love minority firms just because they are minority firms and that one ought to love minority firms as such. I have been taken to the cleaners by some of my own people. But I also have to remember that I haven't been treated any worse than I was by white construction companies when I worked for a prestigious law firm at 225 Franklin Street.

What I am saying is that on the surface, there isn't much that makes me want to go out and say that we ought to do this for minority contractors, except for one thing. And that is that minority business people in general have tended, in Boston and elsewhere, to do something that no other businesses are doing. And that is, assuming that they are making a profit, they have tended to put their profit back into the minority com-

munity in ways that other business people do not. A contractor, for example, who makes a 10 percent profit or an 8 percent profit, or whatever, on a \$500,000 job, is more likely to use those profits in the form of local economic development, in a way that no one else has. White contractors come into the area, make their profits, and tend to take them back out to the suburbs. Minority business people attempt to spend their profits back in the minority community, but unfortunately profit margins tend to be tighter than in most construction. So minority contractors tend to take their profits and plow them back into the community in a way that makes me want to work for them. That determines some of our policies, when we try to figure out whether we ought to move in one direction or another, vis-à-vis these set-asides.

The bottom line on the major set-asides that we have worked on is that half of the subcontracts on given projects have to be awarded to minority firms, and half of those contracts have to equal no less than 30 percent of the contract price. These figures are larger than we have seen anywhere else in the country. They are larger figures than those I think Ken Bolton will talk about, but I hope we can get him to talk about our figures rather than his. They are figures which have been applied, in my judgment, with phenomenal cooperation by the transportation agencies of the Commonwealth. I can't say enough good about what Fred Salvucci and his staff have done to make this work. And they have also been applied in a couple of other agencies. The City of Boston also has these figures, although it hasn't bothered to implement them. The Boston Housing Authority and the Metropolitan District Commission both have these figures. Presumably these figures now have some kind of validity, because they have been applied in situations across the board in a number of different agencies.

In our judgment it's a good bottom line, and we are trying to get those figures applied not just to construction, but also to planners, developers, lawyers, and other people who are involved in that process. The difficulties that we have had are related not so much to the concept, although the legal arguments raised against these kinds of programs usually relate more to the conceptual aspect of the set-aside than to the pragmatic aspect; the problems have related, for example, to difficulties in deciding what a minority contract is in the first place. Some agencies have taken a very fast and loose position on that, and have simply said any company that can demonstrate that it is owned by minority persons, or 50 percent of its stock is held by minority persons, is a minority firm. We have rejected that definition at CAB and in some of the other agencies, because that tends to lead to the establishment of a number of corporate straws, shells, or front organizations which can clearly demonstrate ownership in the hands of minorities, but cannot demonstrate control in the hands of minorities. All of the projects that we have worked on have what are known as liaison committees — committees made up of representatives of the community and professionals, as well as members of the

agencies, unions, and other trade associations — and these liaison committees often have the not particularly popular task of determining whether a company that offers itself as qualified to do work under the terms which have been set aside can actually do the work.

We have run into a lot of serious opposition, mostly on the part of unions or trade associations representing primarily nonminority contractors. Even though they may represent only a few nonminority contractors, those trade associations have taken a very strong line against what it is that the community has asked for in these situations, what it is that the State Department of Transportation has been willing to cooperate on, and what it is that CAB and SOMBA and other groups have been willing to work on. We are sorry that those associations have done that, because we hoped that we could sit down at a table and work out these matters and develop some ways, short of set-asides, perhaps comparable to set-asides, that would permit us all to start cooperating here and now to really make sure that minority contractors have a piece of the action. Unfortunately, many of the overtures we have made to white construction trade associations have been rejected on a variety of levels. Instead of people sitting down and talking to us, they sue us, or they sue the State Transportation Agency, or someone else. Despite our hopes for settling our disputes by a dialogue, what tends to happen is that the professionals go at each other in the courts, but we all really know what's going on.

