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**The growth
of MINORITY BUSINESS
in the twin cities metropolitan area 1969-1975**

EARL P. SCOTT

CENTER FOR URBAN AND REGIONAL AFFAIRS
OUTREACH OFFICE
UNIVERSITY OF MINNESOTA
1927 SOUTH 5th STREET
MINNEAPOLIS, MINNESOTA 55454

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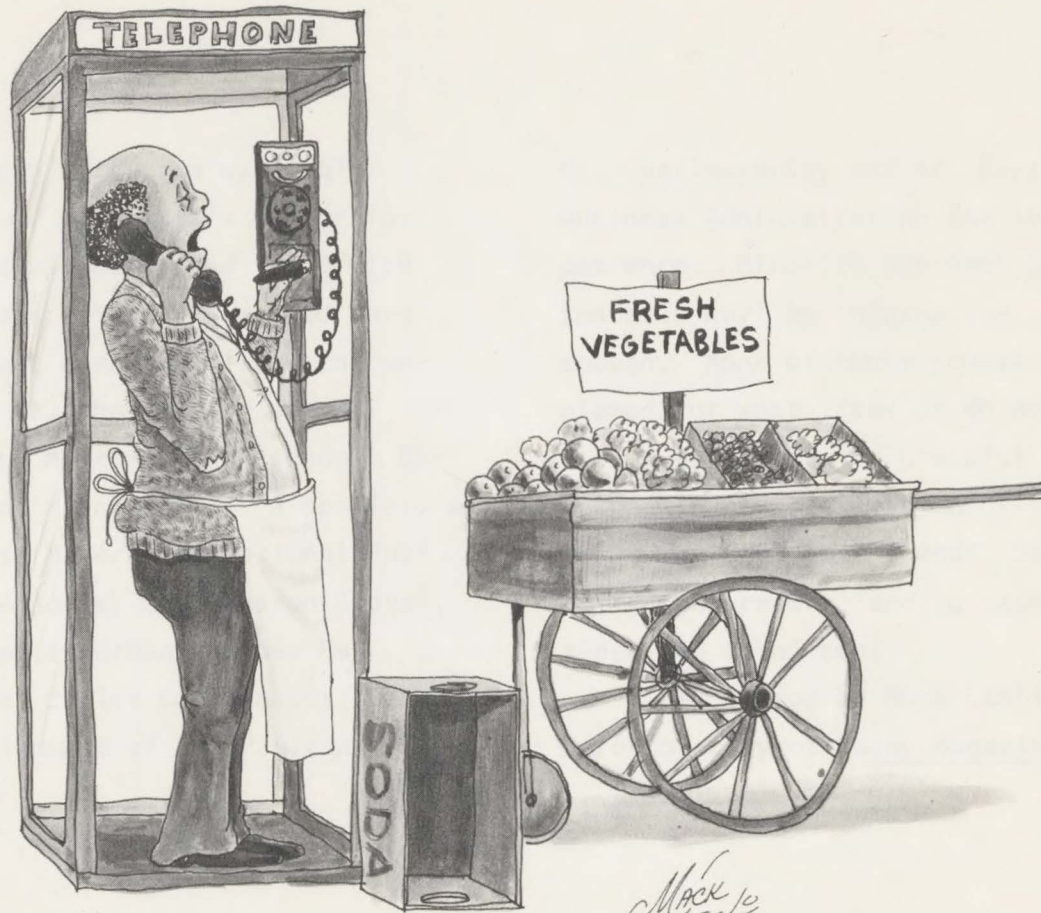
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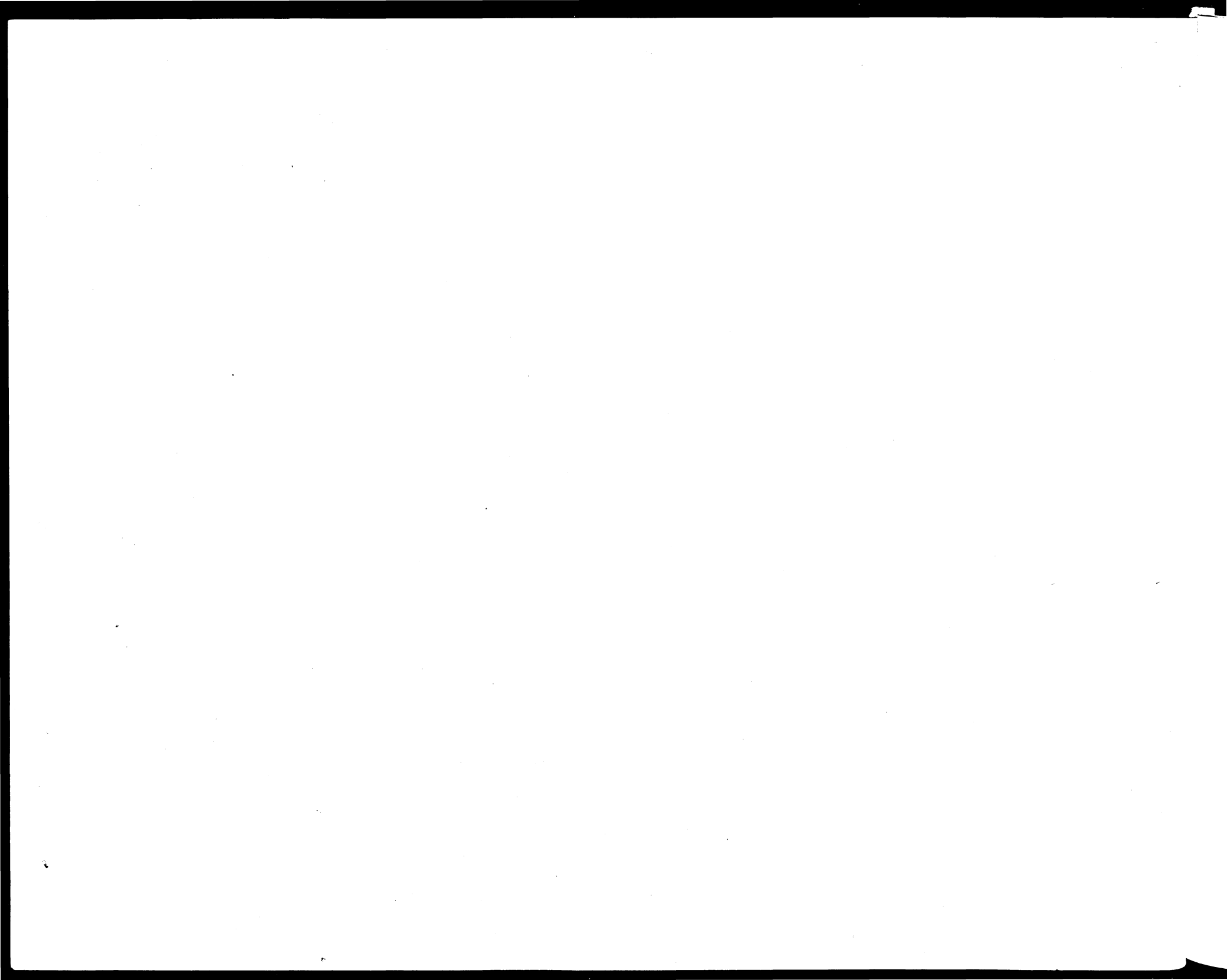
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"Hello! Harry's Vegetable Mart."



