

Y4
.G 74/6
M 66/2

1037

m 66/2
G 74/6
94/4

MINORITY BUSINESS DEVELOPMENT ADMINISTRATION

GOVERNMENT

Storage

NOV 23 1976

THE LIBRARY
KANSAS STATE UNIVERSITY

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

S. 2617

TO ESTABLISH AN OFFICE FOR MINORITY BUSINESS DEVELOPMENT AND ASSISTANCE IN THE DEPARTMENT OF COMMERCE

APRIL 13, 1976

Printed for the use of the Committee on Government Operations



U.S. GOVERNMENT PRINTING OFFICE

72-391 O

WASHINGTON : 1976

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price \$1.95

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION



COMMITTEE ON GOVERNMENT OPERATIONS

ABRAHAM RIBICOFF, Connecticut, *Chairman*

JOHN L. McCLELLAN, Arkansas
HENRY M. JACKSON, Washington
EDMUND S. MUSKIE, Maine
LEE METCALF, Montana
JAMES B. ALLEN, Alabama
LAWTON CHILES, Florida
SAM NUNN, Georgia
JOHN GLENN, Ohio

CHARLES H. PERCY, Illinois
JACOB K. JAVITS, New York
WILLIAM V. ROTH, Jr., Delaware
BILL BROCK, Tennessee
LOWELL P. WEICKER, Jr., Connecticut

RICHARD A. WEGMAN, *Chief Counsel and Staff Director*

PAUL HOFF, *Counsel*

PAUL L. LEVENTHAL, *Counsel*

ELI E. NOBLEMAN, *Counsel*

DAVID R. SCHAEFER, *Counsel*

MATTHEW SCHNEIDER, *Counsel*

JOHN B. CHILDERS, *Chief Counsel to the Minority*

BRIAN CONBOY, *Special Counsel to the Minority*

MARILYN A. HARRIS, *Chief Clerk*

ELIZABETH A. PREAST, *Assistant Chief Clerk*

HAROLD C. ANDERSON, *Staff Editor*

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

EDMUND S. MUSKIE, Maine, *Chairman*

LEE METCALF, Montana
JOHN L. McCLELLAN, Arkansas
LAWTON CHILES, Florida
JOHN GLENN, Ohio

WILLIAM V. ROTH, Jr., Delaware
BILL BROCK, Tennessee
CHARLES H. PERCY, Illinois

ALVIN FROM, *Staff Director*

JANE FENDERSON, *Counsel*

THEODORE FARFAGLIA, *Minority Counsel*

LUCINDA T. DENNIS, *Chief Clerk*

CONTENTS

	Page
Opening statement: Senator Glenn-----	
WITNESSES	1
TUESDAY, APRIL 13, 1976	
Hon. J. Bennett Johnston, a U.S. Senator from the State of Louisiana----	5
Joseph E. Kasputys, Assistant Secretary for Administration; and Alex Armendaris, Director of the Office of Minority Business Enterprise, Department of Commerce-----	9
Ronald H. Brown, Director, Washington Bureau of the National Urban League-----	35
Charles W. Poe, Jr., President, Metropolitan Economic Development Association, Minneapolis, Minn-----	41
James L. Denson, Executive Director, D.C. Chamber of Commerce-----	67
Mitchell Albert, Executive Director, Center for Business and Economic Development, Southern University, Baton Rouge, La.; Margarette Robinett Dupont, Chairperson, Action and Development Committee, National Economic Development Association, New Orleans, La.; Earle C. Horton, Attorney, Rogers, Horton and Forbes, Cleveland, Ohio; Homer J. Sheeler, President, Purple Shield Insurance Co., Baton Rouge, La.; Mervyn Stenson, Executive Director, Determined Young Men, Cincinnati, Ohio; Morgan M. Watson, President, Minority Engineers of Louisiana, Baton Rouge, La.; and Jesse Wilson, Wilson's Contractors, Plaquemine, La., a panel-----	75
Hon. Parren Mitchell, a Representative in Congress, from the State of Maryland-----	105
Jose Aceves, Executive Director, Latin American Manufacturers Asso- ciation; Jerry Jones, President of Soncraft, Inc., Chairman of the Board, National Association of Black Manufacturers; and Manuel Casiano, Jr., Chairman, National Economic Development Association, a panel-----	113
<i>Alphabetical list of witnesses:</i>	
Aceves, Jose:	
Testimony-----	113
Memorandum to Division Managers, Subsidiary Presidents and Corporate Officers, Mar. 23, 1976-----	117
Albert, Mitchell: Testimony-----	77
Armendaris, Alex: Testimony-----	9
Brown, Ronald H.: Testimony-----	35
Casiano, Manuel:	
Testimony-----	121
National Economic Development Association-----	122
Denson, James L.: Testimony-----	67
Dupont, Margarette Robinett: Testimony-----	75
Horton, Earle: Testimony-----	80
Johnston, Hon. J. Bennett: Testimony-----	5
Jones, Jerry: Testimony-----	117
Kasputys, Joseph E.:	
Testimony-----	9
Questions submitted by Senator Javits-----	20
Interagency agreement and memorandum of understanding between the Department of Commerce and the Small Business Administration-----	27

IV

Mitchell, Hon. Parren:	Page
Testimony.....	105
Prepared statement.....	110
Poe, Charles W., Jr.:	
Testimony.....	41
Prepared statement.....	50
Metropolitan Economic Development Association—1975 Annual Report.....	53
Sheeler, Homer J., Jr.:	
Testimony.....	88
Prepared statement.....	103
Stenson, Mervyn:	
Testimony.....	84
Prepared statement.....	100
Article: "A Black Bank For Cincinnati," from "The Enquirer", Mar. 23, 1976.....	102
Watson, Morgan M.:	
Testimony.....	81
Prepared statement.....	96
Wilson, Jesse, Jr.:	
Testimony.....	78
Prepared statement.....	94
<i>Additional material supplied for the record:</i>	
Letter to Senator Muskie from Senator Brock, April 13, 1976.....	4
Senator Walter F. Mondale's introduction of Charles W. Poe, Jr.....	40

APPENDIX

Text of S. 2617.....	133
Text of S. 3111.....	137
Tables reflecting minority business data.....	174
Prepared statement for National Congress for Community Economic Development, by David Lizarraga, Chairman, and Philip A. LoPresti, President.....	182
Statement of Mitchell P. Kobelinski, Administrator, Small Business Administration.....	187
Statement by Dr. Alfred E. Osborne, Jr., Assistant Professor, Business Economics and Finance.....	195
Letter to Ike F. Andrews from R. Edward Stewart, Community Development Corporation, April 22, 1976.....	198

MINORITY BUSINESS DEVELOPMENT ADMINISTRATION

TUESDAY, APRIL 13, 1976

U.S. SENATE,
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met at 10:05 a.m., pursuant to notice, in room 3302, Dirksen Senate Office Building, Senator John Glenn presiding.

Present: Senator Glenn and Senator Javits.

Also present: Senator Johnston.

Staff members present: Alvin From, staff director; Jane S. Fender-son, counsel; Lucinda T. Dennis, chief clerk; and Joyce Wooten, secretary.

OPENING STATEMENT OF SENATOR GLENN

Senator GLENN. The hearing will be in order.

I would like to welcome everyone to the Government Operations Subcommittee on Intergovernmental Relations and the hearings that will be conducted today and perhaps on other days regarding the Minority Business Development Act.

Senator Johnston will be our first witness this morning. He is on the way. I will go ahead and get started with my opening statement. We do have a very busy day with a lot of witnesses, so we will proceed just as rapidly as we can today.

I am pleased to chair today's hearings on S. 2617, a bill authored by Senator Johnston and cosponsored by me, which would establish a Minority Business Development Administration.

One reason that I am particularly pleased to chair today's hearings is that I am hopeful that not only this bill, but the day's topic of minorities in business will help focus new and significant national attention on the plight of the minority businessman. Perhaps what we discuss today will help stimulate new action and new interest in an area that has apparently been placed on the national "back burners." Perhaps, as is often the case, S. 2617 can be the beneficiary of today's record and become the vehicle by which an even more comprehensive plan for the improvement of the Federal assistance effort for minority business is developed and implemented.

Let us make no mistake about it. The status of minority business development indicates that our Nation still has very great strides to

make before we can accurately state that the black or Hispanic businessman is in the business mainstream.

Minorities represent about 16 percent of the U.S. population, yet only about 382,000, or 3 percent, of the roughly 13 million businesses in the U.S. are owned by minorities. Of \$2.54 trillion in gross business receipts for the nation, about \$16.6 billion, or 0.65 percent, of that total was realized by the minorities. Only 20 percent of minority-owned firms were employer firms and they accounted for \$12.069 billion or 73 percent of total receipts, which indicates, as we class it, the mom-and-pop nature of most minority businesses as compared to the much broader participation by the average white businessman.

As in the past, minority-owned firms are primarily concentrated in the retail and service areas and 92 percent, 320,593 of minority businesses were sole proprietorships. Interestingly, this large sole proprietorship group in 1972 accounted for only 56.8 percent of the total gross receipts by minority businesses, while the 20,497 (5.9 percent) partnership accounted for 15.9 percent of receipts and the 6,845 (2 percent) corporations accounted for 27.3 of the gross receipts.

I have statements available for anyone who might wish to see all of these figures. I know it is difficult to assimilate figures of this magnitude in a rapid fashion in a hearing.

This statistical picture tells us that: (1) we need to greatly diversify and expand the range and focus of minority business; (2) the size of minority business must be significantly expanded, both numerically and in terms of size of operations. Only 20 percent of all minority firms accounted for 73 percent of gross receipts.

Hopefully the achievement of these goals would significantly increase receipts and help to correct the tremendous discrepancy between white and minority business receipts.

My research assistant, Ms. Yolanda Ferrell, a student at Howard University, has put together a table which I would like to make a part of the record, showing the minority business picture for the State of Ohio. Her findings indicate that the same poor patterns of development are true in Ohio. Of 11,877 minority firms only 1,984 had paid employees.

There are those who say that we are moving, as evidenced by a 20 percent national increase in black-owned firms between 1969 and 1972.

Also nationally minority-owned franchises increased from 743 in 1970 to 2,453 in 1974. Minority-owned banks increased from 31 with deposits of \$400 million in 1970 to 57 with deposits of \$12 billion in 1974. There is, therefore, no question that Federal assistance to minority-owned business has increased. There have been greatly increased numbers of Federal contracts flowing to minority businessmen, well over 50,000 SBA loans since 1975. Indeed, for fiscal year 1975 I have a chart which I would like to include in the record, which indicates Federal funding for minority business development by 28 different Federal agencies is \$1,272,399,938. Much of this is in contract awards.

There are at least 17 different Government agencies charged with administering programs designed to assist the development of minority business. One of the reasons that I cosponsored S. 2617 was because I believed we need to coordinate this effort and upgrade the power and visibility of the effort to fully maximize our efforts at

minority business development. A powerful coordinated effort would enable us to make tremendous strides in increasing the income levels and asset ownership of minorities.

Aside from the sad statistics on the numbers, gross receipts and comparative status of minority business, we have reports of exceptionally high minority business failure, in both recession and "good times," loan default and the failure to receive management assistance. This latter circumstance surely contributes to business failure and loan default.

I have reviewed many studies and transcripts, including certain GAO reports, an OMB report, a House Committee on Small Business report, a House Appropriations Committee report, and there is one consistent theme that suggests itself throughout, namely, that the Federal minority business effort urgently needs to be revamped, rethought, reformed and upgraded in national priority.

S. 2617 may not represent the final answer, but it is a starting point. We must immediately develop an effort that has, by some reports, degenerated to the point that the two primary Federal agencies in the minority business development area, the SBA and the Office of Minority Business Enterprise, are often engaged in duplicative activity or, worse, competing activity that leads to interagency conflict. I hope we can have testimony on that from representatives of both of those organizations later today.

This is equivalent to two lifeguards fighting over who will save a drowning man. The victim is unconcerned with who helps him, he just wants good help.

I hope that today's hearings will enable us to move beyond questions of "SBA versus OMB," et cetera, to address one of the root issues of the minority community, namely, that Federal assistance to minority business development must be substantially improved, upgraded, and coordinated. How we may best accomplish this is the principal question for today's hearing. This will be the basic theme of my questioning today.

S. 2617 is not intended to be merely a reorganizing and reshuffling of that which is not presently working well. Hopefully it is a beginning of a new effort to improve, upgrade, and coordinate Federal assistance to minority business. The testimony that we hear today should provide us with further directions in this effort.

Before beginning today's testimony, I would like to take note of the fact that the SBA Administrator and his Deputy were very anxious to testify before this subcommittee. Had we not been forced to reschedule from Monday they would have. However, today much of the SBA staff is in Chicago at a long-scheduled regional meeting on minority business so they have asked to submit their written testimony for the record and will respond to written subcommittee questions. Hopefully they will be available for any subsequent hearings on S. 2617.

Finally, I have additional charts which depict the status of the minority business effort, particularly in Ohio, that I would like to make a part of today's record. I also wish the record to show that much of our minority business data is 1972 data, the reason being that the Bureau of the Census conducts an Economic Census at 5-year

intervals (title 13, U.S. Code, sections 131, 191 and 224). Perhaps we need more current information in this critical area.

[See appendix, p. 174.]

Senator GLENN. I have a letter to Senator Muskie I would like to have inserted into the record, from Senator Brock, in which he indicates his support for this. I won't read the whole letter.

He indicates his support for the concept that this bill expresses.

[The letter referred to follows:]

U.S. SENATE,
Washington, D.C., April 13, 1976.

Hon. EDMUND MUSKIE,
Chairman, Subcommittee for Intergovernmental Relations,
Russell Senate Office Building,
Washington, D.C.

DEAR ED: Due to several conflicts in my schedule, I will be unable to attend this most important hearing which will be held before the Subcommittee for Intergovernmental Relations of the Senate Government Operations Committee today. I regard the sustenance of minority business enterprises to be of great economic and sociological importance. Furthermore, I am certain that the record of the hearings will verify an obvious need for the appointment of an Assistant Secretary of Commerce for minority business enterprises.

My own personal experience with those programs funded by the Office of Minority Business Enterprises confirms the pressing need for a greater voice, at the highest level, to coordinate Federal efforts in the establishment and nurturing of programs for minority business. This need has been further accentuated by the recent economic recession.

Furthermore, despite the fact that there is an unofficial participation by O.M.B.E. within the Federal executive branch through its participation within the Undersecretary groups; there is need of a more permanent representative at the highest level.

It is my hope that this committee will act favorably on Senator Johnston's proposal and provide adequate representation and accountability for minority business.

Very truly yours,

BILL BROCK.

Senator GLENN. As our first witness this morning we are happy to welcome to this subcommittee hearing the author of this bill, Senator Bennett Johnston of Louisiana, who has been very concerned about this particular area. His State is particularly affected by this and his concerns in this area—I know from talking to him personally—go far beyond just any parochial concerns from Louisiana. They go to the whole national problem and what has become an increasing problem. I agree with him that in implementing all of these minority business programs that some have been well intentioned and in some cases well funded and in other cases not so well funded with unclear intentions.

Senator Johnston has been particularly concerned about this and has taken a lead in getting information in accordance with this bill together. We are happy to welcome him to the hearing this morning.

We will be glad to have any statement you wish to make, Senator Johnston, and then, of course, join us here as a member of the committee for the subsequent witnesses here and for whatever proposals or questions you wish to make to the witnesses here.

We are happy to welcome you this morning and would welcome either your statement or a summary or however you wish to handle this.

TESTIMONY OF HON. J. BENNETT JOHNSTON, A U.S. SENATOR
FROM THE STATE OF LOUISIANA

Senator JOHNSTON. Thank you very much, Mr. Chairman.

I want to thank the subcommittee and you as the chairman for holding the hearings and in the case of yourself for being a prime cosponsor of the bill. I also want to thank Senators Muskie, Nunn, Bentsen and Hartke for their cosponsorship and help in this matter.

As one who strongly supports minority business enterprise, I find encouraging the interest that has been generated by this bill. It goes without saying that therefore there has been a paucity of legislative action on this important subject, both in the Senate and the House. Although the Senate Select Committee on Small Business has held hearings on various facets of minority enterprise—especially Senator Javits' subcommittee on Government Procurement—the subject of aiding the minority business sector has suffered for lack of legislative initiatives that would bolster the standing of minority entrepreneurs in America's economic marketplace.

On the House side there have been numerous hearings which have explored the status of minority business enterprise. The hearings before the subcommittee on SBA Oversight and Minority Enterprise of the Committee on Small Business and the subcommittee on the Departments of State, Justice, and Commerce, the Judiciary, and related agencies of the Committee on Appropriations are well known for their probing insight into minority business programs and activities.

Congressman Parren Mitchell, a witness at today's hearings, has frequently offered testimony on the needs of minority entrepreneurs and on the efficacy of numerous programs. To his credit Congressman Mitchell has recently introduced legislation, H.R. 12741, to attempt to deal with the unmet needs of minority entrepreneurs.

Congressman Andrew Young also has introduced a bill, H.R. 12826, which is identical to S. 2617.

Thus, while there has not been much legislative activity in the past, there now appears to be growing interest in servicing the needs of the minority business community. I applaud this effort and I hope our collective efforts will prove to be bountiful.

Clearly if minority business enterprise is to be given its just consideration, the problems minority entrepreneurs are now experiencing must capture the attention and creative energies of the Congress. This means that the conflicts which have occurred between the Small Business Administration and the Office of Minority Business Enterprise must cease. The duplication of effort and waste of taxpayers' money must not be allowed to continue.

Ineffectiveness must not be tolerated. Bitter personal and ethnic feuds must be quashed. To allow these and other problems to continue to occupy center stage in the minority business effort delays the national commitment we must make to minority business development. The losers in such cases are the people who are most in need of assistance, the minority business entrepreneurs.

At present there are at least 28 different agencies and departments that either administer or participate in minority business programs. Each works in virtual independence of the other. The result has been

diffusion and duplication of the Federal Government's efforts to assist the minority business community. In a word, there has been waste. This state of affairs has produced criticism about the ineffectiveness and inefficiency of Federal minority business programs.

The time has come then for some action in the Congress. That is why I have come forward to address directly the problems of diffusion and duplication of effort. That is why S. 2617 was introduced.

To be sure, this bill is not a panacea. It is a beginning. It attempts to do what I consider to be of primary importance, that is, to provide a statutory underpinning for minority business enterprise and to consolidate minority business programs under someone with clout who will be an aggressive advocate for minority business enterprise. In doing so, S. 2617 builds upon and seeks to improve that which is already in existence in the Department of Commerce, the department which carries the responsibility for executing Federal policy and programs affecting the industrial and commercial segments of the national economy.

Very briefly the Minority Business Development bill does the following things:

One: It establishes a Minority Business Development Administration in the Department of Commerce headed by an Assistant Secretary for Minority Business Development, who shall be appointed by the President, by and with the advice and consent of the Senate. This Assistant Secretary shall consolidate and carry out the functions of the Office of Minority Business Enterprise pursuant to Executive Order 11625, the functions of the Small Business Administration pursuant to section 7(i) of the Small Business Act, and any separable functions of any Federal department or agency which the Director of the Office of Management Budget determines should be transferred to the Minority Business Development Administration.

Two: It establishes not less than 10 regional branches of the Minority Business Development Administration.

Three: It requires the Secretary of Commerce to make a study of all Federal activities which relate to or should relate to minority business development and to report thereon to the President and the Congress within 180 days after enactment of this legislation, with his recommendations for further action to carry out the intent of this legislation.

Four: It authorizes \$100 million in appropriations in each fiscal year and any other sums necessary to further the purpose of this legislation.

Mr. Chairman, one of the most significant remaining challenges in the area of equal opportunity in this country is in minority business development. The next 100 years of this Nation's life will test whether or not we can make practical, workable, viable, and real the promises of the American Constitution. It took us the first century to end slavery in this country. It took the next century to make the promises of the Constitution real by enacting laws on the statute books.

This century—and hopefully it will not take a full century to do so—will test whether or not we can ripen those promises stated in law into opportunities within our free enterprise system that are made manifest and free.

Minority business development will be good not only for minorities; it will also be of immense help to this Nation's economy. It will pro-

vide jobs for the persons who suffer most from the problems of unemployment and inflation. If given meaningful assistance, it will assure the use of valuable human resources that can be put to work to make this Nation's economy strong.

S. 2617 is not a handout. It is not a paternalistic gesture. It is a recognition that this Nation has unfinished business in the area of equal economic opportunity as it enters the third century of its life.

I personally am very strong for free enterprise. I think it is the greatest system the world has ever known. The problem is, as the chairman pointed out so well in his opening statement, that minorities have not participated in this great largesse of our free enterprise system. They just haven't done it for a number of reasons.

You sort of have to have a little help to get started, a fair advantage, as I would call it. With so many people in the so-called white power structure who head businesses, own their own businesses, operate their own businesses, do well under the free enterprise system, they didn't make it just because they were bright, intelligent and ambitious. Most of them made it because they had fathers or uncles or someone to give them a little boost, give them the capital, give them the know-how to get started.

Now that is the kind of effort which this Minority Business Administration will be expected to do, to play the part of the uncle or of the father or of the friend, to give these prospective black or minority entrepreneurs, who have the intelligence and ambition and are willing to work hard and who want to make it, to give them that help in terms of loans, in terms of assistance, expertise, the whole battery of services which are lacking today, to give them that through this Minority Business Administration.

Now it is true that we have somewhere between 17 and 28 agencies in the Federal Government who are supposed to deal with these areas. Therein lies the greatest problem. There is lack of coordination, lack of clout, lack of status. This bill would give it that status, that clout, that coordination, and hopefully those levels of funding which I think are necessary in this most important effort of this Nation as we begin our third century deserves.

Thank you, Mr. Chairman.

Senator GLENN. Thank you, Senator Johnston.

I have a few questions before you join us as part of the committee.

Why do you propose that such an administration be established particularly in the Department of Commerce? Are there particular reasons why the proposed administration would go this direction rather than the opposite direction and take some of the functions out, for instance, and put them in SBA or whatever?

Senator JOHNSTON. Well, Mr. Chairman, I think Commerce is the appropriate Department. It advises the President on Federal policy and programs affecting commercial and industrial segments of the economy. It is a Department that is represented in the Cabinet. I think that in itself is sufficient reason. In other words, I think we need a Cabinet level official who speaks for minority business.

It has Assistant Secretaries who have clout in the Federal bureaucracy and the overall operation. It has research and other capabilities which can support a systematic and well-coordinated effort in the

minority business development, and it seems to me it is the appropriate agency to deal with this matter of commerce, of business.

I just think it is the right place for it.

Senator GLENN. Is your intent to simply elevate the current OMB up to a new level in the administration or is it to create a whole new office, a whole new effort under Commerce?

Senator JOHNSTON. It is an attempt to create a new office, a brand-new office. It is an attempt to elevate the efforts of minority business enterprise to Cabinet level status.

So while it creates a new office, it is an attempt to upgrade and elevate that. It will contain both the efforts and the offices being conducted by minority business enterprise, by OMBE at the present time as well as the SBA and any other of the 28-plus-or-minus agencies that deal with minority business enterprise and which the study would indicate should properly be transferred.

The bill forces a study by Management and Budget, OMB, to determine what ought to be transferred. We certainly envisage that OMBE would be transferred, that minority sections of SBA would be transferred, and that most if not all of the 28 agencies that deal in one way or another with minority business would be transferred in, but the precise limitations of what would be transferred would await the study by OMB.

Senator GLENN. There are concerns about section 4(b) of the act which would transfer programs to the new agency. Would this study determine what would be transferred? Also, what discretion would there be? Would we want just the committee items transferred at first or would they go into more detail of subprograms? What would be the criteria for this?

Senator JOHNSTON. The bill forces, as I point out, the study by OMB which details what ought to be transferred. There is discretion as to what ought to be transferred, but we would expect that initially all the main functions would be transferred. But we had a serious question in the drafting of the bill as to whether we ought to cause that transfer ipso facto immediately by force of law in the bill or whether we ought to allow OMB to phase in some of these agencies.

We thought it best to have the study first with the obvious transfers of OMBE and the Small Business Act functions under section 7(i).

Senator GLENN. Would they be free to go beyond the current scope of this in their recommendations, the OMB study?

Senator JOHNSTON. Yes, they could go beyond the scope of this. We say there are 28 agencies that deal with minority business. It may be that some of those efforts ought to rest in the agencies where they are only a small part of that agency and where they are sort of a separable function. It may not be precisely minority business. It may be some kind of affirmative action program that should rest over in HUD or whatever.

So we thought it best to have the study first and then the transfer.

Senator GLENN. Just from the prints and the first version of S. 2617 it is not clear as to what this new administration would do other than to assume current OMBE functions or to manage the Small Business Administration program that might be placed under this Administration. But from what you say, this could well go beyond that?

Senator JOHNSTON. We would expect that it would. When you have an Assistant Secretary with clout as Cabinet level and coordination of all of these efforts, we expect that there would be many new initiatives both created under this bill and proposed for new law. That is one of the problems when you have this proliferation of programs all around the Federal bureaucracy.

You don't have any one central agency charged with the duty of coming up with initiatives for minority business. So I would expect they would go beyond this legislation.

Senator GLENN. You specify the EOL program, the equal opportunity loan program, specifically on page 2 of the bill as under "Transfers," page 3, line 5. That was specifically spelled out for transfer.

Have there been particular difficulties with that area or why was that spelled out for transfer in the act?

Senator JOHNSON. The EOL program is just such a basic minority business program that I think if you are going to have any Minority Business Administration, it ought to get that EOL program. We think that the ceilings on these loans are too small, \$50,000 now as I understand it, and they ought to be increased, but I think it is a logical and necessary transfer to have the EOL program transferred.

Senator GLENN. I have no further questions, Senator Johnston. We are glad to welcome you to the committee. You are welcome to join us for the duration of the hearings and we are glad to have you aboard.

Senator JOHNSTON. Thank you, Mr. Chairman.

If I may come back in just a minute, I have an amendment over to the ERDA bill and as soon as I propose that, I will be right back.

Senator GLENN. That is another hearing I should be at this morning. That is one of the problems.

We have with us this morning Mr. Joseph E. Kasputys, assistant secretary for administration in the Department of Commerce, and Mr. Alex Armendaris, director of the Office of Minority Business Enterprise, Department of Commerce.

You gentlemen are welcome to testify together or separately and we are very glad to welcome you here. I know this is an area you have been involved with, so we look forward to your expert testimony.

Would you prefer to both make your statements and then we can take questions and have a discussion on any problem areas, or would you care to make your presentations separately?

TESTIMONY OF JOSEPH E. KASPUTYS, ASSISTANT SECRETARY FOR ADMINISTRATION, AND ALEX ARMENDARIS, DIRECTOR OF THE OFFICE OF MINORITY BUSINESS ENTERPRISE, DEPARTMENT OF COMMERCE

Mr. KASPUTYS. I think it would be probably most useful if we both presented our statements, since they do coordinate one with the other, and then have the committee ask the questions after that.

Senator GLENN. That is fine. Perhaps also Senator Johnston will be back. You can give your testimony or a summary of it. However you care to make your presentation will be fine.

Mr. KASPUTYS. Thank you, Mr. Chairman.

If I may, since my statement is brief, I would like to proceed with it.

It is a pleasure for me to appear before you today to testify on S. 2617, which would establish a Minority Business Development Administration in the Department of Commerce. The Department supports the concept of a statutory basis for minority business enterprise programs in the Department of Commerce, which would contribute to the stature and stability of the Commerce minority business effort. Such action would provide a congressional sanction that should further enhance the program's credibility and effectiveness.

However, we do not believe that the manner in which the functions of the proposed Minority Business Development Administration have been described in section 3 of the bill is appropriate. Just last month the Office of Management and Budget, in cooperation with the Department of Commerce and the Small Business Administration, completed a study of Federal minority business development programs and issued a report on this subject. This report makes a number of major recommendations concerning the organizational responsibility for various aspects of the Federal program, the coordination of that program, and the role to be played by the Federal agencies.

We have now begun the implementation of those recommendations. We are certain that our efforts toward implementation will provide a great deal of experience and information that can be used in improving the Federal effort in the future. Given the fact that revision of Executive Order 11625 is a specific part of our current effort, we do not believe it is useful to incorporate the provisions of the existing executive order into legislation. Indeed, in our view it would be premature to specify the functions to be assigned the proposed administration at this time, but that this should await both the revision of the Executive order and some experience operating under any new provisions that are developed.

There are also other measures in the proposed legislation which we urge be reconsidered. In particular we believe section 4, which provides for the transfer of SBA's Economic Opportunity Loan program and EOL investment fund to the Department of Commerce, is inappropriate. The Department's role in minority enterprise has always been as a management and technical assistance agency which attempts, through its advocacy position, to leverage funds from other sources. Given its own lending capacity, the Department's leverage ability would become considerably more circumscribed.

The Small Business Administration in contrast, has established a demonstrated capability as a lending institution and should remain as such. SBA has established relationships with local financial institutions and specializes in servicing its loan portfolio. To duplicate the loan officers, support staff and so forth in Commerce would be unjustifiably expensive and possibly disruptive of present services. It could even create a separate but unequal system of Federal loan assistance to minority entrepreneurs and tend to isolate minorities from other forms of SBA assistance. Depending upon the allocation of financial resources, loan assistance to the minority community might become more constrained than at present. We recognize that past problems in defining and coordinating the respective roles of SBA and OMBE

may have led to the provisions in section 4 as a possible remedy. However, we are confident that implementation of the recently issued report, which I described earlier, will relieve most of the problems that have arisen between the SBA and Commerce programs in the past.

Section 4 also provides for the transfer to the Department of any separable function of any Federal Department or Agency which the Director of the Office of Management and Budget determines relates primarily to the development or assistance of minority enterprise. Closely related is the requirement of section 5(b) for a study of Federal minority business activities. We believe that the OMB report fulfills the purpose of both these provisions.

These changes in section 4 would require a corresponding reduction in the authorization provided by section 6. Funding authority above the level contained in the President's budget for fiscal year 1977 is not needed.

We also suggest that the provision of section 5, which requires that no less than 10 regional branches be established, should be revised. The Office of Minority Business Enterprise is currently decentralized into six regions with boundaries drawn to assure an equal distribution of minority population per region. Our experience during the past 2½ years with this structure has been very favorable, and we are persuaded that six is the optimum number of regions to service the nation's minority entrepreneurs.

Finally, I would like to suggest that any legislation providing a statutory basis for Commerce minority business enterprise programs include a specific expiration date—a "sunset" provision, if you will—and provide specific induction criteria for Congress to use in deciding whether or not to renew the legislation and with what level of support. There has been a growing interest on the part of both the Congress and the administration in this approach to legislation. Executive Order 11625, the present authority for Commerce's minority program, assigns OMBE an evaluation responsibility, but it does not link that evaluation process to any particular decision point.

I would like to conclude, Mr. Chairman, by again stating the Department's support of statutory legislation for Commerce minority business programs. Despite our concerns with the specifics of this bill, we believe that providing a legislative basis for the program that reflects the experience we will gain in the next several months would be highly beneficial.

Mr. Chairman, that concludes my testimony and I now suggest we proceed with Mr. Armendaris' testimony.

Senator GLENN. Mr. Armendaris, we welcome you to the committee. Go ahead with whatever testimony you wish to give.

Mr. ARMENDARIS. Thank you, Mr. Chairman.

I appreciate the opportunity to testify before this committee on the effects which S. 2617 would have on the Federal minority enterprise program. Mr. Kasputys has already discussed the elements of the bill and the Department of Commerce position on its various provisions. I would like to review the history of the Federal minority enterprise effort, discuss the problems and opportunities which minority entrepreneurs now face, and touch on the impact which the enactment of S. 2617 may have on the minority enterprise effort.

In March 1969 minority business development was first given serious Federal attention through the issuance of an Executive order entrusting the Secretary of Commerce with the responsibility for coordinating Federal minority business efforts. Simultaneously the Office of Minority Business Enterprise (OMBE) was created in the Department of Commerce to execute this responsibility. This was truly a pioneering effort. Never before in the first 193 years of America's history had a concerted effort been launched to bring blacks, Hispanics, American Indians and Asian-Americans into the business mainstream.

The first 2½ years of the Federal effort consisted to a large extent of stimulating interest in minority entrepreneurship among Federal agencies, the corporate sector, and, most importantly, the various minority communities. During this time the President's Advisory Council on Minority Business Enterprise prepared a detailed plan for the minority business effort. This report, "Minority Enterprises and Expanded Ownership: Blueprint for the 1970's, provided the intellectual base for much of the existing OMBE program. The Advisory Council report influenced strongly the issuance in October 1971 of Executive Order 11625 strengthening the authority of the Secretary of Commerce to spearhead the Federal minority enterprise program.

Since the issuance in October 1971 of a new Executive order, Executive Order 11625, and the subsequent appropriation to OMBE of program moneys, our agency has funded a nationwide network of over 200 business assistance organizations. These groups have assisted minority entrepreneurs in securing financing from local banks or government agencies, procurement contracts from governments and private corporations, and management and technical assistance in such areas as inventory control, manufacturing systems and marketing analysis. The OMBE assistance organizations have also conducted business training courses for existing and aspiring entrepreneurs.

In its attempt to change historical business ownership patterns, the minority enterprise effort has experienced a number of difficulties. Yet few Federal endeavors of the last generation have witnessed signs of progress as clear as those in the national minority business effort during the past 7 years.

In the first 3 years of the effort minority business gross receipts grew 56 percent compared to gains of 27 percent for all businesses. From 1969 to 1972 receipts of minority firms rose from \$10.6 billion to \$16.5 billion, a gain of nearly \$6 billion. Particularly large growth occurred in such areas as construction, manufacturing, transportation and wholesaling. While the 1972 data is the most recent comprehensive information available, interim studies indicate that this upward momentum is continuing.

The number of minority-owned banks has risen from 23 in 1969 with total deposits of \$270 million to 71 today with deposits of \$1.3 billion. This rapid growth has been spurred by OMBE support of a national effort to encourage corporate and governmental deposits in minority-owned banks as well as support of the National Bankers Association, an aggressive trade association representing minority banks.

An even more remarkable rise occurred in the automotive industry where the number of auto/truck dealerships has risen from 14 in 1969

to 255 today with total sales of \$638 million. This growth is in significant part a result of cooperative efforts between OMBE and the major auto/truck manufacturers.

There have been many factors behind the encouraging growth of minority business, the most important of which is the determination of tens of thousands of minority businessmen and women to become successful business owners. OMBE, however, is proud that it has played a positive role as a catalyst in mobilizing the energies of government, the corporate sector, and the minority business communities.

In reviewing the shape of any new organizational structure for the Federal minority enterprise effort, it is important to look at trends and opportunities which hold promise for minority business in future years. I find several trends particularly heartening for the future of minority enterprise. These include: (1) a branching of minority business into a much broader part of the business spectrum; the rapid improvement of access to a corporate marketplace for minority firms; and (2) the development of greater access to purely private sources of business financing.

In addition to these factors which are already bolstering the health of minority business, we are encouraged by the technology utilization program now beginning to be implemented with resources from the corporate and governmental sectors. This program may yield significant dividends to minority business in the next few years by enabling minority businesses to enter new technology markets resulting from space program spinoffs or other scientific research.

During the 7 years of OMBE's existence there has been a significant broadening of minority business past its traditional concentration in retail and service areas. Some promising breakthroughs are being made in such fields as cable television, electronics manufacturing and export trade.

The growth of minority firms into a broader business spectrum has been accompanied by the opening of significant corporate sector marketing opportunities to minority firms. The 26 Regional Minority Purchasing Councils, formed in 1972 at OMBE's urging, have already achieved an annual rate of a half billion dollars in corporate purchases from minority firms. A 1 billion target has been established for 1977 by the National Minority Purchasing Council. In 1972 when the Purchasing Council effort was launched, corporate purchasing from minority firms was minimal.

Another area of encouragement is the increasing access of minority firms to purely private financial sources. In fiscal year 1975, 45 percent of the loans obtained through the efforts of OMBE-funded business assistance organizations came from private banks without any Government guarantees. The increasing access of minority firms to the private financial marketplace is an indicator that minority firms are moving toward a more competitive position in the marketplace.

An extraordinary example of OMBE's potential as a catalyst can be found in the technology transfer area. Despite the billions expended to date by the Federal Government on technology research and development little commercial application has resulted. Research often has remained dormant and underutilized.

Recognizing this, OMBE has forged a public and private sector partnership that can coordinate financial resources, technical analyses,

marketing analyses and management and technology assistance with the technology available from the public and private sectors.

At OMBE's urging Rockwell International invested \$1 million in a minority enterprise small business investment company, MESBIC. Sears, Roebuck is performing the marketing feasibility study for this program in the consumer field. The Rockwell MESBIC and other MESBICs provide potential sources of venture capital.

Through the Federal Laboratory Consortium we have obtained, at no cost to the minority enterprise program, evaluation of such products as a water-operated power tool, a fuel additive, and a high-rise-fire-protection device. The cost to OMBE has been minimal to date. Participating in this effort are the National Aeronautics and Space Administration, the National Science Foundation, the Maritime Administration, the National Bureau of Standards, the Energy Research and Development Administration, the Naval Underwater Systems Center, the General Services Administration and the Department of Transportation. In addition, other private sector companies and the National Association of Manufacturers are providing substantial resources. This is an example, I believe, of the leverage potential inherent in the OMBE program.

This effort illustrates that the success of the minority enterprise effort need not involve placement of all activities potentially beneficial to minority enterprise within a single agency. An effective coordinating mechanism and an imaginative leveraging of resources can enable OMBE to achieve significant results working through existing Federal and corporate entities.

Accordingly, we feel that the consolidation provisions of S. 2617 are not appropriate. We believe that the resource development and technical assistance functions should be housed in the Department of Commerce as they are at present. Loan functions should in our view remain at the Small Business Administration and Federal minority procurement advocacy offices should remain in their respective agencies. Movement of all functions to the Department of Commerce could, we feel, strip us and the minority entrepreneur of effective advocacy and access to resources in those agencies.

Nevertheless, we strongly favor what we view as the essential concept embodied in S. 2617, the conferring of a legislative mandate on Commerce minority enterprise efforts which to date have existed under the sanction of Executive order. Such a mandate would provide, we feel, a greater assurance of continuity of the program and would highlight the Congress's recognition of the importance of the minority enterprise effort. This assurance of continuity would facilitate the efforts of OMBE and its funded organizations to recruit the highest quality staff.

A legislative mandate would also reinforce the credibility of OMBE and its assistance organizations in securing long-term corporate commitments for the minority enterprise effort. Although we have made remarkable progress under the two Executive orders, some corporate officials have expressed a concern lest the Federal commitment could be erased by a change of administrations. This has undercut their making wholehearted, long-term commitments for the minority enterprise program. A statutory basis for this program would provide this assurance of continuity.

Thank you very much, Mr. Chairman.

Senator GLENN. Thank you very much, gentlemen. Both of your statements are very good.

In response to these questions I welcome either one of you to make a response. I think in general the thrust of both of your testimonies as I read them, is that you favor and support the statutory upgrading, perhaps, of OMBE within the Department of Commerce but you would oppose giving it any new substantive programmatic responsibility.

Is that a correct interpretation?

Mr. KASPUTYS. Rather than saying we would oppose giving it any substantive new program responsibility, it would be more correct to say we are concerned about the transfer of any assistance programs from SBA to the proposed Minority Business Development Administration.

Our view is that direct financial assistance can best be carried out by the Small Business Administration and that to transfer those functions could cause a dichotomy in financial assistance to be provided to minorities. One example I might give you, Senator Glenn, is in the EOL program. Although it may not be commonly known, about 30 percent of that program is provided to nonminorities. So there would be a problem then in continuing that portion of the program, were it transferred to OMBE or to the proposed Minority Business Development Administration.

Further, minorities do make use of regular SBA aid to small business. I, for one, am concerned that if the proposed Administration is viewed as the principal source of minority assistance, there could be a polarization in assistance efforts, with minorities looking to the proposed Administration and with nonminorities depending upon the SBA. Surely we don't wish this to happen.

We wish minorities to make full use of all of the SBA authority and direct assistance programs in addition to those that are specifically earmarked for the economically or socially disadvantaged. So I think our view is that it would be best to maintain direct assistance in SBA. There may be, indeed, the need for some new programmatic efforts to strengthen the overall Federal role in assisting minorities and such efforts in our view, would be appropriately housed in this Minority Business Development Administration.

Senator GLENN. Would you care to make any statement?

Mr. ARMENDARIS. I concur with Mr. Kasputys' statement as he made it.

Senator GLENN. With respect to the unhappiness that people from the minority community have expressed with regard to the functioning as it now stands, I am sure you have received those complaints also and you are hopefully on top of these complaints and are trying to do something about them.

Now what area of complaints do you see in your own Department as being the areas that you could improve most to alleviate some of these complaints?

Mr. KASPUTYS. I would like to say we are indeed aware of complaints, particularly as mentioned directly in your statement, Mr. Chairman, and in Senator Johnston's statement, regarding the degree to which the minority program is coordinated, particularly between

the Small Business Administration and OMBE. We must investigate the need for some improved mechanism.

A study under the direction of the Office of Management and Budget and participated in fully by the Commerce Department, OMBE, and the Small Business Administration has just been completed and a report of that study was issued last month.

I would like to offer the committee a copy of this study for its perusal in getting more detailed familiarity with some of the problems of coordination and administration of programs that we do now perceive.

Let me say, in direct response to your question, some of those problems include, as mentioned by Senator Johnston, the coordination of the provision of management and technical assistance to minority firms. In many cases minority firms do receive direct financial assistance from the Small Business Administration and become entitled to management and technical assistance.

Very often this management and technical assistance has been focused on trying to save terminal cases rather than to strengthen those minority enterprises which really do have a bright future. I think there is a need to focus not only on the direct assistance programs, but also the management and technical assistance programs and on those minority firms which have a solid opportunity for growth in the future, particularly those that can become large employers. Typically minority firms, when they do become large employers, productively employ large numbers of minority workers.

Senator GLENN. That is an area I have had a particular interest in, too. We have had a tremendous amount of technology available in the country and the black community is just as capable of utilizing it, if given an opportunity to do so, as anyone else is. Yet, we find the largest percentage of businesses being relegated to the mom-and-pop type of operations. In this particular area of moving black minority businesses into the mainstream of things, the forward-looking, technically oriented programs that provide for much expansion in the future, have been on the back burner or a long time.

Could you expand on your ideas in that area? What is planned in that area anyway? Just to fund the corner grocery is not my idea of getting minority businessmen into the mainstream of business in this country. What are we doing in that area in particular? That requires a lot of technical help, technical assistance, management training, things that were just mentioned in Mr. Armendaris' testimony.

Some strides have been made in that area, I know. What else are you doing? Would you care to elaborate on that at all?

Mr. KASPUTYS. Let me say we are trying to identify the factors that have led to success or failure in past direct assistance programs to minority businesses. This is one of the efforts that has come out of the recent study that we have done, because there have been disturbingly high failure rates even with the service organizations that have been funded as well as those that are going into direct manufacturing.

Second, we feel a need to coordinate management and technical assistance in such a way that firms that do receive direct financial assistance finally can become independent of that direct financial assistance and become successful in the private marketplace.

I think this, as you recognize, Senator Glenn, depends heavily on their ability to become truly competitive, truly viable and become technologically innovative.

Senator GLENN. These are the areas that have the most promise for the future. I am interested in getting people to work right now with the unemployment situation the way it is. It seems to me if we are building a solid base, it ought to be something that looks forward to an expansion of business into bigger things.

A grocery store in the corner that serves a five-block area is not going to expand and out-compete Safeway or Kroger or whoever in our lifetime. But concentrating some of this effort in the more technically oriented industries of the future that may grow and someday become another IBM or another Xerox or something. I hope we are putting an adequate effort into these areas so we have that potential for expansion and are not just limiting it to the existing old, solid particular things in a community.

Mr. KASPUTYS. If I may inject one last thought on this, the report I have referenced very definitely states that we may have been using the wrong objectives for programs in the past by focusing on the numbers of businesses assisted instead of looking at the level of economic activity produced.

As a result of using the wrong objectives in many cases we may be following the wrong programs. So we believe some of these programs need to be reshaped as a result of our revised objectives, and because they need to be reshaped, we further believe that we need some time to work that out.

I would like to ask Mr. Armendaris to comment on some of the efforts he has made to stimulate minority businesses in high technology areas.

Mr. ARMENDARIS. Mr. Chairman, one point you have made, I think is very important, 1969 was the first time in our country's history that minority businesses were counted as a special group. 1972 was the first time they were counted in the regular census. The period from 1969 to 1972 is the first time we have been able to measure trends.

Now during that 3-year period minority firms were growing at a much more rapid pace in manufacturing, construction and transportation industries and a much lower pace in retail establishments.

Now as to your statement, Mr. Chairman, about the size of the businesses in the total spectrum of minority business in the country, you have approximately some 400,000 minority businesses. Only about 80,000 of those businesses have paid employees, with an average of 6 employees per firm.

OMBE concentrates its efforts on that 80,000. We actually provide direct services to 20 percent of the 80,000 businesses that have paid employees. So our objective has always been geared toward not the real small operations, but rather, those operations and those types of businesses and industries that are growing.

An example would be the construction industry. An example of new industries would be cable television and those in transfer technology areas. So we have concentrated our biggest efforts in those areas that have growth potential and have generated a more limited type of activity in those areas in which we are just providing day-to-day routine-type services.

The alarming figures on minority business failures do not necessarily apply to businesses that OMBE has assisted. Of those businesses we have assisted, we have evidence that we have suffered a less-than-the-average failure rate of the businesses depending on what the climate is at the time.

Senator GLENN. The recent interagency report on the Federal minority business development programs included a timetable for implementing some of the recommendations, of course, and the first thing to occur was a revised executive order to clarify responsibilities of SBA and OMBE. That executive order is due later this week.

I presume you gentlemen have been involved in the preparation of that. Then by April 30 OMBE and SBA are supposed to complete interagency agreements in several areas. Can you give us information on that? Is the proposed timetable on schedule and what will the agreements be between SBA and OMBE?

Mr. KASPUTYS. I can say that the interagency agreement between SBA and OMBE is moving along very well. With regard to the development of the proposed executive order, it was very high on the priorities list and also we had an ambitious date for it. The principal responsibility lies with the Office of Management and Budget. I have discussed it with them this past week. They will be ready to discuss a draft with the agencies very shortly.

I suspect that—

Senator GLENN. Is the indication that it will be out by April 15?

Mr. KASPUTYS. I don't think we will be able to make the April 15 date.

Senator GLENN. Do we have a new target date for it?

Mr. KASPUTYS. No, sir, I would anticipate we would be able to complete it in the reasonably near future.

Senator GLENN. Can you define "reasonably near future"?

Mr. KASPUTYS. We are looking for the entire effort to be done by the first of August. I would think that we are well within that—

Senator GLENN. You mean we are now setting this back from April to August?

Mr. KASPUTYS. I don't want to commit other agencies that have to work on this to a particular date at this hearing. I would be happy to discuss it further with them and provide the committee with a date when we would anticipate it.

Senator GLENN. I would like to make a special point of getting testimony from you or from OMB or whoever it has to be gotten from. Setting this back from an April 15 date to to an August date is hardly acceptable, as far as I am concerned.

Mr. KASPUTYS. I didn't set it back to an August date. We anticipate finishing all of the implementation steps by the first of August.

Senator GLENN. Not only the definition of the agreements, but having them set up and work by August?

Mr. KASPUTYS. Yes.

Senator GLENN. That is a little different. I thought you were postponing the publishing of the OMB timetable until August.

Mr. KASPUTYS. No, sir.

Senator GLENN. I would appreciate any information you have. I would also like to request, if you would, that you contact OMB or the publisher of the timetable, along with the people in the White

House to find out when the executive order can be expected. It is our understanding this was to be out by April 15.

Mr. KASPUTYS. I will certainly do that.

Senator GLENN. If it is to be postponed, we would like to be informed of the new date we can expect it.

Mr. KASPUTYS. We will provide the committee with such a date.

Senator GLENN. One of the issues against substantive reorganization of minority programs is that it might needlessly disrupt ongoing programs. Do you agree with this and what effect do you think S. 2617 would have?

Mr. ARMENDARIS. We would anticipate meeting those critical needs although, of course, there are always going to be complaints, Mr. Chairman, from individuals, because we are limited by what market opportunities are out there in generating businesses. But we do not anticipate that the OMBE program, as long as it continues to have the support that it has from the department and from the Congress, would be affected in any adverse way by the long-range plans of this committee or the administration so long as there is a continuation of services presently being provided.

Senator GLENN. Don't you see a big advantage—doesn't it make sense to have all of these programs under one roof rather than having to go through an interagency transfer-of-authority-type system to work out various types of interagency agreements? Don't you see advantage to the one roof?