### Mr. Bulkley

We've heard from representatives of the construction industry and the Commonwealth of Massachusetts. Now I'd like to introduce Ken Bolten, Executive Director of the Minority Business Resource Center at the Federal Railroad Administration.

### Kenneth E. Bolten\*

I am delighted to be here and to participate in this very innovative undertaking on the part of the Federal Reserve Bank of Boston. I am going to talk about what I consider a very innovative new national program of assistance that we implemented in the Department of Transportation. The government is now becoming involved in the railroad industry and has developed a program of assistance that I believe can be a model through the Nation, and certainly for major Federal involvement in other industries. I would like to mention just briefly some of the aspects of the new legislation referred to as the 4R Act — The Railroad Revitalization and Regulatory Reform Act of 1976 —, its scope and intent, and then talk about some of the programs that we are developing at the Department of

\*Executive Director, Minority Business Resource Center, Federal Railroad Administration

Transportation, pursuant to the provisions of this new Act, and new steps taken by the Congress.

The Railroad Revitalization and Regulatory Reform Act of 1976 enabled seven bankrupt railroads in the Northwest and Midwest to be reorganized to form the Consolidated Rail Corporation (CONRAIL), into which the Federal Government is authorized to invest \$2.1 billion over the next four years. Also included in the total of \$6.4 billion authorized by the 4R Act is \$1.75 billion for upgrading intercity rail passenger service in the Northeast Corridor between Washington, D.C. and Boston. This project, now referred to as the Northeast Corridor Improvement Project, is administered by the Federal Railroad Administration of the Department of Transportation. Other provisions of the 4R Act include: (1) Title V, which establishes a program of financial aid for railroads through an authorization of \$1 billion in loan guarantees and purchase by the Secretary of Transportation of up to \$600 million in "redeemable preference shares" issued by qualified railroads, and (2) Titles II, III, and IV, which modernize organization and procedures of the Interstate Commerce Commission.

This authorization of funds for the rail industry is a first step toward revitalizing our Nation's railroads, and Sections 905 and 906 of the 4R Act will open vast new business and employment opportunities for minorities. Secretary of Transportation William Coleman, in opening the DOT National Conference on Minority Business Enterprise on July 28, 1976, stated ". . . I have no intention of spending \$6 billion without making sure that minorities get a piece of the action." The Secretary was simply reiterating the intent of Congress, as made clear in Sections 905 and 906 of the 4R Act. Two months later the Secretary issued a policy directive committing the Department to spend 15 percent of the funds authorized for the Northeast Corridor with minority businesses. In doing so, the Secretary was aware of the chronic unemployment in major cities along the Corridor and the need to open new markets for qualified minority contractors, manufacturers, vendors, and professional and support services.

The combination of Sections 905 and 906 of the Act is unprecedented. Section 905 prohibits discrimination based on race, color, national origin, or sex in the economic benefits derived from projects and programs funded by the \$6.4 billion financial-assistance package authorized and all other rail acts amended by the 4R Act. Section 906 requires the Secretary to establish a mechanism within DOT to provide minority business and entrepreneurs with the financial, management and marketing assistance they need to perform competitively as suppliers and contractors in the marketplace of the railroad industry. Significantly, this mandate represents the first enactment of Federal legislation in support of minority business enterprise. (The Small Business Administration's Minority Enterprise Program was established by an agency policy directive, while the Office of Minority Business Enterprise program was established by Executive Order.)

The 4R Act authorized boldness and innovation in approaching the

Nation's rail program and Section 906 did no less for the problems of minority business enterprise. In effect, Section 906 authorizes an integrated approach for assisting minority-owned businesses, an approach that analyzes and responds to all aspects of required assistance. The Minority Business Resource Center (MBRC) is authorized to provide assistance for obtaining all three Ms essential to successful operation, i.e., money (or capital), management (assistance), and markets (business opportunity development). Minority businesses generally have not had access to such integrated business assistance services to aid participation in a single industry. The ability to provide this integrated service is the key factor that distinguishes the MBRC from all other minority business enterprise programs. Since there are, however, other programs to assist minority-owned businesses, the question may be raised, why the need for an MBRC to support minority business involvement in the railroad industry.