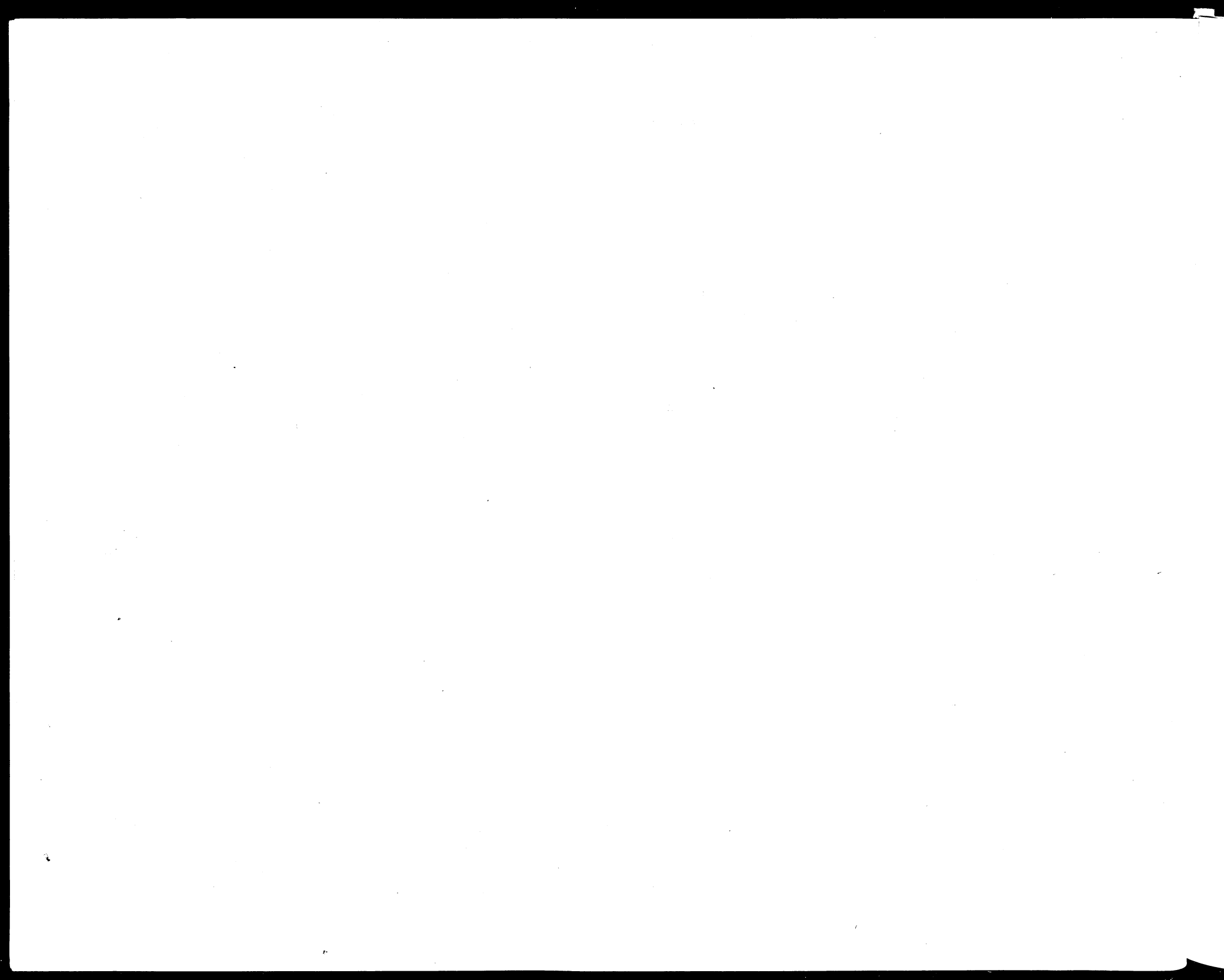
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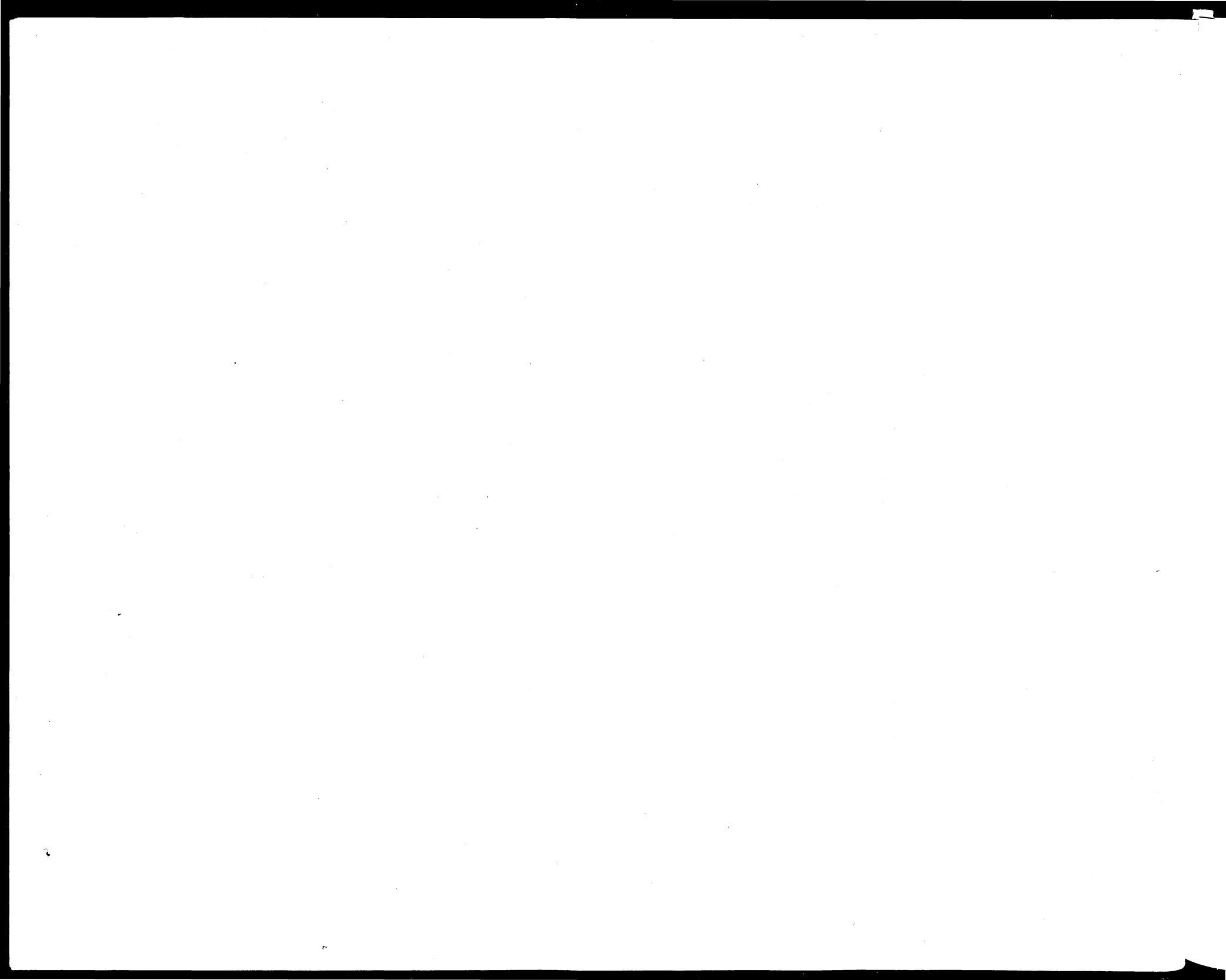
I am especially grateful to Janet Jensen who helped in the preparation of this study, to Sandra Haas, who drafted the maps, to Judith Weir, who edited the report, and to Laurie Christiansen, who typed the final copy.