Mr. ARMENDARIS. Yes, there are advantages, certainly, Mr. Chairman. But we would not want to lose the in-house advocacy and expertise that presently exists in some of these agencies. It is not as ideal as it should be in every agency, but it is important to have in-house advocates of staff and goal-setting processes and everything being worked on and timetables met within those departments with the backing of the top side of that particular agency.

We would not want to remove that so that then we would centralize minority activities into one single unit and not have a Federal-wide effort going on.

Senator GLENN. Would you care to elaborate a little more on your sunset provision? That is of particular interest around here right now.

Mr. KASPUTYS. I might say that Secretary Richardson and I had an opportunity to appear before this subcommittee last Monday on Senator Muskie's bill. We only feel that in new legislation of this type, which provides for a continuing authority, it would be very useful to give it a specific expiration date so that the administration or Congress would be required at some point in the future to examine explicitly just how that operation was performing against the goals that had been set for it. Further, we would suggest that specific goals and specific evaluation criteria be included in the legislation so that when that date did arrive, the Congress and the administration would have a guidepost against which to evaluate the program.

That is not to say they would not continue the program. They may decide to strengthen it or alter it in some way, but at least the original authors of the program would have an opportunity and, indeed, would be required to set forth just exactly what they hope the program would do.

Senator GLENN. For the information of those who were not at our hearing the other day, it has been proposed that there be a 4-year reauthorization or a review of every Federal program. Each program would be brought back to zero funding for consideration as to what would happen if the program was eliminated. Whether it has served its original purpose or should now be funded at 25 percent or 50 percent or increased to 200 percent to better perform its function would also be considered.

But every single Federal program would be required to come under this type of review. Also on the tax incentive side whether tax incentives are doing their proper function or not. Every single tax incentive would have to come under the same type scrutiny and review, so we don't have them going willy-nilly into the future. So that type of thing we have had hearings on and this would address this particular bill in that light also.

Senator GLENN. I have some questions that Senator Javits asked be submitted. They are quite lengthy and would require considerable testimony here this morning. I think we will give these to you and ask if you would give written reply to these. I would read them over rapidly here. I think they get into such a detail we would not want to spend all morning on these.

I realize that answering Senator Javits' questions will take some preparation, so we will submit them. I am reading them for the record so everyone will have an opportunity to hear the concerns of Senator Javits. If you would give your replies to the committee and Senator Javits we would appreciate it very much.

Mr. KASPUTYS. We will be pleased to answer this in writing.

Senator GLENN. Senator Javits has been an advocate of minority business enterprise for a long time. He had planned, if his schedule permitted to be here with us this morning. We hope he will be able to join us later during the day. We will be happy to submit his questions for the record.

[Senator Javits' questions and responses follow:]

Question 1. (a) What is OMBE's position as to the potential for continued funding of minority trade associations?

- (b) The renewal of currently funded minority trade association?
- (c) The current OMBE plans to strengthen these organizations?

Answer. (a) Four fifths of minority firms do not have any paid employees. Among the 20 percent of minority firms with paid employees the average number of such employees is six. These relatively adverse conditions, together with the comparatively new entry of minority firms to many industries, provides a continuing need for trade associations that will represent interests of member firms and provide needed technical assistance and trade information. In view of the comparatively modest financial resources of member firms, continued Federal funding of a number of minority trade associations seems essential if they are to maintain an optimum scope of activity. In the long term, as minority firms gain greater access to the marketplace, they will, we hope obtain greater self sufficiency in funding. In the meantime, OMBE continues to evaluate each trade association on the cost effectiveness of its activities in benefiting minority firms in its industry area.

(b) In fiscal year 1976, OMBE funded (11) minority trade associations at the level of \$1,773,524.

In fiscal year 1977, OMBE proposes to fund (11) minority trade associations at a slight increase for \$1,902,768.

(c) OMBE plans to continue to assist in strengthening minority trade associations by providing supportive actions from other components of the minority business enterprise delivery system which enhance marketing/capital, management development opportunities for their members.

Question 2. (a) What are OMBE expenditures to date for fiscal year 1976 by specific category?

(b) What is the total dollar value and number of various proposals and/or requests for funding submitted to OMBE to date during fiscal year 1976?

Answer. (a) See table below:

Fiscal year 1976 expenditures as of March 31, 1976

Category:

Business development organizations.....	\$18,093,823.01
Construction contractors assistance centers.....	3,272,254.85
Minority business and trade associations.....	1,593,511.62
Business resource centers.....	1,649,011.00
Private resources programs.....	1,664,939.91
Contract support services.....	2,704,127.99
Government investment.....	1,628,168.77
Business management development.....	1,216,714.41
Experiment and demonstration.....	1,902,128.14

Total 33,724,679.70

(b) As of May 28, 1976, 219 requests for funding (RFP's) with a total dollar value of \$34,661,611 have been submitted to OMBE during fiscal year 1976. In addition, 126 unsolicited proposals have been received. It is impossible to provide a complete estimate of the dollar value of these unsolicited proposals since many of them were submitted without a budget. However, the 52 such proposals submitted with budgets total \$5,717,477. Thus the total dollar value of submitted unsolicited proposals would probably be \$13-\$15 million. It must also be borne in mind that OMBE has been actively discouraging the formal submission of such unsolicited proposals because of budget constraints.

Question 3. Please state the average dollar return (in the form of contracts, loans, guarantees, etc.) for each of the following categories of OMBE funded activities, the total dollars expended in each category and the number of organizations in each category.

- National Business Development Offices.
- Local Business Development Offices.
- Trade Associations.
- Construction Contractors Assistance Centers.
- Business Resource Centers.
- State OMBE's.
- Pilot projects.
- Demonstration projects.

Answer. See table below:

DEPARTMENT OF COMMERCE, OFFICE OF MINORITY BUSINESS ENTERPRISE, ANALYSIS OF AVERAGE DOLLAR RETURN, FISCAL YEAR 1975

	Number of organizations	Expended (millions)	Total contracts and loans (millions)	Average return
National business development organizations.....	3	\$5.909	\$139.9	\$23.67
Local business development organizations.....	121	15.970	298.1	18.66
Minority business and trade associations.....	1	2.101	4.0	1.90
Construction contractor assistance centers.....	22	4.786	210.9	44.06
Business resource centers.....	25	3.473	4.5	1.29
State OMBE's.....	12	1.317	19.2	14.57
Experiment and demonstration ¹	NA	NA	NA	NA

¹ During fiscal year 1975 experiment and demonstration projects did not provide assistance in obtaining contracts or loans.

Question 4. (a) Describe OMBE's internal operational procedure required to evaluate a proposal for funding to establish each of the various type activities in the preceding question and what is the average length of time from the receipt of a proposal for

(b) Establishing a new organization in each of the categories, and

(c) Refunding of an organization in each of the above categories to actually entering into a contractual agreement.

Answer. The Office of Minority Business Enterprise determines what kinds of services are needed, where the services are needed, and determines the amount of funds needed to provide the desired services. In this regard there are four stages OMBE uses in evaluating a proposal for funding or refunding an organization to deliver the service either by contract or by grant arrangements. The four stages are Pre-Request for Proposal (Pre-RFP), the Request for Proposal (RFP), submission of proposal by the prospective contractor or grantee, and the Negotiation and Award stage.

Prior to OMBE's award of a contract or a grant, a pre-award survey is made to ascertain the capability of the proposed contractor or grantee, and to determine the impact the proposed organization will make upon the minority business enterprise effort. The staffing plans of the proposed organization are carefully scrutinized with particular attention to the quality of the proposed personnel. In addition, a determination is made as to whether there is a relationship of the staffing plans and personnel to the proposed Scope of Work and to the Time-Performance Plan. An analysis is also made of administrative cost.

The evaluation of a proposal for a contract or grant after submission by the proposed contractor or grantee involves review by internal OMBE offices and coordination with, the Procurement Division's Contracting Office, an office outside of OMBE. During the negotiation and Award stage, there is close coordination and follow-up activities between OMBE and Procurement Division.

The above internal evaluation procedures are followed for all projects to be funded by OMBE, whether those projects are national, multi-regional or regional, including those projects from a thru h. If the project is in a given region and proposes national impact, then coordination is accomplished between the involved regional office and the national office. On the other hand, if the project is national in scope and would have impact on all regions, coordination is accomplished among the national office and the regional offices. There is no significant difference in the evaluative procedure in the way projects are developed and processed.

It would be difficult to establish an "average" length of time for the evaluation of a new or former organization's initial or renewal proposal, because of the complexity of circumstances surrounding the process. However, the OMBE Funding and Implementation Plan Directive acts as a guideline in the establishment of time-frame bench marks in the funding and refunding process. Generally, the length of time to evaluate a new competitive organization is 3 to 3½ months; the length of time for evaluation of a contract or a grant generally takes 3 to 3½ months.

There will continue to be a limited number of pilot and demonstration projects solicited and funded by OMBE as has been the trend in the past, and future funding of *new* projects by OMBE will be significantly curtailed.

Other sources that give a more detailed description of OMBE's proposal evaluation process is the "Manual for the Management of Financial Assistance Program Activities," and OMBE "Orders" and "Bulletins."

Senator GLENN. Senator Johnston?

Senator JOHNSTON. Mr. Kasputys, does the Secretary of Commerce support the consolidation of Federal minority business efforts under an Assistant Secretary of Commerce?

Mr. KASPUTYS. Senator Johnston, I do not believe you were here when I was addressing my replies to the Chairman's questions about the consolidation. We do not support the transfer of direct Federal assistance programs from the Small Business Administration to the Department of Commerce. If I may, I would just briefly touch upon the reasons.

Principally, the Small Business Administration provides a full range of direct funding assistance to both minority and majority firms. Some of the programs that they have are not specifically targeted for the economically or socially disadvantaged groups are therefore available to minority firms. So we would not encourage a splitting of the direct financial assistance functions that SBA is now operating because a minority firm can now go to SBA and qualify perhaps under a regular SBA program for assistance.

Senator JOHNSTON. They can go there under a regular program, but that is the whole problem, there is no emphasis on it. They are thinking in terms of majority-owned businesses that have different problems altogether, that do not need any what you might call—what I call a fair advantage. I think the minority firms need a fair advantage and affirmative action in a loan program. If you are not thinking in terms of minority businesses, the problems are just different.

Go ahead.

Mr. KASPUTYS. Second, the EOL program, which the proposed legislation specifically addresses and provides for transfer from SBA to commerce, again currently is used by majority groups as well as by minority groups. I believe in fiscal year 1974, for example, about 30 percent of the EOL loans were made to nonminorities. So again we would have a problem in splitting up the EOL function. We rather believe that the present system, where the Office of Minority Business Enterprise operates as an advocate for minority businessmen and assists in obtaining whatever resources are available, both in the Federal sector and in the private sector, is the best arrangement. In this manner a minority business applicant can come to OMBE and get advice on private loans that may be available, procurements that may be available, other SBA assistance or direct Federal procurement assistance.

OMBE can provide the full range of advocacy services to minority business. The SBA, on the other hand, does have direct financial assistance programs. They do have the loan offices, they do have the field offices, they do have the servicing capabilities to provide for the maintenance of those types of loan programs, which is a rather extensive overhead burden.

Further, Senator Johnston, I am sure you are aware they do have an advocacy function in SBA for the minority functions as well. In your opening statement you did criticize the degree of coordination that existed between SBA and OMBE in the past. We fully concur with that criticism. Indeed, this is why the Office of Management and Budget, with SBA and Commerce, including OMBE, worked on a study of ways in which the two organizations could work together more effectively. The study addressed how we could target the OMBE management and technical assistance and the SBA management and technical assistance on those firms that have the greatest promise for development in the future, particularly the higher technology and manufacturing firms that would tend to provide long-term employment for minorities, as well as for majority employees, and have the best potential for growth in the future as a viable corporation, partnership or proprietorship.

Senator JOHNSTON. You do recognize there has been a lack of coordination, rivalry, acrimony, whatever other words you want to use, between SBA and OMBE?

Mr. KASPUTYS. I am not familiar with the degree of acrimony that may have existed but I certainly agree that there has been a lack of coordination.

Senator JOHNSTON. Inefficiency?

Mr. KASPUTYS. Yes, I think whenever you have a lack of coordination you have inefficiency in the system. We fully concur that we need to refocus on the goals for the minority assistance program.

Senator JOHNSTON. Do you think Senator Glenn was correct in his opening statement when he said it was like two lifeguards fighting over who shall throw the lifesaver towards the drowning man, while he drowns, they would be arguing over what to do?

Mr. KASPUTYS. That might be going further than I would, Senator, but there is certainly room for improvement.

Senator JOHNSTON. Do you not think that inefficiency is inherent in any operation where you have one goal with two groups with no head running both groups? Is that not just inherent in that kind of situation rather than the fact that these are not good people? There are people of good will in both agencies. Is it not inherent when you have no direction like this?

Mr. KASPUTYS. I think the concept of putting all minority assistance programs in one agency has some appeal until you consider some of the other tradeoffs. One that concerns me is our real long-term interest in enabling minority firms to participate in the private sector and to grow and stand on their own. That is really what we are after in the long run. That is the ultimate goal of the program. OMBE is most concerned with the transition from Federal assistance to total private operation independent of any direct Federal subsidy or support. We are concerned with picking the firms that are the most promising for the future and with the right amount of Federal assistance can accomplish this. I believe that a division of responsibilities with SBA as the banker providing Federal assistance to those firms, hopefully chosen appropriately, but with OMBE having the responsibility for the development of firms in the private sector toward a fully independent basis is a good division of responsibility. It does put the onus on OMBE to develop private markets and to develop Federal markets for minority firms where they are not competing in any specialized basis.

Mr. ARMENDARIS. Mr. Johnston, I would like to add something to Mr. Kasputys' statement on generating private markets. Private corporate markets have gone from almost a zero total in early 1970 to \$1½ billion a year in corporate purchases from minority firms in 1975 with \$1 billion 1977 figure anticipated. This has come through the generation of activity that OMBE has had in the corporate world. There are 700 corporations involved. Of these corporations 150 are in the Fortune 500. There is an independent marketplace. Government procurement has grown gradually to over \$1 billion over a longer period of time. I have no doubts that the time will come soon when the private markets will go farther than the Government markets. During the early period of time when OMBE was assisting businesses we were almost totally dependent on SBA loans. The average minority could not get a loan in the private market without getting some kind of Government guarantee or putting up an unusual amount of collateral. Half of our loans today are from institutions totally independent of any SBA or Federal guarantees. So this trend of minorities now becoming more independent in the financial marketplace is also a good trend. What I am saying is that minorities are now becoming independent businessmen. They are still not fully there but they are moving in that direction. I think that for us to be able to keep this momentum going we would have to remain not as the money providers but as those who are generating the opportunities to get packages that banks are interested in.

If I may illustrate we have 200 business development organizations, and in these 200 business development organizations for every two businesses or people that come in and receive assistance, one gets turned down by the bank. So what we always do is generate more packages, more applications, more promotions than are actually accepted by those who measure the quality of the loan for financing. If the entrepreneur can come into our offices and expect the money and the promotion, it is going to be very tough to administer a program and be able to pick who you are going to give the money to.

So you have to have the money discipline in one area, the promotion discipline in another area. This is basically why I think it is important that this committee take that into consideration, OMBE has been a good promoter-developer, SBA has been a good guarantor of funds for minorities.

Senator GLENN. According to the original time table the Executive order was to be out on April 15, and you were to have this implemented by April 30. Judging from the planned coordinating activities a great deal of work must have been required. You feel these new plans will take care of the problems that Senator Johnston is addressing and that I addressed earlier. Certainly a portion of your research and ideas on implementing this must be completed. What specific steps have been planned already to take care of this problem, the problem you expressed in the lack of coordination and inefficiency and the issues that Senator Johnston mentioned? What steps are you taking now?

We do not have to wait for an Executive order. I know that may give it the final stamp of approval but certainly you have plans underway now. Can you give us a one-, two-, three-, five-step program to illustrate how we are going to take care of these problems irrespective to an Executive order. What steps are being taken now?

Mr. KASPUTYS. We have drafted a memorandum of understanding between OMBE and the Small Business Administration which I would anticipate will be completed within the time frame that is stated. That memorandum of understanding—

Senator GLENN. Will that be out by April 30 on the original schedule?

Mr. KASPUTYS. Yes, sir, that memorandum of understanding will provide for, first of all, the OMBE promotion level and the method by which OMBE will promote SBA direct financial assistance programs such as the EOL program, the MESBIC program, and the procurement program. We will have agreed on methods, upon target firms, and upon levels of assistance to be provided.

Second, and I think very, very important, it will agree upon a means of providing management and technical assistance from OMBE resources for SBA clients. As this committee knows, the SBA does have its own management and technical assistance capabilities which it provides to SBA clients. Some of those are through appropriated funds and a great many are through volunteer organizations throughout the country, very effective organizations that do provide this type of assistance.

We further have the problem, however, that if OMBE's interest is eventually in enabling an SBA client to become independent of Federal financial assistance, the OMBE effort must focus down the road

after the SBA financial assistance perhaps has expired. It must concentrate on what that firm is going to do in the future, what markets it is going to serve, what products it will produce and so forth. So there is a real need to introduce the OMBE management and technical assistance and focus it on those firms which can really grow. We intend to have specific procedures which will operate principally through the SBA regions and the OMBE regions, because you have to get out into the field where the problems exist and where the resources are available to intelligently decide which source of management and technical assistance you will apply to which clients. We will have the machinery for that.

Senator GLENN. Can we get a copy of this agreement by April 30 for the committee record?

Mr. KASPUTYS. I do not see any reason why not, Senator.

Senator GLENN. Good.

[The information referred to and subsequently supplied follows:]

INTERAGENCY AGREEMENT
AND
MEMORANDUM OF UNDERSTANDING
BETWEEN
THE DEPARTMENT OF COMMERCE
AND
THE SMALL BUSINESS ADMINISTRATION

WHEREAS, the establishment of new minority-owned firms and the expansion of existing minority-owned firms will enhance the economic prosperity of this Nation, and

Minority business firms face institutional and other barriers in gaining access to the business mainstream, and

The Federal Government has a responsibility to ensure that all persons without regard to race, sex, or ethnic background have equal access to the business mainstream, and

Executive Order 11625 establishes as policy of the Federal Government support for minority business enterprise, and mandates the Secretary of Commerce and the Office of Minority Business Enterprise (OMBE) to implement this policy, and

The Small Business Administration (SBA) is necessary to the effective discharge of Executive Order 11625, and

The capabilities and functions of the Department of Commerce, OMBE, and SBA provide many opportunities for cooperative effort in support of minority business enterprise.

NOW, THEREFORE, it is hereby understood and agreed that to the fullest extent authorized by statutes, and wherever it is feasible and practicable, OMBE and SBA hereby mutually pledge the cooperative use of their resources, talents, and facilities in furtherance of providing effective and efficient assistance to the minority small business community. To this end, we hereby pledge and direct the following actions:

1. OMBE and SBA shall coordinate minority enterprise program and budgetary planning activities to ensure that adequate resources are available to attain the mutual objectives of both agencies. In carrying out this action, the budget officers and appropriate program staff members shall meet as appropriate, to discuss and agree on budgetary requests and to coordinate program plans. Emphasis shall be placed on relating OMBE packaging

objectives to SBA's 7(a) and EOL programs, the requirements of 8(a) firms for assistance and OMBE/SBA capability to satisfy those requirements, the provision of matching funds to support the MESBIC program, and the availability of sufficient SBA funds to support projected requests.

2. The Director, OMBE, and the SBA Associate Administrator, Minority Small Business (MSB), shall on a continuing basis, identify criteria, develop projects, and establish joint guidelines for use by their agencies' field activities in support of the minority enterprise program in the implementation of this Agreement; in addition, the Director and Associate Administrator shall periodically conduct joint evaluations of the extent to which mutual cooperation and assistance between their agencies has taken place; they shall semi-annually report progress, problems, and achievements to the Secretary and the Administrator.

3. Regional and field offices and activities of OMBE and SBA shall, to the fullest extent practicable and permissible by law, coordinate day-to-day program activities and conduct joint projects with a view toward eliminating duplicative activities, conserving Government resources, and providing more effective and efficient assistance to minority small businesses. Accordingly, formal agreements shall be executed and updated periodically within each Region between OMBE-SBA Regional Directors which shall set forth details, projects, plans, and orders for complying with this provision of the Agreement. The OMBE-SBA Regional Directors shall provide a joint report, semi-annually, of their activities in this regard to the Director, OMBE, and AA/MSB.

4. Generally, these Regional Agreements will demonstrate SBA's full responsibility for comprehensive management of its socially or economically disadvantaged assistance programs, including the EOL loan program, the MESBIC program, the 8(a) procurement program, and related management and technical assistance activities; while OMBE, as the focus of the Federal minority enterprise program may promote, or develop customers for, the EOL, MESBIC, or 8(a) programs, pursuant to these Regional Agreements.

Further, these Regional Agreements will encompass SBA's responsibility for assuring that SBA's and OMBE's management and technical assistance resources at the Regional level will be adequate for minority firms receiving SBA's financial or procurement assistance. To supplement its own management and technical resources, SBA will use OMBE's

management and technical assistance contractors when feasible. OMBE assistance will be provided pursuant to these Regional Agreements between the two agencies, and will not necessarily be restricted to the programs mentioned above, but will reflect OMBE's responsibility to reduce dependence on Federal assistance for successful minority enterprise development.

Within the above guidelines, these Regional Agreements will specifically detail the responsibilities of each agency to provide the resources necessary to carry out the minority enterprise program activities mutually agreed to while addressing, but not being limited to, at least the following:

- a. the method by which both parties will identify firms to receive technical assistance and by which both will be kept aware of those selections and of the progress of technical assistance with respect thereto;
- b. the amount of technical assistance that shall be made available by OMBE to recipients of SBA financial or procurement assistance, the priorities by which such assistance shall be delivered and the method for assuring timely delivery;
- c. the extension of technical assistance to minority firms which are not recipients of SBA financial or procurement assistance, the priorities by which such assistance shall be delivered and the respective responsibilities of OMBE and SBA for providing such assistance;
- d. the means that will be used for early identification of firms that warrant special technical assistance either because of the difficulties they are encountering or because of the potential they offer for growth;
- e. a method for joint consultation with respect to admitting firms into the EOL and 8(a) programs, and the extent to which OMBE will promote or develop customers for the EOL, MESBIC, and 8(a) programs; and

- f. methods for coordinating the 8(a) program and OMBE's private sector marketing program.

5. In recognition of the critical importance of the MESBIC program to insure the availability for equity capital to minority entrepreneurs, both agencies shall undertake to coordinate various aspects of MESBIC private capital generation, licensing, and provision of matching funds. OMBE shall provide to SBA, on a continuing basis, projection of private capital interest in this program. SBA shall consult with OMBE concerning the potential impact of any changes in MESBIC regulations or policy.

6. Finally, these Regional Agreements will reflect, pursuant to a plan to be developed within 60 days from the signing of this Interagency Agreement by a Central Office OMBE-SBA joint task force, the following:

- a. OMBE's responsibility, within its given program resources, to offer help to the minority borrowers, 8(a), and Minority Vendor Program clients which either SBA or OMBE identifies as in need of assistance in obtaining non-Federal markets, private financing, or bonding as part of OMBE's development of effective field programs to aid minority firms to become independent of Federal special assistance; and
- b. a methodology whereby SBA and OMBE shall provide necessary assistance to recipients of SBA economic opportunity loans to improve the capability of such recipients to have access to private financial resources.

In summary, Commerce and SBA offices and officials shall, to the fullest extent possible, cooperate in joint undertakings to assure implementation of this Interagency Agreement. These cooperative activities shall include:

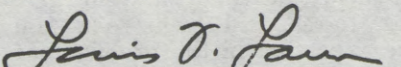
1. the development of both short and long range joint objectives and of a comprehensive evaluation system;

2. the development and completion of: (a) a joint review of management and technical assistance staff standards, (b) a joint evaluation of the SBA minority vendors program and the OMBE purchasing council program, and (c) a joint effort to review and improve knowledge of success factors of minority firms; and
3. mutual coordination of program improvements such as SBA's improvements to the MESBIC program and OMBE's efforts toward greater use of the private sector.

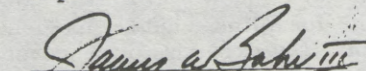
To achieve the above, the SBA and OMBE shall, within 30 days after execution of this agreement, through appropriate action, ensure knowledge of, and compliance with, this agreement by their respective regional organizations.

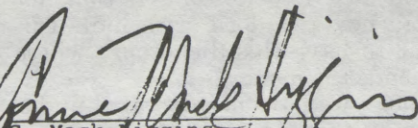
Nothing in this agreement shall be construed in any way to authorize any action at variance to existing statutes or regulations.

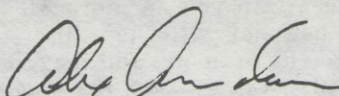
for the
Small Business Administration


Louis F. Laun
Deputy Administrator

for the
Department of Commerce


James A. Baker, III
Under Secretary


C. Mack Higgins
Associate Administrator
for Minority Small Business


Alex M. Armendaris
Director, Office of
Minority Business
Enterprise

Washington, D.C.
May 4, 1976

Senator JOHNSTON. Mr. Armendaris, were you saying a moment ago that you need to have the promoter of the loan and the one who furnishes the money in separate offices because somehow there is no discipline to it if you do not have them separate?

Mr. ARMENDARIS. I think you need to have more promotion, always, to insure that more viable businesses are surfacing, so you have to have an accelerated amount of promotion in identifying. Financial institutions generally have a good eye for identifying what is a good investment and what is not a good investment. So our original purpose was to start up businesses, as many as we could, we now concentrate on the businesses that have a chance for survival.

Senator JOHNSTON. All of this can be done by one agency in Commerce, can it not?

Mr. ARMENDARIS. I just have found right now, like I said earlier, that of the total clients we provide counseling to not all of them are ready to go into business. When you are total house for this type of promotion it makes it difficult.

Senator JOHNSTON. You are not in the business of just promoting, you want to help these people get started?

Mr. ARMENDARIS. We provide assistance after they get started. We do basically three things, Senator, we provide management and technical assistance, that includes the initial counseling and the after counseling.

Senator JOHNSTON. I know what you do. I thought I understood you to say a moment ago that you could not be a promoter and a furnisher of money all in the same department that this would not give the discipline. That seems to me contrary to reason. It seems to me you have the expertise or whoever has the expertise, in the problems of minority businesses are also to be able to determine what is a good loan risk because a business is a business and a minority business has some special problems that you would have expertise in. Is that not true? Can you not do it all in one agency and do it with more efficiency and with more discretion that to have this dichotomy where one guy promotes and the other guy lends the money?

Mr. ARMENDARIS. It is our experience—we have not operated under that. That would be something new. I think we have operated so that most of our loan activity comes from the banking institutions and our relationships with those banks. We do not have or exercise any control over the criteria that each individual bank uses to determine to quality of the loan. We find that arrangement helpful to us since it insures that we can not put anything past them that is not of sufficient quality.

Senator JOHNSTON. We still have that dichotomy but I thought you were talking about the EOL program.

Mr. KASPUTYS. Could I add my own concern that if OMBE did have the capability to provide direct financial assistance, that their ability to obtain private sources of financing could be somewhat diminished. When they go to a bank or when they encourage the formation of investment via MESBIC, that institution in cases of questionable risk may simply suggest that OMBE use its own financial resources and its own direct assistance programs rather than to provide the assistance itself.

Senator JOHNSTON. I will suggest to you that banks look at these things by their own criteria. If they think it is a good loan, considering the business risk and considering the guarantee they will get, they will go into the loan in spite of the fact that the EOL program might exist right there in the same department. After all, the EOL program is another part of the Federal Government. They can make that answer right now. They could say, "Why do you not go to EOL, that is another branch of the Federal Government, recommend it to them." They could make that argument right now.

Mr. ARMENDARIS, under Executive Order 11625, OMBE is charged with the duty to coordinate as consistent with law the plans, programs and operations of the Federal Government which affect or may contribute to the establishment, preservation and strengthening of minority business enterprise. In other words, under that present Executive order which was rendered back in October 1971, you are presently charged with the duty to coordinate all of these minority programs. What has OMBE done pursuant to that duty to coordinate?

Mr. ARMENDARIS. Specifically we have supported and staffed the interagency council chaired by the Under Secretary. The members of that council are the Under Secretary or deputy administrators of some 30 or so significant, Federal departments or agencies in Washington.

The council has been meeting regularly. They have set up task forces that work in procurement areas and education areas and other specific areas of activity. These task forces are staged and also operated by different members of the task force. We have the heavy involvement of the Department of Transportation, the Department of Defense, the Department of HUD, all other major Federal agencies in this activity. This is one area of coordination that takes place and all this activity is coordinated through the OMBE personnel and of course chaired by the Under Secretary of Commerce.

In addition to that we have——

Senator JOHNSTON. How often does that interagency council meet?

Mr. ARMENDARIS. They just met a month ago. They meet twice a year for general meetings, but they meet in task force meetings every month or so. They get together and the task groups keep——

Senator JOHNSTON. Is that under your aegis?

Mr. ARMENDARIS. That is under the Under Secretary of Commerce. We do the staff work for that, Senator.

The second activity we perform in government coordination, would be through the interagency agreements that OMBE has made with SBA, with HUD, with NASA, with the Department of Interior. These are specific agreements for specific projects. The Alaska pipeline provided opportunities for minority firms through the cooperation of the Department of Interior and the Alaska Pipeline Co. HUD rehabilitation programs for the rebuilding of homes have been designed to insure that minority individuals would get contracts for many of these jobs. Along with SBA, we also coordinate the program and staff the program for the minority business opportunity committees, 35 MBOC's throughout the country that generate contract opportunities at the local level. These are committees that generated education and procurement opportunities and training oppor-

tunities at the local level for the minority business people. So our general involvement in the Federal activity basically is confined to those three areas, however, I am sure I could provide you with some more extensive activity on the Federal side.

Senator JOHNSTON. I have just one more point here. The point I am making is that since 1971 OMBE has been charged with coordination of the Federal activities and yet we have continued complaints of lack of coordination. I would suggest that is not because you are not a good man—I think you are. It is the simple fact that until you have all of those activities under one head with one direction there is no way you can coordinate them. I would suggest that under this new program whenever it comes out you are going to have the same problem until you put all of these activities under one head. Does that not make sense?

Mr. ARMENDARIS. Yes, it does, Senator. I always have felt that it is important that there be a clarification of roles with each agency carrying out its clearly defined function. I believe as I suggested earlier that the Small Business Administration can effectively guarantee loans and OMBE can effectively promote business opportunities for minority business people.

Senator JOHNSTON. Thank you very much. I may have one or two questions. Thank you very much.

Senator GLENN. Go ahead.

Mr. KASPUTYS. I was going to add to the last statement in response to Senator Johnston's question, that we do recognize that there needs to be some type of oversight over the coordination efforts of both the Office of Minority Business Enterprise and the minority program administrators within the Small Business Administration. To this end we have established a staff capability in the office of the administrator of SBA and in the office of the Secretary of Commerce to provide this oversight.

We have fulltime staff people designated to see that this coordination mechanism does indeed work. We are hopeful that it can work.

Senator GLENN. There are two items before we leave. You will furnish us with the interagency agreement by April 30, correct? And also what is the date we can expect the Executive order to come out?

Mr. KASPUTYS. Yes, sir.

Senator GLENN. I do regret that SBA has not been here to represent themselves. We might have another day or so of hearings later on so that they can come and we can all sit and discuss some of these questions, perhaps after this interagency agreement has been worked out so we can use it as a basis to see whether we need to continue with what has been proposed in this act. So that might be a productive way to plan how we are going to go in the future here.

I thank both of you, Mr. Armendaris, Mr. Kasputys, for your testimony this morning and I look forward to getting information from you by April 30.

Senator JAVITS?

Senator JAVITS. I have just come from the Foreign Relations Committee. I would like to thank the Chair for asking the questions at the request of one of the minority counsel.

Senator GLENN. I read your questions so that everyone had the opportunity to become aware of your interest in these particular areas. Of course we are all aware of your interest in this field. Answering your questions requires some preparation therefore these gentlemen have agreed to send in the information. I asked that they be sent both to your office and to committee records.

Senator JAVITS. I ask unanimous consent that the answers may be included in the record.

Senator GLENN. Thank you.

Thank you very much, gentlemen.

Our next witness this morning is Mr. Ronald H. Brown, Director, Washington Bureau, National Urban League.

We welcome you here this morning. I believe I have seen you during the morning sector so you have heard what has transpired. We have a copy of your statement.

TESTIMONY OF RONALD H. BROWN, DIRECTOR, WASHINGTON BUREAU OF THE NATIONAL URBAN LEAGUE

Mr. BROWN. I would like to read it in the record and in my oral presentation I will make some minor changes. I hope they will be briefer than the remarks. I am not sure whether the testimony earlier this morning is going to help my presentation or not. We do have some disagreements with what has been said before.

As you indicated, I am Ronald H. Brown, director of the Washington Bureau of the National Urban League. It is of course a great pleasure for us to have the opportunity to present our concerns on an area in which we have been very much involved in the last many years before this subcommittee.

The National Urban League is an interracial, nonprofit, and non-partisan community service and civil rights organization. During its 65-year history the league has grown to include 104 affiliates located in cities throughout the United States. The league and its affiliates work to improve the living conditions of blacks and other disadvantaged minorities and to foster better relations between the races.

Among its many activities, the National Urban League has had a longstanding interest in the development of minority businesses. In 1972, the league obtained a contract from the Office of Minority Business Enterprise to establish five business development organizations [BDO's]. The BDO's provide technical assistance to minority businessmen in such areas as management, marketing, and accounting. Four of the five BDO's are still in existence and have been refunded at the local or regional level. Present BDO sites include Jacksonville, Tulsa, Indianapolis, and Columbia, S. C. In some cases, the local Urban League affiliate administering the BDO has obtained supplemental funding from private sources.

Under a national contract from the Department of Transportation, the National Urban League identified and catalogued minority business enterprises which were qualified to be highway contractors in 22 States. In the case of businesses which did not meet the qualification criteria, the league provided management with information which should have helped in overcoming noted deficiencies.

In 1969, the National Urban League was instrumental in obtain-

ing a grant from the Economic Development Administration which led to the development of an organization similar to a BDO in San Diego. That program has developed a plan for an industrial park which should increase minority employment in the San Diego area, and it has provided business development assistance to minority businessmen.

At present, fully one-third of the league's local affiliates are engaged in some form of minority business development. They provide technical assistance to minority businessmen, help to create housing, establish community development corporations, and encourage the development of black banking interests. Having had such programmatic experience in minority business development, the league and its affiliates recognize the value of the philosophy of S. 2617.

The administration of most government programs designed to assist minority businesses under a single entity like the proposed Minority Business Development Administration would lead to a result that would be greater than the sum of the parts. The reasons for this conclusion can be found in a recent publication of the Office of Management and Budget entitled, "Interagency Report on the Federal Minority Business Development Programs," which was published in March of this year. That report capsulized many studies which have been made of minority business programs including the high failure rate among SBA loan recipients. The studies suggest that the probability of failure was frequently predictable from information available to the loan officer at the time the loan was negotiated. I think that a fair summary of the findings was that there must be greater coordination of technical assistance with financial assistance. This is confirmed by our Urban League BDO's. In Tulsa, for example followup studies on BDO clients show a failure rate of about 7 percent as compared to the 27 percent rate found by the General Accounting Office in one of its studies. The League's Tulsa BDO makes it a practice of either providing technical assistance directly to remedy known deficiencies or it recommends a source of technical assistance available to the minority businessman.

The findings of the OMB report and the observation of our league BDO's clearly indicate that many minority businesses need more assistance than just debt or equity capital. The necessary technical assistance could be best provided by a coordinated agency such as that proposed by S. 2617. From the OMB report, it would appear that the Federal Government is now on a schedule which should lead to improved program coordination under the currently authorized OMBE and SBA structures. The fact that such an interagency process is necessary is, of course, indicative of the desirability of a single agency to deal with many of the problems.

In other words, we feel that coordination is not enough. There have been attempts at coordination in the past that have been grossly unsuccessful. We feel consolidation is a much more appropriate technique to be used.

Other than the problems inherent in the current SBA-OMBE structure, the single agency concept of S. 2617 would help to avoid duplication of effort in setting up minority business development

efforts in other governmental agencies. An example of the effort that must be expended by persons in and out of government to insure that minority businesses participate to the fullest extent possible in governmental contracts can be seen in the reorganization of the railroads in the Northeast and Midwest. S. 2718, the rail reorganization bill, finally included a provision for a minority resource center, but only after the absence of such a provision had been pointed out by the black business community. Not surprisingly, the U.S. Railway Association—USRA—ConRail's predecessor, was more interested in the technical and financial problems to be solved than it was in the development of minority business capability. It was an uphill fight to gain recognition of the need to develop minority businesses, and I believe that the proposed Minority Business Development Administration ought to be charged with the responsibility of seeing to it that the important national policy of developing minority business is an integral part of any Government agency and instrumentality.

This is particularly important in such projects as the Alaska pipeline and the rail reorganization where governmental influence is high, the planning leadtime is long, and the period of financial investment and expenditure is fairly short. The resulting minority business opportunity "window" becomes very short in such a situation. The risk of loss of such opportunities would be minimized by the creation of a single agency with the authority to institute the necessary interagency procedures and processes to insure minority business participation.

The upgraded duties and responsibilities of the proposed Minority Business Development Administration, including interagency coordination, require the elevation of authority to the Assistant Secretary level as provided by S. 2617. The underlying purpose of the Government's minority business programs, be they the current OMBE and SBA or the proposed Minority Business Development Administration, is to bring about constructive change. Change is always difficult, and the changes necessary to insure that this Nation's minorities participate fully in all aspects of American life are not easy to achieve. The programmatic success of these complex changes would clearly be enhanced by the more certain authority of an Assistant Secretary of Commerce.

While the League supports the intent and purpose of S. 2617, we are also evaluating H.R. 12741, a bill recently introduced in the House by Representative Parren Mitchell who has been one of the leaders in this area in the House. This bill addresses the same sort of problems as does S. 2617, but it focuses on improving the capability of the Small Business Administration. The initial reaction of Urban League experts in the field is to favor increased authority within the Commerce Department for all technical assistance to minority business, including interagency efforts. There is, however, some reluctance to complete removal of loan programs from SBA. In our conversations with personnel in Urban League BDO's it was suggested that the Minority Business Development Administration be given some kind of joint authority on SBA loans when minorities are involved. It should be noted, however, that Urban League BDO's

report excellent cooperation from both OMBE and SBA at the present time. It might be that complete removal of all minority business development programs from SBA could precipitate a return to what many felt was an insensitivity and an inability of SBA to deal with the problems of minority businesses during the Federal Government's early years of assistance to minority businesses.

In any event, we hope that the appropriation authorization provided by S. 2617 will be adequate. When all of the Federal programs outside of OMBE and SBA are taken into account, the calculation of adequacy becomes one which can only be made by persons sufficiently familiar with the requirements of each agency. The calculation should obviously be based not only on current programs and appropriations, but also on what may be required to do an effective job.

Finally, Mr. Chairman, I would like to commend you and the subcommittee and Senator Javits, and particularly Senator Johnston and his staff who in this particular instance have taken a leadership role in putting before us a piece of legislation which we strongly feel is a step in the right direction, a good first step. It seems that for too long we have heard a lot of criticism and a lot of rhetoric about what is wrong with our efforts to improve and increase minority participation in the mainstream of business in our country but there has been much too little action to see that actually takes place.

We strongly feel the legislation before us this morning clearly provides that kind of opportunity.

Thank you very much.

Senator GLENN. Thank you, Mr. Brown, for your excellent statement.

As I would summarize your statement, I presume you are in favor of upgrading the authority level. However, you have some questions in regard to what specific programs might be transferred.

On the last page of your testimony you indicate that you feel you are getting excellent cooperation from both OMBE and SBA at the present time. If that is a fair statement, what areas of particular difficulty do you see in dealing with either SBA or OMBE now that should be transferred?

Mr. BROWN. I would say we are in favor of total transfer and total consolidation. The one point I raise is the one about the loan authority. The only reason that there is question—and we have not come down against that transfer—the only reason there is some question in our mind about it is the terrible record of SBA particularly in the early years of any sensitivity to the problems of the minority businessman.

We are concerned if you pull out that one remaining thread of at least verbal commitment to some kind of progress that there may be just a lapse back into the old kind of insensitivity that occurred in the past. It seems to me though there is no overriding reason other than that concern why OMBE could not take on the responsibility.

We would disagree with testimony to the effect that it is not appropriate to combine the two or there is not the capability to do the job. We just have a concern about what would happen to the agency that is losing the authority as far as its own capability and commitment to deal with minority business.

Senator GLENN. If you had to prioritize the programs of transfer, where would program 8(a), which involves Government procurement, be?

Mr. BROWN. Yes; I think that would be high on the list. I think that is a critical program and one that many minority businesses are dependent on for their survival. I think that would be one of the primary programs for transfer.

Senator GLENN. How do you look at the managerial or the technical assistance situation? I presume technical assistance was another term for managerial assistance.

Mr. BROWN. That is correct.

Senator GLENN. Do you think that these can be upgraded in their existing areas? How would we upgrade that which seems to be one of the critical areas according to your testimony and other information we have had elsewhere?

Mr. BROWN. I think one of the ways to move toward upgrading it is the consolidation. Right now there are so many places to go for technical assistance, people are getting it from different places, and we feel if you look at Senator Johnston's testimony, there are 28 different units doing something in this area. If we are able to consolidate them under an Assistant Secretary of Commerce in one place we would then be able to provide a much broader range of technical assistance which would be much more helpful to minority businessmen.

Senator GLENN. Thank you.

Senator Javits?

Senator JAVITS. Thank you very much, Mr. Chairman.

I came essentially to listen. I am very interested in this particular witness favoring this consolidation. It is a fact that just consolidating, not coordinating, doesn't necessarily get you anything.

I was going to ask you this question. As this is a mixed problem of management and finance, do you think we ought to think of an even longer range and broader terms than this bill, in terms of some form of paralleling the World Bank which is both a financing and a technical assistance agency, indeed one of the great attractions of our putting money into the World Bank is that they do a very much better job, a much more hardheaded job on the developing countries than we do as a Nation? Without in any way denigrating this bill and being in thorough favor of it, but looking at the next step down the road as to what we really need to do about minority business, can you give us any opinion on it?

Mr. BROWN. There is no question about that, Senator Javits. We would concur that there needs to be some kind of long-term parallel road to take us eventually to a point where we have a unit like a World Bank dealing with minority business development. We indicate in our testimony that we do favor this as a first step. We would not want to give the impression that this is going to solve all the problems of minority business enterprise. We think it is an important first step and that it recognizes some basic deficiencies and moves to correct them and we would certainly be in support of a long-range program that would move in the direction that you suggest.

Senator JAVITS. If the authors of the bill have no objection, I would like to suggest including in the record a measure for a domestic de-

velopment bank which I have been thinking about for some years just to show our thinking is not shortsighted. We are looking down the road further than that.

Senator GLENN. We will be happy to do that.

[See appendix, p. 137, for text of S. 3111.]

Senator GLENN. Senator Johnston?

Senator JOHNSTON. I think the parallel between the need for a World Bank for the minority businesses is an excellent one. It is what we envision as the ultimate result of this bill, because we do envision putting the technical assistance, the loans, the grants, the whole minority business effort, consolidated under the Assistant Secretary. So I think that is precisely the need.

I would hope that OMB would recommend the transfer of sufficient efforts in this respect to achieve that goal to get the full panoply of services that the World Bank does take some evolution in development. I think that is precisely the goal here.

I want to thank you, Mr. Brown, for your kind words and for putting so well the difficulties we have in trying to coordinate all of these distinct programs that we have now. You so well pointed out to consolidate these programs would give you an effort that is greater than the sum of its parts. It seems to me that any time you try to coordinate different agencies of equal dignity with no head, with no direction, it is just inevitable that you are going to have that inefficiency, that competition, that lack of coordination.

I have no question, Mr. Chairman. Thank you.

Senator GLENN. Thank you very much, Mr. Brown. We appreciate your testimony.

If the committee staff has further questions or if we individually have further questions, I hope you could respond to them and they would be made a part of the committee record.

Mr. BROWN. I would be glad to do so.

Senator GLENN. We appreciate your being here this morning. Thank you very much.

Senator GLENN. Our next witness this morning is Mr. Charles W. Poe, president of the Metropolitan Economic Development Association in Minneapolis.

Senator Mondale hoped to be here this morning. However he relayed a message expressing his apology for being unable to be here to introduce you, Mr. Poe. He has sent a statement detailing his personal knowledge of your activities and of MEDA's activities. He indicates in this statement his involvement in helping be there for the dedication and of opening some of these in the recent past. He asked his statement be submitted in the record.

We will submit his statement of introduction for the record. He does send his regrets that he cannot be here at this time.

INTRODUCTION OF CHARLES W. POE, JR., PRESIDENT, METROPOLITAN ECONOMIC DEVELOPMENT ASSOCIATION, BY SENATOR WALTER F. MONDALE

I am delighted today to have the privilege to introduce Charles W. Poe, Jr., President of the Metropolitan Economic Development Association. Under Mr. Poe's outstanding leadership, MEDA has made a tremendous impact on the development of minority business opportunities in my home state of Minnesota.

MEDA began in 1971 with the goals of providing management advice and financial development assistance to promising minority businesses. Its initial

funding came from the Twin Cities business community. MEDA's 1975 Annual Report lists 79 area corporations and foundations as its supporters, and it operates under a major contract from the Office of Minority Business Assistance. Certainly this rapid development is tribute to Mr. Poe's great abilities in providing direction and leadership. It is testimony also to the vital role that MEDA plays in the Minnesota economic community.

MEDA now provides several major services to developing minority businesses. Through its accounting and legal resources, it helps assure that new enterprises enter the competitive business environment on a sound footing. Working with the established business community, the Small Business Administration, and the Federal Executive Board, MEDA has been remarkably successful in generating contracts for minority business. In the last three years alone, it has helped to generate almost \$4 million in procurements for Minnesota minority businesses. And through its unique relationship with the local banking community, MEDA has played a crucial role in the development of financial support for minority business efforts. In addition it operates its own fund to provide seed monies to new enterprises.

These accomplishments, significant as they are, tell only part of the story about MEDA's and Mr. Poe's tremendous contribution to Minnesota. I had the distinct privilege of helping to open the most recent, MEDA assisted, minority business. It was a grand and festive event, and it brought together some of the leading figures from Minnesota's business community, athletic world, and from federal, state, and local government. It represented the merging of private and public efforts in support of an indigenous community effort. This combination of energies and talent, which MEDA brought together and which culminated in this highly successful opening, had tremendous social and economic importance. I was very proud to be part of that event.

It is thus with great pleasure that I introduce Mr. Poe today—not only in recognition of the outstanding job he has done as President of MEDA, but also in tribute to his broader contribution to our state.

Senator GLENN. We welcome you and your testimony in whatever manner you wish to present it.

TESTIMONY OF CHARLES W. POE, JR., PRESIDENT, METROPOLITAN ECONOMIC DEVELOPMENT ASSOCIATION, MINNEAPOLIS, MINN.

Mr. POE. Rather than read my testimony, I would prefer to highlight it, if I may.

Senator GLENN. Your whole testimony will be submitted for the committee record.

Mr. POE. I would like to have that done for the record.

First of all, we endorse S. 2617. By "we" I mean our organization and several of our counterparts headquartered out of the OMBE Chicago regional office.

MEDA is a Twin City business community organization and receives a variety of support from some 79 firms, foundations and individuals and in my judgment acts as a model, perhaps, for what we are about today. We see 2617 as pretty much of a starting point.

The point just made in terms of clout I think is certainly enhanced by the elevation to that of an administration under an Assistant Secretary in the Department of Commerce.

In preparation for our testimony, we discovered there is, in fact, some opposition to the idea of Federal involvement or a Federal role in minority business development. Of course, we would take the opposite position. I think there is quite a history of Federal involvement in this whole idea of the capitalistic system. So it is time, we think, for minorities to have the same kind of organized assistance. What we are speaking to primarily is the idea not only of localiz-

ing the responsibility, but localizing the accountability with commensurate authority. We differ somewhat from the approach taken, with regard to the assignment, in the legislation of all of the separable activities of the Federal agencies and that of the lending activities of SBA. We try to look at it from a business perspective, what makes business sense.

In our judgment it seems to suggest that one of the things we want to do is first of all strengthen the role of the Associate Administrator for Minority Small Business within the SBA so that there is in fact some direct impact on policy and funding. For example, just recently we learned that the SBA has contemplated reducing the 90 percent guarantee position to a 75 percent position. That makes no sense at all if you are talking about economic development, for example, on an Indian reservation. There you are talking about 95 or perhaps 100 percent if you are serious about minority business development.

We are serious about minority business development. We feel very strongly that a fresh look ought to be taken.

I was very surprised to hear the Department of Commerce speak to the "sunset" law in the testimony today because that is also where we are. We believe that you have an opportunity with the creation of this new agency, to in fact implement a "sunset" law approach.