First of all, it is important to recognize that the integrated service concept embodied in the MBRC is but one more step in the evolution of national efforts to stimulate minority enterprise and has been urged for some time by minority business advocates. More specifically, the size of the railroad industry's marketplace, the decision of what a reasonable share of that market would be as well as an awareness of the fact that minorities cannot acquire a "reasonable share" without considerable assistance, makes the integrated service approach of MBRC necessary.

Now for illustration only, I am going to use some numbers and percentages. Although in my opinion these numbers and percentages are reasonable, they in no way reflect an MBRC position of imposing market share quotas on an industry already in enough difficulty. That is not the MBRC approach. At any rate, and again for illustrative purposes only, consider the fact that the dollar volume of goods and services purchased annually by the railroads to sustain operations is about \$3 billion. Add to this the annual capital investment needs of the industry; numerous services, including the Association of American Railroads and DOT in its 1972 National Transportation Report, indicate annual estimated capital investment needs of about \$4 billion. If minority business could capture just 10 percent of the operating expenditures of the railroad industry and 5 percent of the capital investment expenditures, then the annual market potential for minorities in the railroad industry would amount to half a billion dollars.

To appreciate the magnitude of this market potential, consider that 26 Federal agencies purchased 20 percent less than this amount from minorities pursuant to 8(a) contracts during the 1975 fiscal year. The resources of the SBA and OMBE used in support of the 8(a) program, as well as the general needs of minority businesses, could not possibly be stretched to handle this new dimension of the rail industry. This large potential market share in a single industry, coupled with the fact that most minority-owned businesses would be entering into the market for the first time, clearly establishes the need for the MBRC to provide a level of

resources adequate for facilitating entry without undue cost to the railroad companies.

Thus, as the railroad industry regains its competitive position and profitability with the aid of Federal financial assistance, it can also make a significant contribution to another sector of our economy in which there is much public interest — “Minority Business Enterprise.” Translated, this means that using minority vendors capable of competitive performance (in terms of price and quality of product or service) should be a common objective of the railroad industry and the Federal Government.

It is essential to note the stress that I place on “competitive performance.” As a part of the Federal Railroad Administration and therefore sensitive to the problems of the railroad industry, the MBRC cannot afford to promote the use of minority vendors who cannot become competitive in providing goods and services to this industry. Our role is to promote those who are competitive, and to assist by every means possible those who are not to become so. Without intending to sound harsh, I must be unequivocal when I state that the MBRC program *will not work* for minority businesses that, with our assistance, cannot become competitive in their performance.

This probably distinguishes the MBRC somewhat from other minority business enterprise programs. There are still other distinctions I would like to cite in closing. These distinctions are based upon the mandate to innovate and upon our assessment of what has worked and what has not in the past, in assisting minority businesses to overcome the effects of racial economic discrimination and to gain entry into our American free enterprise system. These distinctions are in the areas of financial assistance, management assistance, and marketing or development of business opportunities.

#### *Financial Assistance*

The MBRC will support and use existing financial assistance programs that adopt standards for developing financial packages for their clients comparable to the standard financial analysis ratios and practices used by commercial lenders. In addition to these ongoing programs that are generally limited to providing assistance in obtaining working capital and a limited number of term loans, the MBRC must establish new programs for providing equity or venture capital similar to that provided the railroads under the 4R Act. The MBRC might find it necessary to request a 25-year loan in an amount up to, say, \$25 million from the Federal Government to establish a MBRC venture capital corporation. The venture capital corporation could then invest in and establish new financial assistance programs to aid minority business and entrepreneurs capable of performing competitively. Similarly, on the subject of surety bonding, MBRC recognizes the need to assist in arranging for performance bonds for minority contractors of proven competence and for some not yet so

well established. With industry participation we will try to develop programs flexible enough to arrange this.