The cartoon by Mack Leslie, III is reproduced here courtesy of Ebony Magazine.



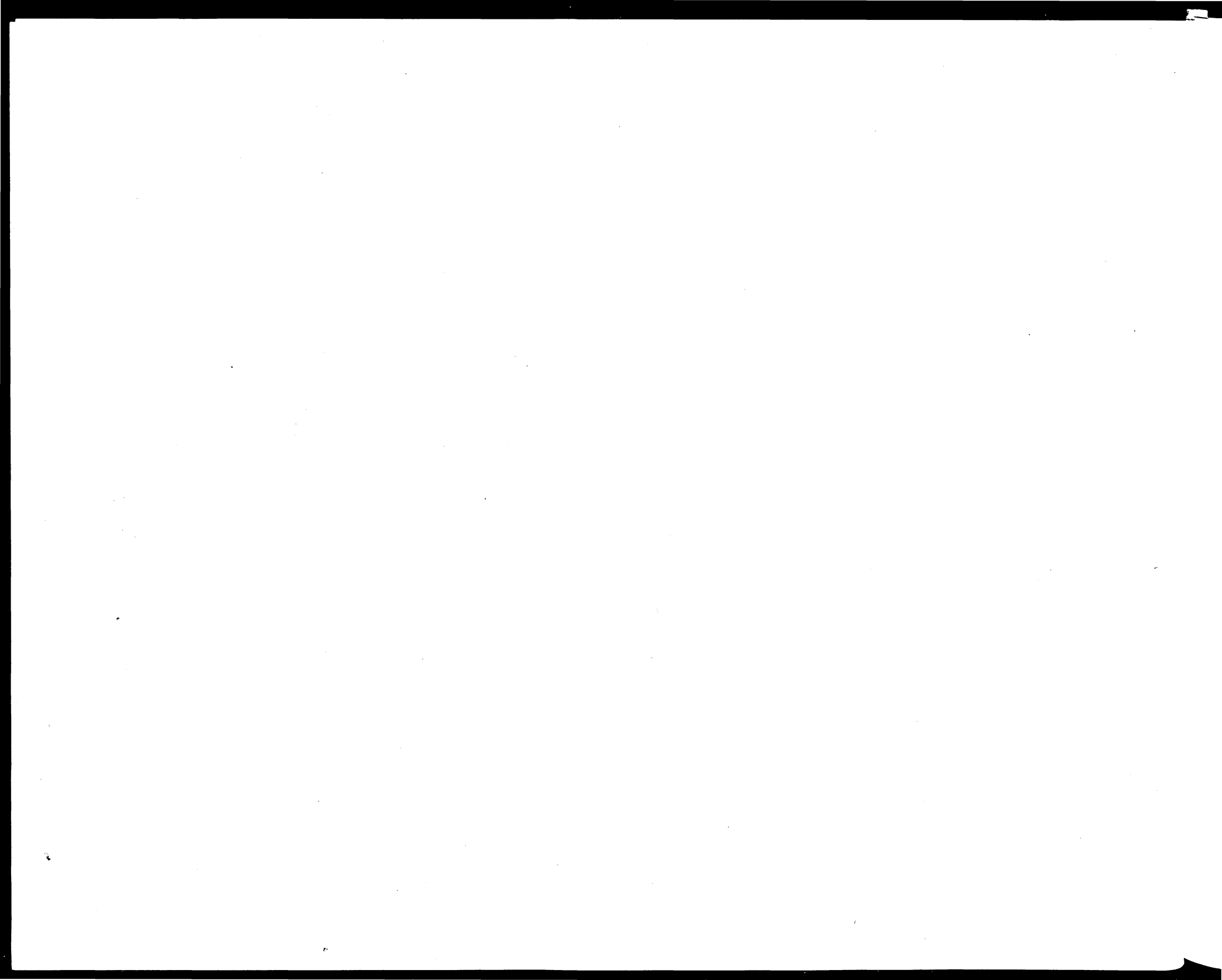
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Introduction

Like white Americans, black Americans and other American minorities aspire to be self-employed entrepreneurs.* But unlike white Americans, most minority aspirants have not succeeded and those who have are only marginally successful. Their businesses are small, oriented to local ethnic communities, and control a minute share of America's total receipts (sales). They are frequently single proprietor operations and additional labor is usually recruited from the immediate family. More significantly, these small-scale enterprises do not contribute substantially to community development in the same way and to the same degree as white businesses do. But minority business's small size and humble performance in providing jobs and income to minority communities are unjustly attributed to lack of minority entrepreneurial zeal and to minority business tradition.

Minority business development has been artificially constrained. Minorities have been system-

atically denied access to the financial and technical resources necessary to establish and maintain large, profitable enterprises. They have been restricted to minority, usually black, communities. They have been denied the franchises whose products are demanded beyond the minority community. Minority entrepreneurs, then, have had to cope with the problems of developing firms that were economically uncompetitive and, in the absence of any economic advantage, they survived through sheer dogged determination. Only the most skilled and determined entrepreneurs could overcome social and economic restrictions and pursue their desire for self-employment. For those less skilled or determined, extraordinary measures were required to safeguard their privilege to participate in American society as self-employed business people.

In 1969 the federal government promised to provide opportunities for greater participation of blacks in American society by increasing the number

* Initially the federal government, through the Office of Minority Business Enterprise, designed nationwide programs to foster and broaden minority business among blacks. More recently government efforts have been expanded to include other minority groups, but the major orientation continues to be toward black business. The emphasis on blacks in this report reflects this continuing predominant concern of government with black business development.

of black-owned businesses in black communities. This unique pledge stemmed from black protest against unemployment, poor housing, and other aspects of community deprivation. Government efforts were initially designed to increase the absolute number of new black-owned businesses only. They ignored currently operating black businesses that had survived in the face of universal and often unreasonable constraints. These entrepreneurs, who dreamed of prosperous self-employment through large-scale operations, were bypassed in favor of inexperienced, less promising applicants. By 1972 the weaknesses of this approach were apparent to community leaders, scholars, and government planners, and a new policy of government assistance to all minority businesses was implemented. This policy increased the number, stability, and profitability of minority businesses, but the Ford administration's "minimalism" policy (the reduction of federal intervention in state affairs) threatened to erase these modest gains. In order for minorities to fully participate in American society, even greater federal and private assistance must be committed to a fewer number of minority entrepreneurs whose operations can be enlarged and whose commitment to minority community develop-

ment is sincere.