We are recommending, however, 7 years, i.e., a date certain. But I think as a concomitant of that you have to also authorize an initial appropriation of at least 3 years of funding. A brand new agency is not going to be able to compete with the old line agencies and their vested constituencies and staffing to compete for the dollar through OMB.

The other thing along this same line is that we feel the whole sunset law concept establishes some accountability. The agencies are going to have to demonstrate in some quantitatively measured terms: one, the need still exists; two, it has in fact addressed that need and done so in a very objectively measured sort of way.

Also in the discussion so far today we have heard about 8(a) authority and lending activities. We recommend for a trial period at least of 1 year that the SBA retain its minority lending support activities. But the difference we have is that this responsibility be assigned under the bill to the Assistant Secretary of Commerce. Perhaps you might envision it better in terms of a profit center.

Does it make more sense for the person with the responsibility for the profit center to have duplicated at the headquarters office something that might better be done in the field?

I guess what I am saying is let's take a look and see if strengthening the Associate Administrator role within the SBA, with the full responsibility however, for all the Federal goals and objectives in the minority business development, be assigned under the bill to this new Assistant Secretary of Commerce and the several functions of the other agencies now involved. What you do is add then the authority for the Assistant Secretary to make the determination which of the new tasks can better be performed where they are.

I think it was you, Senator Johnston, who spoke to the fact that there may be some activities which require a full-time body or full-time retention in one of the Federal agencies and need not be severed

unless the Assistant Secretary makes the determination that it ought to be. But this person has to have the clout at the Washington level to make that kind of determination. We would strongly endorse this approach.

The other thing not spoken to yet is that the Assistant Secretary ought to have 8(a) authority. People in the minority business development community area are working very diligently at increasing the role of non-Federal activity in terms of minority procurement, and yet as I understand what goes down now in the Federal sector there is no congressional mandate for the Federal agencies to, in fact, make purchases from minority business. As a result, SBA does not have any real authority in this area. So as part of our recommendation we are suggesting that the Federal agencies, in fact, submit to OMB as part of their funding requests specific dollar objectives for purchases from minority businesses. Concurrently with that submittal of their funding request to OMB, it must go to the Assistant Secretary of Commerce of the Minority Business Development Administration for a comment; and that OMB's decision on that funding level for the proposed period of time be impacted by the decision and recommendation or review by the Assistant Secretary.

We believe also, and I am perhaps repeating myself here, that the \$100 million annual appropriation, in fact, be for a 3-year period rather than just a 1-year period suggested in the bill for the reasons I have already given.

One of the problems that we encounter in the current structure is the Office of Minority Business Enterprises does not now have contract procurement authority so if the bill is approved, I would hope that the person who heads the organization would be able to contract with grantees and with contractors in the field and leave out that third part.

I guess that is about all I have to say, Mr. Chairman.

I would be delighted to respond to any questions you might have. Senator GLENN. Thank you, Mr. Poe.

There are a couple of questions I have before I turn this over to Senator Johnston.

You make a strong point on one-stop servicing in your statement here. Has that been a major problem for you in attempts made in working with OMBE and with SBA?

Mr. POE. If I may, it makes good business sense from the minority business person's perspective. I alluded to MEDA being a model. We have a Federal contract but we receive substantial funds from the Twin City business community. As a consequence where we get involved in construction assistance, we get involved in personal kinds of assistance as well as the traditional loan packages and management and technical assistance. But we can respond to an entrepreneur's request. We had assisted a client who had no inventory background and he felt he was missing a lot of business opportunities. We contacted someone from 3M who did have an inventory background and was assigned to work with that client. We are talking about people who have to take time off from business and ordinarily if they take time off the business suffers. So if we can limit the number of stops a minority business person has to make then

assistance is more efficient. That is one of the things that bothered me so much about the report spoken to by Mr. Kasputys this morning. Rarely in it did I see anything addressed to from the minority business person's perspective. It made a lot of good sense perhaps, for Washington but not from the minority business person or from the person delivering the services in the field.

Mr. GLENN. You propose on page 3 of your statement something I would like to explore a little further. Just to summarize it, you believe MBDA would have the responsibility for lending and financing. You believe that the Minority Business Development Administration should have the responsibility for the minority lending-financing activities of the Small Business Administration, however, they should remain within the SBA.

Would that not sort of thwart the purpose of the whole bill if we did it exactly that way?

Mr. POE. I don't think so. What we are talking about is authorizing and assigning that responsibility to the Assistant Secretary. I envision some sort of contractual relationship with the SBA to perform those services. You have localized the authority, you have localized the accountability and you have localized the responsibility in the Assistant Secretary of Commerce. How he or she chooses through their assessment of how best it can be done, then it stays where it is. What I am saying is that a special body of expertise has been developed in the SBA. It would warrant therefore in our judgment that we take a very careful look at seeing whether this can be accomplished by letting it reside where it is but the responsibility is no longer there. The SBA is there for providing it by a contract.

If I am contracting with you to perform a service and you don't perform, then you are terminated as my contractor. It is as much of a business-like way of taking care of business as possible. I don't know if all this can be done in Washington, so you will have to forgive me. I am trying to tell you what we think is the problem and some suggestions on how to speak to that problem.

Senator GLENN. How workable is it outside of Washington? Your testimony indicated that you did not favor a specific number of regional offices as was spelled out in the bill, a minimum of 10. What has been your experience in working with the offices? Have you had good cooperation through these offices in SBA and OMBE, the regional offices. What has been your experience there?

Mr. POE. We have been accused of having a unique kind of situation in the Twin City area because of the racial demographics that exist there. But the interaction with the SBA district office has been excellent. I will give you an example. The 8(a) negotiating authority is in Chicago, so we have problems trying to work in terms of 8(a) because it requires perhaps a Chicago trip or some delays in paperwork.

Now that doesn't mean that we have not had a good relationship, but still the delay in the fact that the 8(a) authority does not exist at the district office level.

My counterparts in the region don't indicate that they have as good a working relationship with either OMBE or SBA. Our problems with OMBE have been primarily those of the contractual in nature.

As I said, for example, we might have an agreement with our project specialist, reviewed by Commerce, and/or Commerce procurement, and it didn't get done. I will give you a specific example.

Mr. Armendaris testified this morning to the Minority Business Opportunity Committee. That has been coordinated on an national basis by agents, a retired corporate vice president of International Mul-foods. I executed a letter of understanding with Mr. Armendaris and the regional director of OMBE, June 27, 1975. We have not received one dime to date.

Senator GLENN. I gather in scanning your statements that you are very much in favor of upgrading the importance of all of these activities to the Assistant Secretary level. But I get the impression, and correct me please if I am wrong, that you may be a little bit leery about disturbing some of the OMBE-SBA relationships that exist and are working to a degree; is that fair?

Mr. POE. I think that is a fair assessment. Where we are concerned, the OMBE-SBA relationship has not impaired our performance. But my colleagues around the country tell me to the contrary. So I am suggesting there a kind of wait and see attitude, but I believe quite strongly that the Associate Administrator's position in SBA has to be strengthened so that he can have some impact on funding and policy.

As I understand it now that is not now the case. Our whole perspective, Mr. Chairman, is what is best for the minority business person. That is where we are coming from. I think that has to be uppermost in the Congress' mind as they try to deal with this problem. You know, we had the Office of Economic Opportunity, I think that was before you came to the Senate, and that was an Executive order feature, and we all know what happens when you don't have statutory support in Washington.

Senator GLENN. Executive orders can be undone as well as done.

Mr. POE. That is exactly right. The Executive order was supposed to be ready the 15th and it is not going to be ready.

Senator GLENN. We hope they will at least have their interagency agreements available to us by the 30th.

I was glad to see you indicate support for the "sunset" bill concept which is also in this subcommittee and which Senator Muskie and I have both chaired hearings on, several days of, as a matter of fact. It is an essential concept if we are ever going to get control of our whole Federal bureaucracy and start cutting it down. I don't think there is any other method to accomplish it. I was interested in your support of it because you would normally expect your interest in this to be along the lines that we won't have all of our minority problems solved within 7 years. It does at least make a time period for reassessing these things which we then have to upgrade. It forces upgrading as well as elimination of programs, as I see it. I think that is probably the aspect that your support stems from.

I don't believe any of us think we are absolutely going to have all problems solved for the minority businessmen or anyone else in the country within 7 years. But it does mean we will have to assess how we are going to upgrade them at regular stated periods. I think that is certainly worthy of full support as you have indicated.

Mr. POE. Let me give you a personal example. MEDA was created for 5 years. That 5th year ends this December. Had we not performed

or produced, the business community would not be in the process of responding to a request for another \$1,300,000. I have yet to make a proposal, a written proposal, to our business community and we have already received the new commitments beginning January of 1977 through December 1981 of almost a half million dollars. We both know that the kinds of business people represented in the Twin City area believe in taking care of business. If MEDA had not measured up in their judgment to those goals and objectives set in late 1971, we would not be here after the end of this year.

What I am suggesting, what we are trying to suggest in the "sunset" law is the same kind of thing. We are talking about business. I think every minority in this country has a right the opportunity to have a business desire looked at with as high a quality and in as professional a manner as possible. But nobody has any right to be in business. That is a separate thing altogether. So we feel very strongly that this administration has no right to be in business unless, in fact, is taking care of business.

Senator GLENN. It would be nice to think when the assessment would be made at the end of 4 years all of these problems would be solved and everyone would get the same treatment in the country. I think we would be extremely optimistic if we thought that was going to be the case. In the meantime it is good to set these intermediate schedules of assessments in upgrading the program as you indicated.

Mr. POE. I had two conditions. One was that the other agencies are going to come under the same thing. I would hate to have a minority service agency out there all by itself as the "sunset" demonstration agency of the U.S. Government. The other was adequate funding.

Senator GLENN. I agree with you.

Senator JOHNSTON?

Senator JOHNSTON. Thank you very much, Mr. Chairman.

Thank you for your excellent testimony, Mr. Poe. I am glad you support the bill.

I don't know how precisely we can work this to have the MBDA Assistant Secretary having control and the SBA performing part of that function. It may be possible to do that. One of the problems that I have seen and the way the present situation is working is that it is very difficult to coordinate when you don't have one head. I think we are recognizing we need one head but we are recognizing we have some expertise down in SBA. Maybe we could transfer one of the employees in one of the units out of SBA and put it over in Commerce but leave it intact as far as personnel and forms and expertise are concerned.

I recognize, though, that there is an accumulated amount of expertise in SBA that would be useful to the functions transferred to MBDA.

Mr. POE. Could I respond to that?

Senator JOHNSTON. Would you please?

Mr. POE. If it came to either/or, I would come down on the side that the total responsibility rest with the Assistant Secretary. The only reason for not doing it in our recommendation is I would not like to see us try to duplicate or redo from purely a dollar and personnel utilization perspective. I think that kind of thing is important as well.

In my judgment you just have an opportunity with this whole bill to do something different, to really take a business-like look at a task. You know it is the Minority Business Development Administration. SBA has been a recent convert to minority businesses. I think that is a fair statement.

Is there something we can do differently based on the body of experience we have developed? I think there is.

Senator JOHNSTON. You have spoken of the lack of clout of the Associate Director at SBA.

What do you see as the biggest problem; lack of coordination or lack of clout of the Associate Director? If you had to give the prime problem that we have at the present time, what would it be?

Mr. POE. Based my limited knowledge of the Washington bureaucratic scene, I would suggest the lack of clout. That is why I think the Assistant Secretaryship is probably a better idea than the Administrator of this new agency. I am supposing now that the Assistant Secretary is in a higher position than an Administrator in the pecking order around here. I think that is where it ought to be.

Senator JOHNSTON. Thank you very much, indeed, Mr. Poe. Excellent testimony.

Senator GLENN. Mr. Poe, do you have any further statement you wish to make? This has been excellent testimony. We appreciate it. If the staff in reviewing your testimony has any further questions I hope you could respond to them so they could be made part of the record. We appreciate very much your being here this morning.

Mr. POE. The only comment I would like to say in closing is that you mentioned earlier the whole idea of focusing on size. It is awfully difficult, I think, if you are really committed to try to do something in this area to recognize that some people are not going to make it in minority business development and you really have to go with your best horses. There is just no answer to that. I think it is part of the business-like responsibility that the deliverers of services have got to face.

Senator GLENN. My emphasis was focused on that this morning in reference to the technology involved. I didn't mean to indicate that I thought all of our minority businesses should be in that direction by any means. I just felt it was too much in the other way. I just felt there was too much emphasis on the small "mom and pop" type of business. Of course many are very worthy, but we should not be concentrating on that particular area. I want to see some of these minority business efforts directed toward areas that may well expand into very major groups and industries and if that had black founding, for instance, it would be beautiful, it would be great.

I would like to see some effort put into that area, making sure we direct some of the new technologies into some of these things that may be expandable in the future, more than just the corner grocery store or the ice cream parlor. I want to see them get their fair share of this effort.

I realize we have to look at the problem at its start, but I don't want to see these areas ignored as they have been largely so far.

Mr. POE. There has to be a multiple focus, and I would suggest that we somehow have to assist the minority business person to be

the "mom and papa" if that is their desire to do so, only perhaps to do it in a better way as well as to move into the job development, capital acquisition kind of thing. I think, we have an opportunity to do so on 2617.

We didn't speak to the partnership role. I don't know if it is appropriate for the Congress to get into it. There is a partnership relationship that emerges in the MEDA experience in the Twin City metropolitan area between the business community and MEDA. One of the things I did speak to in the testimony is the idea of incentives. For the major corporations some form of a tax credit—like a Honeywell which buys 1 percent of their domestic purchases from minority businesses, if they can demonstrate, convincingly, some kind of responsiveness for creating business opportunities for minority firms. Perhaps this might emerge from the report mandated by the statute to come back to the Congress in about 180 days with suggestions and recommendations for appropriate legislation.

Senator GLENN. One additional thing comes to mind.

How critical is it that minority businessmen have some organization like yours pushing them in a particular metropolitan area in making a wealth of information and know-how available; how necessary is that to get things done in dealing with OMBE and SBA at the present time? Say I am living out in a small town in Ohio or Minnesota or wherever and I am a black businessman and I want funding or I want to go into a new kind of business and I don't have someone available like you to push at least part of this or to show me what direction to go?

Mr. POE. You might be up a creek without a paddle in the real world terms. What we are doing and are probably not yet sensitive to it, is creating a new body politic of small business knowledge.

Senator GLENN. Is this something that OMBE and SBA should be doing on their own, setting up groups as you have set up to provide the expertise to know in which direction to go? Have they not done a good outreach program?

Mr. POE. The minority business outreach is still like a blank page in terms of looking at it is a businesslike kind of way. You are just beginning to see those kinds of things occur. OMBE spoke earlier today to the technological transfer kind of thing. We are already involved in that in working with a minority firm that wants to diversify, utilizing the Applied Research Assistance Center at the University of Indiana. We are now having the computer queried to see what we can do with a chemical milling process. So it is one more step of a sophistication level in providing services to the minority businesses. I think a tremendous resource can be provided to the minority entrepreneur.

More importantly, we are in the process of developing a body politic of knowledge about small business, per se, that is going to benefit this country. That is where most of the action is. Honeywell will get all the publicity, but the small business is this backbone of this thing called capitalism that we supposedly love.

Senator GLENN. That may be something we can pursue further. If there are representatives in the Department of Commerce still in the room I would hope that you take back the word.

Anyone here from the Department of Commerce?

Take back some word that I would be interested in following up. I would appreciate whatever you could send us for the committee record; the different types of operations you have dealt with to where you are working with organizations like MEDA in Minneapolis as opposed to the single-shot man who writes in and wants help for his business right out of the blue and doesn't have expertise behind him.

I can see where it goes with some experts helping the man in a one-shot deal, but I also see some difficulties if I am a small town Ohio person and I write in with a great idea and request help. What is the track that goes in? Would either one of you care to comment on that?

Mr. SORG. I could comment informally on that.

My name is Walter Sorg. I am Assistant Director of OMBE.

When that kind of an inquiry comes to the Office of Minority Business Enterprise, the initial response is to suggest to that individual that he go to an organization such as Mr. Poe's, such as MEDA, and Mr. Armendaris talked earlier about some 200 organizations that we have contractual relationships with around the country.

The purpose of those organizations is to provide those services necessary to assist the existing minority businessmen or the potential minority businessmen to acquire the resources and the knowledge and technical assistance necessary to either expand his business, if he is already in business or to move into the business mainstream through the assistance that can be provided by these business development organizations.

Mr. POE. If I might expand further, we have a contract with OMBE that grew out of the Interagency Council spoken to earlier today to provide what we call business leadership training. We will be servicing in Chicago, Indianapolis, and Detroit. This is another way in which the resources of OMBE have been leveraged to get outside of Minneapolis and into the region. It is a demonstration project and if it goes, we hope to be expanding it to another region.

Mr. SEXTON. I am Jim Sexton, and I have been with the program since it started, with OMBE.

Another technique we have used is we have call consultants. These call consultants are available when a problem comes up to be sent to an individual provided his problem has been evaluated as being worth a certain amount in sales, evaluated first by someone and then the consultant will go to him. In many cases, say an individual wants to get a franchise, he does not necessarily have to be where the franchise company is. It is possible to get the franchise company to the individual to arrange that, the same thing you can do with some of the other business lines. So there are a variety of techniques but it is true we are still working on this question of how you get geographic coverage in the six regions for all the individuals who need the service. The way it is arranged now we take into account the number of minorities in an area and the number of minority businesses, so you get an area where there are 300 minorities, and that is probably where one of Mr. Poe's organizations will not be, and we will use these other techniques.

Senator GLENN. Thank you, Mr. Poe, for your excellent testimony.

[The prepared statement of Poe, with additional information follows:]

PREPARED STATEMENT OF CHARLES W. POE, JR., PRESIDENT, METROPOLITAN
ECONOMIC DEVELOPMENT ASSOCIATION (MEDA)

INTRODUCTION

Mr. Chairman and members of the Senate Subcommittee on Intergovernmental Relations:

My name is Charles W. Poe, Jr. I am President of the Metropolitan Economic Development Association (MEDA), a Minneapolis/St. Paul business community sponsored minority business development organization. MEDA receives financial and non-financial support from 79 firms, foundations and individuals in our community and in addition, we operate under Contract No. 5-36624 with the Office of Minority Business Enterprise, (OMBE), U.S. Department of Commerce. We provide a wide array of business assistance services to minority and disadvantaged business people in the Twin City metropolitan area and throughout Minnesota.

Allow me to begin by expressing my thanks and appreciation for the opportunity to address you with respect to Senate Bill No. 2617 creating the Minority Business Development Administration.

PERSPECTIVE

The perspective from which our remarks are being made is two-fold: (i) from that of the minority business person in need of a one-stop federal resource with one-stop responsibility and one-stop accountability; and (ii) from that of an actual deliverer of services to minority business people. We are unfamiliar with what can or cannot be done in Washington and the accompanying theme of politics, being the "art of the possible." As a consequence, we have tried to speak to the issues and suggest some strategies and operational procedures which we feel are responsive and issue-oriented. Implicit in all of our comments is our sense that a requisite commitment to create opportunities for minority and disadvantaged business people does in fact exist. The depth of such commitment will be reflected in the action you take to shape the federal government's role in this area and the resources you make available to accomplish the task.

FEDERAL ROLE

We are confident that there are a number of elected, appointed and civil service officials who sincerely feel that there is no role for the federal government in minority business development. We believe to the contrary! This nation's history is filled with examples, too numerous to list here, of situations in which inaction by the federal "partner" would have led to a business failure. The historical government/business partnerships in many respects have benefited us all.

What we are discussing here is business—business ownership by minorities—developing a federal vehicle which will expedite the process and growth of minority capital development and capital acquisition. The action you contemplate is both necessary and timely.

The "Problem" as presented in the materials leading to the introduction of Senate Bill No. 2617, the March, 1976 OMB Report on the Federal Government's Minority Business Enterprise activities, the House Investigative Committee Report on OMBE need not be recited here. What needs to be shared is a clear and simple statement of the task facing us. Simply put and from a more positive frame of reference:

MISSION STATEMENT

"What is the best way in which the federal government can assist minority Americans gain access to the business mainstream?"

We believe that Senate Bill No. 2617 creating the Minority Business Development Administration provides us an excellent point of departure and for this reason strongly urge its passage and that of its companion Bill in the House.

The following considerations highlight our response to Senate Bill No. 2617:

ASSISTANT SECRETARY OF COMMERCE

(1) The new Agency should be headed by an Assistant Secretary of Commerce, who will be charged with the responsibility to carry out the function of Executive Order No. 11625 and those related duties as assigned by the Congress.

MINORITY FINANCING

(2) We believe that the Minority Business Development Administration should have responsibility for the minority lending/financing activities of the Small Business Administration (SBA). However, they should remain within the SBA, subject to an increased oversight responsibility on the part of the SBA's Associate Administrator for Minority Small Business to ensure their responsiveness and receptivity to minority business development financial needs as defined by MBDA;

SBA ASSOCIATE ADMINISTRATOR

(3) The role of the SBA Associate Administrator for Minority Small Business should be strengthened so as to have impact upon SBA policy and financing. If this does not occur during a one-year trial period ending October 1, 1977, SBA's minority financial support activities should be withdrawn and become an integral part of the MBDA;

FEDERAL GOALS

(4) We agree that the Minority Business Development Administration (MBDA) should be assigned full responsibility for the separable functions of any other federal department or agency now involved in minority business development and the achievement of federal objectives. However, the MBDA should have the authority to review such an assignment and reassign that performance responsibility to the present host federal agency if it makes good business sense to do so. An example of the foregoing is the SBA 406 contractor and related federal minority business management and technical assistance efforts. This will also include the creation of 8(a) type authority for the Administration. Concurrently, in the event of non-performance by the host agency, such reassignment should be withheld. *Rationale:* Such a requirement and commensurate authority localizes the responsibility and accountability for the achievement of federal minority business development objectives. Moreover, it makes good business sense to test the ability of MBDA to insure the performance of such services and functions through existing agencies and replicate, "in house", only those deemed essential to the achievement of the objectives;

REGIONAL OFFICES

(5) We do not believe that a specific number of Regional Offices should be set forth in Senate Bill No. 2617. The Administration should have the authority to create an appropriate number of regional or district offices as experience and sound business judgment dictate, to enable it to more efficiently achieve the general goals set forth in the statute;

REPORTING

(6) We believe that the Administration should report to the Congress within 180 days after enactment of the Bill on all of the activities relating to the federal government's minority business development efforts and what concrete steps have been taken or planned for a goal oriented management-by-objectives approach to minority business development; and further, where appropriate and necessary, to include specific recommendations for congressional action; and

APPROPRIATION

(7) We recommend that a \$100 million annual funding level be established for a three-year period as part of the Administration's initial appropriation. *Rationale:* It will require some period of time to implement a program, evaluate the early phases and plan for the recommended bi-annual funding at the conclusion of the third year. This approach obviates the need for annual budget planning until an Administration quantitatively-measured track record has been established.

The American citizen and taxpayer are clamoring for measureable accountability at all levels of government. The Congress has an opportunity to rise above partisan politics and take a hard-nosed businesslike approach to addressing a problem by establishing "accountability norms" in the creation of this new agency. We are convinced that the concept of governmental accountability is an idea whose time has come. In our judgment, therefore, Senate Bill No. 2617 should be expanded to include additional areas of "creative accountability". More specifically:

SUNSET LAW

(1) The Minority Business Development Administration (MBDA) should be the first of the "Sunset Law" agencies. It should be created for a period of not less than seven years. This recommendation presupposes two conditions: (i) ample multi-year resources will be made available; and (ii) all other federal departments and agencies will race this same requirement and will be placed on a programmed schedule of inclusion. *Rationale:* Prior to the end of the "Sunset" period, the Administration must be able to convincingly demonstrate to the Congress that the need still exists; that it is in fact responding to the need, and can demonstrate its response in quantifiable and measurable terms. We are *not* recommending the creation of another federal entity in perpetuity.

PARITY

(2) The published long-range federal procurement goal in minority business development must be "parity". Each procuring agency should be required to present to OMB, actual dollar goals for purchases from minority businesses for the period of their funding cycle. This same goal-oriented approach is being adopted by private industry and government agencies should be no *less* accountable;

OMB ROLE

(3) These agency procurement goals must be submitted to MBDA for comment prior to acceptance by OMB. OMB federal agency funding decisions *must* be guided by the comments of the MBDA review;

PROCUREMENT AUTHORITY

(4) The Administration should have contract procurement authority so as to facilitate the administrative interface with its contractors and grantees without the third party involvement of Commerce procurement; and

FRESH START

(5) The Bill should clearly speak to the issue that MBDA is in effect, a "fresh start", an effort to create a one-stop minority business assistance resource, and will utilize only the best of available talent in consonance with applicable Civil Service regulations, to achieve its accountability goals.

CONCLUSION

I re-emphasize that if we are serious about minority business development, we must recognize "up-front", that "business as usual", in this instance, government business as usual, means in effect, that little will change. As a consequence, nothing will be done in any significant manner to provide access to the business mainstream for American citizens of color.

We have kept our statistical references to a minimum because there is already a plethora of such data available. The views I've expressed are the consensus recommendations of a number of the service delivery representatives in the Midwest. As I suggested earlier, we are unfamiliar with the politics of what can and cannot be done in Washington and have attempted to speak to the issues by responding as fully and competently as time allows. We strongly believe that to the fullest extent possible, we should be guided by what is best for the minority entrepreneur, not by whatever is convenient or best for Washington.

The time for appeal to conscience is over. The intransigence of the institutional problems with which the proposed MBDA would deal warrant a fresh approach. What we should be about doing is developing an agency to deal with those problems by applying business-like, goal-oriented approaches. For example, the creation of incentives for the private sector to become more involved with minority business development because it makes business sense to do so.

No doubt, I have added little to your body of knowledge that is new or startling. The Congress' consideration of the Minority Business Development Administration Bill is an indication of your awareness. What I hope I have added to your data base, is a sense of need and urgency. The passage of Senate Bill No. 2617, its companion Bill in the House, and execution by the President will augur a new day.

LETTER FROM CHAIRMAN AND PRESIDENT

METROPOLITAN ECONOMIC DEVELOPMENT ASSOCIATION

1975 ANNUAL REPORT

MEDA was established in November 1971 with the specific objectives of providing management consultation service, financial advice, and where merited and needed, financing, to potentially viable and existing entrepreneurs. These are entrepreneurs who demonstrated the desire and tenacity to successfully operate a business in a highly competitive environment.

MEDA's initial funding came from established major businesses in the Twin Cities area. A Board of Directors composed of members from the general business community was formed. In its four years, MEDA has developed an internal organization with strong capabilities in the areas of accounting, legal, finance and Business Leadership Training. As MEDA matured through experience, it approached 1975 in a position to be more effective.

During 1975 MEDA maintained its general level of business counseling and support of the area's minority business community, which extends from Duluth to Rochester, with a primary focus on the Twin Cities metropolitan area.

During 1975 we provided some form of business service to 265 clients, developed loan packages of \$691,156 (including MEDA, bank and SBA funds). We participated in establishing a successful minority-owned concession selling Native American goods in the Metropolitan Airport. A second store is scheduled to be open in the Orlando, Florida Airport. A leading fast food franchise business opportunity was finalized and opened in downtown Minneapolis in February, 1976.

One of our services, Business Leadership Training (BLT) is primarily funded by the Office of Minority Business Enterprise (OMBE), U.S. Department of Commerce, and will be extended under MEDA auspices to minority businesses in Detroit, Chicago and Indianapolis during 1976.

A major goal for 1976 will be an effort to assist the newly created Twin Cities Minority Purchasing Council (TCMPC). The Council's primary task is to give impetus to corporate minority purchasing programs by influencing procurement policies to include the use of minority business products or services.

The Board of Directors and we believe that the progress and stature MEDA has gained is unique. MEDA has helped to prove that the private business sector can be an effective factor in assisting competent minority entrepreneurs who have historically operated at an educational and cultural disadvantage.

Further, we are convinced that MEDA's progress is such that the program should be continued for an additional five years beginning in 1977, and that view is shared by MEDA's original organizing leaders.

We are pleased to announce that the MEDA's creators have endorsed our progress to date and have recommitted the firms they represent to an additional five year period January 1, 1977 — December 31, 1981. We believe that sufficient progress has been demonstrated, both in the area of tangible, quantitative progress with respect to suc-

cessful businesses, and in discouraging the formation of businesses whose prospects for success were dim. As a consequence, we will be soliciting on-going support from the business community to achieve our total funding goal of \$1,277,000 for that period.

We are particularly pleased to report that in 1975, as in other years, MEDA has operated within budget. We extend special recognition and thanks to those

companies who have supported us, not only through funds, but also through the donation of senior executive time. Lastly, but most importantly, we express our thanks to the MEDA staff whose dedication and professionalism has been responsible for MEDA's success.

In the pages that follow you will see a more detailed presentation of MEDA's activities.



Charles W. Poe, Jr.

Charles W. Poe, Jr.
President, MEDA

James H. Ruben

James H. Ruben
Vice President
Direct Marketing Group
General Mills, Inc.
Chairman, MEDA — 1975

MEDA 1971 - 1975

The Metropolitan Economic Development Association (MEDA), is a Minnesota non-profit organization and is funded by long term pledges from the Twin Cities business community and by annual contracts with the Office of Minority Business Enterprise of the U.S. Department of Commerce. MEDA was created more than four years ago by the business communities of Minneapolis/St. Paul, to provide management and technical assistance to the area's minority businesses. There were three predecessor organizations; the Community Development Corporation (CDC), in St. Paul, Business Enterprise for American Minorities (Project BEAM), and the Urban Coalition's Minority Business Development Task Force in Minneapolis. For the most part, those organizations sought to address the minority business community's needs with loans and volunteer technical assistance as priority programs. MEDA relies upon a full time, competent staff to provide ongoing management and technical assistance to its minority clients.

Let us review the original objectives that led to MEDA's creation and measure the results of our efforts to achieve them.

MEDA Objectives — Original MEDA Proposal November, 1971, as set forth below in quotes:

"MEDA's principal objective is the provision of support services to existing or newly organized minority businesses. Such support services shall include, but not be limited to business management, technical, financial, accounting, legal and educational services and assistance . . ."

By the conclusion of its first fully staffed and operational year, (1973), MEDA had developed an in-house capability to provide management and technical assistance and the other support services set forth in the objective. During that year, some form of business assistance was provided to 245 individuals or business clients. 125 were serviced in 1972, 237 in 1974, and 265 in 1975.

Because of the relationship between MEDA and the support community it is uniquely equipped to provide management and technical services in both a direct and indirect fashion through the Association linkages.

MEDA's providing of direct and indirect management and technical assistance has ranged from arranging for a utility collection deferral, to the identification of a local technical resource to provide a feasibility study of a proposed business buyout.

MEDA's goal is to provide assistance and related technical services to 900 more clients through December 31, 1981.

Accounting

"Experience with minority business development indicates that the absence of financial information is a critical problem for most minority businesses. Current financial information is an essential prerequisite to the discovery and analysis of, and assistance . . . to insure that each of its clients has sufficient accounting assistance to enable the client to furnish MEDA with current financial information."

During the period since MEDA's inception, ongoing accounting services have averaged 28% of available staff/client time over the reported period. (See Graph 2) Those services include the development of the raw data for posting to client records and the preparation of monthly financial statements; assistance was provided in the understanding and use of financial statements as management tools. The use of financial statements as management tools has been, by far, our greatest contribution.

When an entrepreneur has satisfactorily demonstrated an understanding of the accounting system and is able to pay for accounting services, that person is encouraged to seek professional services from a public accountant.

Legal

"Experience also indicates that many minority businesses do not seek legal counsel with respect to internal business problems, relationships with various federal, state and local governmental instrumentalities . . . It is MEDA's intention . . . to insure that its clients have access to adequate legal assistance."

MEDA, through its general counsel and a law professor from the William Mitchell College of Law, provides direct legal services to MEDA clients and has provided such services since November, 1971. The legal services provided include title searches, incorporations, capital development, contract negotiations, bankruptcies and other forms of business liquidations.

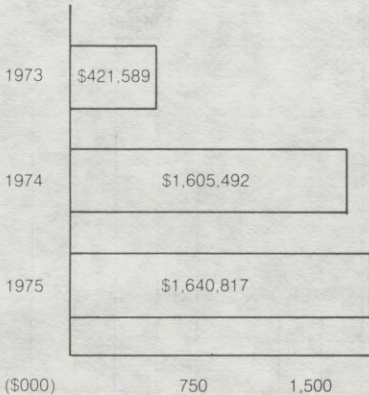
(2)

DISTRIBUTION OF MEDA CLIENT SERVICE TIME

17%	30%	23%	Loan Packaging
46%	30%	46%	Management & Technical
29%	32%	24%	Accounting
6%	6%	5%	Marketing
2%	2%	2%	Legal & Other
1973	1974	1975	

(3)

**DOLLAR VALUE
OF MEDA ASSISTED
PROCUREMENT CONTRACTS**



Marketing/Sales

"Experience . . . also indicates that minority businesses have a variety of marketing problems . . . MEDA would propose to provide consulting and other assistance with respect to market analysis, advertising and promotion, and direct sales. MEDA further proposes to continue . . . efforts to encourage established businesses in the Twin City area to develop consulting and advisory relationships with minority firms in similar industries."

MEDA has devoted an average of 6% of staff time to client firms in the area of marketing/sales assistance since January, 1973.

A number of things have been accomplished through the linkages we have established in the community. For example, in conjunction with the SBA, Minority Business Opportunity Committee (MBOC), and the Federal Executive Board (FEB), a Twin City Minority Business Directory has been published on a regular basis. A number of MEDA support firms have developed minority vendor programs as a result of MEDA contacts and others have provided management and technical assistance to client firms as a result of MEDA's efforts. (See Graph 3).

Through these linkages MEDA has helped to generate more than \$3,667,898 in procurements for Twin Cities' minority businesses since January, 1973.

Loan Packaging

"That MEDA still will be responsible for providing prospective minority entrepreneurs with information regarding business ownership opportunities, and analyzing proposed and existing business ventures . . . negotiations with the lender, if necessary, and the closing of the transaction."

The MEDA efforts in this area resulting in loan funds committed to minority businesses can be quickly seen in Graph 4. More than \$2,057,782 worth of loans have been packaged by MEDA through December, 1975. Because of the unique relationship MEDA enjoys with the banking community, few of the packages we submit to credit institutions fail to receive appropriate funding.

MEDA's 1975 activities continued at about the same level as 1974, despite the general economic malaise affecting the Nation.

However, one desirable contrast, with earlier efforts, is the quality and size of the loan packaging projects. A sign of growth is the Burger King, now open in downtown Minneapolis; another project was the opening of First Street Station, a restaurant with a unique railroad decor, located along the Mississippi River in Minneapolis.

In 1976, a corresponding level of loan packaging, counseling and administrative support services would be maintained.

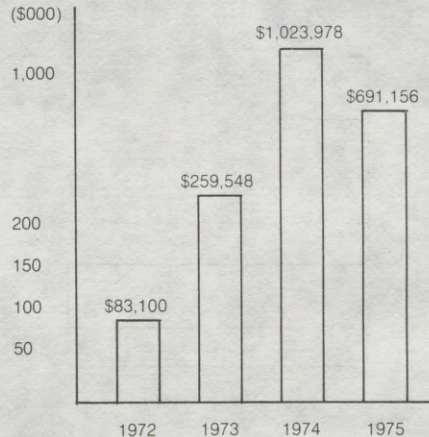
Seed Money Loans

"MEDA will be a source of capital to those prospective minority entrepreneurs who are unable to raise sufficient equity capital to meet the requirements of commercial lenders . . . The making of seed money loans represents a high risk use of resources, requiring thorough investigation of the probability for success of the proposed business and expert credit judgment . . ."

Since November, 1971, seed money loans totaling \$191,351 have been made from MEDA resources; and, of that amount, we've experienced a loss ratio of 3.8%. 52% of total funds generated have been repaid, greatly enhancing our ability to re-loan the money, which enables us to multiply the effectiveness of our funds.

(4)

TOTAL LOAN FUNDS GENERATED THROUGH MEDA ASSISTANCE

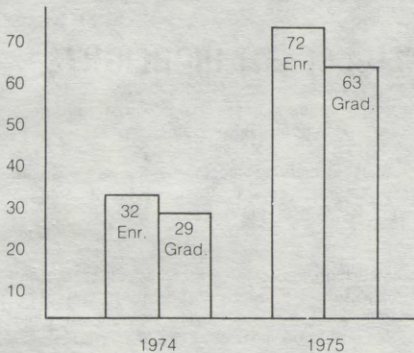




The BLT class to graduate in April, 1976 are seated left to right: Jeff Howard, trainer, Mae Laine, trainer; front row: Bradley Fairbanks, Diana Roodell, George Monroe, Berman Fairbanks, Fermin Aragon, David Bernier, David Jones, Arnold Vinson, Louise Coleman, Janet Deming, Mel Harris, Kathleen Davis, L. Elizabeth Moore; Back row: Bilbo Breland, Nancy Bernier, Mary Nelson, Beverly Waynewood, Peter Courtney.

(5)

NUMBER OF BLT STUDENTS ENROLLED AND GRADUATED



Education

"MEDA will develop and coordinate various educational training programs to assist prospective and present minority businessmen in acquiring or improving their existing business and management skills..."

Early MEDA efforts in this area focused upon the "how to" courses in conjunction with the University of Minnesota but are now focused upon Business Leadership Training (BLT), a course developed by Harvard's Dr. David McClelland.

BLT's experiential learning system guides participants to set goals, develop a drive for efficiency and identify the skills needed for improved performance. BLT does not focus upon the "how to's," but helps the entrepreneur more fully understand his/her business motivation. Some of the "how to" courses are now conducted by the Minnesota Accounting Aid Society (MAAS), and other "how to" training resources have been made available through the MEDA support community.

In 1975, MEDA graduated 63 students, compared to 29 in 1974. (See Graph 5). MEDA plans to provide ongoing Business Leadership Training and coordinate efforts with the traditional business management development resources through 1981 for 200-250 clients.

NEW PROGRAMS AND LONG RANGE GOALS

MEDA Investment, Inc., MEDAVEST

Our application to establish a "for profit" MESBIC, a minority enterprise small business investment company as a subsidiary of MEDA (MEDAVEST), was denied by the IRS. A new application for a not-for-profit MESBIC is pending and approval is anticipated in early 1976.

MEDAVEST will enable MEDA to become involved in second level financing and equity participation in larger scale business ventures for our clients.

MEDA/OMBE

With the assistance of the Office of Minority Business Enterprise (OMBE), U.S. Department of Commerce, three special projects will be implemented during 1976.

Business Leadership Training

As recognition of our success with the Business Leadership Training Program in the Twin Cities, we have been asked by the Regional OMBE office to expand our program into the cities of Detroit, Chicago and Indianapolis in 1976. This expanded effort by MEDA will provide BLT to 120 students within the region. This effort is being conducted with the key assistance of our counterparts in these cities; and is an opportunity for us to fill a leadership role in the minority business development effort on a region wide basis.

Twin City Purchasing Council

The second special project will be our effort to create a Twin City Minority Purchasing Council (TCMPC). Major corporation policy manuals are replete with affirmative action guidelines, but in many instances, little attention is given to minority purchasing as a corporate objective. TCMPC will be

composed of key corporate procurement executives and will act, through its staff, as a broker between buyer and seller. MEDA resources will be available to provide backup technical assistance to minority firms.

TCMPC is to become an affiliate of the National Minority Purchasing Council (NMPC), a national organization, funded by OMBE. It is composed of many of the FORTUNE 500 firms, focusing upon the creation of minority purchasing programs by participating firms on a national scale.

Construction Contractor Assistance Program

With our Construction Contractor Assistance activities, we are endeavoring to respond to what can only be considered a problem area. We have encountered difficulty in generating meaningful construction opportunities for our clients in an economic milieu in which substantial majority firms with long track records, have also had difficulties.

MEDA will help to identify construction opportunities, help minority contractors arrange for bonding and arrange for management and technical assistance to be provided.

MEDA CLIENT HIGHLIGHTS

It is gratifying for us to see the growth and progress of a number of firms that we created.

One start up meriting special mention is La Casita Restaurant in St. Paul. La Casita will be opening a second location on the eastern edge of St. Paul in early 1976.

We have high hopes for a recently established Indian-owned orthodontic laboratory, Universal Dynamics. To our knowledge, there is no other minority-owned business of its kind in our region.

With the assistance of a new black-owned advertising firm, Insight Communications, three client firms have received professional advertising assistance.

MEDA 1977 - 1981

A successful minority owned concession was opened at the airport, Touch-The-Earth, and a second store will open soon in Orlando, Florida. Several other sites are under discussion.

A Burger King fast food franchise opportunity was finalized in 1975. It opened in downtown Minneapolis, mid-February, 1976. It became the only minority owned fast food restaurant in the Minneapolis area at this time. More than 55 full and/or part-time jobs have been created by this single MEDA assisted project.

Entrepreneur of the Year

MEDA's second Minority Entrepreneur of the Year Award goes to a minority businessman who started his business two years ago with an idea and a lot of hard work. It has resulted in a million dollar business.

MEDA is pleased to honor Jorge A. Gonzalez, President of Have-A-Portion, Inc. as Minority Entrepreneur of the Year for 1975.

Gonzalez, who has an M.A. in Agricultural Marketing, approached MEDA with a thorough marketing study for a proposed sugar packaging plant. He was willing to invest his last savings in an idea in which he believed. A \$45,000 loan package was jointly developed by Gonzalez and MEDA to start Have-A-Portion. It was funded by the First National Bank of Minneapolis with an SBA guarantee.

Through the efforts of the SBA, Minority Business Opportunity Committee of the FEB, Veterans Administration and MEDA, Have-A-Portion was able to secure an SBA 8(a) small business set-aside contract with the Veterans Administration. Due to delays in paper and machinery, while performing the first contract, Gonzalez, committed himself to long hours working to keep the contract current. Gonzalez's determination has enabled Have-A-Portion to repay all of its long-term obligations years in advance. Additional SBA 8(a) contracts and private contracts have since been received.

Gonzalez received MEDA assistance in the areas of management and technical aid, loan packaging, marketing and sales, accounting and Business Leadership Training.

MEDA is pleased to recognize Jorge A. Gonzalez as Entrepreneur of the Year for 1975 for his cooperation, hard work and outstanding progress.

MEDA began in November, 1971, funded by private community contributions. Most of the contributions were for a five year period, ending December 31, 1976. We feel the need for a minority business resource agency still exists. Private support, both financially and non-financially, has been one of the keys to MEDA's success. We can and are becoming a full fledged, one stop resource for those who have suffered from benign neglect and who have been denied full participation to explore business ownership as a career alternative. MEDA 1977-1981, can continue to be the vehicle to create and to measure such opportunities and alternatives.

The firms pictured on this page were not in business prior to MEDA's creation in 1971. They came into being, in part, as a direct result of MEDA's assistance. In the years ahead many will take their place in the business fabric of our community.

We began our 1975 report with references to the initial MEDA proposal. As we close, it seems appropriate to once again share the words of MEDA's first Chairman, which are just as valid today as they were four and one half years ago.

"I value the free enterprise system and am committed to the notion that its practice has been and can continue to be the source of vigor and good in our Country. However, I am keenly aware that those of us who participate deeply in this system do so at the pleasure of the public and not by God given right. I believe that the majority of the citizens of our Country do not currently experience corporate practice as essentially helpful in their life experience nor, sensitive to their needs. I predict substantial additional legislative restrictions to current business freedom unless the daily life of men and women in the street is affected favorably by newly felt corporate concern for their well being. MEDA speaks to this concern."

-Hugh H. Harrison, Minneapolis, Minnesota
November, 1971

FINANCIAL AND OPERATIONS REVIEW

To the Board of Directors
Metropolitan Economic Development Association:

We have examined the balance sheet of Metropolitan Economic Development Association, as of December 31, 1975 and the related statements of operations and fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements of the Association for the year ended December 31, 1974.

In our opinion, the aforementioned financial statements present fairly the financial position of Metropolitan Economic Development Association at December 31, 1975 and 1974 and the results of its operations and changes in its financial position for the years then ended, in conformity with accounting practices described in Note 1 applied on a consistent basis.

Minneapolis, Minnesota
January 30, 1976

COOPERS & LYBRAND

METROPOLITAN ECONOMIC DEVELOPMENT ASSOCIATION (A Minnesota Nonprofit Corporation)

BALANCE SHEET, December 31, 1975 and 1974

ASSETS	1975	1974
Cash	\$ 2,198	\$ 3,075
Time deposits and treasury bills	348,474	297,534
Receivables:		
Loans, including interest, less allowances of \$35,000 in 1975 and \$45,123 in 1974 (Note 2)	101,766	126,171
OMBE contract (Note 3)	28,040	40,006
Contributions pledged (Note 1)	2,550	1,200
Miscellaneous	70	454
Prepaid expenses		2,404
Total assets	<u>\$483,098</u>	<u>\$470,844</u>
LIABILITIES AND FUND BALANCE		
Accrued liabilities	\$ 7,035	\$ 6,968
Advances received on pledges for future years (Note 1)	4,500	11,000
	<u>11,535</u>	<u>17,968</u>
Commitments and contingencies (Notes 3 and 5)		
Fund balance	471,563	452,876
Total liabilities and fund balance	<u>\$483,098</u>	<u>\$470,844</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF OPERATIONS AND FUND BALANCE

for the years ended December 31, 1975 and 1974

	<u>1975</u>	<u>1974</u>
Revenues:		
Contributions (Note 1)	\$236,825	\$248,900
OMBE contract (Note 3)	128,245	122,918
Training and accounting services	5,453	1,405
Interest and other	35,487	33,812
Total revenues	<u>\$406,010</u>	<u>\$407,035</u>
Expenses:		
Compensation	230,430	209,347
Consulting services	20,808	23,715
Travel and conferences	23,673	24,411
BLT training	28,289	7,194
Facility costs	26,127	24,983
Provision for uncollectible loans	36,547	22,636
Other	21,449	13,074
Total expenses	<u>387,323</u>	<u>325,360</u>
Excess of revenues over expenses	18,687	81,675
Fund balance, beginning of period	<u>452,876</u>	<u>371,201</u>
Fund balance, end of period	<u>\$471,563</u>	<u>\$452,876</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the years ended December 31, 1975 and 1974

	<u>1975</u>	<u>1974</u>
Funds provided:		
From operations:		
Excess of revenues over expenses	\$ 18,687	\$ 81,675
Items not affecting funds:		
Provision for uncollectible loans and related interest receivable	36,547	25,200
Contributions previously received in advance and deferred	(7,000)	(8,000)
Excess of OMBE funds received over OMBE expenses incurred	11,966	
Excess of OMBE expenses incurred over OMBE funds received		(1,748)
Loan interest income accrued not received	(5,157)	(6,846)
Increase in accrued expenses	67	1,187
Contributions pledged but not received in year due	(2,550)	(1,200)
Net change in prepaid expenses and miscellaneous receivables	2,788	(102)
Total funds provided from operations	<u>55,348</u>	<u>90,166</u>
 Payments received on loans and related interest receivable, including, in 1974, \$32,000 on short-term loans	45,408	48,669
Collection of pledges receivable	1,200	2,000
Advances received on pledges for future years	500	3,000
Total funds provided	<u>102,456</u>	<u>143,835</u>
 Funds applied:		
Issuance of new loans, including, in 1974, \$32,000 of short-term loans subsequently repaid in 1974	52,393	96,450
Increase in cash, time deposits and treasury bills	<u>\$ 50,063</u>	<u>\$ 47,385</u>

The accompanying notes are an integral
part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Accounting Policies:

The following is a summary of significant accounting policies followed in the preparation of these financial statements. The policies conform to generally accepted accounting principles for not-for-profit organizations.

BASIS OF FINANCIAL STATEMENTS:

The Metropolitan Economic Development Association (MEDA) was incorporated in the State of Minnesota as a nonprofit charitable corporation on November 5, 1971, to provide assistance to minorities and disadvantaged entrepreneurs in business or desiring to go into business. The Internal Revenue Service has determined that MEDA is not subject to income tax.

CONTRIBUTIONS:

Contributions to support the operations of MEDA have been pledged by the Minneapolis-St. Paul business community. Pledges of contributions for future years, which in some instances are subject to review annually by the contributors, will be recorded as revenue in the year due. Advance payments received on such pledges have been deferred. Pledges for contributions in 1976 not subject to review by the contributors approximate \$198,000; related advances received to December 31, 1975, were \$4,500. Pledges for 1976 subject to review by the contributors approximate an additional \$35,000.

LOANS RECEIVABLE:

Loans receivable and related interest are stated at estimated net realizable value. Interest is accrued only when collection is deemed probable.

SHORT-TERM INVESTMENTS:

Amounts recorded for time deposits and treasury bills include accrued interest to December 31.

EQUIPMENT:

Equipment is expensed as acquired. Equipment acquired with OMBE funds (see Note 3) is the property of the federal government.