#### *Management Assistance*

The MBRC has reviewed recent evaluations of efforts to assist minority-owned businesses to strengthen their management capability. Perhaps too much effort has been expended on individuals and businesses that do not have the capacity to develop into well-managed and -operated businesses. As the Office of Management and Budget noted in its 1976 Interagency Report on Federal Minority Business Development Programs, “. . . much of the assistance resources have been devoted to trying to save firms that are terminal cases, rather than targeting efforts to try to establish businesses which will be able to compete without continued assistance.” The MBRC will therefore seek to make certain that the individuals and businesses assisted do have this capacity. Equally important, efforts will be made to identify entrepreneurs of demonstrated competence who are willing to share risks with others in setting up new ventures. In this regard, we will encourage joint ventures and mergers where appropriate, to overcome the diseconomies of small-scale operations that most minority businesses confront.

#### *Marketing (Business Development)*

A review of SBA's operation of its 8(a) procurement program shows greater emphasis on the number of firms helped than on the dollar amount of each award. It can be argued that the common interests of the MBRC, the minority business community, and the railroad industry itself would be better served by assisting, on a priority basis, those firms that are at a near-competitive status so that they can graduate early with a clear record of demonstrated competitive performance. The more firms that graduate and are able to perform competitively without our help, the more likely it is that we will succeed in expanding minority business participation throughout the railroad industry.

In conclusion, the MBRC is opting for a more innovative, and yet a more conservative, approach to minority business enterprise development; not only because we have a mandate to do so, but also because we believe that this approach will yield better results. We feel that “we have a better idea.”

## Construction and Transit: Some Highlights of the Question and Answer Session

*Question:*

I'd like to address my question to Secretary Salvucci and Mr. Bolton. There's a lack-of-resource problem in the Commonwealth, I think, in terms of what we've seen on projects already undertaken with some of the Southwest Corridor people. Regardless of how we want to involve contractors, there is difficulty in delivering "technical assistance, managerial assistance, and bonding. . ." I think SOMBA, even for what it is, is too small for the operations that are coming down the line — \$800, maybe even \$900 million worth of construction work. At the same time, I see the Federal Railroad Resource Center has some of those kinds of technical assistance. But the upgrading of the Northeast Corridor in Massachusetts is going to be undertaken simultaneously with the construction of the Southwest Corridor and the relocation of the Orange Line. It looks to me as if it will probably be the last piece that will come on line, so elements will be under construction and may even be under design now, much in advance of the Federal Rail Center's ability to deliver or anticipate what contracts will be coming down the line. Could both panel members speak to this problem of coordination in the construction of the projects, and is there a way of "kicking-back" in the resources of the two so that contractors participating in set-asides in the Southwest Corridor project would also have access to the kind of technical assistance that the Federal Railroad Administration projects would have to offer.

*Mr. Salvucci:*

One reason that we are handling the contract with the 30 percent minimum minority contractor participation on the so-called tunnel is that we hope to learn from that how well we can make it work. But also we are hoping to tap the ingenuity of the private sector in doing a lot of training. What we are trying to do is to structure a situation in the competitive bidding so that established majority contractors would see it as being in their interest to help get other firms established so they can compete more effectively. I feel that the best kind of training tends to come from people who are in the business, more often than from resource centers. On the other question, since it's not our resource to share, obviously I hope it is shareable, but I really look to the private sector to get the benefit of that expertise, and hope that the majority contractors have a real incentive to do that kind of thing.

*Mr. Bolton:*

As to the first part, the coordination and timing of the Northeast Corridor project, three weeks ago we let the contract to the architectural and engineering firm that's going to do the overall planning for it and carry out some other activities. It is a majority firm. It is a consortium of 19 firms as a matter of fact, seven of which are black. For the next five months they will set the overall master schedule for the Northeast Corridor, and after we have approved that sometime in the early summer, they will then start to develop work packages for detailed engineering and design work and sometime near the latter part of the summer, some construction work will start. So, in terms of timing, today we are approximately eight months from the beginning of construction, and even when it begins, it will be in small dribbles, but it is scheduled to peak in 1979 and 1980. So there is time for planning and coordination. Certainly in order to achieve these goals it would be our intent to coordinate all projects in Boston and not only for Boston but also other projects along the Corridor that we need to tie in with.