The object of this report is to present a comparative evaluation of the growth of minority business in the Twin Cities metropolitan area from 1969 to 1975. Data for the report were collected in the summer of 1975 and the following academic year. The minority business community was surveyed. A list of minority businesses existing before 1969 was constructed. Personal interviews were conducted with community leaders, government representatives, and executives of organizations designed to assist minority business people. (1)

The report is divided into four parts: first, a review of the history of inequity in the American business community; second, an analysis of the various strategies designed to eliminate inequity; third, a comparison and evaluation of two phases in the growth of minority businesses in the Twin Cities from 1969 to 1975; and fourth, an outline of a model of community development. In the Appendix, maps made during the studies preceding this report are presented as a further aid to the reader.

Inequality in the American Business Community

"Equal treatment of unequals is the greatest inequity of all." (2)

"You're not just citizens of the ghetto.... Dig it, we ain't no more native to the ghetto than the white man is native to America." (3)

In 1969 the federal government committed itself to providing opportunities for blacks to participate in American society through ownership of small businesses. It was an unusual move. According to a Senate report, "never before in the first 193 years of the United States had there ever been attempted a significant effort to create minority access in the business system." (4) This unprecedented national commitment to ensure greater minority participation in the American free enterprise system ignored the historical struggle of black entrepreneurs to gain unrestricted entry into the American business community. Instead this initiative developed as a political ploy to gain minority political support. (5) It evolved into a serious policy to improve our national economy only after the "civil disorders" of the late 1960s. Ghetto riots in one metropolitan area after another revealed that minorities owned and controlled few of

the business enterprises located in their communities. Levitan, Mongun, and Taggart estimated that "blacks own only 5 percent of the business in those communities with 50,000 or more blacks." (6) Even in those instances where blacks did own and control community businesses, they were usually small retail and service-oriented firms run largely by a single proprietor. These community-based businesses were marginal to the American business community, and their small size and inherited location gained them the demeaning names "ghetto businesses," "traditional Negro businesses," and "black businesses." The primary aim of the federal government was to increase the number of these small, black-owned businesses in the hopes that visible black investment in the minority community would create support for the current administration and would reduce overall property damage against entrepreneurs perceived by the blacks as exploitive. It was not designed to eliminate the institutional constraints that have hindered black business development since the late 19th century.

Blacks and other minorities have a tradition of participation in the American free enterprise

system (7) and substantial progress was made before 1969. Nevertheless, equity defined in terms of the absolute numbers of minority businesses, has not been obtained. Indeed, "the scant information available, at least for black entrepreneurship, shows a static or declining relative position in the decades before 1969." (8) The number of black businesses grew steadily from 1890 to 1969: "1890--31,127; 1900--40,445; 1910--56,592; 1920--74,424; 1930--103,872; and 1940--87,475." (9) Data are not available for 1950 and 1960, but in 1969 there were 163,000 black businesses and 159,000 businesses owned by other minorities. (10) By 1972, the number of black-owned firms had risen to 195,000 with 382,000 businesses owned by other minorities. (11) During the same time gross receipts of black-owned firms rose by 60 percent to \$7.2 billion. (12) On the other hand, the number of white-owned businesses in the United State in 1929 was 2,925,128; 1941--3,188,525; 1953--4,188,000; 1963--4,797,000; and approximately 7,167,000 in 1969. (13) By 1972 the number of white-owned firms in the United States had increased to 8,348,000 with gross receipts of 2,364.6 billion dollars. (14)

Because past government efforts to achieve equity for minority business people have failed,

scholars are skeptical of their prospects for the future. For example, Doctors and Appel criticized government's failure to clearly articulate any definite set of goals for minority businesses, and they denounced the goal of parity as unobtainable, regardless of the measure used, including gross receipts. (15) They argued that, in order to reach parity, the current estimate of 0.3 percent business asset ownership by minorities would have to be increased about fifty-six times, an increase of almost \$146 billion over the present \$2.6 billion in assets. The number of businesses would have to be increased more than threefold to achieve parity; that is, about 1 million minority businesses would have to be added to the present 322 thousand and achieving parity in ownership of assets held by financial institutions would require an increase of about 100 times the present level, to \$270 billion in assets. Their principal point is that given the present Small Business Administration loan size (of \$25,000 maximum), and with its focus on small-scale, community-based, low growth businesses, it is unlikely that the growth in minority businesses will keep up with the present average annual growth rate of the economy of 4-plus percent a year. They concluded with observations of despair:

Present government programs will provide a total net increase in new minority businesses of about 1,400 in fiscal 1973. At that rate, if one had to depend on the government, it would take about 800 years to reach parity in numbers of businesses. The government-sponsored minority bank deposit program has led to a very substantial rise in minority bank assets--about 300 percent over the last four years. At this rate, it will take only about 100 years to reach parity in bank asset ownership. (16)

Their essential point is that equity or parity for minority enterprises is an unattainable and even undesirable national goal. Increases in the number of businesses of the sort encouraged in the past is not a useful yardstick for evaluating minority participation in our free enterprise system. Significantly more important would be goals to increase asset ownership, sales, growth potential, employment opportunities, and skill development; goals that would have an overall positive impact on the development of minority communities. (17) But none of these were expressed in our initial national commitment to minority business people or in the commitment that has subsequently evolved. An awareness of federal government efforts is essential to understanding the degree to which our national policy has changed to accommodate the

skepticism expressed above.

Our National Commitment to Minority Business

In 1969 the Department of Commerce's Office of Minority Business Enterprise (OMBE) was established under Executive Order 11625 as a conduit through which federal assistance to minority businesses would flow. (18) At the same time, it served as an advocate for the development of minority-owned firms. OMBE's unique purpose was to initiate programs to foster the growth and profitability of minority enterprises. In 1971 the Secretary of Commerce was given special authority to coordinate federal efforts to provide remedial technical and managerial skills to disadvantaged entrepreneurs and to finance demonstration projects in which business people would develop skills through participation. These programs were implemented through the central office of the Department of Commerce and its six regional offices around the country. Federal agencies that assist minority business people in the Twin Cities metropolitan area are administered through the regional office in Chicago.

Although OMBE was designed solely to remedy inadequate managerial and technical skills among

minority business people, the Small Business Administration is most directly involved in implementing federal programs and is the major source of federal funds. Through lending programs, recruitment of government contracts, and demonstration programs, the Small Business Administration aims at furthering the establishment, growth, and success of minority businesses. Essentially, it was through the combined efforts of OMBE and the Small Business Administration that the Nixon administration hoped to fulfill our national commitment to achieve parity for American minority businesses.