2. Loans Receivable:

Loans receivable approximating \$51,500 as of December 31, 1975, have been subordinated to other liabilities of the debtor companies.

3. OMBE Contract Contingencies:

The contract between MEDA and the Office of Minority Business Enterprise (OMBE) of the U.S. Department of Commerce, was amended in 1975 to extend the contract term for two years until August 31, 1976. Under the amended contract OMBE will reimburse MEDA for certain expenditures up to \$180,000 annually. Expenditures under the OMBE contract are subject to review by OMBE. To the extent that such review reduces expenditures allowable under the contract, the Association's revenues on the OMBE contract will be reduced accordingly.

As of December 31, 1975, MEDA has expended \$28,040, which is reimbursable under the contract. In addition, MEDA has expended approximately \$15,500 in connection with the payment of fringe benefits which has been contested by OMBE as a result of differences in contract interpretation. The receivable and related revenue will be recognized upon the favorable settlement of this problem. In the opinion of management, the expenditures are reimbursable under the terms of the contract.

OMBE is also contesting expenditures of approximately \$19,000 incurred during the contract period ended August 31, 1974, for which MEDA has already been reimbursed. The disallowed expenditures result from a disagreement between OMBE and MEDA concerning the application of a cost sharing ratio to costs incurred under the contract. Arguments supporting management's position have been submitted to the OMBE contracting officer who will make a final decision. The liability for the contested amount has not been recorded as of December 31, 1975. In the opinion of management, this issue will be resolved in favor of MEDA.

4. Pension Program:

Effective July 1, 1975, MEDA adopted a pension program covering employees with more than two years of continuous service. Upon completion of the two year period, MEDA will make a contribution to the employee's account at 3% of gross salaries pro rated from the program's effective date. During the third year of employment the annual contribution of 3% of the employee's gross salary will be made on a monthly basis. Thereafter, contributions at the rate of 5% of the employee's gross salary will be made. All vested benefits have been funded as of December 31, 1975.

5. Commitments:

The Association occupies office facilities under a lease agreement which expires June 30, 1977. The agreement provides for cancellation of the lease upon sixty days written notice and a maximum additional payment of \$4,422. Minimum annual rentals under the agreement are \$12,954 plus a pro rata share of increases in real estate taxes and certain building operating costs.

Rental expenses incurred under the agreement for 1975 and 1974 approximated \$15,500 and \$14,200, respectively.

The Board of Directors has approved in concept the creation of a Minority Enterprise Small Business Investment Company (MESBIC) to be capitalized at not less than \$500,000, and the purchase by MEDA of \$250,000 of the MESBIC's common stock.

MEDA

BOARD OF DIRECTORS

Robert Bartikoski
Assistant Vice President
Cargill, Inc.

Rosa Coronado
President
La Casa Coronado Restaurant

Gerald H. Finn
President
Finn's Cameras

Richard L. Gunderson
Assistant to the President & Vice
President
St. Paul Companies, Inc.

Andrew W. Haines
Professor of Law
William Mitchell College of Law

Oscar Howard
President, Howard's Industrial
Catering, Inc.

Russell H. Johnson
Vice President
First National Bank/St. Paul

John Kvam
Vice President
Northwestern National Bank/Mpls.

John Mitchell
Executive Assistant
Honeywell, Inc.

John M. Musser
Director, Weyerhaeuser Co.

Charles W. Poe, Jr.
President, Metropolitan Economic
Development Assn.

Booker Rice
Director of Agencies
Prudential Insurance Co. Of
America

Bruce A. Richard
Vice President & Regional
Manager
Northern States Power Co.

James Ruben
Vice President, Direct Marketing
Group, General Mills, Inc.

Willard C. Shull, III
Vice President & Treasurer
Dayton Hudson Corp.

Donald F. Swanson
Executive Vice President
General Mills, Inc.

Roland H. Thuleen
Director & Vice Ch. Board
First National Bank of
Minneapolis

OFFICERS

James Ruben
Chairman of the Board

Charles W. Poe, Jr.
President

John Mitchell
Vice President

Ronald Henrickson
Assistant Vice President

John H. Stout
Secretary

Eva Bruner
Treasurer

STAFF

Joseph Anaya
Business Analyst

Nancy Boyle
Secretary

Eva Bruner
Accountant

LaJoyce Chase
Secretary/Receptionist

Ronald Henrickson
Assistant Vice President

Laure Hurd
Secretary/Recorder

Albert Kelly, Jr.
Business Analyst

Edwin Lloyd
Procurement Specialist

Richard McArthur
Business Development Specialist

Mary Nelson
Office Manager

Elizabeth Pegues
Director Education & Training

Allen Pinnix
Accountant

Charles W. Poe, Jr.
President

Judy Smith
Secretary

Bonita Van Overbeke
Public Communications
Coordinator

Supporters

Alexander & Alexander, Inc.
American Hardware Mutual
Insurance Company

American Linen Supply Fund,
Inc.

Anishinabeg Man-O-Min
Co-ops

Apache Corporation

Bemis Company, Inc.

Borchert-Ingersoll, Inc.

Burlington Northern Foundation

The Bush Foundation

The Cargill Foundation

Coast to Coast Stores

Dain, Kalman & Quail

Dayton Hudson Foundation

The Donaldson Foundation

Dorsey, Marquart, Windhorst,
West & Halladay

Erickson Petroleum Corporation

Faegre & Benson

Farmers & Mechanics Savings
Bank

Federal Reserve Bank

Fidelity Bank & Trust Co.

Finn's Cameras

First Federal Savings & Loan

First Minneapolis Foundation

First National Bank/St. Paul

Ford Motor Company

Fredrikson, Byron, Colborn,
Bisbee, Hansen & Periman

General Mills, Inc.

Have-A-Portion, Inc.

Honeywell, Inc.

Howard's Industrial Catering

International Multifoods Corp.

Josten's, Inc.

La Casa Coronado Restaurant

Land'O Lakes, Inc.

Lutheran Brotherhood

Marbrook Foundation

Marquette National Bank

McQuay-Perflex, Inc.

Medtronic, Inc.

Midland Cooperatives, Inc.

Midland National Bank

The Minneapolis Foundation

Minneapolis Gas Company

Minneapolis Star & Tribune

Minnesota American Marketing
Association

Minnesota Bearing Company

Minnesota Mining &
Manufacturing Co. (3M)

Minnesota Natural Gas
Foundation

Munsingwear, Inc.

Musser, John

MUZAK

Nash Finch Company

National City Bank/Mpls.

The North Central Companies

North Central Airlines, Inc.

Northern States Power Co.

Northwest Airlines, Inc.

Northwestern Bell Telephone
Company

Northwestern National Bank/Mpls.

Northwestern National Bank/St. Paul

Peat, Marwick, Mitchell & Co.

Peavey Company

Phillips Foundation

The Pillsbury Co. Foundation

Piper, Jaffray & Hopwood, Inc.

Prudential Insurance Co.

St. Paul Companies, Inc.

The Satterlee Company

Southways Foundation

Super Valu Stores, Inc.

Superior Products Mfg. Co.

Tennant Company

The Toro Company

Twin City Federal S&L

U.S. Small Business
Administration

U.S. Veterans Administration

Vanguard Associates, Inc.

Webster Lumber Co.

Whitney Foundation

MEDA is supported by the Twin Cities business community and the Office of
Minority Business Enterprise, U.S. Department of Commerce, under contract #5 - 36624.

Senator GLENN. We have quite a lengthy list of witnesses this afternoon, and we will stand in adjournment until the hour of 1:30. [Whereupon, at 12:30 p.m., the subcommittee recessed, to reconvene at 1:30 p.m., this same day.]

AFTER RECESS

[The subcommittee reconvened at 1:38 p.m., Senator John Glenn presiding.]

Senator GLENN. The hearings will be in order.

We will change the order of procedure this afternoon. Mr. Denson, who was to appear later, does have another meeting and since some of the other participants in the panel have not arrived, we will go ahead with Mr. Denson's testimony now. The other person that was to appear on panel two with Mr. Denson was Mr. Poe, who already appeared this morning.

We are glad to welcome you to the hearings this afternoon, Mr. Denson, and I am happy to have your participation here.

Do you have a statement to submit or read or summarize or however you wish to proceed?

TESTIMONY OF JAMES L. DENSON, EXECUTIVE DIRECTOR, D.C. CHAMBER OF COMMERCE

Mr. DENSON. Yes, Mr. Chairman.

Senator GLENN. However you care to proceed will be fine.

Mr. DENSON. Thank you.

Senator Glenn, distinguished members of the committee, my name is James L. Denson, Executive Director of the D.C. Chamber of Commerce. I appreciate the opportunity to appear before this committee to present the views and position as it relates to Senate bill S. 2617 to establish an office for minority business development and assistance in the Department of Commerce.

The D.C. Chamber of Commerce is concerned about the precarious position, particularly as it relates to minorities in business development, as well as economic development. While the District population is 750,000 plus, more than 70 percent black, not to mention the percentage of other minorities, the businesses owned and operated in this city by minorities are less than 10 percent. This causes great concern when we think of equal opportunity and economic viability.

The D.C. Chamber of Commerce is responsible to the community interest of these minority businesses that exist, however, we also represent the majority businesses in the inner city, and all facets of economic development and growth as they relate to businesses concerning us. Therefore, I am delighted to be able to appear before you to express our views about this bill that is being considered.

In studying those agencies and all offices that now exist within the Federal Government which were organized and/or designed to enhance the development and growth of minority businesses in this Nation, we feel that they all leave much to be desired.

While the Office of Minority Business Enterprise, which was established by Executive order 11625, has under the circumstances done a

commendable job, it leaves much to be desired, i.e. it has no grant authority thus eliminating the possibility of providing research and technical institutions, universities and others with grants to do meaningful studies that could possibly lead to the enrichment and growth of minority businesses.

Further, its funding level is less than the cost of one wing of the supersonic jet. This is far too little to begin to address the question of assisting minority business. In the other hand, the Small Business Administration, with its many programs, has also failed to address the question of economic development as it relates to minorities. But we must remember that the Small Business Administration is geared toward small business across the board and was not designed to address the question of minorities specifically.

In studying S. 2617, it is our opinion that it is a commendable bill, as well as a durable one, to address or research the overall question of business development. When one thinks of business universally, they think of commerce. Therefore, we would think that it would be the normal place for such an agency. We also feel very strongly that the seriousness of this question warrants the direction of a cabinet-level office, with an assistant secretary in Commerce to administer this program, would be appropriate.

Blacks in this Nation spend 65 billion dollars a year, and if you were to equate black America as a Nation, that 65 billion would make black America the ninth largest nation in the world.

I know there are variances and statistics as we look at them as it relates to economic development and spending power of black and other minorities, but it depends on the yardstick you use and whose yardstick you use. These statistics come from the last census statistics from the development book in the Department of Commerce just released a month ago.

There are 25-plus million black people comprising more than 17 percent of the population. Yet, they own and operate less than 2 percent of the businesses. Certainly, there should be more influence on business and economic development for blacks and other minorities in this great nation of ours and certainly we deserve a cabinet-level office to oversee this kind of an effort.

Finally, we are of the opinion that the efforts to coordinate and monitor the minority business and economic development and assistance functions in America and abroad must be consolidated in one office. The establishment of such an office as provided by this bill, to serve and provide economic development must have the power and required research to do an adequate job.

This would eliminate the diffusion and lack of power and research that now exist in OMBE, and in the pool of resources that exists in the Department of Commerce, SBA, HEW, OEO, Agriculture, and all others who have genuine interest and concerns as they relate to economic development for all Americans.

Mr. Chairman, committee members, we submit to you that programs and minority businesses are failing due to insensitive, ineffective, erroneous programs, lack of organization and rules and regulations prohibiting efforts and growth in the area of economic viability. This bill is a move and a step in the right direction to right the wrongs that have existed far too long. Thank you.

Senator GLENN. Thank you very much, Mr. Denson. You have a rather unique vantage point to give us some testimony in these areas. I think the black population of the District of Columbia, in which you represent the Chamber of Commerce is 70-plus percent.

Mr. DENSON. It is about 73.4 percent according to the last census.

Senator GLENN. So we have a tremendous amount of minority business, that is not minority in Washington, D.C., per se, but it is the majority business here.

Mr. DENSON. That is right.

Senator GLENN. But minority business efforts have some of the same problems and pitfalls as other places in the country. So you have a rather unique vantage point to give the committee some expert guidance.

The first part of your statement indicates your support for raising the general authority level to the assistant secretary level within Commerce, the OMBE office within Commerce. I am concerned, though, particularly about your last paragraph. I would like to flesh out some of these things because that is where you make statements I would like more information on. If you can substantiate some of these things, I think it would be of interest to the committee.

For instance, minority businesses are failing due to insensitive, ineffective, erroneous programs, lack of organization and rules and regulations prohibiting efforts in growth in the area of economic vitality.

That is a real sentence. Can we spell some of these things out? For instance, I would like to ask you specifically what lack of organization, rules and regulations and how have they prohibited efforts at growth in economic vitality in the area you are familiar with here in Washington. Take the first one, what programs do you see as erroneous programs under either OMBE or SBA?

Mr. DENSON. For example, when I say erroneous programs, Mr. Chairman, one of the things that I feel that is erroneous is the fact that OMBE does not have any grant authority. It is erroneous inasmuch as everything that comes out of there is in the form of a contract that eliminates the possibility of doing research from a research institute or from some technical organizations who would not be of the nature to contract to do a specific kind of thing.

That, I think, is erroneous. I think it is erroneous—their auditing program is. When one has an OMBE contract to perform a service such as a business development organization to assist minorities to enter into business or broaden the scope of their business, acquire loans, things of that nature, when the OMBE auditing program requires an audit at the end of the program or end of the year, it requires a program audit as well as a financial audit. A fiscal audit, I think, makes sense but when you begin to talk about program audits hand-in-glove with the fiscal audit you become confused.

I think that it is very difficult to use a yardstick to determine whether or not a business development organization in effect has done what it is supposed to do programmatically because of the numbers game, for example in Oakland, Calif., where the population is much smaller than that of Washington as it relates to minorities, if they had not lived up to a certain number of new startups in business

versus the organization in Washington, then that BDO out there is in trouble.

I think that is erroneous. I am talking about the program audits and the numbers game that is played and the methodology. Yet they have to play the numbers game to please the various committees who give the appropriations for OMBE. If you have not started a number of businesses and created the atmosphere for a certain number of SBA loans during the course of the last fiscal year, then you are not going to be doing the job.

This is not necessarily so that they are not performing well—This is why I say “erroneous.”

Senator GLENN. Is this set up so that quotas are established depending on the black population in certain areas? Is that what you mean? And they are supposed to establish so many businesses per hundred thousand or whatever?

Mr. DENSON. Not necessarily dependent on the black population but quotas are put out in terms of every business organization as to how many businesses they are going to service during the course of 1 year, what they ought to do.

You might find that one BDO versus another may spend considerable numbers of man-hours working with one business that creates and develops many more jobs than another business, yet the requirement is that they move on and deal with a number of more businesses. So there are quotas but the quotas come from within OMBE in terms of how many businesses did you help last year and there are reporting requirements.

Senator GLENN. Well, is this—I am asking, I do not know the answer in advance so I am really seeking information on my own, too. Are the programs set up on the numbers of people being helped rather than on the number of new business contracts being written?

Mr. DENSON. In some instances, but I think most times—

General GLENN. Let me clarify what I mean. If you had one major development that was going to be a single business but employ a lot of people and it would be listed perhaps as one particular business but it might encompass a lot more advantages for more people in the future than if you establish 10 other smaller fragmented operations.

How would the statistics look on that?

Mr. DENSON. That is exactly what I am referring to when I say that the programs are erroneous because the statistics which show one versus one, and that organization concentrates maybe say on 300 man-hours on initial development of the larger scope business, would get as much credit as the business that was a mom and pop store kind of operation and when it came time for evaluation the question would be asked: “Why did you not help more businesses than you did?”

Senator GLENN. How about lack of organization? That was the next thing you indicated there. Lack of organization and rules and regulations.

Mr. DENSON. Well, I speak of lack of organization there concerning many of the programs. You find that—this is a very ticklish question because there are a lot of political elements involved. But

you find that in lack of organization there are many people in there, and I use the Office of Minority Business Enterprise because I know more about that perhaps than I do the others, but you find that many of the people who are staff folk who are in the program area do not know what others are doing.

You find that the evaluation mechanism changes from time to time and your program officer changes from year to year or month to month. You find that your administrative people, whereby you may find something coming out of the director's office in terms of a directive or the deputy director's office in terms of a directive, but the operations of the organization of the program people are saying different kinds of things in terms of what the program ought to be about.

Yet, with the decentralization there is a certain amount of autonomy in every region and every regional office and you find that whereas the region that we are in thinks that the one-stop center is the best kind of operation, the region out on the west coast disagrees. This is what I mean by lack of organization.

I think that maybe for a better term rather than lack of organization I may have meant lack of communication because sometimes if you talk to two different people in the same category, regional directors for example, in the Office of Minority Business Enterprise, and then in SBA, also, you think they are talking different languages and you begin to wonder whether the program differs from State to State or community to community.

This is what I meant.

Senator GLENN. Can you give us some examples of these rules and regulations that would prohibit efforts in growth in areas of economic vitality.

Mr. DENSON. Yes; I think I can deal with that in terms of rules and regulations.

Regulations, when you take a look at the overall program, for example, take a business assistance organization that has a lot of public relations work to do; it has a lot of meetings to make; it has a lot of contact to make as relates to other business associations.

Before an Executive or the person in charge of providing liaison between perhaps the city or the district or the business community, if there is a conference that comes up somewhere, you may get the notice a week or two before the conference and you have to go through a procedure to get approval to travel—which is not completely wrong, but the rules that you have to go through and deal with, and that deals with how you get approval—the conference may well be over rather than looking at certain areas of the responsibility when you sign the contract in the beginning. These are some of the rules that prohibit people from having the flexibility from taking advantage of the situation as it arises.

There are regulations that prohibit, for example, in SBA, one becoming 8(a) certified I understand at this point, without first having found a contract. When you look at the concept of 8(a) set aside, I think the reason for it was to assist the individuals in finding contracts and becoming independent.

Senator GLENN. I did not want to get to the 8(a) program, how is it working? What have been the pitfalls with that? That was supposed to assist and provide the Government entry into these many different fields. How has that worked and what have been the problems there?

Mr. DENSON. From where I sit, Senator, I would say that the 8(a) program in some instances, particularly in the area of construction, for some minorities has worked out but for the most part I would say that it has failed and it has failed because of (1) mismanagement; (2) a lack of understanding on the part of those people who administer the program and those people who are to be the users.

For example, I just left Los Angeles last week where there was a young man who started a pharmaceutical company and he started it because he went out and got several contracts to manufacture aspirin and rubbing alcohol. Those contracts were 8(a) contracts. He did a 5-year projection and in that 5-year projection I think he survived 2 years of it and then when there was a change, when there was a plastic crisis, an energy crisis and it was very difficult to get plastic base materials, then he started to have some problems.

Well, the 8(a) program then had not identified or assisted him in identifying perhaps another contract that would have underwritten the void in terms of the loss from the rubbing alcohol contract that he had because he could not get the plastic bottles. Then he went back to SBA to renegotiate a loan and the people in the loan department and the people in SBA, 8(a) contracting department were not working together so he is out there. He is just out there.

I think that it takes a lot more planning and that planning has to be a partnership between Federal Government, private industry, and the minority business for 8(a) contracts to work.

Senator GLENN. That particular situation you mentioned, it might be difficult in one where there was a specialty area that was having problems that could not have been foreseen and finding some way to put their production techniques to work immediately as the problems came up. Were there any indications that there were other types of projects? Do you know if there were other projects that his type production could have been shifted to?

Mr. DENSON. He is going to survive because there has been a procurement program developed in the State of California similar to 8(a) and he is moving his interests into other arenas such as you suggest with different products and different kinds of things.

However, let me cite a personal example of how 8(a), I think, has failed.

Senator GLENN. Do you think 8(a) could be brought under this type of approach—under this bill? Would it be more functional under OMBE for instance instead of under SBA?

Mr. DENSON. Well, my thinking, Senator, as it relates to SBA and OMBE and all the other agencies that are involved, is there ought to be some transfer authority. There ought to be a centralized place, I think, and I think Commerce is the place for it.

When we think of foreign trade we think of Commerce. When we think of economic development and administration, it is under Commerce, and we think of Commerce. When we think of some areas of

rural development that has to do with business development we think of Commerce.

So I would think that anything that has to do with minority business development, if there were 8(a) contracts involved, there would be some kind of transfer authority.

I do not necessarily agree or think that the 8(a) program ought to be under this umbrella. I think that there ought to be a working relationship and I think, also, with the proper planning this could be brought about.

I do not feel that SBA ought to be under OMBE or OMBE under SBA. I do not think that is the question at all.

I think the question is how do we put together an action that will address itself to economic and minority business development across the board and how can we then relate to the other agencies and utilize those resources to eliminate duplication of effort?

Senator GLENN. Well, that is the purpose of this bill, to eliminate some of those things and make them more workable just as you have outlined. Let me get one other question here before we move on.

Mr. Poe, whom I see in the back of the room, was with us this morning. He testified on some of their experiences in Minneapolis and working with their metropolitan authority there which provides an expertise for minority business people in dealing with the government and getting these things approved.

What has been your experience here in Washington as far as being able to—you were just a small businessman—have an idea for a business? What would be your idea? Are the procedures adequate for your getting the information you need or do you find a great need for people to have an intermediary group such as the MEDA described this morning to help get them their funding or help work them through the bureaucracy?

Mr. DENSON. Well, I think—

Senator GLENN. I am looking at this to see whether there has been an adequate outreach program to help people understand how they can avail themselves of everything available. Do we need MEDA type organizations such as described this morning, or are facilities adequate now to approach a single businessman proposal?

Mr. DENSON. I would say that they are inadequate but there are a lot of inefficiencies along with being inadequacies. I think there are enough facilities available. There are enough organizations available. I think that we need better communications. As I indicated before, I—

Senator GLENN. How would we attain better communications, by what means?

Mr. DENSON. We would get that by making one responsible organization, one responsible individual—

Senator GLENN. One-stop service, you think?

Mr. DENSON. I think that is an answer but I think there has to be with the one-stop service—there has to be some accountability and that accountability has to come with proper planning in an organization that—I think the one-stop center here could do that, a very good job.

Senator GLENN. You mean accountability now as to what? Whether the agency is establishing so many new business, which you men-

tioned earlier, is not a good criteria. What would be your accountability criteria?

Mr. DENSON. Let me cite an example and I will take a case where two young men wanted to start a record shop in September of last year. In September they approached the chamber of commerce and I referred them to the one-stop center and they went to the one-stop center and that was the first of October. In October a business plan was prepared with the assistance of the technical assistance of the one-stop center and they went to two banks for loans and they were turned down and they were then sent back to the one-stop center. By then it was November.

In the meantime, they had put some money up on a building they wanted and they had some funds of their own and a feasibility study had been done, the market was there, and they went back to the one-stop center to go to SBA. It was 6 weeks before the application was submitted to SBA and when the application was submitted to SBA, it was to the wrong office. It was in Philadelphia instead of Richmond.

By then there was another 2 or 3 weeks passed.

Then, it was December, the holiday season, and nobody was working.

To make a long story short, I then assigned one of my personnel to first go all the way through each step with the two individuals because they had opened the business with no money, really, borrowed money from the families and what had been saved by them, and my procurement specialists had an SBA loan approved inside of the next 2 weeks because they followed the procedure step-by-step. But now here it is April now, and their loan has been approved but they will not get their first check until next week.

I am saying that if we had—it gets back to the question of rules and regulations but I am talking about accountability now, but if there were requirements that when a person comes in for a loan or for technical assistance or service, that there is an evaluation done and there is also a reporting step-by-step as to what is happening in the activity reporting within a 30-day period. That will eliminate a lot of people not getting loans or getting them too late and a number of things that happen.

I think that the accountability question is very, very serious. In many instances it is not always the initiators' fault. It is not the technician at the one-stop center because he does not know who to go to or who to call. But it is some of the bureaucracy, too, where it lays on desks for a week or two before they even pick it up to look at it.

Senator GLENN. Okay, thank you very much, Mr. Denson. I appreciate your taking time to be with us. If the staff wishes to have additional questions answered, I hope you could respond to them so they could be submitted in writing later as part of the committee record.

We appreciate your being with us today. Thank you very much.

The next group appears as a panel. I do not know how many of them are here now. This was to be an eight-person panel, I believe. I believe seven are here. Mr. Mitchell Albert, Ms. Margarette Robinett Du Pont, Mr. Earle Horton, Mr. Homer Sheeler, Mr. Mervyn Stenson, Mr. Morgan Watson, Mr. Jesse Wilson.

We will try to move along as rapidly as we can. I understand Senator Johnston is on the way over here to assist with this quite large panel. We welcome all of you here. If you each have statements, and they are not long, we can go through them. If anyone has an extensive statement, we prefer they be submitted for the record since we would like to have as much discussion time as we can possibly have.

I must apologize to Ms. Dupont here. The way this was printed on the witness list I read your first and middle name and that was it. It is Ms. Margarette Robinett Dupont.

So we can start over with you. We would be glad to have your testimony. You can summarize it or present it however you choose.

TESTIMONY OF MITCHELL ALBERT, EXECUTIVE DIRECTOR, CENTER FOR BUSINESS AND ECONOMIC DEVELOPMENT, SOUTHERN UNIVERSITY, BATON ROUGE, LA.; MARGARETTE ROBINETT DUPONT, CHAIRPERSON, ACTION AND DEVELOPMENT COMMITTEE, NATIONAL ECONOMIC DEVELOPMENT ASSOCIATION, NEW ORLEANS, LA.; EARLE C. HORTON, ATTORNEY, ROGERS, HORTON AND FORBES, CLEVELAND, OHIO; HOMER J. SHEELER, PRESIDENT, PURPLE SHIELD INSURANCE CO., BATON ROUGE, LA.; MERVEN STENSON, EXECUTIVE DIRECTOR, DETERMINED YOUNG MEN, CINCINNATI, OHIO; MORGAN WATSON, PRESIDENT, MINORITY ENGINEERS OF LOUISIANA, BATON ROUGE, LA.; AND JESSE WILSON, WILSON'S CONTRACTORS, PLAQUEMINE, LA., A PANEL.

STATEMENT OF MARGARETTE ROBINETT DUPONT

Ms. DUPONT. Thank you, Mr. Chairman.

Mr. Chairman, I am very grateful for this opportunity to be here today.

I would like to thank Senator Johnston for reawakening interest in minorities, particularly in S. 2617. I would like to say the bill has my full endorsement and of those in the Hispanic community in New Orleans which I represent.

My position paper will be presented for the report at a later date. I have been in bed with the flu. I am very sorry. You must forgive my tardiness.

The difficulties confronting the minority business owners have been discussed here all morning. I would like to say that our problems are overwhelming, but with the creation of OMBE we did see a tremendous difference and neither MESBIC nor NEDA, on whose board I sit and do represent Louisiana on that board, could not exist today if it were not for OMBE.

I feel that OMBE has been a problem about precedent and therefore it has been very rough going for them. NEDA in New Orleans this year has serviced on the order of over 70 clients and we have provided more than \$6 million already this year in New Orleans.

The main points of the bill that I would like to address, I feel that the most important are that it would make the minority program a

statutory mandate and by so doing it would give us not only much more credibility in all of the things that have been brought up this morning, but it would help us at the local level to be able to have more qualified people working for us and they would not be afraid of losing their jobs tomorrow. So we could employ better people and they would stay with us. It helps us go out and seek private funding.

We are talking a lot about private funding. It is difficult to go to a corporation and say that we need and we can do thus and so. We do have a phenomenal record and we have done it, but the corporation knows that tomorrow we may not exist. If we were a statutory mandate, this would give us the standing.

We would not be the illegitimate child. If we had the Secretary with one head, we would have the coordination under that setup. The specific problems that I would say have been brought to my attention locally are many that deal with import-export, that we do not have the banking services for this, that the Ex-Im Bank addressed itself only to the larger and do not look to the small guy.

You have 250 corporations that do over 50 percent of the import-export of this country. New Orleans has over 25,000 Spanish-speaking people. We are certainly in the position to do this. We have people waiting to go. We have people in the business and they don't know where to go for the help.

I would like to say that the MESBIC has not been doing the job it is supposed to do. There is a feeling there should be stricter requirements, that the MESBIC's are 18 percent and requiring collateral and many other thing originally they were not set up to do.

There is also a need for the direct funding. There has been talk of the direct funding to be cut out. Although they are sporadic on this, at least we have had them and we do need them. We have some very good investments unaccepted even with the SBA 90 percent guarantee. We have these people turned away. There is a need for a lease guarantee and bond guarantee program.

It was brought to our attention this may be phased out of the SBA program. I think that this moment in time is very critical and it is an important time to move. I am very enthusiastic about our progress and I think that refraining from action right now carries the larger consequences, perhaps more so than taking action, so I think we ought to move in a long-term way and address the long-term problem and, of course, capital enters there.

I feel the time is right to do this. I feel this bill would bring us in the right direction.

Thank you.

Senator GLENN. Thank you very much. I am sorry I did not read into the record your full title. It was chairperson, Action and Development Committee, National Economic Development Association, and you are from New Orleans.

Ms. DUPONT. Yes.

Senator GLENN. We will go through the statements and have a roundtable discussion. That would be the most productive way to conduct this, I think.

Mr. Mitchell Albert, executive director, Center for Business and Economic Development, Southern University, Baton Rouge.

STATEMENT OF MITCHELL ALBERT

Mr. ALBERT. Thank you, Mr. Chairman, Senator Johnston.

I am deeply honored to have the opportunity to appear here in Washington today and present my views on the proposed legislation entitled Minority Business Development Act of 1976, S. 2617.

Let me state that I feel a deep sense of gratitude to the sponsors of this legislation because for 200 years there has been too little concern evidenced at the national level for assisting minorities to develop their community economically through business ownership.

I believe that bill 2617 will strengthen enormously business counselling and assistance to minorities. It is significant to me that the sponsors of this bill are asking that assistance be rendered. They are not asking that minorities be subsidized. This would mean that an investment would be made in our Nation's economy because minorities would be encouraged to pursue viable business opportunities and would be aided by organizations at the local level who have professional expertise to assist them.

If enacted, this bill would provide a budget of \$100 million to be allocated for administering the program. While I do not criticize or begrudge the fact that \$600 million was allocated to relocate approximately 150,000 Vietnamese refugees in the country, I respectfully submit that \$100 million is certainly justifiable in view of the fact that minorities comprise more than 15 percent of the American population, many of our minority citizens reside in communities which need to be developed economically.

Minority business development assistance programs implemented in 1969 are currently on the brink of completing the first phase of operation, that is, startup and implementation of basic programs.

To a large degree local programs have become established, creditable and productive organizations. This is evidenced by the fact that financial institutions rely heavily on their expertise to evaluate and actually determine the viability and prospect of success by proposed business ventures.

Second, major corporations seek assistance in identification, certification, and counselling of minority vendors whose products or services are sought and needed.

Third, minorities realize now that they can obtain assistance from organizations whose personnel are competent professionals, but who are also sensitive to the problems of minority entrepreneurs and minority communities. In the Baton Rouge area more than 100 major corporations utilize business development organizations' staff members who assist them because they do not have in-house capability to attract and contract with minority vendors.

Federal agencies such as the Federal Highway Administration, Urban Mass Transportation Administration, General Services Administration, Housing and Urban Development and many other Federal agencies are experiencing the same plight.

I envision that the Minority Business Development Assistance Act, if enacted, would be a significant piece of legislation that would enhance the plight of minority business owners. We are all aware of the fact that management skills and techniques must be upgraded constantly in order for a well-established business to succeed.

The average minority-owned business person is concerned primarily with survival. He is not so much concerned with success at this point. There is an awareness on the part of minority entrepreneurs to implement and use business plans and other management tools as guides to managing their business. They have not reached the point where they have time, money, and energy to devote to this phase of the operation is necessary. This means then that counseling and assistance available under the provisions of the Minority Business Development Act of 1976 would be the vehicle through which these goals could become attainable.

In essence, I would like to point out that minorities are only beginning to penetrate the mainstream businesses such as supermarkets, automobile agencies, supply companies, financial institutions, manufacturing plants and large construction agencies.

Typically minorities are involved in businesses that are pitifully small and economically insignificant. Tables 1 and 2, found on pages 3 and 5 of my written report, provide more details as to the plight of minority-owned businesses in southeast Louisiana. My experience has been that problems inherent with blacks starting up and operating businesses are problems also inherent with other members of minority ethnic groups.

I am confident that the enactment of this bill would fill the void that minority business owners need to receive assistance from competent personnel who have expertise in marketing, merchandising, finance, accounting, inventory control, production management, and other areas necessary to compete successfully without being restricted to small marginal ventures.

The Minority Business Development Act of 1976 would increase tremendously the confidence of the American public in business programs. Favorable consideration by this committee and the Congress would at least serve a threefold purpose: (1) it would assure minorities that the Federal Government endorses the concept of having all Americans participate actively in the free enterprise system and be limited only by individual capabilities and initiatives; (2) it would encourage major corporations, financial institutions and governmental agencies to increase economic and financial support to businesses owned by minorities; and (3) it would strengthen substantially the capabilities of business development assistance programs because of the support given by the Congress of the United States.

In closing, it is my opinion that if this bill is enacted, it would become one of the most outstanding pieces of legislation in the annals of our country's history. It would strengthen the economic base of minority communities, consequently, it would strengthen the American economy.

Thank you.

Senator GLENN. Thank you, Mr. Albert.

Mr. Wilson is with Wilson's Contractors, Plaquemine, La.

STATEMENT OF JESSE WILSON, JR.

Mr. WILSON. Mr. Chairman, Mr. Johnston, I would like to express my appreciation for being here today. I think my testimony might be a little different from most in that I would like to—first, introduce

myself, then give some qualifications of my company, and the assistance that I have received from an OMBE-related program.

My name is Jesse Wilson, Jr. I am 28 years of age and a 1971 graduate of Southern University with a major in Industrial Arts. After graduation I tried the employment in the industry. I thought about teaching, but after going through and seeing limited opportunities, I turned to business.

At present, I am a building contractor, industrial maintenance contractor, pallet manufacturer, grass maintenance contractor, apartment building owner and I must say that much of this was an effort, sincere effort, from the OMBE office. I started very small with no working capital, and no tools. I tried getting assistance through local banks but was quite unsuccessful. For instance, I had an idea to build a complex of apartments.

I went to one of the local banks, the loan officer there barely finished listening to what I had to say and recommended me to someone else. He merely stated that they didn't have any funds for such projects.

I again started dealing with Economic Business, which is an OMBE-funded program, and through their assistance I did receive assistance on that project through the local bank. On that project I did a cost estimate and gave a projection on time and everything else, and I did the project and I got \$25,000 for it. I was caught up in a situation in 1973 in which I can cite one of the cases where I priced a roll of wire for \$42.50 and on Wednesday of that same week the wire went up to \$85.

In a field like that it wouldn't take long to put you in the red.

Senator GLENN. That is a pretty high inflation rate, I must admit.

Mr. WILSON. And as a result of that I did incur unexpected expenses.

Here again, through assistance I received, I was given another \$2,000, which I used to finish the project and I had the project appraised by a licensed realtor and it was appraised for \$42,500 at completion.

In expressing my views concerning this bill I must start by saying it is a badly needed fixture in governmental structures of our Nation as well as an investment in the economic growth and security of our Nation, a growth that will bring about an even more prosperous and free Nation for all. This bill would offer an infinite amount of security to vendors such as myself who want to expand and create one of the things on which free enterprise is based, that of competition.

To compete you must grow and many times at a rate that exceeds the workload and capabilities of your company. In times like these the valuable assistance received to make necessary research, and in many cases acquire the proper funds, is the kind of assistance needed to keep the company growing and competing in business.

In my opinion, contractual arrangements on a year-to-year basis inhibits the total effectiveness of the program. Programs of this type must have some degree of permanence if you are growing and expanding. It is not encouraging to know that the business development assistance organizations may be there or not. Small businesses are saved a tremendous amount of valuable time and money, a saving that enables me to survive with at least one less burden a day.

Even though business development assistance organizations have tremendous value in the present case, there are still a lot of important areas they could be helpful with the proper funds and personnel. To think of no assistance at all would be a great setback in the American economy. It is a very hectic race to run in business without the proper funds, experience, exposure and support that is so vitally needed just to keep up, and provide some assurance that someday you might win.

I now employ an average of 27 full-time employees and 5 part-time school boys. That is 27 men willing to work, who couldn't find jobs; 27 families who don't have to depend on welfare; 27 men now paying local, State and Federal taxes; 27 men helping other businesses grow; 27 men upgrading their standards of living and the community around them; 27 men freed of an economic burden that could have later led to crime.

Along with relieving the financial burdens of these full-time employees, I have been able to help five school boys work their way through school. All of this was made possible because of the assistance I received from a business development assistance organization. If these are the kind of results you gentlemen expect, want and require from such a program, you can be assured that your expectations are being met. In order to keep these results flowing in the American economy this bill is a much-needed fixture to do such a job.

In my particular case, that is only one situation, that was pointed out as a result of my assistance received from OMBE. I am sure that it would be multiplied greatly if this bill is enacted here today.

In closing, I would like to say that 200 years from now when the decisions made by you, the lawmakers, will have been tested and retested, I hope that someone will be able to say 200 years ago today a decision was made by a Senate subcommittee in Washington, D.C. to pass a bill that would enable all men and women to enjoy the sweet taste of free enterprise, thus strengthening the greatest, most prosperous and freest country in the world.

I wish to again convey my thanks for being a part of such an important and honorable event. To you, gentlemen, I offer thanks.

Senator GLENN. Thank you, Mr. Wilson.

Mr. Earle Horton from Rogers, Horton and Forbes, Cleveland, Ohio.

STATEMENT OF EARLE HORTON

Mr. HORTON. Thank you very much, Mr. Chairman, Senator Johnston, ladies and gentlemen.

I appreciate the opportunity of being here today to testify before this committee and give my views on the proposed bill. I feel it is a much-needed bill, as I am sure the sponsors do, for we are all interested in providing opportunity for minority business ventures and with that opportunity is that hoped-for success.

Having represented many small business making efforts to expand and many new business ventures, I would like to address myself to a concern that I feel continues to permeate and handicap minority business efforts. This is somewhat a matter of policy of the opera-

tion of the program in that particular area, that is, funding or loans to provide initial working capital for operation, and funds for acquiring the necessary outside expertise to insure a successful operating organization.

I would like to specifically point out that there are many potential good business ventures that fail because of what I consider built-in failure factors. That is, for example, lack of operating capital for any reasonable term.

These funds are an absolute necessity to sustain any new business or expand any small-scale operation into a larger one. So often the lack of initial operating capital causes the primary arteries of any such business to have to utilize business funds for just living expenses.

I can cite several examples which I will do in the interchange, I am sure.

The other main point I would like to address myself to is that of outside professional advice, and that is needed at all times.

Competition which the minority enterprise must compete with generally has experience and outside expertise to operate a competent organization. Minority interests must be supplied and given financial opportunity to utilize these services.

When I point out those services needed, particularly in the areas of marketing, accounting, legal advice, merchandising, I would hope that the operation, once this bill is enacted, would address itself to providing those particular areas of assistance to minority ventures be they existing ones attempting to expand or new ones that are just starting out.

Thank you very much.

Senator GLENN. Thank you very much.

Mr. Watson?

STATEMENT OF MORGAN M. WATSON

Mr. WATSON. Thank you, Senator Glenn, Senator Johnston and others who make up this group, it is a real pleasure for me, one born and reared in the cotton fields of Tensas Parish in northeastern Louisiana, to participate in this panel discussion at a hearing on a bill that could have such a profound impact on the minority businesses in this country.

I assure you that the struggle I faced in working my way from \$2 per day for 12 to 14 hours of work in the cotton fields, through undergraduate and graduate school with a wife and three children and on to become president of the only black-owned, -managed and -staffed engineering consulting firm south of Washington, D.C. in just 12 years, is nothing compared to the hardships we have faced for the past 3½ years and the struggle in which we are still engaged just trying to get a business going in these days of affirmative action, equal opportunity, 8(a) programs and other devices designed to aid minority businesses in this country and promote minority entrepreneurship.

I will now share with you my views on bill S. 2617 and outline the struggle that we at Minority Engineers of Louisiana [MET] Inc. have faced in getting where we are today, if we are anywhere at all.

First of all, I strongly support S. 2617. I feel that the expansion of the Office of Minority Business Enterprises, the increasing of its functions, and the placing of this new entity, the Minority Business Development Administration, under an Assistant Secretary of Commerce, is long overdue. However, this would put some teeth in the current programs aimed at developing minority businesses.

Unless a special effort is made on the part of this new agency, the minority business development program will still be shrouded with mystery and confusion, and as fragmented as it is now. Many of the programs and officials presently charged with the task of aiding minorities actually hinder them by (1) discouraging them; (2) confusing them with eloquent rhetoric; (3) deceiving them by declaring them ineligible for programs or funds earmarked for minorities, or by leading them blindly into losing situations; (4) causing long delays, and creating uncertainties and false hopes; (5) requiring massive amounts of paperwork that in many instances is considerably more than would be required for a nonminority business; and finally (6) making financing difficult to obtain.

The administration should not simply encourage minority participation on Federal and federally funded projects, but should insist—through regulations if necessary—that all segments of our economy utilize minority firms as much as possible. This would require that certain records be kept and circulated.

Thus, the Agency would serve as a clearinghouse for matching minority businesses with prospective clients, and vice versa. I feel that the bill as it is written is rather vague and does not really have a method of implementing the development of minority businesses.

The “teeth” could be added once the administration is established by setting up and enforcing compliance regulations. However, this bill is certainly a step in the right direction. Since each agency has its own civil rights of affirmative action regulations regarding minority businesses with no nationally coordinated effort, the establishment of the administration and the transfer to the Secretary of the separable functions from other Federal departments and agencies that relate to the development of minority business enterprises would do away with the fragmented effort that now exists and provide the badly needed coordination of the Federal effort as it applies to minority business enterprise.

A classic example of the need for coordination is illustrated in the Small Business Administration’s 8(a) program. While SBA’s intentions are good, the business plan and qualifications resume [exhibit D] is far too complicated for the average minority businessman to even bother with.

If he can prove that he is socially and economically disadvantaged, has good character and meets several other qualifications, he then files his application, and then his troubles really begin.

First of all, a board frequently composed of no minorities approves or disapproves his application. If the application is approved, SBA will find and negotiate a contract with a Federal agency and subcontract it to the minority businessman. All the procedures, conferences, paperwork and other headaches associated with the program frequently cause the poor, socially and economically disadvantaged

businessman to become even more economically disadvantaged than he was to begin with.

Thus, in order for the administration to be effective, it must unify and simplify the fragmented programs that claim to encourage minority business enterprise, when in fact they are more like minority business enterprise discouragement programs.

In short, I strongly and enthusiastically support the creation of the Minority Business Development Administration. By serving as a clearinghouse, a regulatory agency, and an enforcement agency and placing the present programs designed to aid minority business enterprise under the Secretary, the administration would represent the greatest boost to minority business enterprise in history. By relating to the grassroots people and bridging the gap between the potential minority businessman and the rigid requirements of SBA, and by providing effective business counseling to minority businesses, the administration would go a long way toward providing minority business enterprises with their long overdue share of the American dream.

The plight of my firm, Minority Engineers of Louisiana, is a classic example of the struggle that a small minority-owned and -managed business faces in getting started. Since we are design professionals, the road has been rougher, because until recently minorities were excluded from employment with the private consulting firms.

MEL came into being on September 1, 1972 as the corporate profile/SF 254 [exhibit B] outlines. Our clients include architects, the Louisiana Department of Highways, East Baton Rouge Parish School Board, East Baton Rouge City-Parish, Housing Authority of New Orleans and several small municipalities.

We have never been awarded a Federal contract in spite of applying for over a hundred projects, spending over \$20,000 preparing and distributing SF 251, 254, and 255 and visiting district, regional and headquarters offices of most Federal agencies.

To illuminate the need for a strong, concentrated minority business enterprise effort, I will outline the struggle that MEL faced just to get assistance from the Federal Government. When one considers the fact the Government is setting the pace and establishing the guidelines and procedures for assisting minority businesses, it takes no imagination to appreciate the struggle we have with industry, municipalities, and private enterprise in the deep South where we live. But the paradox is that the State of Louisiana has been very kind to us.

Anyway, I will outline—and it is in more detailed and eloquent fashion in my testimony—but we were first denied the SBA loan because we did not have any assets. Our net worth was not too good.

On our first attempt to secure a Federal project we were told that our firm was not large enough to do business with the Federal Government. We thought this meant—we wanted experience because we had only a few projects, but they suggested we apply to the SBA 8(a) program. On going to SBA we found that after we presented the credentials of our principals, we were told we were no longer socially and economically disadvantaged because we were too well-educated.

This meant that as far as the Federal Government was concerned, we were too poor to obtain an SBA loan, too small to obtain a Federal project, and too well-educated to be declared socially and economically disadvantaged. So as far as the Federal Government is concerned we were between a rock and a hard place.

Our story is the same as most minority businesses could tell if given the chance. We are tired because of a lack of a comprehensive, yet concentrated—as opposed to fragmented—program to assist minority business enterprise, it seems that the Government is really discouraging the building of small and minority-owned businesses and encouraging the building of giant monopolies.

MEL is small by anyone's standards. Our revenues in the past 3 years was \$13,000 in 1973, \$69,000 in 1974, \$66,000 in 1975, and the losses have been about \$4,000 to \$5,000 in 1973, \$33,000 in 1974, \$27,000 in 1975. You see, we are losing less each year in the past 2 years.

Our whole struggle has been so frustrating that our vice president of engineering in tandem at the Corps of Engineers, once remarked, "Does the Federal Government expect babies to be born weighing 150 pounds?" That would be a hell of a trauma on the mama, wouldn't it? How could we grow without subsistence of our provision, which is contracts?

We like other minorities don't want charity or handouts. We want an opportunity to demonstrate our skills and abilities and move into the mainstream of the great American society.

In conclusion, this bill would be a good one as far as minority businesses are concerned. In the Economic Opportunity Act of 1964 Congress declared:

The United States can achieve its full economic and social potential as a nation only if every individual has the opportunity to contribute to the full extent of his capabilities and to participate in the workings of our society.

The creation of the Minority Business Development Administration could be the first real step in that direction. That, ladies and gentlemen, is why I enthusiastically support S. 2617, and the opportunity to present my views to the subcommittee at this hearing certainly ranks as one of the high points in my life.

Thank you very much.

Senator GLENN. Thank you, Mr. Watson, very much. I forgot to give your title before you started. You are president of Minority Engineers of Louisiana, Inc.

Next is Mr. Mervin Stenson, executive director, Determined Young Men, Cincinnati, Ohio.

STATEMENT OF MERVIN STENSON

Mr. STENSON. Thank you, Senator Glenn, Senator Johnston, for allowing me to give testimony in support of S. 2617.

I sympathize with the businessmen around the table here who have had their problems. I have taken many of the same type of people down this path avoiding the problems they have faced.

I would like to hit the highlights of my testimony for S. 2617.

After the years of 1967 and 1968, the troubled years, there was an organization in the city of Cincinnati that presented a new and innovative idea to the citizens of Cincinnati.

The idea proposed was that of bringing the minorities into the mainstream of the American economy. This idea was instituted by a group of business and professional men who at that time was young in spirit, age, and enthusiasm and determination, but inexperienced in reality of developing minority businesses.

This group called themselves the Determined Young Men. Since the inception of this organization and this program in 1968, I have served as its executive director commencing with a staff of one, serving as executive director, secretary, janitor and loan packager.

Since that time I have witnessed the following:

One: The staff has grown from an office of one to a complement of nine.

Two: That which was an unacceptable and revolutionary idea yesterday is an acceptable program of today with extensive designs for the future.

Three: A fledgling gathering of 25 young members is now an organization of 250 biracial, dedicated volunteers from a cross-section of Cincinnati's business, professional, and educational community.

Four: An organization of 8 years ago having difficulty obtaining a \$1,000 loan for a minority business person, today processing and having approved loans of \$1 million.

Five: An organization that yesterday was rejected, isolated, and discouraged from assisting one minority, presently has a yearly assistance average of 110 business persons.

Six: An organization that has assisted 641 economically deprived business persons technically by offering legal, accounting, marketing, and educational services.

Seven: An organization that has assisted in obtaining 402 loans totaling \$14 million for minority businesses.

Eight: An organization that has assisted in obtaining 82 public and private procurement contracts totaling \$10 million.

Our timeline is determined by the needs of the community and their needs are engulfed in infinity. During the past 8 years the Determined Young Men have also been instrumental in the establishment of the following:

- (a) A full-time SBA office in Cincinnati.
- (b) The Cincinnati Business Resource Center.
- (c) The Cincinnati Minority Business Opportunity Committee.
- (d) The Cincinnati Minority Business Enterprise Committee.
- (e) The Minority Business and Cultural Exposition.
- (f) The Federal Trade Fair.
- (g) Ohio Association of Economic Developers.
- (h) A university-accredited graduate accounting course at the University of Cincinnati.