I must say that in the question of management and technical assistance to minority contractors, the Congress perhaps is a bit ahead of some of the other programs in place, like your own Southwest Corridor program. Now at the resource center we will not attempt in the least to replace the kind of training and technical assistance that prime contractors and others can provide. We fully expect to rely on them for training and technical assistance. There's another element of cost that our program is designed to respond to, because in the last five to ten years that I've been associated with these matters I have often heard the industry "profit types" talk about the added burden of dealing with minority firms, either finding them, or all the protean activities that are necessary to bring them up to compete. I don't know of an industry yet that has volunteered to accept that responsibility, and it is that responsibility that the Minority Business Resource Center is designed to carry out. It is a real cost factor. We are doing those things that are necessary to bring the minority businesses up to a point where they can compete, those things that the industry is normally amenable to doing, but we will not get into training or technical assistance.

*Question:*

I have a question about technical assistance for future services that you are going to provide. Are you going to have lawyers, accountants, and estimators on your staff or are you going to hire people on a consultant basis to assist the contractors?

*Mr. Bolton:*

We plan to use consultants. In order to provide technical assistance, we are going to need all the possible resources that can be brought to bear.

While program activities will be developed in Washington, the opportunities must rest with the minority businessmen in the community, and therefore the support that they need also should be found in the communities themselves. So we are not going to try to run any massive program. I probably will never hire any more than ten people, and I have them all coming on board in the next five months. It is my thought simply to keep the program out where the opportunities are. We hope to do a lot of contracting with professional groups and others to ferret out the various services that are needed. That whole mechanism has not yet been defined. We have been utilizing the National Business League in a contract to identify and pull together city by city, to provide the kind of assistance that is needed. It's going to vary, but the economic benefits mentioned in the Act go through the full range of business opportunities. That includes bank deposit programs, utilization of CETA funds, insurance funds, you name them, vendors as well as contractors. So when we look at the business opportunities, we are looking at a total industry. We are talking about the railroad industry, and therefore we are talking about all goods and services that are purchased by those carriers. To the extent to which they are receiving financial assistance, they are required by law to furnish me with information on the services that they purchase and that information will then be made available generally to the minority business community.

*Question:*

I would like to address a question to Secretary Salvucci. The primary thrust of this meeting on minority participation has been, of course, the construction aspect. I was wondering whether your office has addressed the problem of architectural and engineering services and participation in these federally funded programs such as the Southwest Transit Corridor and employing consultant civil engineering firms, with each firm being part of the design team. If so, has a percentage been applied to this part of the service, such as the 3 percent participation for minority contractors in the construction field? Has any similar consideration been applied for A & E services?

*Mr. Salvucci:*

Minority firms have been encouraged to participate for architectural and engineering contracts. I don't believe we are ever going to have a percentage set-aside. But on the Southwest Corridor, for instance, I believe that each station will be done by a team, and a minority professional firm will participate in the team. So we are interested in encouraging minority participation in the professional areas, but we have not gone to the extent of percentage set-asides on those contracts.

*Question:*

I would like to ask Secretary Salvucci why 30 percent was established on the very sophisticated MBTA South Cove tunnel in Boston, when 10 percent is the figure used for the set-aside on this kind of work in Washington, D.C. and other places where there are larger black communities which have had the opportunity over the years to develop companies that can handle this kind of heavy construction work. Also, why 30 percent for Boston when it is also one of the most construction-depressed areas of the country? And finally, why make the figure so high that it becomes frustrating and impossible for those who would like to help. We would really like to help, but it is very difficult to make instant sophisticated heavy construction contractors.