OMBE's Official Mission

OMBE and the Small Business Administration pursued this policy until 1974. In the following year, OMBE adopted a more reasonable and obtainable goal of parity based on proportional receipts. (19) Its overall directive stems from Executive Order 11625 and its amendment under the Commerce Department's Order 25-4A. (20) The extraordinary nature of its function is illustrated in its restated policy:

to promote and assist the expansion of minority enterprise in the United States, both in the number of businesses and the size of businesses; by coordinating and

and encouraging action by the federal, state and local government agencies to assist minority businesses; by promoting financial assistance to public and private organizations which furnish management and technical assistance to minority business; by providing financial assistance for pilot or demonstration projects; and by disseminating helpful information. (21)

The federal government's aim is to establish sound minority businesses that operate profitably without special government programs and support. Government assistance to minority businesses will be withdrawn when they reach this stage of independence. According to OMBE, operational independence is achieved when "parity (is reached) between the percentage of minority population and the percentage of all minority controlled business receipts." (22) This is what the government meant by "proportional receipts." Parity is measured against only a small portion of the total receipts generated in the United States. "In order to provide a fairer basis for comparing minority firms with the total, public (stockholder) owned corporations will be excluded. Public owned corporations currently represent approximately 65 percent of total gross receipts." (23) OMBE's goal is to reach parity with in the remaining 35 percent.

OMBE has set two five-year goals:

*To realize a net increase in the business receipts by minorities from 1.5 percent of the U.S. total or approximately \$16.5 billion in 1972 to 2.1 percent or approximately \$32.8 billion by the end of Calendar Year 1977.

*To realize a net increase in the business receipts by minorities from 2.1 percent of the U.S. total or approximately \$32.8 billion by end of the Calendar Year 1977 to 2.7 percent or approximately \$67.4 billion by the end of the Calendar Year 1982. (24)

Progress toward this more modest goal will be assessed annually. At five-year intervals, OMBE will make adjustments in its programs that will hopefully lead to more efficient methods of achieving our national goal.

Minority Versus Government Expectations

Problems of monitoring minority business development at the national and local levels remain difficult, but evaluating minority business development in terms of gross receipts (sales) is possibly the most objective yardstick available. It may be the best way to assess additional needs to foster the growth of large-scale minority enterprises rather than "traditional black businesses."

Nevertheless, its focus on the development of business enterprises ignores the need for community development felt by many minority leaders and scholars. (25) Minorities envision a general role for minority business that includes alleviating high unemployment, reducing economic exploitation, increasing investments in community institutions, and generally relocating the loci of economic and political decision-making that substantially affect the future growth of their community. Minority leaders see the development of business as a potential means of resolving the social and political problems as well as the economic ills that plague their communities. For example, minorities reject government's narrow view of the role of minority business to enrich individual business people. They envision minority enterprises as functioning to capture the "minority market," to redirect profits derived from their community institutions, and thereby to help gain control over the economic and, often, the political future of their communities. They argue that successful attainment of these goals requires accelerated growth of large-scale, minority-operated enterprises that could attract a sizable share of the minority consumer's dollar.

Minority leaders hope these businesses will

generate enough revenue to allow minority communities to develop as geographic and economic entities separate from other enterprises and communities in the larger metropolitan area. This reasoning is based on their observation that minority communities have a history of economic and social development uniquely different from other urban communities. Thus their expectations are significantly different from those of the government and help to explain the widespread disenchantment minorities have with programs designed to achieve parity for minority business. Minority perception of gaining "a piece of the action" means community growth, decentralization of political and economic power, participatory democracy and, basically, minority control of minority affairs. Government perception is of minority ownership of more and possibly larger businesses by individual entrepreneurs, as a strategy to curb urban violence and promote civil stability. This conflict in expectations contrasts government's possible enrichment of a few, self-serving business people with minority leaders' hope of providing help for many deserving community residents.

Opposition to Government Programs

Government and private programs designed to promote minority businesses and provide job opportunities in minority communities were condemned as plots to further exploit the labor and income resources of those communities and to further tighten the hold of corporations that keeps them in a dependent relationship to the white community. The rising income in the black community, for example, is said to attract large corporations that aim to exploit this resource while providing only a few jobs for blacks as sales people. (26) Job opportunities are created, but capital investments in visible community projects and institutions are absent. Instead this community wealth is drained off and invested elsewhere in the urban region.

Furthermore, encouraging minorities to invest in small businesses is decried as nothing less than a conspiracy to inhibit economic growth in minority communities. Small businesses in the United States are said to be declining in number and sales; they have almost become an anachronism today. Those "new" traditional businesses established most recently are doomed to failure because they neglect to conduct market surveys or to make reliable sales projections. They tend to rely too heavily on

limited markets with only a racial appeal. (27) Local ethnic markets are incapable of supporting these businesses at a profitable level and those so constrained usually fail.

Much skepticism was aroused when the government encouraged the development of individual businesses rather than cooperative enterprises. This approach is believed to be contrary to the tradition of cooperation and collective action in the field of economic endeavors that is central to black culture everywhere. (28) The principal idea is that planned communal economics are viable alternatives to the development of individual minority business people. "Black business firms must be treated and operated as social property, belonging to the general black community, not as the private property of individual or limited groups of individuals." (29)

Government support of minority business was accused of contradicting America's goal of rapid and total elimination of the "ghetto" itself. (30) Organized labor opposed the government's efforts to develop minority enterprises in minority communities. It argued that emphasis on the development of minority business would abandon our goal of social integration for the sake of an economic

illusion. The position is convincing. The majority of Americans who work are wage and salary earners on private and government payrolls. Only a small number of Americans can participate fully in the free enterprise system through self-employment as small business people. (31) The basic point of this argument is that the development of "black capitalism is a dangerous, divisive delusion.... Attempts to build separate economic enclaves with substantial federal tax subsidiaries within specific geographically limited ghetto areas is apartheid, anti-democratic nonsense." (32) Initial opposition to government help to minorities was strong and minority dismay led to speculation. Several hypotheses were advanced to achieve minority community development. One strategy, neocolonialism, gained much support among black scholars. Because it seems to be especially applicable to the unique development of minority communities in America, it is discussed in detail.

Neocolonialism: An Alternative

Minority communities, especially the black ghettos of American cities, are said to be analogous to the formerly colonized countries in Africa, Asia, and Latin America. They can be analyzed from

the perspective of development economics. In their relations with the dominant white economy, the minority communities are separate geographic and economic entities whose labor resources and purchasing power are drained off, destined for investment elsewhere in the larger community. Minority people remain poor and lack control of their political and economic institutions. Their future development is determined in the dominant community. Even where corporations from the white community establish themselves or their subsidiaries in minority communities, it is for exploitation; their objective is to force minority peoples into a dependent and vulnerable relationship. In essence, minority communities are colonized areas within America.

Proponents of this neocolonial view recognize that it has limits, but these limitations are often ignored because of its perceived validity as an organizational construct. (33) Its general acceptance as a valid approach to understanding minority community economics means that completely new development strategies are required to solve minority community problems. By 1969 the lines were being sharply drawn between those minorities who wanted to develop a separate community within

America and those who wanted fuller involvement in citywide jobs and opportunities for self-employment.