The Determined Young Men are now in the process of establishing: (1) the first black bank of Cincinnati, (2) the first minority-owned hotel, (3) second General Motors' dealership.

This sounds good, there have been a lot of accomplishments but there are still problems facing minority entrepreneurs.

With the initiation of the Determined Young Men's program, it was realized that the minority entrepreneur would have problems.

After 8 years of experience, DYM can scientifically pinpoint and project the plight and problems of the minority entrepreneur.

One: Inability to obtain adequate capitalization to sustain a business.

Two: After the initial loan the minority business person finds it difficult to obtain other monies.

Three: Usually the area in which the minority business is located is all black or on the fringes, which makes the cost of crime insurance prohibitive.

They also lack management services/technical assistance such as accounting and recordkeeping.

A majority of the minority business persons have never been exposed to recordkeeping and accounting. This is the cause for 80 percent of their problems, especially in the area of city, county, State and Federal taxes.

Marketing. Due to the limited expertise that the minority has to open a business and the expertise and personnel that his capital will employ, this area is completely void.

Management personnel. Because of the limited capitalization of minority businesses, it is impossible for minorities to employ competent personnel.

Contract procurement, which is a grave problem—if the other two major problems were eradicated, the possibility of many of the minority businesses succeeding would be marginal.

Finances and management know-how are only two ingredients that are necessary to ensure the possibility of success. The other ingredient is to be able to sell his products and services, especially in the building construction business.

Bonding. This has been one of the major thorns in the side of construction and service contractors. If a contractor is awarded a contract, his greatest obstacle has been his inability to obtain the 100 percent performance bond or 10 percent bid bonding.

There are other agencies such as the DYM or OMBE through which one can obtain technical assistance. Through the Executive Order 11458 of 1968, the Office of Minority Business Enterprise was created, which has been able to fund local business development organizations such as DYM to perform and render the aforementioned assistance to minority entrepreneurs.

The Small Business Administration has been the Federal Government's financial vehicle for small business development which is inclusive of minority businesses but does not exclusively pertain to minorities.

The efforts of both of these agencies and other Federal agencies such as the Economic Development Administration, the defunct Model Cities, and the Department of Justice, have afforded a certain measure of success.

Through these Federal agencies the following assistance programs have been established to render assistance to minority entrepreneurs.

Office of Minority Business Enterprise, OMBE, Business Development Organizations, which render financial packaging. They also

render managerial and technical assistance, obtain contract procurement, and help to organize capital development.

Business Resource Centers, BRC's, render management and technical assistance to develop regional purchasing councils and to assist in obtaining contract procurement.

Contraction Contractor Assistance Center, assists minority contractors.

You have the Small Business Administration which provides management and technical assistance, provides financial assistance to small businesses through its guaranty program or direct loans.

There have been many failings of current aid to minority programs.

Although there has been tremendous success in the minority business program on behalf of the public and private sector, there remains a tremendous amount of success to be accomplished.

This success can only be accomplished by a sincere, aggressive, and genuine participation on the part of business and industry and the Federal Government.

Many of the failings of the current aid to minority programs derive from the fact that the Federal Government has not been firm in its support of the minority program.

This only serves as a crutch to the nonaggressive support, participation and commitment on the part of the private sector.

This is displayed by the fact that no concerted effort has been made by the Federal Government to establish an agency as overseer of the entire minority program.

The basic features of the bill S. 2617 I support wholeheartedly. It was recognized that the creation of OMBE from Executive Order 11458, that the minority business program would be straight-jacketed without Federal legislation.

Executive Order 11458 opened the door for minorities to enter into the mainstream of the American economy, but the future success and participation in minority business development will have to depend upon an act with more teeth.

There has never been an agency established by a legislative act responsible for the welfare and promotion of minority business development.

Since this is the case, the development of such an office will have the accountability pertinent to minorities and the responsibility of addressing itself to the welfare and development of minority businesses.

At the present time there are 17 Federal agencies with an economic vehicle attached to their operation providing some form or related form of small business or minority business development. It is recommended that the following be implemented:

One: All small and minority business development of the Federal agencies become the responsibility of the Secretary of Minority Business Development Administration.

Two: All leading opportunities be the responsibility of the Small Business Administration.

Three: Management services and technical assistance and the promotion of minority businesses should remain with the Office of Minority Business Enterprise.

The decentralization of the Office of Minority Business Enterprise proves that the most advantageous position of implementation has been from a regional basis.

Decentralization brings the program to the people instead of the people going in search of the program. It is highly recommended that such an approach of establishing 10 regional offices be implemented.

It is also recommended that the Secretary investigate much of the "redtape" a minority business person has to cut through to obtain financial assistance, crime insurance, bonding, and Government contracts.

The success of rebuilding Western Europe was the Marshall plan, which was money; the success in rebuilding the Asian countries was money. The success in bringing minorities into the mainstream of the American economy will be the annual authorization appropriated to carry out the provisions of this act.

Senator JOHNSTON (presiding). Thank you, Mr. Stenson.

Our next witness will be Mr. Sheeler, who is president of the Purple Shield Insurance Co., Baton Rouge, La.

Welcome to the committee. We are glad to have you.

STATEMENT OF HOMER J. SHEELER, JR.

Mr. SHEELER. Thank you, Senator Johnston, and Senator John Glenn. I am privileged to have this opportunity to appear before you in support of the bill 2617.

It is somewhat of a fulfillment of a constant craving I have had to in some way give some concern to young business entrepreneurs who would enter the business stream of life.

I was eager to have these enterprising young men who find themselves often strapped for cash and practical, yet professional, advice that they do not suffer the many hardships our company suffered in entering the economic mainstream.

I am not insensitive to the fact that I have enjoyed the benefits of free American enterprise; therefore, I do not come here bitter and totally critical of the Government. We see the proposals set forth in this bill as a definitive means of encouraging young businessmen, with vision, to participate in the free enterprise system without much of the pending tension and frustration and uncertainties that we had in our business venture.

I am president of an industrial life insurance company based in Louisiana. It was organized in 1949 with \$6,000 of capital borrowed. We have built that company today to an income of \$1 million and I am convinced without a reasonable doubt that we could have tripled our growth in 26 years, had there existed in those early days a ready, competent source to give needed advice and provide funds. We managed to survive but many other insurance companies folded along the way. If the opportunities inherent in this bill had existed then, we, too, could have sought out and negotiated for these companies decreasing the mortality rate of the small black businesses.

It is significant to observe that money was not always the problem. Often we needed to talk with capable, unbiased persons who knew

and understood our problems and concerns and who could relate to our aspirations and anxieties.

This bill proposes to do this. It is an "effort that is effective and that is meaningful toward bringing about real economic opportunity and real economic stability through assisting minority business enterprises in important ways throughout this Nation." I support this viewpoint. We must understand that the quality of men and women needed for this task do not come as finished products from the colleges and universities. In addition to their academic training, they need certificates from the trade schools of experience.

The bill calls for the creation of an office and an officer with clout and stature to coordinate the delivery services and to expand the functions now being exercised for one specific purpose: "to improve all Federal activities as they relate to the provision of opportunities for minority business enterprises." The governmental programs will be secure and the positions of the staff cannot be obtained through devious means. They will have to think of their future and hopefully will seek endeavors that will lend themselves to permanency.

I cannot overemphasize the lonely nights of despair and the barren days of hopelessness in the yesteryears of our company's struggles. There was constantly with us the fear of making a wrong decision that would force us, as American blacks, to have our company placed on the auction block and being bought for the price dictated by the whims and wishes of our competitors.

Our basic premise is that economic achievement is the road to success for blacks. This road was often shaken when we witnessed executive minority leaders in other companies being dethroned. We saw highly trained and creative leaders with years of experience lost to the minority community. If the present offerings of this bill had been operative, many of these minds and productive hands could have been salvaged to benefit not only Louisiana, but also the Nation.

The absence of the kind of consolidated Federal program proposed in this bill has resulted in major stumbling blocks in our path to economic security. Far too long now, the Federal Government has dangled programs of social and business aid to minorities for a short period of time and these disappear with the change of administration.

This proposition offers a real challenge to the minority population to get into the country's economic mainstream. It offers hope for some of the young blacks who are now graduating from the Nation's leading business schools and colleges. Hopefully, with the help they receive from this bill, advice, counsel, and funding, they will contribute the managerial expertise in order to keep minority businesses growing and which will help to achieve permanent success.

As stated earlier, minority black business in particular is a newcomer. Until recently blacks were excluded from the economic mainstream. Minority businesses are dependent often on each other. We must have the needed legislation. Therefore, I am delighted to appear before you and to appeal to you to pass this bill to assure the continued growth of minority businesses in this Nation. I am still aware that without competent advice our company can remain stagnant and can lose its million dollar premium income in 1 day's struggle.

Thank you, sir.

Senator JOHNSTON. Thank you very much, Mr. Sheeler.

We have a vote on the floor now. I am going to have to get over to the floor to vote but I want to thank each one of you particularly and especially those of you from Louisiana, first of all for coming and supporting this legislation and secondly for making such outstanding statements. Each one of you has helped us immensely on the committee and I want you to know I am grateful and the subcommittee is grateful for your help.

You might stay where you are for Senator Glenn who will be coming back just very shortly.

Thank you again, thank you very much.

[Whereupon, a brief recess was taken.]

Senator GLENN [presiding]. Gentlemen, I apologize for the delays. This is one of the hazards of business here when we attend votes in the afternoon.

I would like to get into examples of specific problems that you have had in some of these different areas.

Mr. Watson, you had indicated that you had applied repeatedly under this and for various and sundry reasons did not qualify. Has this been broken down between SBA and OMBE or what? Where has it been roadblocked for you?

Mr. WATSON. Well, we have had very little dealings with OMBE. Most of our problems have been with SBA for various reasons. The problem I talked about with the 8(a) program was I guess that we were in a unique category and we are professionals and I suppose this program was designed for contracts. There is a gray area that we seem to operate in and we have never been quite able to make things come out even. This is one of the reasons I outlined, stressed the need for a comprehensive minority business development program, not to just some facets of minority enterprise but all aspects, whether professionals or blue collar or contracting or whatever other areas that are minority businesses. The need for comprehensive Federal program in this area is needed.

Mr. STENSON. Mr. Chairman?

Senator GLENN. Go ahead. I would like to make this a discussion group rather than my singling out anyone. If you have something to say, fine, climb in.

Mr. STENSON. DYM has an engineering company in Cincinnati called Wilson and Wilson, doing the very same thing. We have very little difficulty with SBA and the 8(a) programs. If you had an agency that would be forerunners and walk businessmen through some of these problems with the SBA program or other Federal contracting agencies, it would help.

Senator GLENN. Is some of the problem caused by the fact they are in separate agencies or have you thought about putting some of the SBA functions under OMBE or under the Assistant Secretary? Would it be helpful? Would it hinder?

Mr. STENSON. I think it would help, putting this under one Secretary. At least there would be control of the strings you have to pull in order to get these contracts. One talks about the 8(a) program of SBA; we have the MBOC on which I sit on the committee; and SBA has a very difficult time trying to pull some of these contracts out

from some of these Federal agencies such as the Department of Defense, GSA, Department of Labor, and HEW. It is very difficult for them to get these agencies to set aside these programs or put them under 8(a).

Senator GLENN. Mr. Horton?

Mr. HORTON. Senator, I feel the bill is an absolute necessity. However, I do feel that as Mr. Watson indicated earlier, there might be some teeth in terms of policy changes that would address itself to the matter in which these funds are employed. I would like to reiterate the fact that many businesses that are advised currently just do not get the kind of initial operating capital it takes to survive.

I cite numerous examples but two that really come to mind are that I once represented a gentleman who was interested in or in fact did want to operate a laundromat business. He had a blue-collar job and after securing SBA funding which brought him the necessary washers and dryers and lease on the premises, that is all he got. So he had to show a tremendous profit from day one or he had to stick his hand in the till to get the operating capital. I do not think with that policy he will ever make it because he never had enough.

Senator GLENN. Are initial operating funds not included in some of these?

Mr. HORTON. It is but it is frowned upon to the extent that I think it should be provided for at least a reasonable test period to give the business an opportunity at least to succeed. I would like to show another example of a gentleman whom I represented and he was trying to secure a franchise and that group sought all avenues of capital, but they did receive assistance by SBA. Each of the individuals in that group had an A-1 credit standing themselves in addition to which they were trying to secure a Goodyear Tire franchise which is the world's largest tire manufacturer and they kept going from door to door to door and kept getting turned down.

To show how industrious they are, they're operating four now—two in Cleveland, two in the city of Chicago. But they initially only received enough for the purchase of the franchise. Basically that money went to Goodyear and they really subordinated themselves and sacrificed just normal living standards because they did not have the funds.

Senator GLENN. When you began, Mr. Wilson, were you given operating funds to start with? You apparently had a rather successful experience with all these procedures. Were you given operating funds to start out?

Mr. WILSON. No; I was not. I sort of had a situation where it was a hardnosed driving thing and I was lucky in many cases and really with the—I know of some cases. Some people that I know, dealt with SBA in securing funds to start a business or secure working capital to push the business on and the ones that I know about are not very favorable at all. I know of a situation where a guy was granted an SBA loan and the loan was approved. It may be as much as 90 days before you receive the money but if you get to the situation where you need working capital in order to survive and it is approved and it is not until 90 days that you get it. It is defeating the purpose in the first place.

From my experience, it seems as if OMBE people have better relations with the bank than they have with SBA. That is my personal view of it. I would think that if they were initially supposed to be going in the same direction with the same goals in mind, the merger of them together would probably make it better for all concerned.

Senator GLENN. Mr. Stenson, on the bank situation, have you put together these things through SBA, OMBE, and so on in connection with your operations?

Mr. STENSON. Yes, we have. We have a good relationship with SBA and the banks mainly because we are one of the oldest OMBE affiliates in the country. We were responsible for bringing SBA into the city of Cincinnati. We have always played the role of the devil's advocate in the city in that if we cannot get what we want we have to go knocking on other doors. I think this is the necessity of having the separate entities of SBA and OMBE in that whereas there is cooperation between the two, yet there is a certain respect each gives the other. If there is something DYM does not agree with the SBA, we have a tendency to promote a certain amount of confrontation to make sure that this job gets done. I think this is very important.

Senator GLENN. How important do you think it is to have somebody like you with your expertise to deal with SBA or OMBE? Is it set up so the average person has a fair shake in getting his views heard other than through the expertise you provide?

Mr. STENSON. We are an OMBE affiliate but not a part of SBA. I think it is very important to have a DYM in the city to shortcut some of the problems these gentlemen face in going into business. I have experienced the same thing in trying to get businesses going through the SBA and the banks. We were also successful in getting these businesses through without having your head knocked off and stomped on financially and technically.

Senator GLENN. Ms. Dupont, we have concentrated mainly on black problems here today. How about other minorities in your area. I imagine in your area it would be predominantly the black minority problem, but have you or your organization had experience with other minorities apart from black, Hispanic or Indian?

Ms. DUPONT. We are Hispanic; we are the National Economic Development Association which is the Hispanic National BDO. So we do deal strictly with the—

Senator GLENN. What has been your experience compared with the black problems we have heard about today?

Ms. DUPONT. Our problems have been mainly the same with added ones. I think it is compounded for the simple reason in New Orleans the Latin colony or community is really largely first generation and there is a definite language problem there besides the cultural difference in doing business and even the banks. Right now we are folding the Spanish Bank for the reason they are better able to deal with the ways of doing business. I am not saying they do not understand, it is just due to a different upbringing. So New Orleans faces a language barrier in business and also a barrier related to business and in understanding.

Senator GLENN. How many through OMBE and SBA and the various 23 or 28 programs that we have in the minority area? Would

the percentage participating be of a different number in the other minority areas as opposed to blacks?

Ms. DUPONT. I am not sure I really understand the question.

Senator GLENN. Do the Spanish-speaking people or the Indians or other minority groups, apart from blacks, have a more or less difficult time than blacks in working with OMBE and SBA?

Ms. DUPONT. The SBA presently in New Orleans are referring the Spanish-speaking to NEDA. They have—they are bringing them to our office and asking us to handle them rather than directing them to SBA, they will send them to us.

Senator GLENN. Mr. Sheeler, I was not here for your testimony, I am sorry about that, we became fouled up with the votes. In your area of insurance, what special problems are there in dealing in this area?

Mr. SHEELER. Well, the National Insurance Association has decided to create a MESBIC. Many of the insurance companies across the country are trying to deal with SBA to no avail. Of course, I have never had the experience of dealing with the SBA trying to secure money.

Senator GLENN. How much of a problem is there in your different areas with the problem Mr. Stenson brought up in bonding and other qualifications?

It seems to me that might be a major problem. Do you want to address that?

Mr. WILSON. Being a contractor I would say that I could verify a great number of problems that you have in bonding. I can cite one experience.

The first house I built cost \$19,000. I secured a bond for that house and I must tell you I went through pure hell in securing it. I had to indemnify with everything I owned. Along with that my parents had to cosign that just to receive a \$19,000 bond.

I received the bond and completed the house, however, afterwards I attempted to secure another bond for the amount of \$40,000 and this bond was turned down. It was later resubmitted with SBA and I was told that I had a 90-percent guarantee. I did qualify for the bond, but I never received the bond.

It went on and on and I got assistance from the OMBE program. We, along with 90-percent guarantee, contacted another agency and came up with the same thing. I was qualified for the bond, but nobody could give a reason why I never could obtain one. It was on a renovation of a church and the people who wanted the work done knew I needed the bond before I started to work. This went on and on for something like October to May and it was just because it was people in the community that it went on this long. In areas of bonding it is almost closed to minorities.

Senator GLENN. Are you operating mainly on straight bank commercial loans now?

Mr. WILSON. Yes.

Senator GLENN. Now that you have gotten started?

Mr. WILSON. Yes.

Senator GLENN. Would that be the pattern as you see it, you have seen the viewpoint across the board. Is it common, Mr. Albert, that

once the SBA/OMBE thing gets through, there is a pattern of moving to regular commercial banks?

Mr. ALBERT. First let me give you a little background information, Senator Glenn. We utilize several sources in terms of—especially relating to financial institutions. We like to use the local banks.

In the use of a plant who has the financial base and the equity and has the business opportunities, one that we think is viable——

Senator GLENN. How about insurance companies? There is a major source of funds for the country there. What is the status of that for minority businesses?

Mr. ALBERT. Insurance companies face unique problems in that banks are hesitant to get involved with them and SBA more reluctant to get involved. So in the case of insurance companies we have a very peculiar problem.

Senator GLENN. Insurance companies, I believe—I do not have figures on this—traditionally are more available for the bigger projects, larger loans. Does that mitigate against minority businessmen getting started? Mr. Watson indicated he had problems because of his size. You said you asked for Federal contracts and they said you were not big enough to do that.

Mr. WATSON. That is right.

Senator GLENN. You were too small for some, too smart for others. Is that a major problem?

Mr. WATSON. Bonding does not affect us, in that we do not get involved. I guess our problem is professional liability insurance and we are faced with the same problems that others in the profession are and I do not think it is related to minority groups at all. It is just, you know.

Senator GLENN. Yes. We are going to have to terminate this. We do have other witnesses. I am sorry we cannot spend more time here.

Congressman Mitchell is waiting. I know he has a vote problem so we are going to terminate this now so he can get his testimony in.

I appreciate your coming in. Your testimony will be included in the record in its entirety. We would hope if the committee staff has any further questions they could mail them to you and you can respond so that could also be considered part of the record.

[The prepared statements of members of the panel follow:]

PREPARED STATEMENT OF JESSE WILSON, JR., WILSON'S BUILDING CONSTRUCTION CO.

To the Honorable Edmund Muskie, Chairman of the Senate Subcommittee on Intergovernmental Relations, the Honorable John Glenn, Chairman of the Hearings, and the other distinguished Senators on this Committee, ladies and gentlemen. I wish to express my appreciation to the body for affording me the opportunity to appear before you today.

My name is Jesse Wilson, Jr. I am twenty-eight years of age and a 1971 graduate of Southern University with a major in Industrial Arts. After graduation, I started seeking employment in industry and the teaching profession. After experiencing the agony of looking for a job, and finding out what the pay scale offered, coupled with limited advancement opportunities I turned to my original trade of carpentry learned by working with an uncle. I started working by the hour, and at the age of twenty-five, I started contracting. I now have expertise in building construction/contracting, industrial building contracting, pallet manufacturing, grass maintenance contracting, apartment building and I am the owner of a building construction company.

In 1975 I had gross receipts in excess of two hundred thousand dollars as compared with gross annual receipts of twenty thousand dollars in 1974.

In all honesty, I must attribute much of my past success, (the three years I have been in business), to the OMBE Program, the Center for Business and Economic Development. I started out in business with no working capital and a bare minimum of tools (one skill saw, no truck and a hammer). I managed to get a few small jobs, and then a contract to build a house. From the day I submitted a bid on the house until the day it was completed, it was like one long day in hell, with virtually no assistance in such matters as bonding, interim financing, insurance and other related requirements. All of the problems I encountered with that first project made me aware of the fact that I needed counseling in some of these areas. I learned about the OMBE Program, the Center for Business and Economic Development through a friend. I contacted this program for my next project.

I then decided to build four apartment units for myself. I drew the blueprints and worked up the estimated cost and value of the project. Upon completion, I approached the bank with the idea showing them that I could build them for about half the actual value. The first bank I went to barely finished listening to the information. The president referred me to another lending institution that just flatly said, "We don't have any money for such projects." I contacted the CBED office and they referred me of one of the local banks they had been working closely with in such matters. Through the efforts made by them along with the cooperation of the bank I was granted a twenty-five thousand dollar loan to build the apartments. I was caught in the unstable, inflationary economy of nineteen hundred seventy-three that didn't allow me to finish the project for the original amount. To sight one incident in which I found myself, I priced a roll of wire mesh on Monday for forty-two dollars and fifty cents, and on Wednesday of the same week that same roll of wire cost me eighty-five dollars. Through the relationship the Center had established with the bank along with the cooperation of the bank president, I was able to secure an additional loan in the amount of two thousand dollars which allowed me to complete the project. I was able to build the apartments for twenty-seven thousand dollars, and the appraisal value upon completion, (done by a licensed realtor) was forty-two thousand fifty dollars.

After completing the apartments, I made contact with one of the industrial companies that needed a contractor to provide two men for a short period of time. I pursued this and managed to get the job for about two months. After realizing the need industry had for contract people, I started compiling data on my capabilities and rates. I went to all the major petrochemical companies in the greater Baton Rouge and surrounding areas, and for weeks I heard nothing from any of them. Fortunately for me, the Center for Business and Economic Development sponsored a seminar to bring together industry and minority vendors. While talking with one of the representatives from one of the companies, I was told to bring a resume on my company's capabilities and rates. I immediately informed him that one was on file with his company and had been for some time. Through the contact made at the seminar, and assistance from CBED staff persons, I was contacted the next week. That seminar led to a half million dollar contract with that company over a two year period. An opportunity to exercise my company's ability in such an enormous capacity with one of the major corporations in the nation was not even an imaginative reality until the day I signed that contract. Two months later I was contacted by a CBED staff person concerning an area in which one of the major corporations needed other suppliers. After finding out this particular area was that of pallet making, I immediately expressed an interest in the project, because of the close relationship to the field in which I started, that of carpentry. I then attended a meeting that included the OMBE program representative and the head purchasing agent of the corporation. The purchasing agent gave us tremendous assistance in getting our pallet facility started. We have been in operation for nine months, and we now have as much business as we can presently handle.

We are in the early stages of expanding, and twenty-five thousand dollars has already been approved by one of the local banks (one of the banks that gave me the initial loan needed to get started through the assistance of the OMBE program).

Along with the major assistance I have received, there have been so many small things the Center representatives have been knowledgeable of. Whenever I prepare a financial statement, I feel business development assistance should go on the asset side, because without their assistance, some enormous amounts would truly be found on the liability side.

In expressing my views concerning this bill, I must start by saying it is a badly needed fixture in the governmental structure of our nation, as well as a wise investment into the economic growth and security of our nation. A growth that will bring about an even more prosperous and free nation for all, moving in one constructive direction. This Bill would offer an infinite amount of security to vendors such as myself who want to grow, expand and create one of the things in which free enterprise is based, that of competition. To compete, you must grow and many times at a rate that exceeds the work load and capabilities of your company. In times like these, the valuable assistance received to do the necessary research, make the proper contact, and in many cases acquire the proper funds is the kind of business development assistance that is needed to keep your company growing, competing, and in business. In my opinion, contractual arrangements on a year-to-year basis inhibits the total effectiveness of the program. Programs of this type must have some degree of permanence in order for new and existing businesses to grow. If you are growing and expanding, it is not encouraging to know that the business development assistance organization may be summoned to go. The business development assistance organization saves small businesses such as mine a tremendous amount of valuable time and money. A savings that enables me to survive with at least one less burden a day. Even though business development assistance organizations are of tremendous value in their present capacity, there are still a lot of other important areas they could be helpful in with the proper funds and personnel. To think of no assistance at all would be a great setback in the American Economy. It's a very hectic race to run in business without the proper funds, experience, exposure and support that is so vitally needed just to keep up, and provide some assurance that someday you might win. I now employ an average of twenty-seven fulltime employees and five parttime school boys. That's twenty-seven men willing to work, who couldn't find jobs. Twenty-seven families who don't have to depend on welfare; twenty-seven men now paying local, state, and federal taxes; twenty-seven men helping other businesses grow; twenty-seven men upgrading their standards of living and the community around them; twenty-seven men freed of an economic burden that could have later led to crime. Along with relieving the financial burden of these fulltime employees, I have been able to help five school boys work their way through school. All of this was made possible because of the assistance I received from a business development assistance organization. If these are the kind of results you gentlemen expect, want and require from such a program, you can be assured that your expectations are being met. I only hope that the decision made by you here today is one that will help make results like these a permanent reality in our American Society.

In closing, I would like to say that two hundred years from now when the decisions made by you, the lawmakers, will have been tested and retested, I hope that someone will be able to say two hundred years ago today, a decision was made by a Senate Subcommittee in Washington, D.C. to pass a bill that would enable all men and women to enjoy the sweet taste of free enterprise thus strengthening the greatest, most prosperous and freest country in the world. I wish again to convey my thanks for having the opportunity to be a part of such an important and honorable event. To you gentlemen, I offer thanks.

PREPARED STATEMENT OF MORGAN M. WATSON, P.E., PRESIDENT
MINORITY ENGINEERS OF LOUISIANA (MEL) INC.

INTRODUCTION

To the Honorable Senator Edmund S. Muskie, Chairman of the Subcommittee on Intergovernmental Relations, the Honorable Senator John Glenn, Chairman of this hearing, and to the other most honorable senators who make up this subcommittee, ladies and gentlemen. It is a real pleasure for me, one born and reared in the cotton fields of Tensas Parish in Northeastern Louisiana, to participate in this panel discussion at a hearing on a bill that could have such a profound impact on the minority businesses in this country. I assure you that the struggle I faced in working my way from \$2.00 per day for 12-14 hours work in the cotton fields, through undergraduate and graduate school with a wife and three children and on to become President of the only black-owned,

managed and staffed engineering consulting firm south of Washington, D.C. in just twelve short years, is nothing compared to the hardships we have faced for the past 3½ years, and the struggle in which we are still engaged just trying to get a business going in the days of affirmative action, equal opportunity, 8(a) programs and other devices designed to "aid" minority businesses, and promote minority entrepreneurship. Ladies and gentlemen, I will now share with you my views on bill S. 2617 and outline the struggle that we at Minority Engineers of Louisiana (MEL) Incorporated have faced in getting where we are today—if we are anywhere at all.

VIEWS ON S. 2617

First of all, I strongly support Bill S. 2617. I feel that the expansion of the Office of Minority Business Enterprise, the increasing of its functions, and the placing of this new entity, the Minority Business Development Administration, under an Assistant Secretary of Commerce, is long overdue. Hopefully this move would put some "teeth" and direction into the programs aimed at developing minority enterprises, and bridge the gap that exists between the minority entrepreneur (the man with the idea and desire to go into business) and the Small Business Administration which is the financing agency and the business counseling service. Unless a special effort is made on the part of this new agency, the minority business development program will still be shrouded with mystery and confusion, and as fragmented as it is now. Many of the programs (and officials) presently charged with the task of aiding minorities actually hinder them by (1) discouraging them; (2) confusing them with eloquent rhetoric; (3) deceiving them by declaring them ineligible for programs or funds earmarked for minorities, or by leading them blindly into losing situations; (4) causing long delays, and creating uncertainties and false hopes; (5) requiring massive amounts of paperwork that in many instances is considerably more than would be required for a non-minority business; (6) making financing difficult to obtain.

The Administration should not simply encourage minority participation on Federal and federally funded projects, but should insist (through regulations if necessary) that all segments of our economy utilize minority firms as much as possible. This would require that records be kept and circulated on:

- (a) The number and capabilities of existing minority businesses.
- (b) The names of minority firms expressing genuine concern for particular jobs.
- (c) Data on firms actually awarded work through the efforts of the Administration.
- (d) Data on firms that are doing business with minority firms.
- (e) Listings of federal, municipal, commercial, industrial, and private agencies who, thru affirmative action and other programs, desire to utilize minority businesses.

Thus, the agency would serve as a clearinghouse for matching minority businesses with prospective clients, and vice versa. I feel that the bill as it is written is rather vague and does not really have a method of implementing the development of minority businesses. The necessary "teeth" could be added once the Administration is established by setting up and enforcing compliance regulations. However this bill is certainly a step in the right direction. Since each agency has its own civil rights of affirmative action regulations regarding minority businesses with no nationally coordinated effort, the establishment of the Administration and the transfer to the Secretary the separable functions from other Federal departments and agencies that relate to the development of minority business enterprises, would do away with the fragmented effort that now exists and provide the badly needed coordination of the Federal effort as it applies to minority business enterprise.

A classic example of the need for coordination is illustrated in the Small Business Administration's 8(a) Program. While SBA's intentions are good, the Business Plan and Qualifications resume (Exhibit D) is far too complicated for the average minority businessman to even bother with. If he can prove that he is socially and economically disadvantaged, has good character and meets several other qualifications, he then files his application, and his troubles really begin. First of all, a board frequently composed of no minorities approves or disapproves his application. If the application is approved SBA will find and

negotiate a contract with a Federal agency and subcontract it to the minority businessman. All the procedures, conferences, paperwork, and other headaches associated with the program frequently cause the poor, socially and economically disadvantaged businessman to become even more economically disadvantaged than before. Agencies such as the General Services Administration and the Naval Facilities Division (at least some of the regional offices) realize that programs such as 8(a) have been responsible for the failure of many small businesses, particularly minority businesses, and thus have established less cumbersome minority set-aside programs of their own. Thus, in order for the Administration to be effective it must unify and simplify the fragmented programs that claim to encourage minority business enterprise, when in fact they are more like Minority Business Enterprise Discouragement Programs.

In short, I strongly and enthusiastically support the creation of the Minority Business Development Administration. By serving as a clearinghouse, a regulatory agency, and an enforcement agency and placing the present programs designed to aid minority business enterprise under the Secretary, the Administration would represent the greatest boost to minority business enterprise in history. By relating to the grassroots people and bridging the gap between the potential minority businessman and the rigid requirements of SBA, and by providing effective business counseling to minority businesses, the Administration would go a long way toward providing minority business enterprises with their long overdue share of the American Dream.

A DISCOURSE ON DISGUST

The plight of my firm, Minority Engineers of Louisiana, is a classic example of the struggle that a small minority owned and managed business faces in getting started. Since we are design professionals, the road has been rougher, because until recently, minorities were excluded from employment with the private consulting firms, and in the deep south it was even worse. As a result, we had no real concept of what engineering consulting was all about. Prior to the founding of MEL I tried unsuccessfully to offer my service to consultants in Baton Rouge. I was willing to work for no monetary compensation in exchange for learning the technical aspects of consulting, not the administrative, or marketing or even the political aspects of the business, just the technical. Needless to say, I could not even give away my services, which was emotionally demoralizing since I had a masters degree and was a registered professional engineer in Mechanical Engineering.

MEL came into being on September 1, 1972, as the Corporate Profile/SF 254 (Exhibit B) outlines. Selling stock among the members of the corporation yielded \$5,500, which allowed us to operate for nine months before any other funds were generated. Another stock sale to members yielded \$2,750. From that point on, operation of the firm has been supported with funds generated by fees from engineering projects. Our first office was a 12 x 48 foot trailer and our first full-time employee, the current Vice-President of Engineering earned only \$300 per month for the first eighteen months of our existence. Our development has been an up-hill struggle. Our overhead has been higher to the point of not showing a profit during our 3½ years of existence, but not because of inefficient management, just due to the chronic lack of money to manage, i.e., the lack of projects. Our clients include architects, the Louisiana Department of Highways, East Baton Rouge Parish School Board, East Baton Rouge City-Parish, Housing Authority of New Orleans and several small municipalities. But the surprising part of it all is that we have never been awarded a Federal contract, in spite of applying for over a hundred projects, spending over \$20,000 preparing and distributing SF 251, 254 and 255 and visiting district, regional and headquarters offices of most Federal agencies.

To illuminate the need for a strong, concentrated minority business enterprise effort, I will outline the struggle that MEL faced just to get assistance from the Federal Government. When one consider the fact the Government is setting the pace and establishing the guidelines and procedures for assisting minority businesses, it takes no imagination to appreciate the struggle we have with industry, municipalities, and private enterprise in the deep south where we live. But the paradox is that the state of Louisiana has been very kind to us, but Uncle Sam—No. The disgust we have experienced was brought on partially by the following events:

(1) We were denied a loan by SBA because the corporation had too few assets and the proceeds from the loan would be used for working capital rather than buying equipment or something they could seize if the business failed. The net worth of the individual principals was not enough to secure even a \$25,000 loan, i.e., we were too young and didn't own any property, stock, bonds or have any other securities.

(2) On our first attempt to secure a Federal project we were told that we are in a "non-competitive" status. We thought this meant that we could bid on projects (which we know is against engineers' code of ethics), but were told it meant that we weren't big enough. Can you imagine an organization with the personnel and the credentials (Exhibits A and B) that we have being too small to do business with the Federal Government? We had done only one project at that time so maybe the official meant we were inexperienced. Anyway he suggested we apply for SBA's 8(a) program.

(3) Upon approaching an official at our SBA district office we got the shock of our lives. After presenting the credentials of the principals (prior to completing the application) we were told that because of our education, we no longer qualified as being "socially or economically" disadvantaged. Of the principals, one hold a Ph.D., three hold a master degree and the others hold bachelor's degrees, but in each case these are the minimum requirements in order to be registered as Professional Engineers or be recognized in our respective fields. So this meant that we were too poor to obtain an SBA loan, too small to obtain a Federal project, and too well-educated to be declared socially and economically disadvantaged. Sounds like as far as obtaining assistance from the Federal Government, we were between a rock and a hard place.

(4) We decided to file an application for the 8(a) program anyway. It got lost somewhere, but someone in SBA headquarters told us he distinctly remembers seeing it before it got misplaced, and his feelings were that we were not eligible because we were professionals (as opposed to contractors) and no Architecture/Engineering projects have ever been awarded through the 8(a) program and probably none ever will, since no A/E firm in the whole country has been approved for the 8(a) program.

(5) We are trying again, since the first application got lost. We found that the application form had changed and that the new form was even longer and more extensive than the first. As Exhibit D shows, the form requires the full histories of every body involved, including our suppliers and clients.

(6) We recently associated with a minority architect and submitted a general Federal project application (Exhibit C) for consideration on any Federal project, since we are getting desperate, that is we want to stay in business and realize the American Dream. After two months and submitting a half-dozen more SF 255's and visits to the district and regional offices of several agencies, the story is still the same—nothing.

Our story is the same as most minority businesses could tell, if given the chance. We have really tried and found that because of the lack of a comprehensive, yet concentrated (as opposed to fragmented) program to assist minority business enterprise, it seems that the Government is really discouraging the building of small and minority-owned businesses and encouraging the building of giant monopolies. MEL is small by anyone's standards. For the past three years our revenues from projects have been \$13,337.03 in 1973, \$49,741.41 in 1974, and \$66,555.06 in 1975. One executive from a private agency looked at our net operating losses of \$4,904.87 in 1973, \$33,395.53 in 1974 and \$27,389.13 in 1975 and decided not to even consider us for a small project because they thought we might go out of business before the project could be completed, thereby creating an embarrassing situation for him. Our whole struggle has been so frustrating that it once caused Alfred N. Montestruc, our Vice-President of Engineering, to remark to the purchasing agent at the Corps of Engineers "Does the Federal Government expect babies to be born weighing 150 pounds? That would be a hell of a trauma on the mama, wouldn't it? How can we grow without the subsistence of our profession-contracts." We, like other minority businesses, don't want charity or handouts. We only want an opportunity to demonstrate our skills and abilities and move into the mainstream of the great American economy.

CONCLUSION

This bill would be a good one as far as minority businesses are concerned. In the Economic Opportunity Act of 1964, Congress declared: "The United States

can achieve its full economic and social potential as a nation only if every individual has the opportunity to contribute to the full extent of his capabilities and to participate in the workings of our society."

The creation of the Minority Business Development Administration could be the first REAL step in that direction. That, ladies and gentlemen is why I enthusiastically support S. 2617, and the opportunity to present my views to the subcommittee at this hearing certainly ranks as one of the high points in my life. Thank you very much.

EXHIBITS

Exhibit A: Corporate Brochure.¹

Exhibit B: Corporate Profile/SF 254.¹

Exhibit C: Outline of A Joint Venture Between Minority Engineers of Louisiana Incorporated and Scott's Architectural Services.¹

Exhibit D: U.S. Small Business Administration's Business Plan and Qualifications Resume.¹

PREPARED STATEMENT OF MERVEN STENSON, EXECUTIVE DIRECTOR, CINCINNATI DETERMINED YOUNG MEN

I. BACKGROUND

After the troubled year of 1967, in the city of Cincinnati a new and innovative idea was presented to the citizens of Cincinnati. The idea proposed was that of bringing the minority sector into the main-stream of the American economy. This idea was instituted by a group of business and professional men, who at that time were young in spirit, age, enthusiasm and determination, but inexperienced in the reality of developing minority businesses. This group called themselves the Determined Young Men. Since the inception of this Organization and its program in 1968, I have served as its Executive Director, commencing with a staff of one, who was executive director, secretary, janitor and loan packager. Since that time I have witnessed the following:

The staff has grown from an office of one to a complement of nine.

That which was an unacceptable and revolutionary idea yesterday is an acceptable program of today with extensive designs for the future.

A fledgling gathering of twenty-five young members is now an organization of 250 bi-racial, dedicated volunteers from a cross section of Cincinnati's business, professional and educational community.

An organization of eight years ago having difficulty obtaining a \$1,000 loan for a minority business person, today processing and having approved loans of \$1,000,000.

An organization that yesterday was rejected, isolated, and discouraged from assisting one minority, presently has a yearly assistance average of 110 business persons.

An organization that has assisted 641 economically deprived business persons technically by offering legal, accounting, marketing and educational services.

An organization that has assisted in obtaining 402 loans totalling 14 million dollars for minority businesses.

An organization that has assisted in obtaining 82 public and private procurement contracts totalling 10 million dollars.

Our timeline is determined by the needs of the community and their needs are engulfed in infinity. During the past eight year the Determined Young Men have also been instrumental in the establishment of the following:

- (a) A full-time SBA office in Cincinnati.
- (b) The Cincinnati Business Resource Center.
- (c) The Cincinnati Minority Business Opportunity Committee.
- (d) The Cincinnati Minority Business Enterprise Committee.
- (e) The Minority Business and Cultural Exposition.
- (f) The Federal Trade Fair.
- (g) Ohio Association of Economic Developers.
- (h) A University-Accredited Graduate Accounting Course.

¹ Available in Subcommittee files.

The Determined Young Men are now in the process of establishing (1) first Black bank of Cincinnati, (2) first minority-owned hotel, (3) second General Motors' dealership.

II. PROBLEMS FACING MINORITY ENTREPRENEURS

With the initiation of the Determined Young Men's program, it was realized that the minority entrepreneur would have problems. After eight years of experience, DYM can scientifically pinpoint and project the plight and problems of the minority entrepreneur.

Financial.—Inability to obtain adequate capitalization to sustain a business.

Interim Financing.—After the initial loan the minority business person finds it difficult to obtain other monies.

Insurance.—Usually the area in which the minority business is located is all Black or on the fringes, which makes the cost of crime insurance prohibitive.

Management Services/Technical Assistance Accounting/Record Keeping.—A majority of the minority business persons have never been exposed to record keeping and accounting. This is the cause for 80% of their problems, especially in the area of city, county, state and federal taxes.

Marketing.—Due to the limited expertise that the minority has to open a business and the expertise and personnel that his capital will employ, this area is completely void.

Management Personnel.—Because of limited capitalization of minority businesses, it is impossible for minorities to employ competent personnel.

Contract Procurement.—If the other two major problems were eradicated, the possibility of many of the minority businesses succeeding would be marginal. Finances and management know-how are only two ingredients that are necessary to ensure the possibility of success. The other ingredient is to be able to sell products and services—especially in the building construction business.

Bonding.—This has been the major thorn in the side of construction and service contractors. If a contractor is awarded a contract, his greatest obstacle has been his inability to obtain the 100% performance bond or 10% bid bonding.

III. FEDERAL GOVERNMENT ASSISTANCE

Through the Executive Order 11458 of 1969, the Office of Minority Business Enterprise (OMBE) was created, which has been able to fund local Business Development Organizations such as DYM to perform and render the aforementioned assistance to minority entrepreneurs.

The Small Business Administration has been the federal government's financial vehicle for small business development which is inclusive of minority businesses but does not exclusively pertain to minorities.

The efforts of both of these agencies and other federal agencies such as the Economic Development Administration, the defunct Model Cities, and the Department of Justice, have afforded a certain measure of success. Through these federal agencies the following assistance programs have been established to render assistance to minority entrepreneurs.

Office of Minority Business Enterprise (OMBE), Business Development Organizations—BDOs: To render financial packaging, to render managerial and technical assistance, to obtain contract procurement, to organize capital development.

Business Resource Centers—BRC: To render management and technical assistance, to develop regional purchasing councils, to assist in obtaining contract procurement.

Contraction Contractor Assistance Center: To assist minority contractors.

Small Business Administration: Provide management and technical assistance, provide financial assistance to small businesses through its guaranty program or direct loans.

IV. FAILINGS OF CURRENT AID TO MINORITY PROGRAMS

Although there has been tremendous success in the minority business program on behalf of the public and private sector, there remains a tremendous amount of success to be accomplished. This success can only be accomplished by a sincere, aggressive, and genuine participation on the part of business and industry and the federal government.

Many of the failings of the current aid to minority programs derive from the fact that the federal government has not been firm in its support of the minority program. This only serves as a crutch to the non-aggressive support, participation and commitment on the part of the private sector. This is displayed by the fact that no concerted effort has been made by the federal government to establish an agency as overseer of the entire minority program.

V. EVALUATION OF BASIC FEATURES OF BILL S. 2617

Statement of purpose

It was well recognized, with the creation of OMBE from Executive Order 11458, that the minority business program would be straight-jacketed without federal legislation. Executive Order 11458 opened the door for minorities to enter into the mainstream of the American economy, but the future success and participation in minority business development will have to depend upon an act with more teeth.

Establishment of office

There has never been an agency established by a legislative act responsible for the welfare and promotion of minority business development. Since this is the case, the development of such an office will have the accountability pertinent to minorities and the responsibility of addressing itself to the welfare and development of minority businesses.

Transfers to secretary

At the present time there are seventeen federal agencies with an economic vehicle attached to their operation providing some form or related form of small business or minority business development. It is recommended that the following be implemented:

All small and minority business development of the federal agencies become the responsibility of the Secretary of Minority Business Development Administration

All lending opportunities be the responsibility of the Small Business Administration

Management Services and Technical Assistance and the promotion of minority businesses should remain with the Office of Minority Business Enterprise

Expansion of office functions

The decentralization of the Office of Minority Business Enterprise proves that the most advantageous position of implementation has been from a regional base. Decentralization brings the program to the people instead of the people going in search of the program. It is highly recommended that such an approach of establishing ten regional offices be implemented.

It is also recommended that the Secretary investigate much of the "red tape" a minority business person has to cut through to obtain financial assistance, crime insurance, bonding and government contracts.

Authorization

The success of rebuilding Western Europe was the Marshall Plan, which was money; the success in rebuilding the Asian Countries was money. The success in bringing minorities into the mainstream of the American economy will be the annual authorization appropriated to carry out the provisions of this act.

[From the Enquirer, Tuesday, March 23, 1976]

A BLACK BANK FOR CINCINNATI

There is, in a very literal sense, no Cincinnatian who does not have a stake in the ambitious effort of a group of black Cincinnatians to move forward with the establishment of Cincinnati's first black-controlled bank.

The Rev. L. Venchael Booth, long-time pastor of the Zion Baptist Church and a principal figure in the current, concerted effort to secure the federal

authorization to bring such a bank into being, detailed the scope of purpose of his efforts in an interview in The Enquirer's People Today section last week.

What the Rev. Mr. Booth and his associates are attempting to do in Cincinnati has already been done in a number of other U.S. cities—in most cases, with gratifying degrees of success. A black bank is not, obviously, a pipe dream. But neither is it comparable to the establishment of a retail establishment or any number of other business institutions. For banking is a highly regulated business in the United States, and the federal government has made itself a guarantor of every bank's compliance with a vast array of rules aimed at safeguarding investors and depositors alike.

What is about to be undertaken, consequently, is a genuinely herculean effort. It will initially require the investment of some \$2 million in capital stock. Thereafter, it will need to attract depositors and customers large and small. And it will need, on a continuing basis, wise and farsighted management to assure the success that will generate a widening circle of confidence.

There are two prime reasons, in our view, why Cincinnatians have an interest in the black bank's success.

The first reason is largely symbolic: banking is a profession—perhaps the only profession—in which almost no Cincinnati-area blacks have had no entrepreneurial experience. Yet a bank can mean to a race what banks in earlier ages in American life meant to a community. A community without a bank of its own was, in many respects, a vassal community. A community *with* a bank, on the other hand, has always been able to look to itself for growth, for opportunity, for forward movement.

A black bank is important to Cincinnati's future also for very practical reasons: as a source of capital to encourage the establishment of additional black business and the expansion of existing black business, to encourage home ownership and to create a fresh variety of opportunities for employment and community leadership.

The bald but indisputable truth, in our judgment, is that one of the most significant unfinished tasks in the United States today is the absorption of the nation's black people fully and productively into the economic mainstream.

The attainment of that goal does not mean that the community must *give* something to its most numerous racial minority.

What the creators of the black bank are asking from Cincinnati is not a gift, but an opportunity and a challenge—an opportunity to acquire the skills and competencies that every other ethnic minority has, in its time, acquired, and a challenge to display the sense of discipline, sacrifice and purposefulness indispensable to the success of any business enterprise.

Cincinnati—and America—needs its black people as customers, as depositors, as investors, as taxpayers, as full and productive partners in the free-enterprise system.

If a black bank is a step in that direction—and we believe it to be a giant step—it is a contribution of incalculable value.

PREPARED STATEMENT OF HOMER J. SHEELER, JR., PRESIDENT AND
GENERAL MANAGER, PURPLE SHIELD LIFE INSURANCE CO.

To The Honorable Edmund Muskie, Chairman of the Senate Subcommittee on Intergovernmental Relations, The Honorable John Glenn, Chairman of the Hearings, and the other distinguished Senators of this Committee, ladies and gentlemen, I am privileged to have the opportunity to appear before you in support of the Minority Business Development Act of 1976. This appearance is a partial fulfillment of a concern which I have had in recent years. I have constantly attempted to answer the question: How can I on a national level give assistance to minority business entrepreneurs who will follow me? For I am eager that these enterprising young people who find themselves often strapped for cash and practical, yet professional advice, do not suffer many of the hardships our company faced in entering the economic mainstream.

I am not insensitive to the fact that I have enjoyed the benefits of free American enterprise; therefore, I do not come here bitter and totally critical

of the government. We see the proposals set forth in this bill as a definitive means of encouraging young businessmen, with vision, to participate in the free enterprise system without much of the pending tension, frustration and uncertainties.

I am President and General Manager of a Louisiana-based Life Insurance Company which was organized in 1949 with six thousand dollars of borrowed capital. In the twenty-six year period, there has been a constant struggle to build the company to its present one million dollar premium income. I am convinced without a reasonable doubt that we could have trippled our growth in twenty-six years, had there existed in those early days a ready, competent source to give needed advice and to provide funds. We managed to survive but many other insurance companies folded along the way. If the opportunities inherent in this bill had existed then, we, too, could have sought out and negotiated for these companies decreasing the mortality rate of the small businesses.