*Mr. Salvucci:*

There are a couple of things that come to mind. One is that the black population in the City of Boston is getting close to 30 percent. I think it's over 25 percent. Another thing I could say is that we hope that the contractors will really work at meeting the 30 percent in the bidding. But earlier Ted made the remark that one of the major things about minority as opposed to majority contractors is that they have a higher propensity to reinvest in the black community. It is therefore a real benefit from the point of view of minority communities for minority contractors to get this work. In addition, there's value per se to having an integrated construction industry. My family has been in construction for three generations and more, certainly since we have been in this country. I, myself, served an apprenticeship in the building trade. And one thing I know is that every person who has ever served an apprenticeship in the trade is convinced that he is being persecuted and discriminated against. Now some racial prejudice may be involved in the way majority contractors treat their minority workers. But certainly the way the construction industry treats apprentices and laborers and the last guy hired is enough to convince you that you are being persecuted, whether or not there is a difference in ethnic background or anything else. There is a value in having a mixture of the kinds of people that are running construction projects. That value exists whether the minority contractors reinvest in the minority community, or whether they choose as a strategy to invest out in Arlington, say, as the speaker at lunch suggested, because that diversifies their investment better. I think there is a value in an integrated business community.

Why 30 percent? It seemed like the reasonable number to try. There is language in those contracts, as you know, that allows the low bidder to get the job if he has made very serious efforts and has come up with 25 percent, if the liaison committee reviews those efforts and the contractor comes in with a valid case that he has really done his best. If the liaison committee can verify that and more important than the liaison committee, the

MBTA, which is the awarding authority, agree in the judgment that the contractor has really made his best efforts, well then we won't make the 30 percent. However, I really hope we can make the 30 percent. I think it's a reasonable goal. But the language is flexible, as long as contractors are willing to meet a very tough test, in working with that liaison committee and satisfying the MBTA that very serious efforts were made. I think that we can meet the 30 percent. If I'm wrong, we'll find that out fairly soon, if we are allowed to open those bids.

*Mr. Landsmark:*

The 30 percent figure initially comes from the community, based on what we thought the available contract or pool was, both here and elsewhere, given that contractors, as you said, have a tendency to travel around to do this kind of work. We based that 30 percent figure on what we thought was available. One of the things that I find most troubling is that the law suit and the complaint filed with the General Accounting Office have prevented the opening of the bids in such a way that at this moment we don't really know whether 30 percent was reasonable or not. We thought that it was. But some have argued *prima facie* that it was not, and by having done so have stopped that process of opening the bids and having the liaison committee sit down with the low and next-to-low bidder and whomever else, to determine whether or not that was indeed a reasonable figure. What they are telling us is that it was unreasonable, but their protest occurs at a time when we can't know. I find that very troublesome. One other note, just to support the community's position on 30 percent, is that while the overall minority population of Boston is approaching 30 percent, the one reason that the communities particularly in the Southwest Corridor want 30 percent is that in many of the areas the minority population is not 30 percent, it's more like 80 to 90 percent. And an affirmative action program that calls for 30 percent minority business utilization in a community that is 80 to 90 percent minority doesn't sound like that onerous a burden to impose upon a contractor.

*Question:*

If I may, I'll ask Mr. Bolten just one question. In the Northeast Rail Corridor, I understand the amount involved is \$4.7 billion. I'm not clear how much would go to Amtrak, and of that amount that is due to go to Amtrak, how much will be involved in the process of set-asides to minority firms?

*Mr. Bolten:*

We are still fussing around with some of those figures. Amtrak will get most of the maintenance way work, the actual track work on the project. If we look at the total project, I think that that comes to somewhere

between \$500 and \$900 million. That's a pretty wide gap. Of the amount going to Amtrak, we — the Federal Railroad Administration — will specify how much of the amount under Amtrak supervision will go to minority firms. We will set the goals or targets and let them do the subcontracting. So total dollars are not identified yet, in terms of the precise amount, but somewhere in that range, and the way this Corridor project is going to be parcelled out by the Federal Railroad Administration, the work packages will carry varying percentages. Depending on the type of work to be done by a particular work package, Amtrak will have specifications as to the percentage that should go to the minority firms. That percentage will have been determined collectively by Amtrak, the Minority Business Resource Center, and the Northeast Corridor Project management.