

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

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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

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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

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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.”