It is significant to observe that money was not always the problem. Often we needed to talk with capable, *unbiased* persons who knew and understood our problems and concerns and who could relate to our aspirations and anxieties.

This bill proposes to do this. It is an "effort that is effective and that is meaningful toward bringing about real economic opportunity and real economic stability through assisting minority business enterprises in important ways throughout this Nation." I support this viewpoint. We must understand that the quality of men and women needed for this task do not come as finished products from the colleges and universities. In addition to their academic training, they need certificates from the trade school of experience.

The bill calls for the creation of an office and an officer with clout and stature to coordinate the delivery services and to expand the functions now being exercised for one specific purpose:—"to improve all Federal activities as they relate to the provision of opportunities for minority business enterprises." The governmental programs will be sure and the positions of the staff cannot be obtained through devious means. They will have to think of their future and hopefully will seek endeavors that will lend themselves to permanency.

I cannot over-emphasize the lonely nights of despair and the barren days of hopelessness in the yesteryears of our company's struggles. There was constantly with us the fear of making a wrong decision that would force us as American blacks to have our company placed on the auction block and being bought for the price dictated by the whims and wishes of the white competitors.

Our basic premise is that economic achievement is the road to success for American blacks. This premise was often shaken when we witnessed executive minority leaders in other companies being dethroned. We saw highly trained and creative leaders with years of experience lost to the minority community. If the present offerings of this bill had been operative, many of these minds and productive hands could have been salvaged to benefit not only Louisiana, but also the nation.

The absence of the kind of consolidated federal program proposed in this bill has resulted in major stumbling blocks in our path to economic security. Far too long now, the Federal government has dangled programs of social and business aid to minorities for a short period of time and these disappear with the change of administration.

This proposition offers a real challenge to the minority population to get into the country's economic mainstream. It offers hope for some of the young blacks who are now graduating from the nation's leading business schools and colleges. Hopefully with the help they receive from this bill, advice, counsel, and funding, they will contribute the managerial expertise in order to keep minority businesses growing and which will help to achieve permanent success.

As stated earlier, minority black business in particular is a newcomer. Until recently blacks were indeed excluded from the economic mainstream. Minority businesses are dependent often on each other. We must have the needed legislation. Therefore, I am delighted to appear before you and to appeal to you to pass this bill to assure the continued growth of minority businesses in this nation. I am still aware that without competent advice our company can remain stagnant and can lose its million dollar premium income in one day's struggle.

Senator GLENN. I appreciate your being here today and we appreciate your testimony. Thank you.

Congressman Parren Mitchell, who has had a long history of interest in this area, of course has introduced similar legislation in the House. I know you do have a vote problem, Mr. Congressman. Whatever you want to do as far as submitting your statement or summarizing it is fine. I know we all have vote problems in the afternoon.

TESTIMONY OF HON. PARREN MITCHELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. MITCHELL. Senator, I am cognizant of your voting problem and we are on the second supplemental in the House now.

For that reason, I would ask unanimous consent that my statement be entered into the record as it is written.

Senator GLENN. It will be entered at the conclusion of your testimony.

Mr. MITCHELL. I would like to take a few brief moments to talk to you based on the statement presented.

As you well know, back in the 1950's the Congress acted and passed the Small Business Act, an act primarily designed to preserve and protect the life of small business in the country and help it grow, to protect it from the encroachment of the larger corporations which were simply gobbling up the small businesses.

Then in the late 1960's because of the disturbances that occurred around the country, once again there was a tremendous focus on the matter of minority enterprise and the need for really creating minority enterprise in this country.

As you well know, the Small Business Administration was given a mandate to take some of these immediate problems, to begin to create minority enterprise in America. That mandate consisted of several sections of the Small Business Act, the section 8(a) set-aside program, the matter of alerting the minority—the SBA to the unique production of minority enterprise. Three, to create the Office of Minority Enterprise, that was done by Executive order as you well recall, to create a position of the associated statutes for minority-small business within SBA and finally, to strengthen and begin to make work section 41, subpart 1-113.

Frankly, in approaching Senator Johnston's bill I have to approach it within the context of what I think is the most glaring problem in this country and that is the problem of the lack of economic parity for blacks and other minorities in this country.

We do not even begin to approach economic parity and there are many reasons for it. I would respectfully submit to you that the grim statistics that you are familiar with and I am familiar with are demonstrable evidence of a lack of economic parity for blacks and other minorities in America.

By way of illustration, I would just cite one or two statistics.

The total minority business receipts in the 1969 report of the Department of Commerce amounted to \$10.6 billion. That is seven-

tenths of 1 percent of the total volume of business receipts by all businesses. That is \$1.4 trillion.

That demonstrates a lack of parity.

The average receipts according to that report for the average black firm represented \$13,000 a year.

In terms of numbers, we who are minorities represent only a miniscule percentage of the business community of America and I am pushing for the kind of legislation which is going to begin to move us towards economic parity.

I do not think that this Government would ever solve the problems of deficits and huge spending and so forth unless and until we rectify the situation of lack of economic parity.

I have studied Senator Johnston's bill and I am most sincere in acknowledging the principle and the spirit that his bill addresses. I think he shares as much concern for minority business as I do and as you do, Senator.

However, I do not believe that the Johnston bill really gets to the heart of the matter that is before us, really gets to the heart of the matter as to how we bring minority businesses into a full and effective participation in our economic system.

It is for that reason that I introduced my own bill and I will be delighted to send you a copy, and Senator Johnston has one.

Senator GLENN. Good.

Mr. MITCHELL. How much time do you have, Senator, before you have to vote?

Senator GLENN. That is a quorum call. When we get a long one buzz, there are 15 minutes to vote.

Mr. MITCHELL. Fine, Mr. Chairman.

I was indicating that I will be glad to send you a copy of my bill if you have not received it and all the members of the committee will get copies.

Senator GLENN. We already have a copy of it, I am told.

Mr. MITCHELL. Fine. The Johnston bill only approaches the tip of the iceberg. In my own opinion the problem is not necessarily in the structure of the existing agencies and in my own opinion it is not necessarily in the fragmentation of effort although I abhor fragmented effort; the problem is that agencies do not have specific goals and timetables and targets to meet to move us towards something in the direction of economic parity.

What I am saying and it is certainly not in any way to deprecate Senator Johnston's effort, but what I am saying in brief is that his bill simply lacks teeth. That is the problem with it. It is a fairly easy thing to go for consolidation of a whole lot of fragmented efforts and in principle I am committed to that.

On the other hand I am not at all sure that if we took all the efforts right now and put them under one roof in the Department of Commerce that there would be any significant change for growth and development and strengthening of minority enterprise. I am suggesting in my own bill which really has a three-pronged approach, we begin to address the problem more specifically and more indepth. As you know, my bill has three major titles, one is to amend the Small Business Act to expand the assistance to minority small busi-

nesses; and that would mean among other things an associate administrator for minority small business and procurement assistance who would legislatively be established. There is such a position now.

But that is done by administrative action and really we are not getting—I do not think we are getting despite the best efforts of the occupant—we are not getting the best clout from that office because there is the insecurity of being associated with an administrative-created rather than legislative-created position.

Title 2 of my bill would start establishing the needed statutory standards for contracting and subcontracting with Government and minority small businesses.

Title 3 would establish a commission on Federal Assistance to Minority Enterprise to develop the means for economic growth. That is not a very radical idea. The past Presidents, I think Mr. Nixon and certainly Mr. Ford, have indicated support for an advisory sort of committee on minority enterprise. All we want to do is make this commission appointed by the President and approved by the Senate.

Senator, I can only tell you that I would like to come back at some other time and testify indepth on my bill. But I would also like to seize this opportunity and say that though the Johnston bill is well-intentioned and it is well put together conceptually, unless there is a mechanism in any minority bill for the effective implementation of procurement contracts, effective method of guaranteeing that minorities are going to get a piece of the action in terms of contracts and subcontracts, that whole structure is relatively meaningless.

Now, I will be glad to respond to any questions that you might have.

Senator GLENN. How would you set that up, on a quota basis?

Mr. MITCHELL. No, I don't like to use the word "quota." I prefer to use the words that we used when we were developing the space program.

Senator GLENN. I like some of those words, too.

Mr. MITCHELL. There was some beautiful phraseology there. I sort of copied from that and I don't call it a quota, I use the term ATDs, achievable target designates.

If we are really talking about moving minority enterprise closer to a situation where we might achieve economic parity in this country there in any case is only one way to do it. That is the same way we did it with the space program, the same way we have done it with every other massive effort that this country has embarked upon. You set times, targets, goals, definitive goals, and you move.

I know that many people are wary of this kind of approach. On the other hand I think it is the most typical approach that our Government has used in solving problems.

For example, you say we got a problem with Lockheed, well, we got to put in this much money and we expect a certain period of time to show achievements X-Y-Z.

If you say you got a problem with New York City, as we did, and New York City needs some money to get back on a sound footing, what did we do? We established some achievable target designates with New York City, designed for fiscal soundness for that city.

Senator GLENN. I presume you would tie in certain amounts of money to achieve the goals. Is that the purpose of your title I?

Mr. MITCHELL. Yes, very specifically. It would be the—

Senator GLENN. Do you have a specific amount tied to that now?

Mr. MITCHELL. That's right. If you want a breakdown I could give you the figures.

Senator GLENN. What is the total amount that would improve the job we're doing now.

Mr. MITCHELL. Let me give you the total cost—well, let me run it by sections.

In one section we amend the 8(a) business loan that increases the maximum from \$350,000 to \$1 million.

If you are talking about other than some piddling little stuff that is a facade with regard to minority enterprise, if you are talking in terms of a facade, you stick with the \$350,000.

If you are talking about the guy getting sufficient clout to go in and do a job, you are talking about a maximum loan limit of \$1 million.

We would, of course, want to increase the section 7(a) business loan authorization.

There will be a cost associated with it right down the line, and I will give you a breakdown for all the members of the subcommittee.

But in the same fashion, there is a cost associated with everything that this country has done, and that is done in purposeful fashion.

Senator GLENN. Some of the witnesses this morning were testifying to the problems of managerial skills. When you move to bigger projects, obviously, these get more important. Would you establish along with this a training program or other significantly larger increases in help for that area, or advice. What are your thoughts on that?

Mr. MITCHELL. My legislation significantly amends the technical assistance aspects. Tom Kleppe, the former Administrator for the SBA tried very hard to give good technical assistance but he just could not in my opinion for several reasons.

One: He did not have immediately available to him in Government service, men who had been businessmen and, therefore, were sharp in every aspect of technical assistance. He relied primarily on his support people. I think the same is true with respect to the Office of Minority Business Enterprise. It is kind of difficult, Senator, when you got a person whose experience has been in the Department of Health, Education, and Welfare and then you move him over to another agency to give technical assistance.

Senator GLENN. Earlier, apparently SBA and OMBE had some problems working out their coordination. We also had testimony this morning in which they seemed to think some of these problems are behind them now. They are coming out with some new arrangements, as well as an Executive order, that was supposed to be out by April 15th, but which will be delayed. But these new interagency arrangements are going to be sent to the committee by the 30th of April.

Are you aware of any of these and do you think they take a better handle on it now than we have? You have followed this closely.

Mr. MITCHELL. I am not aware of the current batch of materials. I am aware of the fact that since I have been in the Congress—and I am finishing up my third term now—each time OMBE and SBA testify before any of the committees on which I serve, the problem of friction, call it friction between the agencies was laid out on the table and each time to the best of my recollection both agencies said “Well, we are working on another set of guidelines now and we should soon resolve this problem.”

I don’t think guidelines are going to resolve the problem. The problem, Senator, is that you got two agencies really competing for their budgets and not armed with the tools to really fully and effectively deliver services to minorities. That’s the problem.

Senator GLENN. Because of lack of money? Is that the problem?

Mr. MITCHELL. Well, no, it is more than that because I think—it’s because of a lack of specific mandate, specific achievable or accomplishable goals written as a part of the legislative mandate.

Senator GLENN. I am a little uncertain of what you mean there. Clarify this a little for me. If I could just set a goal, and pass a bill and say we set a goal and we have done away with all the segregation and everything, it would be beautiful.

I don’t see how you take a thing like this that has its roots, unfortunately, in some of the same old segregation problems. If we didn’t have that we would have moved out of this a long time ago and SBA would serve all citizens and that would take care of the problem.

How do you set a deadline without setting specific quotas or something?

I am afraid I don’t quite understand how you—in other words, pick a date and tell me what would be accomplished by that time and in what field? I guess that is what I want to know.

Mr. MITCHELL. If my legislation should pass, and I hope it does, I would like it to be effective as of October this year. Let me deal with this portion of it, for example, every Government contract in excess of \$1 million, it seems to me, ought to utilize minority contractors and subcontractors.

We are suggesting, we are projecting as a minimal involvement, 2 percent minority subcontractors in a \$1 million project. That is accomplishable. That is achievable.

When you lay that one figure alongside of the billions of dollars that we put out in Government contracts you can see, I hope, the rapid rate of achievability which might be accomplished.

Senator GLENN. This would be an overall dollar amount of the contract, or on specific areas, or what?

Mr. MITCHELL. It would be on the overall dollar amount of the contract. That is what we are talking about in the bill.

Senator GLENN. You might not have an electrical contractor, or a contractor electrically oriented in a specific area, however. Would you do it by specific trades, or something? Breaking it down is difficult.

Mr. MITCHELL. That was a possibility we thought of. Let me suggest to you in light of our experience in dealing with minority enterprise, when there is a need to find the minority contractors they miraculously are found. I cite by way of illustration the work on the Alaska pipeline.

We had all kinds of difficulties trying to persuade Bechtel and others that minority contractors had a capability of delivery in this area. Their first arguments were, you know, that "We just can't."

Well, on the other hand, after a great deal of persuasion and help, particularly from some Members on the Senate side, we were able to assist them in finding a minority subcontractor, or subcontractors.

It can be done. I don't think there is a section of this country so remote, and removed from people that if a contractor is there you will not be able to find minority subcontractors to do a portion of that job.

Senator GLENN. Would you do the same for all minorities in that instance?

Mr. MITCHELL. That is right, exactly right. I think that the Spanish speaking people ought to be involved; you have the American Indians who are minority contractors; they ought to be involved.

Senator GLENN. Okay. Well, I know you have a vote coming up soon and I have another one shortly. I am surprised it has not occurred yet.

I appreciate this very much and we might want to get together with you later on this for further elaboration. As Senator Johnston has said, he realized when he put this in that it wasn't locked in concrete. We want to make it effective. We appreciate your testimony and we might want to have further conversations with you to discuss it. I thank you very much.

Mr. MITCHELL. I appreciate the opportunity to appear before you. I am sorry we are both so pressed for time.

Senator GLENN. Senator Johnston is not back yet, and I know he wanted to come back but he has other out of town appointments that he had to leave for. We may well schedule other hearings later on to further explore the matters that we have opened up here in our discussions.

If we do, I hope we can call on you when we both have more time and we can get back together.

Mr. MITCHELL. Before we go, I would like for the record to make it clear that I am not denegrating the intent nor the thrust of the Johnston bill. I am simply saying that as it is presently constructed it does not and can not do the job.

Senator GLENN. Understood. Thank you very much.

Mr. MITCHELL. Thank you very much.

[The prepared statement of Congressman Mitchell follows:]

PREPARED STATEMENT OF HON. PARREN J. MITCHELL, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF MARYLAND

Mr. Chairman and Members of the Subcommittee. I would like to begin by thanking you for this opportunity to appear here today in order to present my views on S. 2617, the "Minority Business Development Act of 1976," specifically, and the plight of minority entrepreneurs in our country, generally.

As many of the Members know, prior to being appointed to the House Budget Committee, it was my honor and pleasure to serve for some time on the House Committee on Small Business and its Subcommittee on Minority Small Business Enterprise.

My interest in the minority business community is intense, as I think the thrust of my testimony here today will bear out, and I welcome the opportunity to speak on behalf of this segment of our society.

As the American people approach their Bicentennial, the 200th Birthday of the Republic, so too are they celebrating the greatness of the moral principle

on which this Nation was founded—that all men who choose as their ultimate virtue to develop their mind and live by their efforts shall be insured every opportunity for success. Our Nation has prospered by the singular and superior efforts of those individuals who believe that achievement and productivity are the very essence of greatness, while ability and self-motivation are the motive power by which this Nation operates.

We have prided ourselves in creating a system where any person, irrespective of race, color, creed or sex, can, if one has the purpose of mind and spirit, reach any height and overcome any obstacle—for the system will guarantee and safeguard the rights and opportunities for all its citizens.

In the 1950's, the Congress passed the Small Business Act. Its purpose and intent were clear, i.e., the survival and growth of the Nation's free enterprise system was predicated upon widespread private ownership and control of business and industry, and avoidance of too much economic concentration by the business and industrial entities that began in the 1890's and early 1900's. Greater competition for government, commercial and consumer markets would ultimately insure a continuation of better products and services and a healthier dissemination of the Nation's wealth.

The Small Business Act and the subsequent establishment of the Small Business Administration insures the growth of small business throughout America; it also insures that a fair proportion of government procurement and contracting opportunities are afforded to small businesses. It is certainly no accident that more than 8 million small businesses exist today. Rather, it is by design and federal government commitment to an economic philosophy of free enterprise that small businesses are flourishing and will continue to flourish.

Minority participation in the American economic system has been primarily one of consumerism. Minority ownership has been restricted to consumer products, with the exception of land and housing—and that to a limited degree, characterized in an overall "rent-as-you-live" philosophy.

The concept of ownership has always been a motivating factor behind the American ethos of "rugged individualism" and "self-determination." Capitalism has thrived as a system because profit is a means by which one can measure effort. Business and industrial development has placed the means of production and distribution into the hands of the people. The competitive spirit by which we live has been responsible for America's evolution as the greatest industrial society on the earth and one that has afforded its people the highest standards of living.

Consequently, the worker who sincerely believes that his employer enhances those precepts and ideals which have made the Nation great, translates that sincerity into conscientious effort and achievement, while generating a competitive spirit amongst his peers.

The Kerner Report of the late 1960's, in the wake of one of the Nation's most eruptive and disruptive periods, also spoke to the issue of ownership. In this instance, however, minority ownership was the primary focus. In spite of the development of job opportunities; the creation of immense social welfare programs; the legislative reaffirmations of constitutional rights. . . it was found that the minority pursuit of ownership was as intrinsic to their philosophy as it was for their majority counterparts. It became equally as evident that the federal government had done little, nor had plans to do more in the future, with regard to the development of minority business enterprise.

As a result of this condition, some immediate steps were taken by the government to, at least, mitigate the problem, i.e., (1) Section 8(a) of the Small Business Act was identified as a legislative vehicle by which minorities would have federal government procurement and contracting opportunities, thus the evolution of the 8(a) program; (2) the Small Business Administration was formally alerted to the unique problems of minority business and authorized to establish minority business enterprise programs, goals and objectives; and to make available to minority business all programs and services offered to small business enterprise in general; (3) the Office of Minority Business Enterprise was created by Executive Order to work exclusively for minority business concerns, in coordination with those agencies of the federal government impacting upon minority business enterprise; (4) the position of Associate Administrator for Minority Small Business was created within the Small Business Administration; (5) Subpart 1-1.13, Minority Business Enterprises, of Title 41—Public Contracts and Property Management was attached to the Federal procurement regulations "to foster and encourage the participation of minority business enterprise in the subcontracts awarded by Government prime contractors."

The period from 1968 to present has given rise to much concern about the minority business enterprise issue and the broader issue of minority economic development. The question of minority "economic parity" has been addressed through voluminous research and statistical documentation; numerous formal government agency and private sector discussions; and previous formal testimonies to Committees of the Congress. What has become quite evident is the need for specific and immediate legislative action with regard to minority business enterprise. In addition, there is a critical need for the efficacious implementation and on-going analyses of federal government programming in the effort to insure minority business enterprise growth and development, while moving closer to the ultimate goal of minority "economic parity."

To truly grasp the full meaning of minority "economic parity" and yet understand the ramifications of the issue one must wade through an ocean of statistics and overcome the tidal waves of its complexities. For, it is a fact that minority business enterprise has experienced growth. However, such growth is only as relevant as its parallel relationship to national economic growth. Statistical data from a 1969 report issued by the Department of Commerce on minority-owned business, indicated that there were approximately 322,000 minority-owned business, comprising 4.3 percent of the 7.5 million businesses in America. In addition, the report stated that the total minority business receipts constituted \$10.6 billion or 0.7 percent of the total 1967 receipts of \$1.498 trillion reported by all businesses. The *1972 Survey of Minority-Owned Business Enterprise-Black* (MB72-1), a special report issued by the Department of Commerce's Social and Economic Statistics Administration, and the first in a series of special reports on minority-owned businesses, indicated that there were some 195,000 black businesses in the Nation generating \$7.1 billion in gross receipts. The average receipts per black firm was \$13,000 per annum. In comparison, varying population statistics indicate that minorities comprise between 17 percent and 20 percent of the total U. S. population—those statistics are highly speculative, for blacks alone may comprise more than 15 percent of the total population. Consequently, if one were to address the mathematics of the situation, one could ascertain that the ratio of business dollars generated by minorities as equated with the minority percentage of the Nation's population is alarmingly disproportionate. In this regard the verity of minority business enterprise growth belies the reality of an inadequate growth pattern and the road to minority "economic parity" continues to become longer and more circuitous. If we are of the opinion that minority "economic parity" will come as a result of normal economic evolutionary trends, we need quickly check our premise. For, the longer we procrastinate in starting the machinery to solve the problem, the more fuel will be required. In this vein, I am speaking of dollars and how to begin to solve a problem with millions rather than wait until it will later cost us billions.

I have given considerable thought to and made a critical analysis of the "Minority Business Development Act of 1976," S. 2617 introduced by my eminent Colleague, Senator J. Bennett Johnston, Jr., of Louisiana. I sincerely acknowledge the principle and spirit that his Bill addresses. Both Senator Johnston and I share a concern for the success of minority business enterprise. However, I do not believe that the "Minority Business Development Act of 1976" strikes at the heart of the matter before us.

Consequently, I have recently introduced the "Minority Business Enterprise Act of 1976," H.R. 12741. And, as I have stated previously, "I consider this Bill unquestionably the most important piece of legislation that I have introduced since coming to the Congress in 1971." I would ask and certainly be appreciative of Mr. Johnston's support of this Bill; I believe it to be the culmination of his efforts, my efforts and the untold efforts of many people throughout the Nation who have courageously struggled for the success of minority business enterprise over the last decade.

After reading the voluminous reports, studies, and testimonies regarding the issues surrounding minority business enterprise, I am convinced that S.2617 addresses only the "tip of the iceberg." Though the creation of the Office of Minority Business Enterprise some years ago was a laudable effort, it has proven to be an ineffectual government entity with no authority; no real mandate of operation; and, no real relationship with the Small Business Administration, procurement and contracting agencies of the government, and the private sector. Suffice to say, it would take years, critical years, for such a loosely structured office to ever become a viable and beneficial government agency. The

cost of organization and operation alone is tremendous, and, the federal government's proclivity for bureaucratic red-tape would likely strangle the agency into stagnancy. In addition, Mr. Johnston's Bill lacks "teeth." It speaks of agency responsibility without real agency authority; it focuses on Executive Order, which is at best highly interpretative by whomever reads it; it alludes to purpose and mandate without specificity and exactness of either. In essence, Mr. Johnston's Bill is noteworthy in both concept and sincerity but, simply put, it lacks "teeth."

I believe that the conceptual framework and intent of Mr. Johnston's Bill can be found more comprehensively and with more exactitude in the "Minority Enterprise Act of 1976." This Bill launches a three-pronged attack on the real problems of minority enterprise, generally as follows. Title I of the Bill seeks to amend the Small Business Act to expand assistance to minority small business concerns. Among other things, an Associate Administrator for Minority Small Business and Procurement Assistance would be "legislatively" established to corral and administer those existing SBA programs which impact greatest on minorities. Title II will provide much needed statutory standards for contracting and subcontracting by our Government with minority small business concerns. It mandates that minority business enterprises have a maximum opportunity to participate in the future building of our nation and obtain the financial benefits of such participation. Title III establishes a Commission on Federal Assistance to Minority Enterprise to develop methods and modes to guarantee the survival and growth of the minority business community within our larger economic context.

In addition, the "Minority Enterprise Act of 1976" requires reorganization, transfer of authority, and program implementation within an already existing agency of the government—the Small Business Administration, an entity established more than 20 years ago and designed to address the myriad of problems faced by small business enterprises. The financial requirements to organizationally effectuate viable minority enterprise programming is nominal and the other aspects of the Bill are as far-reaching as they are exact. It is a Bill with "teeth" and I openly solicit support from my Colleagues to assist me in this great endeavor.

I challenge the Congress and the people to demonstrate that all people within the Nation have a right to participate in the free enterprise system and share equitably in the Nation's wealth. If we are to make the attempt, as Senator Johnston has, than let us go all the way and with our best efforts.

Senator GLENN. Our last panel for the day, and I don't mean to indicate they are the least by any means, but they are Mr. Jose Aceves, executive director of the Latin American Manufacturers Association; Mr. Jerry Jones, president of Soncraft, Inc., chairman of the board, National Association of Black Manufacturers; and Mr. Manuel Casiano, Jr., chairman, National Economic Development Association.

JOSE ACEVES, EXECUTIVE DIRECTOR, LATIN AMERICAN MANUFACTURERS ASSOCIATION; JERRY JONES, PRESIDENT OF SONICRAFT, INC., CHAIRMAN OF THE BOARD, NATIONAL ASSOCIATION OF BLACK MANUFACTURERS; AND MANUEL CASIANO, JR., CHAIRMAN, NATIONAL ECONOMIC DEVELOPMENT ASSOCIATION, A PANEL

STATEMENT OF JOSE ACEVES

Senator GLENN. We are happy to welcome you gentlemen to the hearings. I am sorry you had to wait until this late in the afternoon but we appreciate your being here and we welcome whatever statement you wish to present or summarize.

We can just go on in the same order of the witness listing.

Mr. ACEVES. Mr. Chairman, thank you very much for the opportunity to appear before your Subcommittee on Intergovernmental Relations to present to you and members of your subcommittee, my association's views, concerns, and recommendations relating to S. 2617.

My name is Jose Aceves. I am the founder, and executive director, of the Latin American Manufacturers' Association [LAMA].

LAMA is a national trade association which represents the interest of Hispanic-Americans in the United States.

LAMA comprises more than 350 business enterprises in this country. Our makeup includes Mexican-Americans, Puerto Ricans, Cubans, Central and South Americans.

In addition, LAMA is a member of the consortium composed of national minority trade associations in America. The Consortium of National Minority Trade Associations is dedicated to the common objective of bringing about parity between the minority business enterprises in our country and the majority business community.

LAMA affiliates share the belief that through the promotion of the general welfare of all its citizens, the great American dream of a sound economy can be realized during the last two decades of the 20th century. As Latinos, we are united to play what we feel to be an important part in that realization.

Mr. Chairman, we are not unmindful of the obstacles we face as Hispanic-Americans—and the late start we have made in our attempt to become a significant part of the American free enterprise system.

We know it will take more time to erase the crippling stereotype as Americans only just beginning to gain fluency in the English language.

We are not unmindful of our lack of experience at the negotiating table.

Nevertheless, our hopes, as Latinos, are fortified by our awareness that all minorities in the history of this great Republic have faced the same challenges—the Irish, the Italians, and the Swedes, among others.

We are further sustained in our hopes to become a part of the mainstream of productive American citizens because there are men like you in the U.S. Senate who recognize that the most vital need of any minority is opportunity.

Until the emergence of LAMA, Hispanic-Americans in this country enjoyed no organized business representation whatsoever.

As an example, Latinos had no base for dissemination of information. LAMA established that base to disseminate information relating to SBA loans, contract opportunities, the location of small business organizations, and upcoming projects from various Federal agencies on a community level.

I am sure it comes as no surprise to you that Latinos get a smaller percentage of government contracts, SBA loans, 8(a) contracts, and private corporation contracts than any other business group. This administration has failed to express the level of interest and commitment given to other constituencies.

However, there has been some progress. The emergence of the Office of Minority Business Enterprise [OMBE] was a tremendous

boost to the minority business community. OMBE has established, and funded, throughout the country a number of viable business development organizations, and trade associations, that are rendering invaluable services to minority business enterprises such as the Colorado Economic Development Association, the National Economic Development Association, and to my own organization, LAMA. Without OMBE assistance to LAMA, our organization might never have achieved success as a national trade association in efforts to help Latino entrepreneurs in this country.

Mr. Chairman, there is absolutely no doubt in my mind that S. 2617, as proposed, will further enhance the success of minority entrepreneurs. An agency working for minorities at an under secretary level will put the Office for Minority Business Development and Administration on an equal footing with the Small Business Administration—thereby raising the authority of OMBE to that of agency status.

To consolidate all programs directed to assist minority enterprise under one umbrella is plain old commonsense in any language—provided, of course, that the Government reaffirms the emphasis articulated in the President's memoranda to various agencies on December 11, 1974 making the development of minority enterprise a national priority.

We have learned through experience, Mr. Chairman, that neither legislation—nor Executive orders—will effectively solve the problems facing minority enterprise without sufficient funding by the U.S. Congress. By its very nature, it is one thing for minority enterprise to play the "catchup" game—but it is a horse of quite another color if the gap crippling participation in business opportunities continues to widen.

The Latino community has great resources to contribute to the United States which presently are lying dormant—or going to waste—human, cultural, and economic resources. These resources should be—and must be brought into the mainstream of American life if the American people remain dedicated to the spirit expressed in the Constitution of the United States which begins with the words, "We the people."

It is a well known fact that Latino business enterprises participate only marginally in the national economic system. Statistics that LAMA computed from a 1975 Department of Defense report revealed that Minority Business Enterprises [MBE's] participating in less than one-twentieth of 1 percent of all federally related contracting. The slice of the pie dished out to Latino MBE's was, of course, substantially less than one-twentieth of 1 percent—despite the fact that Latinos represent approximately 7 percent of the U.S. population and comprise as much as 25 percent of the population in the major metropolitan centers such as Los Angeles, Houston, New York, and Chicago, where a large proportion of Federal contractors are concentrated.

The result of these patterns of exclusion has been that Latino companies have been operating at about 30 percent capacity or less.

Thus, the creation of an Office for Minority Business Development Administration in the Department of Commerce is tremendously sig-

nificant to the future role of minority enterprise within the private sector. Initiatives consistent with OMBE's efforts to increase participation of OMBE's in the commercial and industrial private sector could continue on an accelerated basis. Total dependence on military contracts could be avoided, and giant steps forward for minority community enterprises would result.

However, in order to achieve maximum success, an Office for Minority Business Development Administration must have substantial input from the minority business community. This could be achieved through the formation of a Minority Advisory Council composed of representatives from the National Minority Trade Associations. Thus, the working experience of such a council would be available to the Assistant Secretary of Commerce, and problem-solving in development could be shared.

Mr. Chairman, LAMA wholeheartedly supports the objectives sought by S. 2617. An agency within the Department of Commerce as proposed by this bill is just what we have been waiting for to bridge the gap between the minority business community and the majority small business. For your consideration, however, I do have several recommendations which I feel would strengthen S. 2617, if implemented. In conclusion, I will spell them out and, of course, will be happy to discuss them further at your request.

Recommendations.

One: That the Under Secretary of Commerce in charge of the proposed new administration be of minority extraction, and a sufficient number of minority community members be appointed to key positions in order to maintain a balance. This would insure a better understanding of the concept of minority business.

Two: That an advisory council be established composed of members of the National Minority Trade Associations, to meet on a monthly basis to evaluate and make recommendations to the Under Secretary of Commerce in charge of the Office for Minority Business Development and Administration. Further, that the advisory council report on a quarterly basis to the Secretary of the Department of Commerce with respect to progress made by the MBDA as viewed by the minority business community.

Three: That in addition to the authorization for appropriations set forth in section 6 of the proposed bill, additional funds be appropriated by Congress so that the National Trade Associations might insure the success of OMBE's penetration with prime contractors of large Federal contracts.

Four: That the National Minority Trade Associations involved in marketing be funded at a level of \$1 million per year for the next 5 years to develop the mechanics and rapport to continue their proven formula. The result of this formula is illustrated in an executive memorandum dated March 23, 1976, signed by David S. Lewis, chairman of General Dynamics, attached hereto as a part of my statement.

Mr. Chairman, in light of the President's expressed desire to restrain Government spending, LAMA recommends that a shortcut to the overall problems of minority business is a strong program for a decade, rather than a weak program to continue beyond the end of

this century. We believe an intensive, widescope program during the coming decade would be more effective, and less costly, in the long run.

Thank you.

[The information follows:]

GENERAL DYNAMICS: EXECUTIVE MEMORANDUM

To: Division Managers, Subsidiary Presidents and Corporate Officers.

Subject: Minority Business Enterprises.

1. The affording of equal opportunity to minority business enterprises in furnishing the goods and services we purchase is an integral part of the material management philosophy of General Dynamics Corporation.

2. We are committed to increasing our opportunities for competitive procurement through an expansion of the vendor base with which we deal. Minority businesses, like other small business firms, provide us an excellent opportunity to enlarge our buying base and provide for the close cooperation which can exist between small organizations and ourselves.

3. This company is committed to the concept of providing equal opportunities to minority businesses, and all members of management are expected to work toward placing General Dynamics in a position of leadership and excellence with respect to this important aspect of equal opportunity.

4. Coordination of this effort will be accomplished through the Corporate Director of Material, who has material management as a primary function. I expect to follow the results of this effort closely to insure that all divisions of the company are responsive to this basic company policy.

DAVID S. LEWIS, *Chairman.*

Senator GLENN. Thank you very much.

We do have another vote on so I am going to have to break the hearings and I will be back for the other statements and we can discuss these things. I am sorry we have to do this but this is just one of the problems we have.

We will recess temporarily.

[Recess.]

Senator GLENN. The hearings will resume.

Mr. Jones, we welcome your statement or summary; however you wish to present your statement.

STATEMENT OF JERRY JONES

Mr. JONES. Thank you, sir.

Mr. Chairman, I am Jerry Jones. I am chairman of the National Association of Black Manufacturers and the owner of Soncraft, Inc., a minority business engaged in the manufacture of electronic components.

I wish to thank the committee for providing the opportunity to present the views of our organization which is composed of at least 350 manufacturers located in nine regions in the United States.

Naturally, we have been deeply involved in the national effort to persuade the Federal Government to provide equal opportunities for minority businessmen to secure Government contracts and business opportunities in the private sector. We have participated in the debates and discussions about national goals and national policy formulation in the area of business development. We have testified before committees considering legislative remedies for what we regard as inequities which handicap minority entrepreneurs.

We have counseled with representatives in the executive branch at the White House, at the Small Business Administration, the Office of Minority Business Enterprise and the Department of Defense.

Now we join with those who seek to inform your committee of the dangers and opportunities which our members see in the legislation designed to establish an Office for Minority Business Development and Assistance in the Department of Commerce (S. 2617).

I would like to begin by pointing out that the bill as presently written does not adequately address our overall concerns. It deals with a limited objective of taking all Federal agency operations specifically dealing with minority business and placing them in one department in a single agency. It does not deal with the issues related to administration, regulation, and guidelines which reinforce historic discriminatory practice in the area of procurement and Government contracting.

It does not deal with the issue of specific goals, timetables and targets which would lead to economic parity for blacks, Spanish-speaking, Indian, Asian and other minorities attempting to make their way into the mainstream of the American economy.

It does not adequately deal with the issue of "what ought to be" in terms of effective implementation of the President's plans as conceptualized in Executive Order No. 11625.

However, given the limited objectives which the sponsor of this bill has apparently set as reachable goals that can secure enough votes to pass the Congress and produce a bill which the President can sign, we in the National Association of Black Manufacturers wish to go on record as favoring certain elements in the bill while urging amendments that will clearly state the assurances of a national goal of economic parity—the criteria for measuring progress toward the goal and adequate funding to make practical implementation a reality, rather than a dream.

The consolidation of all Federal agency functions and operations—designed to help minority businesses obtain a fair share of Federal Government business—under one agency accountable to a single member of the President's Cabinet appears to have many advantages.

It should make for a more effective oversight function of the Congress. It should make it easier to develop and maintain public awareness of what is or is not being achieved. It should provide a team of specialists skilled in facilitating the involvement and participation of minority entrepreneurs in every facet of Government contracting.

Yet, we are keenly aware of the fact that consolidation in and of itself does not guarantee that there will be a change for the better.

We must also point out that in the Johnston bill the administrator of the Office for Minority Business Development will be an assistant secretary in the Department of Commerce, one among seven assistant secretaries. He or she will not be a secretary or a member of the Cabinet. He or she will have potential jurisdictional conflict with an assistant secretary for business development within Commerce, an administrator for Small Business Development at SBA, and a massive establishment of procurement officials throughout the Federal bureaucracy who have a vested interest in maintaining the status quo

as far as majority-minority participation in Government contracting is concerned.

Therefore, Mr. Chairman, there are questions that should be raised about the consequences and by-products that passage of this bill would produce.

The reaction of the Small Business Administration to the concept of transferring functions which they now perform over to the Commerce Department is a factor that minority businessmen must be concerned about.

If now there is a small business representation in every procurement center, would passage of the Johnston bill mean that he would have a counterpart to be known as the minority business representative?

If now the minority business interest can be lost in the cracks because it is a low priority item on the agenda of the small business representative, is there any guarantee that a minority business representative would not face the same kind of roadblocks that EEO representatives have experienced because of personnel directors' negative reactions, resentful attitudes and resistance when their authority is threatened or diluted?

If the Department of Commerce already has an Assistant Secretary of Economic Development who has a Department of Business Development that does not focus on minority business, will passage of the Johnston bill provide for supervision or monitoring of such a department's activities?

Will the new Minority Business Development Office have any serious conflicts of interest with the main mission of the Small Business Administration to protect and promote the welfare of small businesses?

Is it possible that a totally independent agency not under the umbrella of either the SBA or the Department of Commerce would function more effectively than the proposed plan of the Johnston bill?

Frankly, Mr. Chairman, I raise these questions because I have a genuine concern that the highly commendable efforts and motivations of Senator Johnston and S. 2617 cosponsors should become a vehicle through which some of the answers can be legislated.

It is my sincere hope that following these hearings an effort will be made to write strengthening amendments and/or rewrite sections of the bill to make it an instrument that will make a truly significant contribution toward the fulfillment of the hopes expressed in the Executive order and the dreams of a national policy aimed at economic parity.

Mr. Chairman, it has been estimated that if minorities were to obtain parity in 25 years, it would necessitate \$442 billion of capital formation. As you know, the Johnston bill addresses itself to approximately \$100 million per year.

In order to stimulate and motivate and serve as a catalyst to trigger the development of minority capitalists and create capital aimed at such an ambitious goal the total Federal establishment would have to become involved and develop a functional interaction with private industry.

I am not convinced that an office in the Department of Commerce would provide us with the resources or the proper leverage to bring this about.

However, the Departments of Defense and Transportation and Energy and Housing could be included in a master plan with a minority business office promoting maximum effective utilization of their resources. The example of the Office of Economic Opportunity which was designed to help all Federal agencies use their resources to help solve the poverty problem comes to mind.

The built-in roadblocks and guaranteed failures in the OEO design also come to mind.

Surely we would want to make certain that the design of any Minority Business Office and its interaction with the total Federal establishment would avoid the mistakes made with OEO.

Finally, Mr. Chairman, in previous testimony the National Association of Black Manufacturers has gone on record as questioning the lack of clarity of purpose as regards a policy to bring minorities into the mainstream of the economy. We must say that, although S. 2617 appears to be a step in the right direction, it is only a first step in a long journey.

We recognize that as of now, however, we only have an Executive order and that legislation of some sort is highly desirable.

We are examining other legislation pending before other committees, especially the Mitchell bill in the House of Representatives, H.R. 12741.

Perhaps as a result of concentration on the problems and the leadership that Senators Johnston, Nunn, Glenn, Hartke and Bentsen have given in bringing S. 2617 into the legislative process, a truly valuable piece of legislation will be passed in the 94th Congress, that the President will sign.

Such legislation will have to deal with the hard questions currently being asked about the workability of the 8(a) concept and process, the tough questions being asked by minority contractors and labor unions, and those being asked by military procurement officers.

Such legislation would have to build logically on the legislative history dating back to the New Deal and the Reconstruction Finance Corp., and follow the development of the role of government under the Small War Plants Corp. Act, the Small Defense Plant Administration and finally the Small Business Act of 1953.

The provision of financial assistance, management assistance and procurement assistance under the Small Business Administration when combined with the provisions of technical assistance to minority enterprises under OMBE has given us a wealth of trial and error experience.

Now, it seems to me, would be the logical time to design a comprehensive, integrated, adequately funded mechanism that would gear into all of the existing Federal resources. We do not feel that consolidating the existing functions relating to minority enterprise will necessarily accomplish this.

Nevertheless, something must be done. A beginning must be made. We wish to thank you for having done something and for beginning to move into legislative action. We are willing to work with you and your staff to help get the job done.

We thank you again for providing us with this opportunity to testify.

STATEMENT OF MANUEL CASIANO, JR.

Mr. CASIANO. Thank you, Senator John Glenn; committee staff members. I appreciate very much your giving me an opportunity to testify in relation to S. 2617.

My name is Manuel Casiano. I am chairman of the board of the National Economic Development Association (NEDA), an organization with 20 offices across the country. I am president and majority stockholder of Coastal Funding Corp., a mortgage banking company which originates over \$10 million in financing a year. I am also a publisher and owner of a business publication which generates over a quarter million dollars a year in business, and chairman and part owner of an air charter airline with sales of over half a million dollars a year.

In its 6 years of existence, NEDA has been responsible for helping many thousands of minority businessmen to start or expand businesses, and our board of directors is composed of 16 successful private businessmen and women across the country who very actively guide the progressive program of economic development within Hispanic communities.

NEDA would like to congratulate the sponsors of this bill. It is exactly what is needed at this stage of minority business development. We endorse it fully.

I am sure that there are many statistics that will be presented, and many that are already in the hands of this committee that will show what a success the Office of Minority Business Enterprise (OMBE) has been in assisting minorities enter the economic mainstream of the American free enterprise system. In its short life span and with all the start-up problems inherent in a program of this magnitude, OMBE has had a very significant social impact on the minority communities across our country by developing and assisting entrepreneurs. There is no better way for free people to progress than through economic development, and OMBE has very effectively led the way for the minorities.

But the state that has been reached in the minority business community now dictates that OMBE become a bigger more influential agency of the government.

Since OMBE was created in 1969, there have been major changes in minority business development. OMBE's main concern up to now had to be to help new business start-ups and to devote a great amount of concentration and energy towards increasing the amount of capital available for minority businesses.

When OMBE commenced operations, most of the minority businesses were indeed quite small. And, the many thousands of businesses that have been helped have been mainly small entrepreneurs, which is all that could be expected at that early stage of entrepreneurial development within the minority community. As the development of minority businesses has progressed, the government is now faced with moving into the second stage of helping minority businessmen.

The minority businessman is now ready and looking for wider horizons. The experiences and ability gained by these minority firms

has exposed them to these bigger horizons. Now, the desire and ability to expand their markets for goods and services dictates that they move from neighborhood businesses to county, State, national and international markets. There are major opportunities for minority businessmen nationally and internationally.

But small businessmen need more than just financial assistance. They need a link between the small business company and the big company. They need a link with Federal agencies; information on business and economic matters; help in moving into the area of national and international ventures via mergers, acquisitions, and corporate joint efforts. They have to increase communication and affiliation with corporate entities of national and international prominence that represent expanded markets for minority entrepreneurs.

This can and will be done in this second stage, but not without the help of the Federal government, and no more than the majority business community was able to achieve without government help. This was the reason for the creation of the Department of Commerce in 1903 and the Small Business Administration in 1953. The SBA is an agency that has helped hundreds of thousands of small businessmen over the years because it is well funded and has much more authority and influence than OMBE has. It operates as a powerful government agency, not as an office within a government agency.

This is why NEDA congratulates the sponsors of this bill. The foresight that they have had in seeing this need of the second stage of development of minority businessmen and developing a vehicle from which to achieve this, is commendable.

Through bill S. 2617, they have provided a catalyst that can concentrate all of its efforts on minority business development, yet have the influence and resources of the Department of Commerce.

Under the direction of an Assistant Secretary of Commerce, who shall be appointed by the President with the advice and consent of the Senate and with a budget of \$100 million, there can be no question that we will be able to look back some years from now and mark this bill as the second big step in assisting minorities enter the economic mainstream of the American free enterprise system.

In a large part, the Nation's future is related to this bill, to the success of the small business community. The majority community has for 23 years had the SBA as the Government representative and advocate of small business helping the more than 9 million small businesses of the Nation. Now, the minority business community seeks an advocate, and this bill will provide it.

With the help of this bill, the minority businessmen will increase production, services, and employment, and through the payment of taxes will be contributing to the stability and strength of our Government and society.

[Additional information supplied by Mr. Casiano follows:]

NATIONAL ECONOMIC DEVELOPMENT ASSOCIATION (NEDA)

NEDA has 20 business development organization offices across the Country with a staff of over 180 persons serving the minority community.

The offices are located in cities with sizable Hispanic communities and include: San Juan, Puerto Rico; Bridgeport, Connecticut; New York, New York;

Newark, New Jersey; Miami, Florida; New Orleans, Louisiana; Kansas City, Kansas; Chicago, Illinois; El Paso, Harlingen, and San Antonio, Texas; Albuquerque and Santa Fe, New Mexico; Tucson and Phoenix, Arizona; and San Jose, Santa Ana, Fresno, Los Angeles, and San Diego, California.

These offices are part of the OMBE mechanism and delivery system which supplies the necessary technical and management assistance, and business opportunities required by minorities to increase their percentage of the nations total business activity.

NEDA's service line to minority businessmen is divided into four basic areas:

A. Finance: Preparation of the necessary business plans and packages required to obtain capital for the entrepreneur, and assistance, if requested, in seeking capital from the Small Business Administration, banks or other financial institutions.

B. Business Development: The identification and development of business opportunities.

C. Management and Technical Assistance: Follow-up assistance and service; and

D. Marketing and Procurement: Assistance to minority entrepreneurs in obtaining contract opportunities.

Cognizant of the specialized technical needs of minorities and in efforts to fulfill NEDA's contract, NEDA has placed great emphasis on the recruitment and selection of its personnel.

The caliber of NEDA's professional staff is evidenced by the fact that 87% are college graduates. This staff includes 20 individuals with a degree of Master in Business Administration (MBA), and 4 individuals with Doctorate degrees.

NEDA's staff is also strengthened from the experience standpoint, in that 72% of the current professional staff had 5 or more years experience prior to joining NEDA.

Extensive follow-up is one reason for NEDA's success, not only in terms of growth but in the quality of assistance provided. In an in-house study conducted in each of NEDA's offices for the 48 month period from July 1, 1970 to June 30, 1974, it was found that NEDA has assisted in acquiring over \$250 million for 4,668 small businesses. For this same 48 month period only 2.5% of these businesses failed.

This 2.5% failure rate is even more significant when compared to a 7.9% rate reported by OMBE in a draft report dated June 25, 1974 and 6.5% failure rate for non-minorities in the SBA 8(a) loan program.

Another reason for NEDA's success is the very active guidance and policy involvement of its 16 man board of Directors. All of NEDA's Directors are Hispanic American businessmen and women who are in most cases successful entrepreneurs themselves. They bring to NEDA the wide spread experience of a multitude of businesses such as banking, legal, medicine, retail, wholesale, manufacturing, communications, finance, public administration and executives with large corporations.

Even though the single largest representation on the Board is Mexican-American, Puerto Ricans, Cubans and Central and South Americans are also represented. The Chairman of the Board is Puerto Rican which exemplifies the harmonious teamwork that guides NEDA.

Senator GLENN. Thank you very much, Mr. Casiano.

Mr. Aceves, you had several proposals here, one involving the trade associations and the—perhaps funding the National Minority Trade Association with a fund of \$1 million per year, to do specifically what? I wasn't clear as to what that would do.

Mr. ACEVES. Very well. Mr. Senator, we have learned through experience that our businesses—our biggest problem as minorities dealing in trying to get contracts from the Government and the private sector, big corporations, is not having enough staff. If we can get contracts we can develop viable businesses. Our biggest problem is getting those contracts.

The largest corporations are still reluctant to deal with minorities in the overall.

We have developed a model which has worked partially. What we need is more staff in the regions working—in the large corporations to merge minorities into the private sector. So again, so that minorities do not depend totally on military contracts.

Senator GLENN. Is there not enough help being given in that area by OMBE?

Mr. ACEVES. OMBE is funding the organizations somewhere around \$235,000. That is not enough money to go around the country for offices. In the other—what is the funding of NEDA, is it?

Mr. CASIANO. \$3 million.

Senator GLENN. That NEDA has?

Mr. CASIANO. Funded by NEDA to the offices.