If minority communities are internal colonies of America, then a complete severance from America's free enterprise system is the only solution for the economic development of minority communities. This perceived need for a revolutionary change in America's business economy is expressed in the black scholar's opposition to parity as an appropriate national policy. "We do not want parity in the present system...our goal is not simply to get a greater share in what already exists...We want a new concept of American economic organization." (34) For some, this new concept meant cooperation or planned community control of community resources. For others it meant separate development, a rebate plan, or reparations with both financial and land claims. (35) The former strategy has no historical precedent and the latter has been heavily criticized by black reformist leaders and minority community residents. (36)

The sentiment is for greater participation in the wider community. "We don't all have to be in the ghetto just to be brothers." (37) Minority residents favor "deghettoization:" "You're not just citizens of the ghetto...Dig it, we ain't no more

native to the ghetto than the white man is native to America." (38) The traditional rhetoric of black power and black nationalist advocates is being challenged by reality. Minority community incomes are low and job opportunities are moving to the suburbs. The prospect that the remaining minority population can support minority enterprises is slim. The rhetorical question minority community residents ask seems quite appropriate, "We going to just feed on each other?" (39)

Revolution or Reform?

There are revolutionary proponents who advocate pro-black development. And there are those extremists who see both anti-poverty and model cities as diversionary nonsolutions intended to absorb community energy and resources and to turn minority communities into instant concentration camps. (40) Between these two extremes are those reformists who see community survival directly related to government and private commitments and to the number of people who can escape the ghetto and adopt a community lifestyle that does not depend on geographic and economic isolation. Black reformist leaders, while opposing separate development for minority communities, are aware of the

roles racism and commitment will play in any resolution of minority community problems. "The issue should not be considered in terms of white bank--Negro bank, white business--Negro business, white community--Negro community. Nevertheless, the urban crisis is a crisis of black and white, and nothing is to be gained by pretending that it is not." (41)

Accordingly, reformists have raised objections against the neocolonial model of minority community development. The general criticism is that the relationship between a colony and the metropolis involves a minority with superior technological power dominating a majority, the minority being geographically separate from the majority. In addition, the majority, however subjugated, has the potential of becoming independent and self-governing. This classical colonial situation is unlike the de facto segregated communities in the United States. Specific objections are:

- 1) Blacks, as a dominated group, are geographically dispersed among their exploiters and, therefore, there is less potential for the development of a concerted, cohesive political movement capable of achieving the consciousness and autonomy needed to control their own resources and destiny.

- 2) Because the black population is not sufficiently isolated physically, spontaneous economic drains from the black to the white community (for example: income, savings, physical and human capital) are much greater than in the colonial situations. In the standard colonial situation, the potential development of a protective tariff system or the development of strict controls on the importation of superfluous goods is allowed for. In general, the underdeveloped country, in contrast to the less segregated ghetto, has a significantly greater potential capacity for insulating itself from the competitive and distorting influence of the developed countries. The balance-of-payment problems between developed and underdeveloped sectors is difficult to correct under the most favorable circumstances. With circumstances infinitely less favorable, correcting the deficit seems fairly close to impossible.
- 3) The black population is not culturally isolated. This means that the "demonstration effect" cannot be avoided; that is, the black population cannot avoid internalizing white consumption styles, which are derived from a society with significantly higher income levels. Aping white consumption habits makes it extremely difficult for the black population to develop an internal ethic conducive to saving and austerity, a prerequisite

and accompaniment to the developmental thrust.

- 4) There is little possibility that the black population can acquire the degree of fiscal and monetary autonomy, for example, taxation powers, control of their own money supply, credit-creation capacities, that are needed to fulfill the political, social, and economic goals derived from a revolutionary development program implicitly suggested in the neocolonial model.
- 5) Blacks are a minority dominated by the majority, a fact that affects the potential power they can mobilize against their white oppressors, even under the most favorable circumstances. (42)

The essential point of these objections is that when the neocolonial model is applied too rigorously, rhetoric stands apart from reality and the essential relevance of the model is lost. Black reformist leaders, for example, argue for greater government and private commitment to minority community development. Like revolutionists, the reformists also condemn corporate enterprises that dispense the minimum benefits necessary to maintain civic order and encourage such corporations to demand even larger purchases from minority firms.

The revolutionary ideas expressed by black

nationalists and those ideas inherent in the neo-colonial model of development are unacceptable to most Americans. But minority community development, which incorporates the concept of self-determination and allows for minority people to create self-pride in their accomplishments, is a reasonable and obtainable goal. Achieving such a goal, however, will require government and private commitment far above what has so far been promised. (43) Furthermore, at least in the short run, special attention must be given to minority community development. The growing numbers of minority middle class consumers must intentionally patronize minority business, and minority business people must be committed to reinvesting their profits in the minority communities. This is essentially the position Franklin and Resnik have taken on the development of black capitalism in America.

....if black capitalism is to be a solution to black problems, it must be conceived in terms of a complete break with the past and present. Black capitalism, if it is to succeed, requires the finding and training of black entrepreneurs and managers, a radically liberalizing set of criteria for lending, bonding, and providing insurance of all kinds, and large-scale technical assistance and the identification and cultivation of profitable market opportunities. It will

further require sheltered markets and subsidies reaching the heights of \$20-30 billion per year, a sustained white corporate involvement and partnership, and a reversal of the flow of capital, and other resources from the central city to the suburbs. The realization of such developments implicitly requires that the thinly spread black middle class of the ghetto stay in the ghetto to lead and manage the crash programs necessary to create black capitalism. (44)

Some black reformists who advocate community development along these lines are already disillusioned. It is believed to be a plan unacceptable to the "white power structure." Reformists like Whitney M. Young, Jr. have become disillusioned because they feel that "...American capitalism, in its rhetoric to reform itself, has proved again that far from being part of the solution, it is an intrinsic part of the problem." (45) More significantly, reformists are disheartened because the goals set by the government for minority businesses are at variance with their goals for minority enterprises. Government envisions minority communities as having individual needs, but black scholars emphasize collective or group needs that they feel may lead to more "livable" inner cities. (46) This incompatibility of expectations for the role minority

business should play in minority communities has hindered government efforts to fulfill the national commitment to minority business people. The following section evaluates the progress of government and private programs in fulfilling our national goal of achieving equity in proportion to total receipts for minority businesses.

Progress Toward Parity: 1969 to 1975

The period between 1969 and 1975 was economically turbulent and disappointing for minority business people. Many small and minority-owned businesses failed and their founders were forced to abandon their hopes for self-employment. Nevertheless, the desire for self-employment remains strong and, surprisingly, equally so among all Americans. In 1970, for example, there was no significant difference in the distribution by industry of self-employed non-farm workers when black and other races were compared with whites (Table 1). Unexpectedly, both groups tend to concentrate in services and in wholesale and retail trade but, as expected, about one-eighth of all self-employed workers in the transportation industry (primarily taxi drivers) were black and other races, and nearly one-fifth of those in private households (primarily domestic workers) were black and other races. Minorities, like white Americans, value self-employment: be your own boss, create your own job, sell your own product (or service), and contribute to society in the freest, most personal manner. Even when the available evidence suggests that self-employment is less attractive than wage and salary

employment (47), more and more Americans are "doing their own thing" as self-employed business people. This trend persists even though failure among small businesses, and especially minority businesses, is disproportionately high relative to failure among large businesses.