Senator GLENN. What you propose is that the National Trade Association would be funded through OMBE?

Mr. ACEVES. Not this one only, but all them in marketing should be funded at at least \$1 million so we can really develop a good marketing activity.

Senator GLENN. This would be funded under OMBE?

Mr. ACEVES. OMBE, yes.

Senator GLENN. Okay. I wasn't clear on that.

Mr. Jones, you had quite a number of suggestions here. I gather, as other witnesses earlier have said, while you are happy with upgrading the thrust of the bill and the push it would receive from the assistant secretary level, yet you were quite critical of the rest of objectives of the bill.

Now, this economic parity that Congressman Mitchell spoke of and that you spoke of, which I questioned him briefly on—I believe you were in the room when that happened.

Mr. JONES. Yes.

Senator GLENN. How would you set the objectives? How do you set the goals for when and how and what the mechanism is for getting economic parity? I don't think there is a person that doesn't share that as an ultimate goal. If it wasn't for our hope of achieving that, we wouldn't even have an SBA and OMBE and all the rest of these things.

But how do you—it's the same question I asked Congressman Mitchell—set me a date and what steps you would take to get there, for instance?

Mr. JONES. Well, sir, part of what I was trying to say was that it is our belief the present programs do not clearly state that achieving economic parity, whatever it means, is the objective.

It is not clear to us that this is the goal of our present programs. What we are saying is that we believe that some of the problems that we currently have are due to the fact that goals are not set so that after setting the goals you can set specific objectives.

We believe that after you state what goals you want to have and it might be that 17 percent or whatever of the population the minorities represent, is the goal of minority economic development; that is, minorities should have 17 percent of whatever business there is.

If you set that, then it seems to me it would be reasonable to go set specific objectives in various areas of our enterprise system to try to see what can be done.

But presently, as far as I know, no one has ever said what the goals of our present system are.

Senator GLENN. Let's assume for the moment, and far be it from me to speak for the administration, Congress, and everybody else, but I will do it anyway for just a moment, just assume for the moment that this is our objective, to move not to a guaranteed parity, but a guaranteed opportunity for everybody to participate and compete in the whole mainstream without regard to race, creed, color, or whatever reason.

Let's assume that is the objective, that is certainly an objective of mine in working on this bill.

Now what would your intermediate goals be to reach that, and what timetable would you set?

Congressman Mitchell and you both mentioned a timetable, and setting goals to reach.

Now, I want to hang something on that framework. I share that goal but I can't in my mind come up with specific dates and very specific functions other than some of the things that we are working on to achieve that goal.

Mr. JONES. Well, I think, sir—the way I would approach it, if that were your goal, would be to decide on some achievable time period that you think you might be able to use, and then you would say, for instance, in order to get there, here are the kinds of strategies to use, it is believed, in looking at the overall picture of economics, your goal would be achievable.

For instance, instead of talking about this year we increased the 8(a) procurement 10 percent over last year, you would have to say maybe we have to double it every year for the next 5 years, or you might say instead of being happy with 10 percent increases in any particular industry you could say if I am not doubling it every year, I will not do the job in 5 years. That it will require reassessment of the resources you are willing to bring to bear to the problem.

Unless you decide on some of these things I don't think you can solve the problem. I think that is part of what our problem is. We have not really said what our commitment would be: What is a reasonable budget that we are willing to commit to this? Is it only \$100 million a year? If it is only \$100 million a year then we should say we are not going to ever attain parity and we should understand that and not play around with it.

I think what we could say, on the other hand, since we are not going to obtain parity ever, perhaps what we should do is look at what we can do realistically for the \$100 million a year. Maybe we should instead of trying to fund starting up companies, we ought to be—

Senator GLENN. But do you see the funding as bringing economic parity, because that is not my concept of this thing at all.

My concept of SBA and OMBE and all the rest of them is that they are supposed to be the catalysts that allow individuals to kick off their business enterprise and then move eventually into the mainstream. That is "business parity." That is economic parity.

Once you are in the business mainstream you are accepted like anybody else on a competitive basis. I just don't think there has ever

been any concept that economic parity for the whole black business community was just going to be funded by government funds.

That would require hundreds of billions of dollars per year to really achieve that.

Now, do you have a different concept of this when you are talking about parity?

Mr. JONES. Senator Glenn, I think part of the problem, sir, is that you would have to assess where minorities are in relation to other businesses.

For instance, how much we ought to spend now to reach what would be "parity."

Senator GLENN. Before we get off the point, which way do you see it? Do you see this as a catalyst that lets minority businesses move to the mainstream, or do you see Government funding, as you proposed it, as being in sufficient amounts to bring black business up to parity just by Government expenditures?

Mr. JONES. I see it as a catalyst. I say the \$100 million is not a sufficient amount to make it meaningful.

Senator GLENN. Okay. I agree with you on that.

Mr. JONES. In addition to that, I am saying that there has not been a real assessment of what really can be accomplished with the \$100 million a year.

You see, I believe that if you made a real assessment, you might decide that you don't do some things and you do others rather than spreading it out all over the whole ballpark and being unsuccessful everywhere.

What we are saying is, we believe the Johnston bill does not address that. It does not address what are those goals and how we achieve them.

We feel at this time that any comprehensive bill should address that. That is why we feel that the intention was good, but we feel that it does not address how we get a contract, how we compete with the many businesses that we have to compete with every year.

I need some other kinds of assistance and taking the same bills, same programs and putting them under one agency rather than somehow or another making them more effective does not at all make me very happy. As a matter of fact, I see just the opposite probably happening.

Senator GLENN. How would this work with a whole new agency, as opposed to the assistant secretary level in the Department of Commerce. Can you compare those two things?

Mr. JONES. What we have looked at occasionally is that there should be an agency which would have some type of regulatory authority over the programs related to minorities so that—

Senator GLENN. Oh, you are talking about the regulatory type of agency.

Mr. JONES [continuing]. So that you could go in and assess what some possibilities are, help this agency set some objectives and then, you know, monitor their progress and have the capabilities of bringing them before the Congress or something and saying, "These people are not doing it," or "We need to have something done here."

I think the agency of that sort would be better. Such as the EEOC now.

Senator GLENN. Couldn't that be done under an assistant secretary post in the Commerce Department?

Mr. JONES. No, I would suggest a separate regulatory approach.

Senator GLENN. I see.

Mr. JONES. Not the SBA or OMBE but rather an agency that would report to the Congress and would have oversight functions. I have some doubt as to whether any one program under these agencies would satisfactorily do the job.

For example, an agency in the Department of Commerce might be more effective in addressing problems of the SBA than it would its own problem of helping us to deal with the private sector. I would want somebody else watching over Commerce to see they help us get help in the private sector a little better. But I don't have that kind of confidence otherwise.

Senator GLENN. Mr. Casiano, one of your associates in NEDA, Ms. DuPont, brought up in her statement something about the export/import business.

Now, I think most of us looked at this whole OMBE and SBA operation as mainly oriented towards domestic production and sales. What has been the experience of NEDA in trying to encourage SBA or OMBE activities in the export/import business?

Have you had any experience with that?

Mr. CASIANO. No, sir, in our 5 years of existence we have not gotten to that stage of development. In fact we just moved our offices to Washington for the purpose of moving into the second stage of our business development.

Senator GLENN. I see.

Mr. CASIANO. Up to now primarily we have been an organization that helps small business get started and seeks funds from Government for private sources and help them to create cash flows, and create projections and so forth.

But we have not moved into that area.

I am sure there are some cases but it is relatively small in any event.

Senator GLENN. Mr. Jones, how much of your manufacturing groups' product would go to exports? Would it be very much of it?

Mr. JONES. I know there are several companies in our association that are involved with exports, but I believe that of the total business it is very small. We are very concerned about this and we don't feel—even though I know that Commerce has recently funded some programs that are supposed to help there—that so far they are working too well.

But I think that there are significant opportunities that our members could enjoy. Our director, Mr. Eugene Baker, who is here, just spent 2 weeks touring Manila, Hong Kong, and other places and part of that tour was to see if we could develop some export activities.

Senator GLENN. Do you get into just the—well, all of your member organizations of the National Association of Black Manufacturers, they are not involved just as distributors, or retailers, or anything like that, are they? They are all basically manufacturers, correct?

Mr. JONES. Yes, sir. Well, we do have affiliated organizations, sir, such as the Latin American manufacturers. We have contractors, we have affiliate organizations, also, along with our regular members. However, we do represent generally members who are voting members, and they are manufacturers.

Senator GLENN. How many of your members would have been started with SBA funds and OMBE help? How many members have been started that way?

Mr. JONES. I don't know how many were started, sir, but I know we represent about half of the 8(a) contractors and manufacturers. My own company, for instance, although we utilized the SBA program, started prior to the present efforts in this area. I don't know exactly what that answer would be though.

Senator GLENN. Did you have something to add, Mr. Aceves?

Mr. ACEVES. Yes, Mr. Senator, we have a very intensive program now in Latin America mainly because we have some ties with organizations with entrepreneurs in the Latin American countries.

The language, of course, makes it easy and our cultural background, which is very similar, makes it easy. However, again, the reason we have looked at Latin America is for two reasons; one, the opportunities there are for marketing; and two, because of we have not been able to penetrate the markets in this country.

Senator GLENN. Let me ask this; language is an advantage to you in working up markets in South American countries, or Latin American area, Mexico, and so on to the south. How much of a hinderance is language in your trying to establish businesses here and work with the SBA and OMBE?

Mr. ACEVES. Well, we are facing a lot of problems with the Small Business Administration in the regions. Each region has their own set of rules; many of the loans are delayed and 8(a) contracts have no continuity; and we are just facing a lot of problems in the regions.

We are getting some cooperation from the central office, but we get no assistance from the SBA in terms of the international program.

Senator GLENN. As far as the language problem is concerned, is this a minor irritation or is this a major problem for you?

Mr. ACEVES. Historically, it is a major problem in a way because, maybe because most of the agencies, most of the regional offices are reluctant to deal with Hispanics that are not articulate, such as myself. You have to—

Senator GLENN. Well, you do very well. Don't play yourself down. You do very well.

Mr. ACEVES. There are some that speak less fluently than I do, and others do better.

There is the problem, also, in attitudes. There is the attitudinal problem where the officials in the regions are reluctant to let a contract for \$100,000 go to a minority, mainly because they never see themselves in that place, and in many cases when they are Anglo-Saxons they are reluctant to give minorities, blacks and browns, contracts that will make them, say, financially independent eventually.

Senator GLENN. How much of the staffing is minority in the

regional offices which, of course, would address the problem you are now speaking about.

Mr. ACEVES. I would say not enough. Most of the offices have few minorities. They have few minorities in key areas where minorities apply for these services.

Senator GLENN. Would it be about half of the staffing, possibly?

Mr. ACEVES. Oh, no, not even that. I would say a percentage of less than 10 percent.

Senator GLENN. Mr. Jones?

Mr. JONES. Sir, I wanted to add something to this, because I think that our criticism of the bill that we are looking at results, because it does not address the kinds of things that we are talking about now, that Mr. Aceves was talking about.

To some extent, if you take and put all the programs in one agency, it seems in order to make them work you have to delegate authority to operating agencies. What happens if you don't really understand that is that won't prove anything because we have now in SBA and OMBE, that type of "decentralized" agency. What happens is we are able to work with Washington offices, that is, the central offices, a lot better than we are with the regional offices. And Mr. Aceves talked about attitude problems, too. We spent a year talking about the SBA attitudes, talking about the attitude of the people there and their reasons. Somehow the bill here just does not address this kind of thing and that is what makes my business do better, that is, the fact when I walk in there I don't have to spend 3 months trying to get this guy around to the idea that he is supposed to work with me.

Senator GLENN. How does a new agency correct that? I don't see how a new agency—say we just uprooted it; say we passed a bill that would uproot everything, and out goes OMBE, SBA, and it will all go under your proposed new agency.

How do we correct attitudes—if attitude is the main problem—how do we correct that? You are probably going to have the same people under a different job heading in the new agency.

Mr. JONES. That's the point.

Mr. ACEVES. That's right.

Senator GLENN. Well, how do you prevent that type of attitude from—well, say we hired all new people. We just fire everybody doing anything in this field and start all over again.

You are going to wind up with the same old attitudes probably. How do you prevent it?

Mr. JONES. I think the way you do it is by setting certain objectives. You see, this guy might hate my guts, but if his welfare is tied to the fact that my success is important, he becomes a lot more willing to help me.

I think what the present programs don't deal with is just that kind of concept. I know that in the Government, when you have civil service employees, that is very difficult. But you would be surprised what could happen, I think.

Senator GLENN. You are dealing with OMBE and SBA now. Do you have the feeling they are not really of the attitude to help you; the attitude is to perpetuate themselves in their positions and to heck with you guys?

Mr. JONES. I would say that is a very strong feeling.

Senator GLENN. Do you really feel that way about their efforts?

Mr. JONES. I don't want to put everybody together in that—we are getting a little far away on that. But——

Senator GLENN. Well, I don't want to say that either.

Mr. JONES. But in terms of dealing with local offices, and most of our companies deal with the SBA, but we have a serious problem often at the procurement level. That is because there is the problem of entry into the programs. You know that you think the aims of the program are, but they are not very clear. So that so many companies come in and they are kind of, you know, shoved around for long periods of time, never getting anything done. And we don't believe that when some of the procurement specialists are dealing with contracts that they are that excited about what Mr. Aceves said, awarding a \$1 million contract to a minority.

I think that there have been some improvements in attitudes because we spent, as I said, a year meeting with the officials at SBA and trying to point out to them the problems that they had in their regions, the fact that there were certain kinds of complaints made by minorities and that they are attitudinal problems and so forth.

There are improvements that have been made but at the same time I am also aware of the fact that some of these same things that we discussed and some of the changes that have been made in the operational procedures are now under attack by the people in the regions. So what I am saying is although we spent a year we have not solved the problem. You know, it is just not clear whether the SBA will go back to where we were a year ago because of the complaints in the regions in terms of not wanting to implement some of the programs that we worked out.

Senator GLENN. If there is an attitude against minorities, or against those without the same language facility as the regular white community, if there is a bias in the Small Business Administration and OMBE against people like that, it is a bias against the very core of what the program is supposed to be doing to help small and minority businesses.

Mr. JONES. That is right.

Senator GLENN. If that is a general thing throughout these programs, that is a very, very serious charge you are both making here.

Mr. JONES. Well, I say, sir, there is not only that; part of the thing that we have tried to deal with, and this is where the Mitchell bill tries to deal with this to some extent, by setting up parallel programs within SBA. That is the attempt in the Mitchell bill. That is so that the same guy that has to represent small business which is the charter of the SBA, as he sees it, and also if he has to represent minorities in business, he feels in conflict. He says "If I have to help minorities, I am hurting small business, or other businesses."

So he has a conflict there and to some extent the Mitchell bill has tried to deal with this by setting up another group of people.

We don't know now if this is the most effective way of dealing with it. However, we do feel that there needs to be something to address the problem.

Senator GLENN. Okay. Time is getting away from us, yet I wish we had more time to continue. We have to come to an end here. I do have other commitments in a few minutes and I am sorry we kept you all going so late today, but it has been a very productive day. I think that what we found out is that we are probably going to want to have another day of hearings, at least. This was originally scheduled for 2 days, and by whatever schedule foulup we had we ended up with 1 day of hearings. We have opened a series of areas here that we might well explore further.

Just so that I can be clear on what I said earlier, when Congressman Mitchell was here, the objective of this bill going in was—and I think Senator Johnston did not feel otherwise—that everything was not necessarily in the bill that should be put in the bill. It certainly is available and susceptible if need be to constructive change. I guess we should call it that. Out of these hearings have come a lot of good suggestions and considerations today and we may want to get into further things later.

Senator Johnston was not able to get back; I know he did have to catch a 5 p.m. airplane for commitments out of town, so he is probably over at the airport now.

I am sorry he was not here, particularly for the discussion period we had.

Senator Javits also regretted he could not be here for much of the day. So we may just have a set of hearings on a later date.

I appreciate your bearing with us through the votes and through the long day we have put in.

One other thing: I wanted to thank Jane Fenderson and Lucinda T. Dennis of the committee staff who worked so very hard on all this. They have been in touch with today's witnesses for rescheduling. They have done an excellent job and they did a tremendous amount of work in getting this set up.

We want to make sure they get their due credit for this today so that it is clear we appreciate those activities very much.

I am sure they will be involved again if we have further hearings.

We will stand in recess subject to the call of the Chair.

[Whereupon, at 4:57 p.m., the subcommittee was adjourned subject to the call of the Chair.]

The first part of the paper discusses the importance of the study of the history of the United States. It is argued that a knowledge of the past is essential for a full understanding of the present. The author then goes on to discuss the various factors that have shaped the development of the United States, including the role of the federal government, the influence of the states, and the impact of the economy. The paper concludes by emphasizing the need for a balanced and objective approach to the study of history.

The second part of the paper is a detailed analysis of the role of the federal government in the development of the United States. It begins by discussing the early years of the republic, when the federal government was weak and the states were powerful. It then goes on to discuss the growth of the federal government over time, particularly in the areas of defense, foreign policy, and social welfare. The author argues that the federal government has played a crucial role in the development of the United States, and that its power should be maintained and strengthened.

The third part of the paper discusses the influence of the states on the development of the United States. It begins by discussing the early years of the republic, when the states were the primary source of political power. It then goes on to discuss the decline of state power over time, particularly in the areas of defense, foreign policy, and social welfare. The author argues that the states have played a crucial role in the development of the United States, and that their power should be maintained and strengthened.

The fourth part of the paper discusses the impact of the economy on the development of the United States. It begins by discussing the early years of the republic, when the economy was primarily based on agriculture. It then goes on to discuss the growth of the economy over time, particularly in the areas of manufacturing, commerce, and services. The author argues that the economy has played a crucial role in the development of the United States, and that its growth should be maintained and strengthened.

The paper concludes by emphasizing the need for a balanced and objective approach to the study of history. It argues that a knowledge of the past is essential for a full understanding of the present, and that the study of history should be based on a balanced and objective approach.

94TH CONGRESS
1ST SESSION

S. 2617

NOVEMBER 5, 1975

Mr. JOHNSTON introduced the following bill; which was read twice and referred to the Committee on Government Operations

To establish an Office for Minority Business Development and Assistance in the Department of Commerce.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Minority Business Devel-
4 opment and Assistance Act of 1975".

6 SEC. 2. The purpose of this Act is to establish an Office
7 for Minority Business Development and Assistance in the
8 Department of Commerce, under an Assistant Secretary, in
9 order to carry out and expand the functions of the Secretary
10 of Commerce now being exercised through the Office of
11 Minority Business Enterprise, and to give the Secretary

1 certain additional functions, for the purpose of improving all
2 Federal activities as they relate to and provide opportunities
3 for minority business enterprise.

4 ESTABLISHMENT OF OFFICE

5 SEC. 3. In order to carry out the purpose of this Act the
6 Secretary of Commerce (hereinafter referred to as the "Sec-
7 retary") shall (a) establish within the Department of
8 Commerce an Office of Minority Business Development and
9 Assistance (hereinafter referred to as the "Office") which
10 shall be under the direction of an Assistant Secretary for
11 Minority Business Development and Assistance who shall
12 be appointed by the President by and with the advice and
13 consent of the Senate and shall be compensated at the rate
14 provided for the other assistant secretaries in the Department
15 of Commerce, and (b) through such office carry out—

16 (1) his functions pursuant to Executive Order
17 Numbered 11625, October 14, 1971 (36 Fed. Reg.
18 19967) ;

19 (2) the functions transferred pursuant to section
20 4; and

21 (3) the functions pursuant to section 5.

22 TRANSFERS TO SECRETARY

23 SEC. 4. (a) Effective thirty days after the date of enact-
24 ment of this Act there are transferred to the Secretary the
25 functions of the Small Business Administration pursuant to

3.

1 section 7 (i) of the Small Business Act, together with the
2 responsibility for the management of the portion of the
3 business loan and investment fund established pursuant to
4 section 4 (c) of such Act which is for the purpose of such
5 section 7 (i).

6 (b) Effective on such date as is prescribed by the Direc-
7 tor of the Office of Management and Budget but not later
8 than ninety days after the date of enactment of this Act,
9 there shall be transferred to the Secretary any separable
10 function of any Federal department or agency which the
11 Director determines relates primarily to the development or
12 assistance of minority business enterprises, as defined in the
13 Executive order cited in section 3 (1).

14 EXPANSION OF OFFICE FUNCTIONS

15 SEC. 5. (a) In order to more effectively carry out the
16 purposes of this Act the Secretary shall establish (1) such
17 additional divisions in the Office as will more effectively
18 carry out the purpose of this Act, and (2) not less than ten
19 regional branches of the Office in appropriate regional areas.

20 (b) The Secretatry shall (1) make an investigation and
21 study of all Federal activities which relate to or should re-
22 late to, or provide or should provide opportunities for, minor-
23 ity business enterprises in order to carry out the purpose of
24 this Act, and (2) report to the President and the Congress
25 not later than one hundred and eighty days after the date of

1 enactment of this Act his recommendations for necessary
 2 action with respect to such activities, including any necessary
 3 legislation, in order to carry out such purpose.

4 AUTHORIZATION

5 SEC. 6. There is authorized to be appropriated in each
 6 fiscal year the sum of \$100,000,000, and such other sums as
 7 may be necessary to carry out the provisions of this Act.

94TH CONGRESS
 1ST Session

S. 2617

A BILL

To establish an Office for Minority Business
 Development and Assistance in the Depart-
 ment of Commerce.

By Mr. JOHNSTON

NOVEMBER 5, 1975

Read twice and referred to the Committee on
 Government Operations

IN THE SENATE OF THE UNITED STATES

Mr. JAVITS (for himself, Mr. HUMPHREY, and Mr. MATHIAS) introduced the following bill; which was read twice and referred to the Committee on Government Operations

A BILL

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,
That this Act may be cited as the "National Technology Development Corporation Act of 1976".

6 SEC. 2. (a) The Congress hereby finds that—

(1) the activities of the executive branch of the Federal Government in supporting technological research

II

2

1 and development in the fields of resource shortages and
2 utilization through capital funding have become diffused
3 and ineffective because of the multiplicity of responsibilities
4 among Federal agencies and the fragmentation and
5 inadequacy of fiscal resources;

6 (2) coordination between governmental and private
7 resources and incentives is necessary to provide for a
8 systematic program of capital funding for technological
9 development;

10 (3) substantial reorganization of the executive
11 branch of the Federal Government is necessary to bring
12 about the funding and coordination effort required to
13 stimulate technological development;

14 (4) there is a growing domestic shortage of fossil
15 fuel energy resources, and it is becoming apparent that
16 (A) traditional incentives will not provide the impetus
17 to channel sufficient amounts of capital into new and al-
18 ternative energy resource development and implementa-
19 tion to meet the growing energy needs of the Nation,
20 and (B) long-leadtime development is a necessary
21 component of major technological change in the energy
22 area and requires the assistance of Federal capital in-
23 vestment in addition to traditional capital sources;

24 (5) the environmental crisis facing the world and
25 particularly the United States has not been met by exist-

3

1 ing governmental or private provisions for research and
2 development. This crisis cannot be resolved by abate-
3 ment or conservation practices alone, and requires long-
4 range solutions to pollution and other environmental
5 problems, consonant with the preservation of our stand-
6 ard of living. Technological development and planning,
7 governmental and private, is necessary for this purpose;

8 (6) the Nation's known mineral resources similarly
9 are being depleted at alarming rates and may soon be
10 inadequate to meet our expanding needs. Environ-
11 mentally safe substitutes for our less plentiful natural
12 resources must be found and developed before critical
13 shortages develop. Present development of such alterna-
14 tives is inadequate and must be furthered by the provi-
15 sion of Federal research and development programs and
16 investment if the Nation is to avoid severe crises in
17 future decades;

18 (7) without long-term technological development
19 to provide solutions to the Nation's urban housing,
20 transportation, waste disposal, and other environmental
21 problems, the Nation's cities will be subjected to greater
22 and greater strains on their ability to provide essential
23 services for their citizens;

24 (8) funding available on a multiyear basis is needed
25 for research and development in the aforementioned and

4

1 other fields which have uncertain immediate payouts
2 but great potential for longer range benefits. Specific
3 provision is needed therefore to develop and to consoli-
4 date Federal programs which will contribute to the
5 financial risks of businesses and nonprofit institutions
6 willing to undertake such longer range efforts;

7 (9) existing institutions, public and private, gov-
8 ernmental and nongovernmental, at present, cannot pro-
9 vide the magnitude of long-range and high-risk invest-
10 ment capital essential to find and implement solutions
11 to the Nation's future problems of environment and
12 supply; and

13 (10) high-risk and long-range research and devel-
14 opment frequently yields patentable and other financially
15 remunerative results from which the Federal Govern-
16 ment can replenish, and, perhaps enlarge its future in-
17 vestments. In other instances the lessening of social
18 costs including unemployment and pollution will repre-
19 sent social benefits.

20 (b) It is the purpose of this Act—

21 (1) to reorganize, coordinate, and consolidate the
22 programs of the executive branch of the Federal Gov-
23 ernment and to stimulate and promote the investment
24 of private capital in promising technological research,

1 development, and demonstration in order to plan for,
2 alleviate, and solve existing and probable future ma-
3 terials and energy problems of the United States;

4 (2) to speed the conversion of outdated facilities to
5 uses and materials that meet current needs and future
6 prospects;

7 (3) to aid small and medium sized enterprises,
8 especially those in economically depressed areas or areas
9 of high unemployment, in securing adequate financing to
10 make investments in research and development in fields
11 critical to the national interest; and

12 (4) to preserve and enhance competition, and foster
13 more balanced economic growth throughout the United
14 States.

15 TITLE I—NATIONAL TECHNOLOGY DEVELOP-
16 MENT CORPORATION DEFINITIONS

17 SEC. 101. For the purposes of this title—

18 (1) "assistance" means a loan, loan guarantee, or
19 investment as may be provided under sections 106, 107,
20 or 108 of this Act;

21 (2) "applicant" means a person, including a joint
22 venture, seeking assistance for an eligible undertaking,
23 as provided in this Act for the purposes of this Act;

24 (3) "eligible undertaking" means any undertaking

1 described in section 102 of this Act and specified in a
2 category of technological research as provided under
3 section 105 of this Act;

4 (4) "Corporation" means the National Technology
5 Development Corporation established by section 102 of
6 this Act;

7 (5) "Board" means the Board of Directors of the
8 National Technology Development Corporation estab-
9 lished by section 103 of this Act; and

10 (6) "Panel" means the Technology Advisory
11 Panel established by section 105 of this Act.

12 ESTABLISHMENT

13 SEC. 102. There is hereby established the National
14 Technology Development Corporation as a body corporate
15 which shall be an instrumentality of the United States and
16 shall have succession until dissolved by Act of Congress.
17 The Corporation shall provide assistance to applicants pro-
18 posing eligible undertakings falling within the categories of
19 paragraphs (1) through (3) for the following purposes:

20 (1) to carry out technological development in the
21 following areas:

- 22 (A) energy and materials resources;
- 23 (B) pollution and climatological changes;
- 24 (C) waste-disposal and resource recovery;
- 25 (D) urban development;

1 (E) agricultural production; and

2 (F) other critical environmental problems
3 threatening continued national well-being;

4 (2) to advance and speed implementation or utili-
5 zation of existing technology; and

6 (3) to provide the bases for meeting future ma-
7 terials needs and avoiding future resource crises of the
8 United States.

9 BOARD OF DIRECTORS

10 SEC. 103. (a) The manager of the Corporation shall be
11 vested in a Board of Directors consisting of—

12 (1) seven members who shall be appointed by the
13 President by and with the advice and consent of the
14 Senate;

15 (2) The Secretary of the Treasury;

16 (3) the Chairman of the Board of Governors of the
17 Federal Reserve System;

18 (4) The President of the Corporation appointed
19 under section 123; and

20 (5) the Chairman of the Technical Advisory Panel.
21 Members of the Board provided in paragraphs (2) through
22 (5) shall serve ex officio and shall have no vote. The terms
23 of the directors, other than those serving ex officio, shall be
24 three years, commencing with the expirations of the preced-
25 ing terms, except that the terms of such directors initially

1 appointed shall run for three years in the case of three di-
2 rectors, two years in the case of two directors and one year
3 in the case of two directors. Any director appointed to fill a
4 vacancy shall be appointed only for the unexpired portion of
5 the term. Any director may continue to serve as such after
6 the expiration of the term for which he was appointed until
7 his successor has been appointed and has qualified.

8 (b) (1) Members of the Board not serving ex officio
9 shall each be entitled to receive the daily equivalent of the
10 annual rate of basic pay in effect for grade GS-18 of the
11 General Schedule for each day (including traveltime) dur-
12 ing which they are engaged in the actual performance of
13 duties vested in the Board.

14 (2) Members of the Board who are full-time officers or
15 employees of the United States shall receive no additional
16 pay on account of their service on the Board.

17 (3) While away from their homes or regular places of
18 business in the performance of services for the Corporation
19 members of the Board shall be allowed travel expenses, in-
20 cluding per diem in lieu of subsistence, in the same manner
21 as persons employed intermittently in the Government serv-
22 ice are allowed expenses under section 5703 (b) of title 5,
23 United States Code.

24 (c) Five members of the Board other than the ex officio

1 members shall constitute a quorum but a lesser number
2 may hold hearings.

3 (d) The Chairman and Vice Chairman of the Board
4 shall be elected by the members of the Board from among
5 members other than those referred to in paragraph (b) (2).
6 The term of office of the Chairman and Vice Chairman shall
7 be three years.

8 (e) The Board shall hold regular meetings at least
9 quarterly and shall meet at the call of the Chairman or upon
10 the request of a majority of its members other than ex officio
11 members.

12 (f) No loan, guarantee, or investment may be made to
13 or for any applicant pursuant to sections 106, 107, and 108
14 of this Act other than within the categories established pur-
15 suant to section 105 of this Act.

16 ADMINISTRATIVE PROVISIONS

17 SEC. 104. (a) The Board is authorized to prescribe such
18 policies, rules, and regulations as it may deem to be neces-
19 sary or appropriate to perform functions now or hereafter
20 vested in it.

21 (b) The Board shall engage in such policy planning,
22 and perform such program evaluation analyses and other
23 studies, as may be necessary to provide the efficient and

1 coordinated administration of the Corporation and properly
2 assess progress toward the achievement of its missions.

3 (c) Except as otherwise provided by law, the Board
4 may delegate any of its functions to such officers and em-
5 ployees of the Corporation as it may designate, and may
6 authorize such successive redelegations of such functions as
7 it may deem to be necessary or appropriate.

8 (d) The Board is authorized to establish, maintain,
9 alter, or discontinue such Act, regional, district, local, or
10 other field offices as it may deem to be necessary or ap-
11 propriate to perform functions now or hereafter vested in it.

12 (e) The Board shall cause a seal of office to be made for
13 the Corporation of such device as it shall approve, and
14 judicial notice shall be taken of such seal.

15 (f) The provisions of subchapter II of chapter 5 and
16 chapter 7 of title 5, United States Code, shall not apply to
17 any action of the Board.

18 TECHNICAL ADVISORY PANEL

19 SEC. 105. (a) There is hereby established a Technical
20 Advisory Panel. The Panel may establish such subcommit-
21 tees as it may deem necessary to carry out its functions.

22 (b) The Panel shall consist of fifteen persons, including
23 among them—

24 (1) the Director of the National Science Founda-
25 tion;

1 (2) the Administrator of the Small Business
2 Administration;

3 (3) the Administrator of the Energy Research and
4 Development Administration;

5 (4) the Administrator of the Environmental Pro-
6 tection Agency;

7 (5) the Administrator of the National Aeronautics
8 and Space Administration;

9 (6) the Secretary of Housing and Urban Develop-
10 ment;

11 (7) the Secretary of Transportation;

12 (8) the Secretary of Agriculture; and

13 (9) seven additional members, who are broadly
14 representative of the scientific, engineering, business,
15 and labor communities, appointed by the President by
16 and with the advice and consent of the Senate, one of
17 whom shall be designated at the time of his appointment
18 to serve as Chairman of the Panel.

19 (c) (1) The Panel shall determine fields of eligible in-
20 vestment and shall prescribe, for each fiscal year, specific
21 categories of technological research, development, and utili-
22 zation within which applications for assistance by the Corpo-
23 ration will be considered. The Panel, in its discretion, may
24 choose from among these categories a number of priority

1 categories, from which preference shall be given by the
2 Board in its loan and investment decisions.

3 (2) Such categories and the priorities thereof shall be
4 determined following public hearings and shall be published
5 in the Federal Register within ninety days after final deter-
6 mination by the Panel.

7 (d) The Corporation shall not accept application for
8 assistance in any category established or amended until after
9 the expiration of sixty days after the date of publication of
10 any such category in the Federal Register as provided in sec-
11 tion 105 (c) of this Act.

12 (e) The Congress may disapprove any of the categories
13 established pursuant to section 105 (c) of this Act by resolu-
14 tion of either the House of Representatives or the Senate
15 passed within the period of sixty days commencing on the
16 date of publication of any such category in the Federal
17 Register as required by subsection 105 (c) (2) of this Act.

18 (f) At any time, the Congress may by concurrent res-
19 olution, establish additional categories of eligibility.

20 (g) The provisions of the Federal Advisory Committee
21 Act (86 Stat. 770) shall not apply to the Panel established
22 by this section or the subcommittees thereof.

23 DIRECT LOANS

24 SEC. 106. (a) The Corporation is authorized to make
25 direct loans to any applicant to carry out a currently ap-

1 proved eligible undertaking consistent with the purposes of
2 this Act, if the applicant has presented evidence to the
3 satisfaction of the Board that it is unable to obtain sufficient
4 funds on reasonable terms and conditions from any other
5 source.

6 (b) Any applicant for a loan shall demonstrate to the
7 satisfaction of the Board of Directors that there exists—

8 (1) a reasonable probability of success of or sub-
9 stantial benefit from the proposal or program with
10 respect to which any such applicant seeks assistance;
11 and

12 (2) a reasonable probability that the proposal or
13 program with respect to which any such applicant seeks
14 assistance will further substantially the purposes of this
15 Act.

16 (c) Any loan made by the Corporation shall be for pe-
17 riods determined by the Board, bearing in mind that the
18 maturity of such loans should, whenever possible, coincide
19 with the projected useful life of the facilities financed with
20 such loans or the likely date of successful culmination of the
21 research and development activity financed. The outstand-
22 ing balance due on Corporation loans shall be refinanced
23 through another lender whenever, in the judgment of the
24 Board, such refinancing is feasible on terms and conditions
25 which the Board considers to be reasonable for the borrowers.

GUARANTEED LOANS

1
2 SEC. 107. The Corporation is authorized to guarantee
3 the payment by an applicant of interest and principal on
4 any loan made to carry out a currently approved eligible
5 undertaking by the applicant, consistent with the purposes
6 of this Act, if the effective interest rate for such loan is not
7 more than 2 per centum above the Federal Reserve discount
8 rate, and the lender is approved by the Board.

PURCHASE OF STOCK

9
10 SEC. 108. The Corporation is authorized to purchase
11 capital stock of any applicant which is a corporation in such
12 amounts as the Board may determine but not to exceed
13 50 per centum of the amount of such stock which is out-
14 standing. The Board shall not exercise the voting rights of
15 any class of stock which it holds.

RECOUPMENT OF INVESTMENT

16
17 SEC. 109. (a) In making any loan, investment, guaran-
18 tee of a loan, or other authorized transaction, the Corpora-
19 tion may require the applicant to enter into an agreement
20 pursuant to this section in order to advance the purposes of
21 this Act, further secure its investment, and obtain additional
22 funds for the purposes of the Corporation. Such agreement
23 shall contain provisions to assure—

24 (1) that the Corporation, subject to the provisions
25 of section 108, will be given a share in the equity of the

1 recipient having a value not in excess of the amount of
2 the loan or investment made or guaranteed by the Corpo-
3 ration, but in no event exceeding 50 per centum of the
4 current equity of the recipient; or

5 (2) (A) that a portion, not to exceed 50 per
6 centum, of the royalties or other income received due
7 to exploitation of any patents or inventions obtained or
8 developed as a result of activity assisted by loans or
9 investments made by or guaranteed by the Corporation
10 shall be paid to the Corporation; and

11 (B) that any invention developed as a result of
12 activity assisted by loans or investments made or guar-
13 anteed by the Corporation shall be made available to
14 others in return for reasonable royalties on terms set
15 forth in agreements with the Corporation or determined
16 by procedures set forth in such agreements.

17 LIMITATION ON INVESTMENTS

18 SEC. 110. (a) In making any loan, guarantee, or invest-
19 ment to an applicant, except for small business concerns as
20 provided in section 127 of this Act, for a currently approved
21 eligible project, the dollar amount involved may not exceed
22 the lesser of—

23 (1) 75 per centum of the total amount to be in-
24 vested in the project to be undertaken, determined with-
25 out regard to the Corporation's assistance; or

1 (2) $33\frac{1}{3}$ per centum of the total paid in capital and
2 surplus of the applicant prior to the commencement of
3 the undertaking by the applicant.

4 (b) No single loan, guarantee, or investment greater
5 than \$5,000,000 may be made to any single applicant
6 without the specific approval of the Board.

7 (c) No loan, guarantee, or investment may be made in
8 a corporation with assets or gross sales greater than \$1,000,-
9 000,000 or in a corporation that controls greater than 25 per
10 centum of the market in the line of commerce in which the
11 loan, guarantee or investment will be made, as determined
12 by the Board after consultation with the Federal Trade
13 Commission, unless a specific finding is made by the Board
14 that the project is potentially critical for the fulfillment of
15 the purposes of this Act and that no competing applications
16 of comparable merit have been filed by other potential
17 recipients.

18 SEC. 111. Thirty days prior to making any loan, guar-
19 antee, or investment which exceeds \$50,000,000, to any
20 single applicant the Board shall cause notice of such pro-
21 posed action to be published in the Federal Register and
22 on the same calendar day as such notice shall appear shall
23 transmit to the Speaker of the House of Representatives
24 and to the President pro tempore of the Senate a report
25 setting forth—

1 (1) the name of the applicant;

2 (2) a detailed description of the undertaking for
3 which assistance is sought; and

4 (3) such other information as will fully advise the
5 Congress as to the expected benefits from any such
6 undertaking.

7 No proposed loan, guarantee, or investment, notice of which
8 has been published in the Federal Register and a report of
9 which has been transmitted to the Speaker of the House of
10 Representatives and the President pro tempore of the Sen-
11 ate, may be made if, within thirty days of the date of such
12 publication or transmittal either House of Congress by res-
13 olution disapproves that proposed loan, guarantee, or
14 investment.

15 TRANSFER OF PATENTS AND TRADE SECRETS

16 SEC. 112. Except as otherwise provided in any agree-
17 ment with the Corporation, any obligations imposed upon a
18 party pursuant to an agreement with the Corporation under
19 section 109 of this Act shall be enforceable by the Corpora-
20 tion against such party and also against any direct or indirect
21 assignee or purchaser of any patent, trade secret, process or
22 business from such party.

23 AVAILABILITY OF FUNDS

24 SEC. 113. Notwithstanding any other provision of law,
25 all funds obtained by the Corporation pursuant to agree-

S. 3111—3

1 ments under section 109 of this Act or as a result of civil
2 actions on behalf of the Corporation to enforce its agree-
3 ments may be used by the Corporation for purposes set forth
4 in this Act without further appropriation.

5 TECHNICAL AND FINANCIAL ADVICE

6 SEC. 114. The Corporation shall have the authority
7 to request the assistance of Federal, State, and local agencies
8 and other persons in evaluating proposals for investments,
9 loans, and guarantees pursuant to this Act with respect to—

10 (1) the social benefits from successful research
11 or development of the type proposed;

12 (2) the likelihood of success of the proposed efforts;

13 and

14 (3) the relative merit of a proposal compared with
15 other proposals.

16 Federal agencies and departments shall cooperate with the
17 Corporation in making any such evaluation to the maximum
18 extent feasible.

19 TAXABLE STATUS

20 SEC. 115. The Corporation, its property, its franchise,
21 capital, reserves, surplus, security holdings, and other funds,
22 and its income shall be exempt from all taxation now or
23 hereafter imposed by the United States or by any State or
24 local taxing authority, except that (1) any real property

1 and any tangible personal property of the Corporation shall
2 be subject to Federal, State, and local taxation to the same
3 extent according to its value as other such property is taxed,
4 and (2) any and all obligations issued by the Corporation
5 shall be subject both as to principal and interest to Federal,
6 State, and local taxation to the same extent as the obligations
7 of private corporations are taxed.

8 PRIORITY AND SUBORDINATION OF CLAIMS

9 SEC. 116. Except as otherwise provided in any agree-
10 ment made by the Corporation, claims of the Corporation
11 shall have priority in all bankruptcy and insolvency pro-
12 ceedings to the same extent as obligations due to the United
13 States. The Corporation shall have power to waive such
14 priority in any agreement, and also to accept subordination
15 of claims if the Corporation certifies that this is necessary in
16 order to induce private financial institutions and other
17 sources of private financing to assist in financing activities
18 necessary to carry out the purposes of this Act. The Corpo-
19 ration shall also have power where appropriate to agree to
20 waive any liability on the part of any parent entity owning
21 shares in a subsidiary thereof obligated under any loan or
22 guarantee, where such parent entity contributes technical
23 know-how to such subsidiary for consideration or otherwise
24 in aid of research assisted by the Corporation.

1 COOPERATION WITH EXISTING AGENCIES

2 SEC. 117. The Corporation shall not finance or assist in
3 financing research or development which duplicates efforts
4 being made by or under the supervision of other Federal
5 agencies which have not been transferred to the Corpora-
6 tion pursuant to title II of this Act, but may in its descretion
7 finance or assist in financing efforts which will supplement
8 the work being done by or under the supervision of Federal
9 agencies. Wherever other Federal agencies are sponsoring
10 or continuing research or development in a field, the Corpo-
11 ration shall consult with such agencies prior to financing or
12 assisting in financing efforts in the same field.

13 SEC. 118. (a) The Corporation shall have authorized
14 capital stock of \$5,000,000,000 payment for which shall be
15 subject to call in whole or in part by the Board with the
16 approval of the President to the extent funds are made avail-
17 able under section 131 (a).

18 (b) The Secretary of the Treasury is authorized to,
19 and upon request of the Board shall, purchase stock in
20 amounts designated by the Board up to a total of \$5,000,-
21 000,000, but in no event shall the Secretary of the Treasury
22 purchase more than \$250,000,000 of such stock in any
23 single fiscal year.

BORROWING AUTHORITY

1
2 SEC. 119. (a) The Corporation may issue notes, debentures, bonds, and other evidences of indebtedness in such
3 amounts and on such terms and conditions as the Board of
4 Directors may determine subject to the limitations prescribed
5 in this Act.
6

7 (b) The aggregate outstanding indebtedness of the
8 Corporation at any time, including contingent liabilities on
9 outstanding guarantees, may not exceed twenty times the
10 paid-in capital stock of the Corporation at that time.

11 (c) In the event that the Corporation is unable to pay
12 upon demand, when due, any obligation issued under sub-
13 section (a), the Secretary of the Treasury shall pay the
14 amount thereof and thereupon to the extent of the amount
15 so paid by the Secretary of the Treasury shall succeed to all
16 the rights of the holder of the obligations.

PURCHASE OF OBLIGATIONS BY TREASURY

17
18 SEC. 120. To carry out its purposes, the Corporation
19 is authorized to issue to the Secretary of the Treasury to such
20 extent or in such amounts as are provided for in appropri-
21 ation Acts, notes or other obligations in an aggregate amount
22 of not to exceed \$5,000,000,000, in such forms and denomi-
23 nations, bearing such maturities, and subject to such terms

1 and conditions, as may be prescribed by the Secretary of the
2 Treasury. Such notes or other obligations shall bear interest
3 at a rate determined by the Secretary of the Treasury, taking
4 into consideration the current average market yield on out-
5 standing marketable obligations of the United States of com-
6 parable maturities during the month preceding the issuance
7 of the notes or other obligations. The Secretary of the Treas-
8 ury is authorized and directed to purchase any notes and
9 other obligations issued hereunder. The Secretary of the
10 Treasury may at any time sell any of the notes or other
11 obligations acquired by him under this subsection. Ninety
12 days prior to requesting the purchase of any asset or obliga-
13 tion under this section the Board shall cause notice of intent
14 to do so to be published in the Federal Register; and such
15 purchase shall not be made if either House of Congress shall
16 by resolution disapprove such purchase within such ninety-
17 day period.

18 INVESTMENT STATUS OF OBLIGATIONS OF THE
19 CORPORATION

20 SEC. 122. All obligations issued by the Corporation shall
21 be lawful investments, and may be accepted as security, for
22 all fiduciary, trust, and public funds, the investment or de-
23 posit of which is under the authority or control of the United
24 States or of any officer or officers thereof.

1 APPOINTMENT OF OFFICERS AND EMPLOYEES

2 SEC. 123. The Board shall appoint a President of the
3 Corporation and such other officers and employees as it
4 deems necessary to carry out the functions of the Corpora-
5 tion. No officer of the Corporation shall receive any salary
6 or other remuneration from any source other than the Cor-
7 poration during the period of his employment by the
8 Corporation.

9 CONFLICT OF INTEREST

10 SEC. 124. (a) No director, officer, attorney, agent, or
11 employee of the Corporation or member of the Panel shall,
12 in any manner, directly or indirectly, participate in the
13 deliberations upon or the determination of any loans, guar-
14 antee, or investment which may affect his personal inter-
15 ests, or the interests of any corporation, partnership, or as-
16 sociation in which he has any interest.

17 (b) The Corporation shall not—

18 (1) engage in political activities; or

19 (2) provide financing for or assist in any manner
20 any project or activity involving political parties.

21 The directors, officers, employees, or agents of the Corpora-
22 tion or the Panel shall not in any way use their connection
23 with the Corporation for the purpose of influencing the out-
24 come of any election.

1 GENERAL CORPORATE POWERS

2 SEC. 125. Except to the extent inconsistent with the
3 provisions of this Act, the Corporation shall have the cor-
4 porate powers of a business corporation organized and
5 existing under the laws of the District of Columbia.

6 PRINCIPAL OFFICE AND BRANCHES

7 SEC. 126. The principal office of the Corporation shall be
8 located in the District of Columbia, and it may establish
9 branches in appropriate regions of the United States, which
10 shall carry out the functions of the Corporation in such re-
11 gions subject to the supervision of the President and the
12 Corporation.

13 SMALL BUSINESS ASSISTANCE

14 SEC. 127. (a) Long-range research and technological de-
15 velopment are major factors in the growth and progress of
16 industry and the national economy. The expense of carrying
17 on long-range research and technological development pro-
18 grams is beyond the means of many small business concerns,
19 and such concerns are handicapped in obtaining the benefits
20 of research and development programs conducted at Govern-
21 ment expenses. These small business concerns are thereby
22 placed at a competitive disadvantage. This weakens the com-
23 petitive free enterprise system and prevents the orderly de-
24 velopment of the national economy. It is the policy of the
25 Congress that assistance be given to small business concerns

1 to enable them to undertake and to obtain the benefits of
2 long-range research and technological development in order
3 to maintain and strengthen the competitive free enterprise
4 system and the national economy.

5 (b) It shall be the duty of the Corporation, and it is
6 empowered—

7 (1) to assist small business concerns to obtain
8 Government contracts for both long-range and near-
9 range research and development;

10 (2) to assist small business concerns to obtain the
11 benefits of both long-range and near-range research and
12 development performed under Government contracts or
13 at Government expense; and

14 (3) to provide technical assistance to small busi-
15 ness concerns to accomplish the purposes of this section.

16 (c) The Corporation is authorized to consult and co-
17 operate with all Government agencies and to make studies
18 and recommendations to such agencies, and such agencies
19 are authorized and directed to cooperate with the Corpora-
20 tion in order to carry out and to accomplish the purposes of
21 this section.

22 (d) (1) The Corporation is authorized to consult with
23 representatives of small business concerns with a view to
24 assisting and encouraging such firms to undertake joint pro-
25 grams for research and development carried out through such

1 corporate or other mechanism as may be most appropriate
2 for the purpose. Such joint programs may, among other
3 things, include the following purposes:

4 (A) to construct, acquire, or establish laboratories
5 and other facilities for the conduct of research;

6 (B) to undertake and utilize applied research;

7 (C) to collect research information related to a par-
8 ticular industry and disseminate it to participating mem-
9 bers;

10 (D) to conduct applied research on a protected,
11 proprietary, and contractual basis with member or non-
12 member firms, Government agencies, and others;

13 (E) to prosecute applications for patents and render
14 patent services for participating members; and

15 (F) to negotiate and grant licenses under patents
16 held under the joint program, and to establish corpora-
17 tions designed to exploit particular patents obtained by
18 it.

19 (2) The Corporation may, after consultation with the
20 Attorney General and the Chairman of the Federal Trade
21 Commission, and with the prior written approval of the
22 Attorney General, approve any agreement between small
23 business firms providing for a joint program of research and
24 development, if the Corporation finds that the joint program

1 proposed will maintain and strengthen the free enterprise
2 system and the economy of the Nation. The Corporation or
3 the Attorney General may at any time withdraw their
4 respective approval of the agreement and the joint program
5 of research and development covered thereby, if either of
6 them finds that the agreement or the joint program carried
7 on under it is no longer in the best interests of the competi-
8 tive free enterprise system and the economy of the Nation.
9 A copy of the statement of any such finding and approval
10 intended to be within the coverage of this subsection, and a
11 copy of any modification or withdrawal of approval, shall be
12 published in the Federal Register. The authority conferred
13 by this subsection on the Corporation shall not be delegated.

14 (3) No act or omission to act pursuant to and within
15 the scope of any joint program for research and development,
16 under an agreement approved by the Corporation under
17 this subsection, shall be construed to be within the pro-
18 hibitions of the antitrust laws or the Federal Trade Com-
19 mission Act. Upon publication in the Federal Register of
20 the notice of withdrawal of approval of the agreement
21 granted under this subsection, either by the Corporation or
22 by the Attorney General, the provisions of this subsection
23 shall not apply to any subsequent act or omission to act by
24 reason of such agreement or approval.

1 (e) Not less than 10 per centum of the total amount
2 of all assistance provided under this Act in each fiscal year
3 shall be available only for small business concerns.

4 NONDISCRIMINATION CLAUSE

5 SEC. 128. (a) No applicant for assistance under this Act
6 and which receives assistance under this Act shall discrimi-
7 nate in the hiring, rehiring, continued employment, or ter-
8 mination of employment of any person on the grounds of
9 race, creed, or sex.

10 (b) All assistance under this Act shall be denied to ap-
11 plicants found by the Board to have violated the provisions
12 of subsection (a) of this section until such time as any such
13 discriminatory acts or practices have ceased and remedial or
14 compensatory measures approved by the Board have been
15 made.

16 REPORTS

17 SEC. 129. (a) The President of the Corporation shall
18 prepare and transmit to Congress annually a report setting
19 forth the investment, loans, and guarantees made by the Cor-
20 poration or for which commitments were made by the Cor-
21 poration during the preceding year, together with a descrip-
22 tion of the efforts made by the Corporation to carry out the
23 purposes of this Act and any recommendations for further
24 action.

25 (b) All books, papers, records, or other documents of

1 any description of the Corporation shall be made available
2 to any standing or select committee of the House of Repre-
3 sentatives or the Senate. All officers, employees, members of
4 the Board, and members of the Panel shall appear and testify
5 concerning the business of the Corporation or the Panel or
6 subsidiary advisory panels at the request of any standing or
7 select committee of the House of Representatives or the Sen-
8 ate. No privilege, executive or otherwise however, denomi-
9 nated, may be invoked, except that individual privileges un-
10 der the Constitution may be invoked or interposed in the
11 same manner as other such privileges under the Constitution
12 may be invoked before committees of the House of Repre-
13 sentatives or the Senate.

14 AUTHORIZATION OF APPROPRIATIONS

15 SEC. 130. (a) There is authorized to be appropriated
16 the sum of \$250,000,000 for each of the first twenty con-
17 secutive fiscal years beginning with fiscal year 1976, to the
18 Secretary of the Treasury to finance the purchase of Cor-
19 poration stock.

20 (b) There are authorized to be appropriated, without
21 fiscal year limitation, such sums as may be necessary to pay
22 the difference, if any, between the interest paid by the Cor-
23 poration on its obligations and the interest received by the
24 Corporation on its loans.

25 (c) There are authorized to be appropriated, not to ex-

1 ceed \$10,000,000 to provide initial operating and admin-
2 istrative expenses for the Corporation. All sums appro-
3 priated shall remain available until expended.

4 TITLE II—TRANSFER OF FUNCTIONS

5 TRANSFER OF FUNCTIONS

6 SEC. 201. (a) Subject to the provisions of this title the
7 President, during the two-year period beginning on the date
8 of enactment of this Act, may transfer to the Corporation
9 any functions (including powers, duties, and parts of func-
10 tions) of any other department, agency, or instrumentality
11 of the United States, or any officer or organizational entity
12 thereof, which relate primarily to the funding or control of
13 programs or activities which encourage technological devel-
14 opment. In connection with any such transfer, the President
15 may provide for transfer to the Corporation of records, con-
16 tracts, liabilities, property, personnel, and funds as are deter-
17 mined by the Director of the Office of Management and
18 Budget to be employed, held, or used primarily in connection
19 with any function transferred under the provisions of this
20 title.

21 (b) Whenever any such transfer is made within six
22 months or after a period of two years from the date of en-
23 actment of this Act, no such transfer shall be made under this
24 section until (1) a full and complete report concerning
25 the nature and effect of such proposed transfer has been

1 transmitted by the President to the Congress, and (2) the
2 first period of sixty calendar days of regular session of the
3 Congress following the date of receipt of such report by the
4 Congress has expired without the adoption by the Congress
5 of a concurrent resolution stating that the Congress does not
6 favor such a transfer.

7 (c) All functions of the Small Business Administra-
8 tion under section 9 of the Small Business Act (72 Stat.
9 391) are hereby transferred to the Corporation.

10 TRANSITIONAL PROVISIONS

11 SEC. 202. (a) Except as otherwise provided in this
12 Act, whenever all of the functions or programs of an agency,
13 or other body, or any component thereof, affected by this
14 Act, have been transferred from that agency, or other body,
15 and/or component thereof shall by this Act, the agency,
16 or other body, or component thereof shall lapse. If
17 an agency, or other body, or any component thereof lapses
18 pursuant to the preceding sentence, each position and office
19 therein which was expressly authorized by law, or the in-
20 cumbent of which was authorized to receive compensation
21 at the rate prescribed for an office or position at level II,
22 III, IV, or V of the Executive Schedule (5 U.S.C. 5313-
23 5316), shall lapse.

24 (b) All orders, determinations, rules, regulations, per-
25 mits, contracts, certificates, licenses, and privileges—

1 (1) which have been issued, made, granted, or
2 allowed to become effective by the President, any Fed-
3 eral department or agency or official thereof, or by a
4 court of competent jurisdiction, in the performance of
5 functions which are transferred under this Act, and

6 (2) which are in effect at the time this Act takes
7 effect, shall continue in effect according to their terms
8 until modified, terminated, superseded, set aside, or re-
9 voked by the President, the Administrator, the Commis-
10 sion, or other authorized officials, a court of competent
11 jurisdiction, or by operation of law.

12 (c) The provisions of this Act shall not affect any
13 proceeding pending, at the time this section takes effect,
14 before any department or agency (or component thereof)
15 functions of which are transferred by this Act; but such
16 proceedings, to the extent that they relate to functions so
17 transferred, shall be continued. Orders shall be issued in such
18 proceedings, appeals shall be taken therefrom, and payments
19 shall be made pursuant to such orders, as if this Act had
20 not been enacted; and orders issued in any such proceedings
21 shall continue in effect until modified, terminated, super-
22 seded, or revoked by a duly authorized official, by a court
23 of competent jurisdiction, or by operation of law. Nothing
24 in this subsection shall be deemed to prohibit the discon-
25 tinuance or modification of any such proceeding under the

1 same terms and conditions and to the same extent that such
2 proceeding could have been discontinued if this Act had
3 not been enacted.

4 (d) Except as provided in subsection (f) —

5 (1) the provisions of this Act shall not affect suits
6 commenced prior to the date this Act takes effect, and

7 (2) in all such suits proceedings shall be had, ap-
8 peals taken and judgments rendered, in the same
9 manner and effect as if this Act had not been enacted.

10 (e) No suit, action, or other proceeding commenced by
11 or against any officer in his official capacity as an officer
12 of any department or agency, functions of which are trans-
13 ferred by this Act, shall abate by reason of the enactment of
14 this Act. No cause of action by or against any department
15 or agency, functions of which are transferred by this Act,
16 or by or against any officer thereof in his official capacity
17 shall abate by reason of the enactment of this Act. Causes
18 of actions, suits, actions, or other proceedings may be as-
19 serted by or against the United States or such officials as
20 may be appropriate and, in any litigation pending when this
21 section takes effect, the court may at any time, on its own
22 motion or that of any party, enter any order which will
23 give effect to the provisions of this section.

24 (f) If, before the date on which this Act takes effect,
25 any department or agency, or officer thereof in his official

1 capacity, is a party to a suit, and under this Act any function
2 of such department, agency, or officer is transferred to the
3 Corporation, or any other official, then such suit shall be
4 continued as if this Act had not been enacted, with the Cor-
5 poration, or other official as the case may be, substituted.

6 (g) Final orders and actions of any official or com-
7 ponent in the performance of functions transferred by this
8 Act shall be subject to judicial review to the same extent
9 and in the same manner as if such orders or actions had
10 been made or taken by the officer, department, agency, or
11 instrumentality in the performance of such functions im-
12 mediately preceding the effective date of this Act. Any
13 statutory requirements relating to notices, hearings, action
14 upon the record, or administrative review that apply to any
15 function transferred by this Act shall apply to the per-
16 formance of those functions by the Corporation, or any of-
17 ficer or component.

18 (h) With respect to any function transferred by this
19 Act and performed after the effective date of this Act,
20 reference in any other law to any department or agency, or
21 any officer or office, the functions of which are so trans-
22 ferred, shall be deemed to refer to the Corporation, or other
23 office or official in which this Act vests such functions.

24 (i) Nothing contained in this Act shall be construed to
25 limit, curtail, abolish, or terminate any function of the Presi-

1 dent which he had immediately before the effective date
2 of this Act; or to limit, curtail, abolish, or terminate his
3 authority to perform such function; or to limit, curtail, abol-
4 ish, or terminate his authority to delegate, redelegate, trans-
5 fer or terminate any delegation of functions.

6 (j) Any reference in this Act to any provision of law
7 shall be deemed to include, as appropriate, references thereto
8 as now or hereafter amended or supplemented.

9 (k) Except as may be otherwise expressly provided in
10 this Act, all functions expressly conferred by this Act shall
11 be in addition to and not in substitution for functions existing
12 immediately before the effective date of this Act and trans-
13 ferred by this Act.

14 TRANSFER OF PERSONNEL AND OTHER MATTERS

15 SEC. 203. (a) Except as provided in the next sentence,
16 personnel employed in connection with, and the personnel
17 positions, assets, liabilities, contracts, property, records, and
18 unexpended balances of appropriations, authorizations, and
19 other funds employed, held, used, arising from, available to
20 or to be made available in connection with the functions
21 transferred by this Act, and which are determined by the
22 Director of the Office of Management and Budget to be em-
23 ployed, held, or used primarily in connection with any
24 function transferred under the provisions of this title are
25 (subject to section 202 of the Budget and Accounting Pro-

cedures Act of 1950 (31 U.S.C. 581c) transferred to the Corporation. Personnel positions expressly created by law, personnel occupying those positions on the effective date of this Act, and personnel authorized to receive compensation at the rate prescribed for offices and positions at levels II, III, IV, or V of the Executive Schedule (5 U.S.C. 5313-5316) on the effective date of this Act shall be subject to the provisions of subsection (c) of this section and section 202 of this Act.

(b) Except as provided in subsection (c), transfer of nontemporary personnel pursuant to this Act shall not cause any such employee to be separated or reduced in grade or compensation for one year after such transfer. Personnel engaged in functions transferred under this Act shall be transferred in accordance with applicable laws and regulations relating to transfer of functions.

(c) Any person who, on the effective date of this Act, held a position compensated in accordance with the Executive Schedule prescribed in chapter 53 of title 5 of the United States Code, and who, without a break in service, is appointed in the Administration to a position having duties comparable to those performed immediately preceding his appointment shall continue to be compensated in his new position at not less than the rate provided for his previous position. The transfer of personnel pursuant to subsection (a)

1 shall be without reduction in classification or compensation
2 for one year after such transfer.

3 INCIDENTAL DISPOSITIONS

4 SEC. 204. The Director of the Office of Management and
5 Budget is authorized to make such additional incidental dis-
6 positions of personnel, personnel positions, assets, liabilities,
7 contracts, property, records, and unexpended balances of
8 appropriations, authorizations, allocations, and other funds
9 held, used, arising from, available to or to be made available
10 in connection with functions transferred by this Act, as he
11 may deem necessary or appropriate to carry out the provi-
12 sions of this Act.

13 SEPARABILITY

14 SEC. 205. If any provision of this Act, or the application
15 of such provision to any person or circumstance, shall be
16 held invalid, the remainder of this Act, or the application
17 of such provision to persons or circumstances other than
18 those as to which it is held invalid, shall not be affected
19 thereby.

34

TABLE 2. Selected Statistics by Geographic Division, State, and

Line number	Geographic division, State, and industry	1972									
		All firms			With paid employees				Without paid employees		
		Firms (number)	Gross receipts (\$1,000)	Firms (number)	Employees (number)	Gross receipts (\$1,000)	Average employees per firm (number)	Average receipts per firm (\$1,000)	Firms (number)	Gross receipts (\$1,000)	Average receipts per firm (\$1,000)
33	East North Central.....	47,304	2,066,662	9,661	55,454	1,539,113	6	159	37,643	527,549	14
34	Ohio.....	11,877	394,574	1,334	10,792	276,402	5	139	9,893	118,172	12
35	Construction.....	1,188	38,002	212	1,331	34,296	6	162	976	13,706	14
36	Manufacturing.....	151	23,519	52	834	22,433	16	431	99	1,086	11
37	Transportation and public utilities.....	1,341	30,537	119	461	15,358	4	129	1,222	15,179	12
38	Wholesale trade.....	3,107	23,897	44	286	22,595	7	514	63	1,302	21
39	Retail trade.....	3,363	134,621	892	4,385	132,310	5	118	2,471	52,311	21
40	Finance, insurance, and real estate.....	4,709	14,869	67	(D)	(D)	(D)	(D)	642	(D)	(D)
41	Selected services.....	4,398	62,607	373	3,124	38,541	5	67	3,825	24,056	6
42	Other industries.....	148	2,270	10	32	910	3	94	138	1,330	10
43	Industries not classified.....	472	4,252	15	(D)	(D)	(D)	(D)	457	(D)	(D)

TABLE 3. Selected Statistics by Standard Metropolitan Statistical Area and Minority for Minority-Owned Firms: 1972 - Continued

Standard metropolitan statistical area and minority	All firms				With paid employees				Without paid employees			
	Firms (number)	Gross receipts (\$1,000)	Firms (number)	Employees (number)	Gross receipts (\$1,000)	Average employees per firm (number)	Average receipts per firm (\$1,000)	Firms (number)	Gross receipts (\$1,000)	Average receipts per firm (\$1,000)	Firms (number)	Average receipts per firm (\$1,000)
Dayton, OH, SMSA, total.....	1,236	43,977	212	1,231	33,384	8	157	1,024	10,593	10	10	10
Black.....	1,140	39,788	196	1,102	29,973	8	153	944	9,809	10	10	10
Spanish origin.....	42	2,939	7	68	2,593	10	370	35	346	10	10	10
Asian Americans, American Indians, and others.....	54	1,250	9	61	812	7	90	45	438	10	10	10
Toledo, OH-MI, SMSA, total.....	812	32,044	152	793	23,565	5	155	660	8,479	13	13	13
Black.....	673	23,345	118	546	16,360	5	139	555	6,985	13	13	13
Spanish origin.....	91	2,960	15	52	1,912	3	127	76	948	12	12	12
Asian Americans, American Indians, and others.....	48	5,839	19	195	5,293	10	279	29	546	19	19	19
Youngstown-Warren, OH, SMSA, total.....	463	10,445	78	292	6,262	4	80	385	4,183	11	11	11
Black.....	406	8,768	66	240	5,397	4	82	340	3,371	10	10	10
Spanish origin.....	39	1,170	9	36	867	4	74	30	503	17	17	17
Asian Americans, American Indians, and others.....	18	507	3	16	198	5	66	15	309	21	21	21

- Represents zero. D Withheld to avoid disclosing figures for individual companies.

TABLE 3. Selected Statistics by Standard Metropolitan Statistical Area and Minority for Minority-Owned Firms: 1972—Continued

Standard metropolitan statistical area and minority	All firms				With paid employees				Without paid employees			
	Firms (number)	Gross receipts (\$1,000)	Firms (number)	Employees (number)	Gross receipts (\$1,000)	Average employees per firm (number)	Average receipts per firm (\$1,000)	Firms (number)	Gross receipts (\$1,000)	Average receipts per firm (\$1,000)		
Akron, OH, SMSA, total.....												
Black.....	549	15,433	89	515	10,585	6	119	460	4,848	11		
Spanish origin.....	469	11,088	87	368	7,351	5	110	402	3,737	9		
Asian Americans, American Indians, and others.....	30	1,922	8	29	1,315	4	164	22	607	28		
	50	2,423	14	118	1,919	8	137	36	504	14		
Canton, OH, SMSA, total.....												
Black.....	228	5,654	28	132	3,893	5	139	200	1,761	9		
Spanish origin.....	190	3,997	17	92	2,710	5	159	173	1,287	7		
Asian Americans, American Indians, and others.....	27	1,222	8	28	870	4	109	19	352	19		
	11	435	3	12	313	4	104	8	230	15		
Cincinnati, OH-KY-IN, SMSA, total.....												
Black.....	1,747	54,016	297	1,495	37,561	5	126	1,450	16,455	11		
Spanish origin.....	1,619	48,774	268	1,370	33,707	5	126	1,351	15,067	11		
Asian Americans, American Indians, and others.....	47	1,415	10	91	898	3	90	37	517	14		
	81	3,827	19	94	2,956	5	156	62	871	14		
Cleveland, OH, SMSA, total.....												
Black.....	3,734	141,278	641	3,285	97,891	5	153	3,093	43,397	14		
Spanish origin.....	3,383	119,428	578	2,640	80,444	5	139	2,805	38,984	14		
Asian Americans, American Indians, and others.....	121	3,617	19	100	1,803	5	95	102	1,814	18		
	230	18,233	44	545	15,634	12	355	186	2,599	14		
Columbus, OH, SMSA, total.....												
Black.....	1,648	58,668	259	1,937	42,908	7	166	1,389	15,760	11		
Spanish origin.....	1,489	50,044	226	1,671	35,831	7	159	1,263	14,213	11		
Asian Americans, American Indians, and others.....	54	2,197	9	39	1,552	4	172	43	645	14		
	105	6,427	24	227	5,525	9	230	81	902	11		

TABLE 5
Minority Lending by Commercial Banks, 1970-1973

Calendar Year	Banks Surveyed	Number of New Loans	Total Amount of New Loans	Percentage of Increase Over Previous Years	Average Loan Size
1970	—	9,529	\$159,701,000	—	\$16,759
1971	305	12,255	251,420,000	57%	20,516
1972	361	13,477	337,010,000	34%	25,006
1973	410	18,189	385,551,000	14%	21,197
			\$1,133,682,000		

TABLE 6

Minority Franchises

Increase in Minority-Owned Franchises by Calendar Year					
CY 1969	CY 1970	CY 1971	CY 1972	CY 1973	CY 1974
405	743	1,184	1,695	2,101	2,453 ¹

¹ This indicates a 17% increase over the previous year total.

TABLE 7

Kinds of Minority Franchises and Numbers of Establishments ¹

Calendar Year 1974	Minority Groups				
	Total	Negro	Spanish Surname	American-Indian	Oriental
Kinds of Franchised Business ²					
TOTAL - ALL FRANCHISING	2,453	1,190	1,015	37	211
Automotive Products and Services	672	426	230	7	9
Business Aids and Services	88	26	51	1	10
Construction, Home Improvement, Maintenance and Cleaning Services	142	49	87	3	3
Convenience Stores	143	34	63	2	44
Educational Products and Services	53	25	28	0	0
Fast Food Restaurants (All Types)	524	221	217	13	73
Hotels and Motels	35	6	17	1	11
Campgrounds	10	3	6	1	0
Laundry and Drycleaning Services	157	83	58	5	11
Recreation, Entertainment and Travel	42	15	19	0	8
Rental Services (Auto-Truck)	29	12	15	1	1
Rental Services (Equipment)	23	17	3	1	2
Retailing (Non-Food)	162	65	78	1	18
Retailing (Food Other Than Convenience Stores)	348	201	126	0	21
Miscellaneous	25	7	17	1	0

NOTE: Forty-five franchisors reported to have a formal program to attract and assist minority franchisees.

¹ Of the 1,005 franchisors, 326 reported minority ownership, 637 had no minority ownership and the remainder are unknown because of record keeping, etc.

² Does not include automobile and truck dealers, gasoline service stations and soft drink bottlers, for which data were not collected.

³ Data collected and prepared by: Consumer Goods and Services Division, Bureau of Domestic Commerce.

Summary of Fiscal Years 1969-1975
Federal Funds Obligated to Minority Business Development

Table 2
November 1975

Category	Fiscal Year 1969	Fiscal Year 1970	Fiscal Year 1971	Fiscal Year 1972	Fiscal Year 1973	Fiscal Year 1974	Fiscal Year 1975	Cumulative Total
Financial Grants, Loans and Guarantees by Federal Agencies	\$200,000,000	\$315,236,045	\$434,019,716	\$472,617,473	\$670,185,569	\$585,157,168	\$464,745,196	\$3,141,961,167
8(a) Procurement by Federal Agencies	8,884,141	21,814,292	67,770,506	142,319,905	212,963,115	272,141,414	321,532,582	1,047,425,955
Direct and Subcontract Procurement by Federal Agencies	3,792,365	8,220,042	77,863,045	242,254,264	523,516,566	429,224,781	486,122,160	1,770,993,223
Total	212,676,506	345,270,379	579,653,267	857,191,642	1,406,665,250	1,286,523,363	1,272,399,938	5,960,380,345

SPECIAL SUMMARY OF FEDERAL FUNDING FOR MINORITY BUSINESS DEVELOPMENT

Agency	1 8(c) Procurement	2 Consultant Procurement	3 Construction Procurement	4 Sub- Contract (Title 41)	5 Other 8(c) Procure- ment	6 Total Direct Procure- ment 2,3,4,5	7 Grants Education and Training	8 Grants Education and Training	9 Loans and Lease/Leas- hold Guarantees	10 Federal Deposits in Minority Banks	11 Total Federal Expenditures for Minority Business Development Columns 1,4,7,8,9
Action	73,416	-	-	-	-	-	-	-	-	-	73,416
Agriculture, Dept. of	2,407,942	-	-	-	-	-	-	-	48,454,000	1,551,800	48,861,942
Commerce, Dept. of	3,573,532	48,062,651	-	1,368,000	390,209	49,870,860	31,060,687	23,977,909	-	81,000	108,432,948
Community Services Adm.	579,000	-	-	-	-	-	1,022,000	32,020,000	-	9,097,000	33,621,000
Defense, Dept. of	170,305,280	319,000	5,570,000	69,054,000	20,034,000	94,977,000	-	-	-	23,469,800	235,282,280
EDDC	178,764	436,000	-	-	-	436,000	-	-	-	-	614,764
Energy Research Dev. Admin (AEC)	493,627	-	-	10,322,800	579,400	10,902,200	-	-	-	6,250,000	11,395,827
Environmental Protection Agency	1,562,748	-	-	7,000,000	3,500,000	10,500,000	-	-	-	-	12,062,748
General Services Admin	46,363,707	-	-	-	5,161,000	5,161,000	-	-	-	-	51,524,707
Health, Education & Welfare, Dept. of	17,658,172	1,043,000	5,196,000	1,324,000	111,000	7,674,000	-	-	-	5,024,300	25,332,172
HUD, Dept. of	2,210,247	366,000	12,452,000	-	119,327,000	132,345,000	-	4,575,000	-	16,561,000	139,130,247
Interior, Dept. of	4,475,148	23,866,200	98,449,000	3,728,000	4,737,600	130,780,800	-	-	-	3,318,000	135,255,948
Justice, Dept. of	398,618	640,000	100,000	12,000	432,000	1,184,000	-	-	-	-	1,982,618
Labor, Dept. of	2,054,681	1,082,000	-	-	4,340,000	5,422,000	-	-	-	11,274,000	7,476,681
NASA	17,048,554	815,000	648,000	11,448,000	809,000	15,740,000	-	-	-	-	30,888,554
Postal Service	2,062	-	-	-	-	-	-	-	-	1,465,000	2,062

SPECIAL SUMMARY OF FEDERAL FUNDING FOR MINORITY BUSINESS DEVELOPMENT

Agency	1 8(a) Procurement	2 Consultant Procurement	3 Construction Procurement	Fiscal Year 1975 (July 1, 1974 - June 30, 1975)				8 Grants for Education and Training	9 Lease and Rent/ Bond/Loan Guarantees	10 Federal Deposits in Minority Business Development Banks	11 Total Federal Expenditures for Minority Business Development Columns 1,6,7,8,9
				4 Sub- Contract Procurement (Title 41)	5 Other Contract Procurement 8(a) (Title 41)	6 Total Direct Procure- ment Columns 2,3,4,5	7 Grants for Education and Training				
Redevelopment Land Auth.	4,337,443	-	-	-	-	-	-	-	-	-	4,337,443
SBA	1,422,606	-	-	-	-	-	-	-	325,560,100	-	326,982,706
State (A.I.D.), Dept. of	1,340,983	1,122,000	-	-	4,857,000	5,979,000	-	-	-	-	7,319,983
Transportation, Dept. of	23,697,556	20,000	69,000	-	289,000	378,000	-	-	-	938,000	26,075,556
Treasury, Dept. of	41,838	-	-	-	383,000	383,000	-	-	-	2,987,000	424,838
Veterans Admin.	20,308,786	29,300	720,000	-	15,542,000	16,291,300	-	-	-	2,804,000	36,860,086
American Bicentennial Admin.	-	148,000	-	-	-	148,000	-	75,500	-	-	223,500
Civil Service Comm.	10,901	-	-	-	-	-	-	-	-	-	10,901
Consumer Prod. Safety Comm.	380,712	-	-	-	-	-	-	-	-	-	380,712
Exec. Office of President	24,999	-	-	-	-	-	-	-	-	-	24,999
Federal Energy Admin.	145,000	-	-	-	-	-	-	-	-	-	145,000
Smithsonian Institution	16,260	-	-	-	-	-	-	-	-	-	16,260
TOTAL	321,537,582	77,949,151	123,224,000	104,256,800	180,692,209	486,122,160	32,082,487	60,448,409	372,014,160	85,152,100	1,277,399,938

HEARING ON S2716 TO ESTABLISH AN OFFICE
FOR MINORITY BUSINESS DEVELOPMENT ASSISTANCE
IN THE DEPARTMENT OF COMMERCE

April 13, 1976 - 1:30 P. M.

Presented by: David Lizarraga, Chairman
Philip A. LoPresti, President

NATIONAL CONGRESS FOR COMMUNITY ECONOMIC
DEVELOPMENT

BEFORE THE:
SUB-COMMITTEE ON INTERGOVERNMENTAL RELATIONS
(SENATE GOVERNMENT OPERATIONS)

WE WOULD LIKE TO TESTIFY AGAINST SECTION 4(b) OF THE PROPOSED "MINORITY BUSINESS DEVELOPMENT AND ASSISTANCE ACT OF 1975" (S 2617) WHICH IS THE SUBJECT OF TODAY'S HEARINGS. THIS SECTION GIVES AUTHORITY TO THE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET TO TRANSFER "ANY SEPARABLE FUNCTION OF ANY FEDERAL DEPARTMENT OR AGENCY WHICH THE DIRECTOR [OMB] DETERMINES RELATES PRIMARILY TO THE DEVELOPMENT OR ASSISTANCE OF MINORITY BUSINESS ENTERPRISES" TO A NEW OFFICE OF MINORITY BUSINESS DEVELOPMENT AND ASSISTANCE TO BE ESTABLISHED BY THIS ACT.

THIS LANGUAGE IS DANGEROUSLY BROAD AND MAY HAVE THE EFFECT (PROBABLY UNINTENDED) OF PRECIPITATING THE TRANSFER TO THE DEPARTMENT OF COMMERCE OF THE PROGRAM AUTHORIZED BY TITLE VII OF THE COMMUNITY SERVICES ACT OF 1974. TITLE VII AUTHORIZES THE SPECIAL IMPACT PROGRAM WHICH FUNDS COMMUNITY DEVELOPMENT CORPORATIONS (CDCs) THROUGHOUT THE NATION. CDCs ARE CREATED IN LOW-INCOME COMMUNITIES TO BRING ABOUT THE ECONOMIC REVITALIZATION OF THEIR NEIGHBORHOODS. IN THE COURSE OF SUCH REVITALIZATION EFFORTS, MOST CDCs DEVELOP OR ASSIST MINORITY BUSINESS ENTERPRISES. WE ARE PREPARED TO ARGUE STRENUOUSLY THAT THE CDC PROGRAM IS NOT SEPARABLE FROM THE POVERTY PROGRAM PURSUED BY CSA AND THAT ITS PRIMARY PURPOSE IS NOT TO DEVELOP OR ASSIST MINORITY BUSINESS ENTERPRISE [SEE APPENDIX A]. HOWEVER, THIS BILL AS NOW DRAFTED MIGHT FORCE THE PROGRAM INTO A PROTRACTED AND UNNECESSARY DISPUTE WITH OMB, WHICH HAS ALREADY INDICATED THAT IT MIGHT VIEW TITLE VII AS A MINORITY BUSINESS ENTERPRISE PROGRAM.

THEREFORE, WE ASK AT THE VERY LEAST THAT THE BILL BE REVISED TO EXPLICITLY EXCLUDE THE CDC PROGRAM FROM TRANSFER TO THE DEPARTMENT OF COMMERCE AND THAT THE LEGISLATIVE HISTORY OF THIS BILL SHOW THAT THE BILL WAS NEVER INTENDED TO REACH THE CDC PROGRAM.

FURTHER, WE BELIEVE THAT THE ENTIRE SEC. 4(b) SHOULD BE DELETED BECAUSE IT GIVES TOO MUCH POWER TO THE DIRECTOR OF OMB IN DETERMINING WHAT IS AND IS NOT A PROGRAM PRIMARILY RELATED TO THE DEVELOPMENT OR ASSISTANCE OF MINORITY BUSINESS ENTERPRISE. IN THE PAST, OMB AND CONGRESS HAVE NOT AGREED ON WHICH PROGRAMS OUGHT TO BE TRANSFERRED AND CONGRESS SHOULD HAVE THE CHANCE TO DECIDE EACH PROGRAM'S FATE ITSELF. OMB HAS NOT ALWAYS SHOWN COMPLETE UNDERSTANDING OF THE PURPOSES AND GOALS OF EXISTING PROGRAMS: WITNESS ITS MISCHARACTERIZATION OF THE CDC PROGRAM ITSELF. IT IS CONCEIVABLE, FOR INSTANCE, THAT THIS LEGISLATION COULD ALSO SEPARATE OUT PARTS OF THE ECONOMIC DEVELOPMENT ADMINISTRATION'S PUBLIC WORKS AND LOAN AND TECHNICAL ASSISTANCE PROGRAMS AND MOVE THEM TO THE NEW OFFICE, DESPITE THE FACT THAT EDA IS CONCERNED WITH AREA DEVELOPMENT AND NOT INDIVIDUAL ENTREPRENEURSHIP. ANOTHER EXAMPLE IS THE MINORITY RESOURCE CENTER OF THE DEPARTMENT OF TRANSPORTATION, NEWLY CREATED BY THE RAILROAD REVITALIZATION AND REGULATORY REFORM ACT OF 1975, WHICH MIGHT FIND ITSELF IN THE DEPARTMENT OF COMMERCE AFTER CONGRESS HAD CAREFULLY PLACED IT IN THE DEPARTMENT OF TRANSPORTATION. THESE KINDS OF MAJOR DECISIONS SHOULD BE MADE ONLY AFTER THE FULL IMPLICATIONS OF EACH TRANSFER HAVE BEEN EXPLORED BY CONGRESS AND NOT LEFT TO THE NON-PUBLIC DECISION-MAKING PROCESS AT OMB.

LASTLY, WE HAVE SOME CONCERN ABOUT THE ENTIRE BILL. WHILE WE ARE NOT PREPARED AT THIS TIME TO GO ON RECORD AS OPPOSING THE BILL AS A WHOLE, WE ARE ALSO NOT PREPARED TO SUPPORT IT IN ITS ENTIRETY (EVEN WITH THE DELETION OF SECTION 4(b)). THE CONCEPT OF A SINGLE POWERFUL AGENCY THAT HAS AS ITS MANDATE THE SUPPORT OF MINORITY BUSINESS ENTERPRISE HAS SOME APPEAL. HOWEVER, IT IS NOT CLEAR THAT THE DEPARTMENT OF COMMERCE IS THE PROPER PLACE TO HOUSE SUCH AN AGENCY AND WE BELIEVE THAT MORE STUDY MIGHT BE DESIRABLE. CERTAINLY THE DEPARTMENT OF COMMERCE'S RUNNING OF OMBE LEAVES MUCH TO BE DESIRED, AS RECENT GAO REPORTS HAVE INDICATED.

-3-

AGAIN, WE ARE CONCERNED ABOUT SBA AND ITS MINORITY ENTREPRENEUR PROGRAMS. CERTAINLY, SBA HAS NOT ALWAYS BEEN SYMPATHETIC TO MINORITY BUSINESSES. FURTHER, IT HAS TOTALLY REFUSED ACCESS TO SBA MINORITY PROGRAMS WHERE THE FOR-PROFIT BUSINESS SEEKING ASSISTANCE IS OWNED BY A CDC WHICH IN TURN IS TOTALLY OWNED AND CONTROLLED BY MEMBERS OF MINORITY GROUPS. HOWEVER, THERE IS NOTHING IN EITHER THIS LEGISLATION OR THE HISTORY OF THE COMMERCE DEPARTMENT TO SUGGEST THAT COMMERCE WOULD ADMINISTER THESE SBA PROGRAMS WITH ANY MORE SENSITIVITY OR UNDERSTANDING. IT MAY BE THAT WHAT IS NECESSARY IS DIRECT AMENDMENTS TO THE SBA ACT. WHAT WE ARE SAYING IS THAT IT IS NOT CLEAR TO US THAT THIS BILL WILL INCREASE MINORITY ACCESS TO MAINSTREAM PROGRAMS, AND IT MAY IN FACT HAVE THE OPPOSITE EFFECT. SUCH ISSUES NEED FURTHER EXPLORATION AND SHOULD RESULT IN A BILL THAT EXPLICITLY DEALS WITH THE PROBLEMS WHICH EMERGE OUT OF SUCH A STUDY.

APPENDIX A

THE COMMUNITY DEVELOPMENT CORPORATION PROGRAM AUTHORIZED BY TITLE VII OF THE COMMUNITY SERVICES ACT OF 1974 IS DESIGNED PRIMARILY TO BRING ABOUT THE ECONOMIC REVITALIZATION OF LOW-INCOME AREAS. CDCs ARE AN INTEGRAL PART OF THE ATTEMPT BEGUN BY OEO TO END POVERTY AND THEY ARE CONCERNED WITH COMMUNITIES THAT ARE IN TROUBLE, RATHER THAN INDIVIDUALS WHO HAVE BEEN UNABLE TO ENTER THE BUSINESS WORLD BECAUSE OF THEIR MINORITY STATUS. IN FACT, MANY OF THE COMMUNITIES THE PROGRAM IS DESIGNED TO REACH ARE NOT MINORITY COMMUNITIES AT ALL BUT RATHER IMPOVERISHED AREAS WITH RESIDENTS WHO ARE PART OF THE "MAJORITY" CULTURE. THUS, WHILE THE CDCs MIGHT AID ANY LOW-INCOME ENTREPRENEUR, THEY WOULD NOT AID A HIGHER INCOME MINORITY ENTREPRENEUR UNLESS THAT INDIVIDUAL AGREED TO LOCATE IN A LOW-INCOME AREA AND AGREED TO EMPLOY LOW-INCOME RESIDENTS OF THAT AREA.

BECAUSE THE CDCs ARE CONCERNED WITH OVERALL COMMUNITY ECONOMIC DEVELOPMENT, THEY ARE ALSO INVOLVED WITH PHYSICAL IMPROVEMENTS (SUCH AS HOUSING AND COMMUNITY AND COMMERCIAL FACILITIES), INFRASTRUCTURE DEVELOPMENT, AND SOCIAL PROGRAMS (ESPECIALLY THOSE THAT RELATE TO ECONOMIC ACTIVITY, SUCH AS MANPOWER TRAINING). NEITHER OMBE NOR SBA NOR THE DEPARTMENT OF COMMERCE AS A WHOLE IS PREPARED TO HANDLE A PROGRAM WHICH IS GIVEN SUCH A COMPREHENSIVE MANDATE. IT IS ONLY AN AGENCY SUCH AS CSA WHICH HAS THE SAME GOALS AS TITLE VII -- THE ELIMINATION OF POVERTY -- AND A SUCCESSFUL TRACK RECORD IN ATTACKING POVERTY PROBLEMS THAT CAN ADMINISTER SUCH A PROGRAM.

STATEMENT OF
MITCHELL P KOBELINSKI, ADMINISTRATOR
SMALL BUSINESS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES SENATE

April 13, 1976

Mr. Chairman, I am pleased to submit the statement of the Small Business Administration on S. 2617, a bill to establish an Office for Minority Business Development and Assistance in the Department of Commerce.

The Small Business Administration shares the Committee's interest in a revitalized effort to improve, upgrade and coordinate Federal assistance to minority small business. However, SBA believes it would be doing the minority small business community a disservice if it were to support the implementation of S. 2617.

The ultimate goal of SBA's minority small business program is the integration of minority businesspeople into the business mainstream of this Nation -- to have minority businesses considered and treated as American businesses. To remove them as clients from the Agency set up to help all small businessmen by setting up a separate minority small business program in a separate agency would have just the opposite effect on the minority small business community. It would create in effect "two loan windows" -- one for the majority and another for the minority businessperson -- and would tend to perpetuate total disintegration in the commercial world.

SBA is currently expending approximately 33 percent of its total resources on minority enterprise efforts. Minority small business has been a priority of this Agency since 1964 and has received special emphasis since the establishment in 1969 of an Assistant Administrator for Minority Enterprise. This position was elevated by legislative authority to Associate Administrator for Minority Small Business in August 1974 -- making it one of only four Associates established within this Agency. At the regional level, the position of Assistant Regional Director for Minority Small Business has been established and the

position of Assistant District Director for Minority Small Business is currently being established at the district level. This again puts Minority Small Business on equal footing with other small business programs in SBA.

On the other hand, the Department of Commerce must by custom and nature deal in large measure with the problems of "big business" and "all business." To attempt to integrate any small business program, let alone a special emphasis small business program, into the Department of Commerce is incongruous because the problems and interests of small business are too often at variance with the interests of big business.

In turning to specifics of this legislation, the Committee should note that the Interagency Report on the Federal Minority Business Development Programs has been issued by the Office of Management and Budget in cooperation with the Department of Commerce and the Small Business Administration. The Interagency Report concludes a 2-year study on Federal minority enterprise programs and makes extensive final recommendations concerning these programs. The

Interagency Report concludes that this Agency should retain its present programs and that the Department of Commerce concentrate its efforts upon promotion of private sector participation in minority enterprise development. As part of this Interagency Report effort, the agencies are now rewriting Executive Order 11625, upon which the establishment of the office contemplated by Section 3 of the bill is based.

Sections 2 and 3 of S. 2617 propose the establishment of an Office of Minority Business Development and Assistance in the Department of Commerce, under an Assistant Secretary, to assume the functions of the Secretary of Commerce now being exercised through the Office of Minority Business Enterprise. The Small Business Administration would defer to the views of the Department of Commerce on these sections.

SBA strongly opposes Section 4(a). The OMB/Commerce/SBA Interagency Report makes extensive major recommendations concerning the organizational responsibility for various aspects of the Federal Minority Business Development Program, the coordination of that

program, and the role to be played by the Federal agencies. One of the recommendations calls for SBA to continue to have full responsibility for those assistance programs for the socially or economically disadvantaged which it now administers, including the Economic Opportunity Loan (EOL) Program under Section 7(i) of the Small Business Act. This recommendation recognizes that SBA specializes in providing these types of services and has a well established working relationship with local financial institutions. Transferring the EOL Program to Commerce, as Section 4(a) of the bill would do, would require a needless duplication in Commerce of SBA's existing staff of loan officers and other specialists, might unjustifiably isolate minority entrepreneurs from other SBA assistance programs, and could diminish the objectivity of OMBE-funded organizations in their efforts to secure the best available financing for their client businesses. For these reasons, the SBA supports the Interagency Report's conclusions, and consequently opposes Section 4(a) of the bill.

We would further add that any proposals which would place financial and procurement programs to assist small business outside SBA seem to have little to recommend them because they would require substantial

duplication of staff and program effort, and would create burdensome coordination problems. SBA must still maintain financial assistance and procurement programs for small business at large regardless of what is done to minority enterprise programs organization-wise, and must maintain suitable staffs to carry out such programs.

The transfer of "separable" minority small business functions from other Federal agencies to the Department of Commerce as contemplated by Section 4(b) of S. 2617 would cause administrative problems which could be insurmountable in a practical sense. First, there would be the problems attendant to setting up the appropriate organizational structure to implement the programs now operated by other agencies. Then, personnel would have to be trained, or wholesale transfers of personnel would occur, causing disruptions in the assistance provided the minority small business community which they cannot afford.

To support S. 2617 would in effect be advocating the transfer of the management of the minority small business program from the Small

7

Business Administration, which has the established authorities, responsibilities and procedures for providing all the necessary ingredients for establishing successful minority small business firms already in place (Financial Assistance, Management Assistance and 8(a) Procurement Assistance) to an inexperienced new entity whose only expertise lies in coordination of interagency efforts, managerial and technical assistance, loan packaging and stimulation of private sector participation in minority assistance programs. This new office would be answerable to a department which must demonstrate its concern for all business, big and small, minority and non-minority.

The Small Business Administration maintains that no transfer of function as might be contemplated by Section 4(b) should be accomplished in light of the conclusions of the Interagency Report on the Federal Minority Business Development Programs. SBA believes that any further study of all Federal activities relating to minority enterprise contemplated by S. 2617 would be unnecessary given the extensive studies on minority enterprise programs which have already been completed by the Congress, GAO and the Administration.

In summary, SBA's structure for minority business development is both integrated and sound; the priority of the minority small business effort has been established; and the delivery of its services to the minority small business community has been effective. We believe the expenditure of dollars contemplated by S. 2617 would be better directed toward improving and expanding Federal programs already in operation.

Mr. Chairman, Members of the Committee, thank you for allowing the Agency to present its views on S. 2617. We would be pleased to answer any questions.

3 May 1976

STATEMENT ON S. 2617

by

Dr. Alfred E. Osborne, Jr.
Assistant Professor
Business Economics and Finance
Graduate School of Management
University of California at Los Angeles

to

Subcommittee on Intergovernmental Relations
Government Operations Committee
United States Senate

A legislative effort to support the establishment of a Minority Business Development Administration clearly housed in the Department of Commerce is both timely and necessary. It is necessary because ineffectual mechanisms and institutions now exist to foster minority entrepreneurship. It is timely because in spite of the ineffective and weak approaches tried to date under Executive Order 11675, a significant number of minority firms have managed to survive. But their continued survival, based on the ability of their owners to compete in our free enterprise system, has been seriously hampered by the current mix of policies in OMBE and the SBA.

These emerging firms, in potentially prosperous lines of business activity, are different from the traditional characterization of minority enterprises. Many are in manufacturing and construction as opposed to personal services and retail trades. Many with more than five full-time employees are providing goods and services for which there is more than marginal demand. And although the recent census of minority enterprises clearly shows a decline in the number of minority establishments with paid employees, their employment and their business receipts have significantly increased suggesting an emerging revenue and job creation potential worthy of systematic, effective but accountable public support.

S. 2617 can provide a vastly improved facilitative mechanism to continue the development of minority enterprises. With an assistant secretary, clearly answerable to Congress, more systematic and long-run approaches can be presumed. S. 2617 would get us away from present approaches to developing minority enterprises through the funding of often inexperienced social rather than economic organizations. S. 2617 would provide for new leadership and a framework that would encourage fresh perspectives and approaches responsive to the small businessman rather than catering to the vested interest of bureaucrats and artificial organizations that seem to lack economic sense. S. 2617 will allow for real open research and investigation of the record to date so that policy-makers can be truly informed about program success and failure. Further, S. 2617 can restructure, indeed, do away with many of the perverse incentives now allowed to exist in the minority business development infrastructure. Time and time again, my research, the research of others and GAO reports and investigations have shown how the programs now in existence provide the wrong signals, in many cases yielding adverse results, usually the opposite intended by Congress.

There is still some question about whether or not all of the transfer of functions specified in S. 2617 to the new agency are desirable. It is preferable, for example, to keep the financing assistance separate from the business development assistance. This would encourage the SBA to retain and improve their lending activities. The new administration, on the other hand, can concentrate on other areas such as management and perhaps procurement assistance.

Currently, there is a lack of faith in the capacity of minority businessmen to do for themselves. As a result, government has developed a host of assistance activities which when analyzed do little for the businessman and

instead support those providing assistance activities. More encouragement of self-help programs and minority business associations that devote time and energy to improving their management skills through training are desperately needed. This was pointed out in 1970 by the President's Advisory Commission on Minority Business Enterprise but it has gone unheeded. The new administration S. 2617 establishes could play a major role in developing the talent and the markets to take existing minority entrepreneurs and firms to the next plateau in their development.

In the last analysis, the effectiveness of these activities must be measured by hard results: profits increased, businesses were saved, employment expanded, and the businessmen acquired management skills and abilities that helped them to become independent of public assistance. Thus, criteria for program effectiveness that are well-conceived and systematically implemented and managed must be developed so that better evaluations can be provided. This alone would be a significant improvement over current approaches in OMBE and the SBA. If there is one concern I have about this legislation, it is that there is not enough provision for review and evaluation by Congress.

I welcome the recognition of minority enterprise as a legitimate activity of sufficient importance to merit the appointment of an assistant secretary and most enthusiastically support the enactment of S. 2617.



APR 26 1976

COMMUNITY DEVELOPMENT CORPORATION

1204 FAYETTEVILLE ST. POST OFFICE BOX 1349 · DURHAM, N. C. 27702
(919) 688-1331 / 682-9147

April 22, 1976

The Honorable Ike F. Andrews
U. S. House of Representatives
Fourth Congressional District
228 Cannon House Office Building
Washington, D. C. 20515

Dear Mr. Andrews:

This corporation is a non profit corporation established under a previous Office of Economic Opportunity grant and now operating under Title VII of the Community Services Act of 1974. This corporation is owned and controlled by residents within the designated Special Impact Areas of the City of Durham, North Carolina.

A proposed "Minority Business Development Assistance Act of 1975 (S2617) has been brought to our attention. After a joint study of the proposed act by our staff and by our parent not for profit corporation, it is our decision to oppose the enactment of said act and to urge its defeat or clarifying amendment. Our reasons and concerns are as follows, to wit:

1. The language of the act is dangerously broad and may have the effect (probably unintended) of precipitating the transfer to the Department of Commerce of the program authorized by Title VII of the Community Services Act of 1974.
2. The CDC program, under which we operate, is not separable from the poverty program pursued by CSA, and its primary purpose is not to develop or assist minority business enterprise.
3. Too much power is given to the Director of OMBE in determining what is and is not a program primarily related to the development or assistance of minority business enterprise.
4. The Department of Commerce is not the proper place to house a community development agency, and we believe that more study might be desirable. Certainly the Department of Commerce's running of OMBE leaves much to be desired, as recent GAO reports have indicated.

The Honorable Ike F. Andrews
Page -2-

April 22, 1976

5. We are concerned about SBA and its minority entrepreneur programs. Certainly, SBA has not always been sympathetic to minority businesses. Further it has totally refused access to SBA minority programs where the for profit business seeking assistance is owned by a CDC which in turn is totally owned and controlled by members of minority groups. (our situation)
6. CDCs are an integral part of the attempt begun by OED to end poverty and they are concerned with communities that are in trouble, rather than individuals who have been unable to enter the business world because of their minority status.
7. The CDCs are concerned with overall community economic development, but they are also involved with physical improvements (such as housing and community commercial facilities), infrastructure development, and social programs (especially those that relate to economic activity such as manpower training). Neither OMBE nor SBA nor the Department of Commerce as a whole is prepared to handle a program which is given such comprehensive mandate. It is only an agency, such as CSA, which has the same goals as Title VII - the elimination of poverty - and a successful track record in attacking problems that can administer such a program.

Your consideration of the matters contained in this letter is appreciated. Your support of our position would be appreciated also.

Sincerely,



R. Edward Stewart, Executive Director

cc: Nesby Moore, President
Union Sarah Economic Development Corporation
St. Louis, Missouri

Phillip LoPresti, President
National Congress for Community
Economic Development
Washington, DC

○