A high failure rate of businesses under our free enterprise system is not uncommon nor is it a recent phenomenon. (48) However, small business failures were unusually high in 1974 and in the first half of 1975. Business Week reports that:

Dun and Bradstreet's statistics on commercial and industrial failures, which essentially cover small businesses, last year reached a three-year high in numbers--9,915--and a record high in total dollar liabilities. Last March the rate was the highest for any month in eight years. (49)

Minority business failure rate is even higher than the rate for small businesses. The plight of black business worsens during inflation or recession. (50) Minority business's vulnerability to unstable economic conditions is well-known: "When the white company is in a recession, the minority business is in a depression." (50) Between 1972

and 1974, a period of nationwide inflation and recession, many minority businesses failed, but the pattern of decline in minority and small businesses is said to be related more to competition from large firms than to fluctuations in the economy. (52) Nevertheless, Business Week observed that small businesses "find it tougher to cope with economic adversity than larger, more financially robust competitors." (53)

Furthermore, amenities offered wage and salary workers by large corporations under the general title "employee benefits" make self-employment less and less attractive. Nevertheless, the self-employed small business person is alive, if not completely well. Currently operating businesses and "new starts" attest to this fact. Small and minority businesses persist because of the real or perceived advantages they have in urban settings and because of the personalized services and products they provide. They also provide diversity and offer urban residents a range of choice. More important, small and minority businesses are often the fundamental building blocks upon which local or neighborhood economies develop. Because of these advantages (54) and because of sheer dogged determination, small businesses have carved out a niche in our free

enterprise system.

Our Current National Goal

Entrepreneurial zeal and determination notwithstanding, government and private assistance to minority businesses has played a significant role in their survival. The purpose of this section on progress toward parity is to review the growth in minority business in the United States since 1969. It will serve as a statement of evaluation of all the government and private programs designed to foster minority business development. (55)

In a radio speech on 25 April 1968, President Nixon promised American minorities fuller participation and greater benefits from our free enterprise system. Nixon committed his administration to minority business development when he said: "to have human rights people need property rights and never has this been more true than in the case of the Negro today. He must have the economic power that comes from ownership, a share of the wealth and a piece of the action." (56)

In order to ensure minorities a share of America's economic wealth, President Nixon, through Executive Order 11625, established the Office of Minority Business Enterprise (OMBE) in 1969. OMBE's

TABLE 1
 SELF-EMPLOYED WORKERS BY INDUSTRY, 1970
 (ANNUAL AVERAGES)

Industry	Negro and other races (thousands)	Percent Negro and other races of total	Percent Distribution	
			Negro and other races	White
Total	403	6	100	100
Agriculture	94	5	23	26
Mining	-	-	-	-
Construction	37	5	9	10
Manufacturing	10	4	2	4
Durable Goods	7	4	2	2
Nondurable Goods	3	3	1	1
Transportation	23	12	6	3
Trade	86	5	21	24
Finance, Insurance and Real Estate	7	3	2	4
Private Household	5	19	1	-
Other Service	142	7	35	30

- Represents zero or rounds of zero.

SOURCE: U.S. Department of Commerce, Bureau of the Census, The Social and Economic Status of Negroes in the U.S., 1970, Series P-23, No. 38, Table 59, p. 71.

major thrust has always been to develop minority business (57), but it grew to understand the wider implications of its programs. Increasing business ownership by minority individuals, according to Alex Armendaris, director of the U.S. Department of Commerce's Office of Minority Business Enterprise, "is a reasonable strategy to help improve economic conditions in major American cities, not exclusively ghetto communities." (58) Armendaris argued that "minority businesses expand the tax base, provide employment, and have a vested interest in community renewal." For these reasons he suggested that "local governments should include minority business interests in city planning and should press for programs to ensure that minority firms are getting a fair share of city contracts." Through formal decree and informal persuasion, OMBE proceeded to accelerate the growth and development of minority business.

In 1969 there were 163,000 black-owned firms in the United States. (59) By 1972 the number had increased to 195,000, a 20 percent change from 1969 (Table 2). An increase in the number of minority businesses was expected, but there was the feeling that no significant shifts in the relative distribution of firms would occur. That is, blacks would

not acquire or manage large corporations and thus no significant increase in business receipts would occur. The Bureau of Census reports that

from 1969 to 1972 the greatest percentage increase in number of firms was in manufacturing and transportation. Manufacturing firms increased by 38 percent from 2,981 to 4,116, and transportation firms increased by 30 percent from 16,733 to 21,738. The greatest percentage increase in business receipts, however, was in transportation and wholesale trade; 102 percent and 98 percent respectively." (60)

The percentage of change from 1969 to 1972 for the remaining categories was relatively high; the greatest increases in the absolute number of firms and amount of receipts were in retail trade and selected services. Accordingly, total receipts increased to \$7.2 billion, or 60 percent more than in 1969 (Table 2).

The Office of Minority Business Enterprise (OMBE)

OMBE was established to "open the door of the market place to minority entrepreneurs....Its primary role is a catalyst in generating concern for minority businesses in the minority communities, the private sector and government." (61) Its list of achievements since 1969 in the field of minority

TABLE 2

UNITED STATES BLACK-OWNED FIRMS BY INDUSTRY, 1972

Category	Number of Firms (in thousands)				Business Receipts (billions of dollars)			
	All U.S. firms	Black- owned	Percent of total black firms	Percent change from 1969	All U.S. firms	Black- owned	Percent of total black receipts	Percent change from 1969
Firms with Paid Employees		32	16.4	-17		5.1	70.8	31
Firms with no Paid Employees		163	83.6	31		2.1	29.2	152
Selected Services	2,212	68	34.9	22	95.5	1.1	15.3	59
Wholesale Trade	560	2	1.0	26	349.4	0.8	11.1	98
Retail Trade	2,381	57	29.2	25	474.9	2.9	40.4	51
Manufacturing	437	4	2.0	38	875.3	0.5	6.9	77
Construction	1,020	20	10.3	24	146.2	0.8	11.1	77
Transportation and Public Utilities	432	22	11.3	30	159.5	0.4	5.5	102
Finance, Insurance, and Real Estate	1,318	8	4.1	5	252.8	0.5	6.9	59
Other Industries	370	14	7.2	-28	27.6	0.2	2.8	-18
TOTAL	8,730	195	100.0	20	2,381.2	7.2	100.0	60

SOURCE: Adapted from U.S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1975, Table 808, p. 493.

business development reflects its emphasis:

*In FY 1969, financial grants, bonds, loans, and guarantees by Federal agencies to minority enterprises totaled \$200 million, in FY 1974, they totaled \$585.2 million.

*In FY 1969, 8(a) procurement by Federal agencies was \$8.8 million; the FY 1974 total of \$272.14 million was more than 30 times that amount. During this same period direct procurement has risen from \$3.8 million to \$429 million.

*In FY 1969, only 28 Government 8(a) contracts were awarded to minority enterprises; in FY 1974, there were 2,246 8(a) contracts. (Section 8(a) of the Small Business Act provides for Federal agencies contracting with SBA which in turn negotiates contracts with minority firms.)

*In FY 1969, a prototype MESBIC (Minority Enterprise Small Business Investment Company) was developed; in FY 1974 there were 67, with an investment capacity of \$107.76 million and a potential capital flow of \$500 million. (62)

Performance Criticized

Although OMBE's achievements are impressive, especially for such a short period of time, its performance has been severely criticized. Much of this criticism stems from OMBE's initial orientation (to increase the number of minority-owned

businesses), its inexperience with minority business problems and goals, and its hasty reaction to pressure from the minority community for community-based firms. OMBE is accused of establishing an excessive number of organizations without adequate funds to hire the number of experienced people needed to assist minority business people; its programs were geared toward a select group and toward "ghetto businesses" in particular; financial assistance was given indiscriminately to poorly qualified applicants to establish small enterprises with little chance of success; and it was insensitive to the adverse impact its assistance to new enterprises posed to existing minority businesses that had endured on their own.

OMBE's programs to establish minority community-based enterprises were considered racist and promoting racial separation in American society. Initially, legislation was designed and supported by OMBE to establish Community Development Corporations primarily in the ghettos of our large cities. This legislation was defeated in 1968. (63) Local Buy Black Campaigns such as PUSH (People United to Save Humanity), organized by the Reverend Jesse Jackson, and the Nation of Islam were accused of separatism and received little government or

community support. Despite general opposition, Community Development Corporation legislation was eventually passed in 1970 and many Buy Black Campaigns continue to operate. Both strategies have helped accelerate the growth of minority businesses. Buy Black Campaigns, through appealing to ethnic pride, have been encouraged because they focus attention on minority products and services and enhance consumer loyalty.

OMBE's neglect to survey and evaluate the potential growth among minority business people who were established before 1969 should be added to the list of criticisms. Critics of OMBE feel that emphasis on "new starts" rather than on established enterprises has three disadvantages. First, minority businesses assisted by the program represent a threat to small businesses that have made it largely on their own. Second, only a very small fraction of new businesses succeed and the rate of failure is probably even higher for black businesses. And third, the cost of starting a few successful black businesses will be high in relation to gains by the (entire) black community.

Black entrepreneurship has a long history in this country, and black business philosophy regarding the role business should and can play in com-

munity development differs from the one adopted by OMBE in 1969. Black experience and views were never made a part of OMBE's policy. (64) This neglect of experienced black entrepreneurs helps explain why OMBE still emphasizes technical and managerial skills over location, size, and scale of operation.

Small Business Administration (SBA)

Another significant area in which OMBE was criticized is its inability to coordinate SBA programs with its own. (65) Loan "packages," for example, were not combined. From the very beginning, OMBE and SBA set ceilings on loan packages. (66) In 1965, for example, SBA's economic opportunity loans could not exceed \$25,000. In the early 1970s the maximum size was increased to \$50,000, and some recent loans have exceeded \$350,000. But initially the SBA mainly ensured small loans for retail and service-oriented establishments located in minority communities. This policy, which continues to this day, fostered the growth of enterprises that have high failure histories and that go counter to the major trend in the U.S. business community of developing large corporate enterprises. (67) Another criticism,

which stems from a lack of dialogue, is that SBA and OMBE too often initiate their independent actions for the same purpose. This is best illustrated in the SBA 8(a) procurement program. This program has possibly the highest potential for increasing the size and stability of minority business operations. It offers minority participation in various government and corporation purchasing programs. Nevertheless, minority contractors and manufacturers were virtually ignored by SBA before 1969, and the achievements OMBE points to today represent only a fraction of the participation potential minority enterprises have in such programs. Similarly, SBA has been criticized for not doing enough to obtain government contracts and private purchases for minority contractors and manufacturers. (68)

Like OMBE, the SBA has also been criticized for not having an adequate feedback system to allow for an evaluation of its performance. Its yardstick of success continues to be the dollar amount of funds allocated or the dollar value of contracts arranged for minority business people. SBA's initial zeal to rectify past abuses by recruiting minorities for business careers amounted to a free flow of funds and technical assistance to anyone

who wanted to go into business. Its screening procedures were poor and a new recruit's potential determination and entrepreneurial skill (or "business sense") was seldom an important consideration. Business success is now judged by minority business people's ability to repay loans and fulfill contracts.

Government, represented primarily by OMBE and the SBA, has different goals and expectations for accelerating the growth and development of minority businesses than do minority community leaders and scholars. Government's methods have been criticized and its achievements denounced. Nevertheless, all parties seem to agree that greater minority participation in our free enterprise system is a desirable objective that will ensure minorities a greater share of America's wealth. Government and private enterprises have contributed to this goal (parity for minority businesses). Although the pace is slow and far below minority expectations, government has accomplished much by providing financial assistance, by providing managerial and technical training, by adhering to government guidelines for subcontracting for minority products and services, and by supporting the establishment of minority operated manufacturing subsidiaries and

shopping centers that cater to the general public. Agencies designed to provide funds and technical assistance to minority enterprises have widened their scope of interest to include minorities other than blacks, and they have helped to establish a large array of minority-owned and-operated businesses. More importantly, the screening procedure employed by such agencies has become more qualitative and less broad; its objective is to assist mainly those aspiring minority entrepreneurs who demonstrate business sense and determination. This policy represents a significant change from government's initial, more enthusiastic approach of the late 1960s, when nearly all aspiring business people were funded. This period of indiscriminate funding lasted until about 1972. I call it the saturation approach to minority development. After 1972, a more cautious, systematic strategy evolved. Applicants for loans, for example, were scrutinized and projects were thoroughly evaluated. I call this second phase the selective approach to minority development. I believe the later is having an ameliorating effect on the condition of minority businesses, an effect that can be demonstrated at the local level.

The saturation approach did contribute to our

general knowledge about small businesses in minority communities at the national level. We recognized, for example, that although minority communities have similar social and economic problems, they are diverse enough to require different and sometimes unique solutions. Therefore, local surveys are required before specific recommendations can be offered and implemented. The following comparative evaluation of minority business development in the Twin Cities metropolitan area analyzes development methods deemed appropriate for this community.

Growth in Twin Cities Minority Businesses from 1969 to 1975

Government efforts to fulfill its commitment to ensure minorities a greater share of America's wealth through ownership of community-based enterprises produced a pattern of minority business development at the local level very similar to the one experienced at the national level. In the Twin Cities metropolitan area, two phases in the growth of minority-owned businesses are recognized and are associated with the saturation and selective approaches employed by government. The following case study was organized to evaluate minority business growth during both phases.

The Saturation Phase

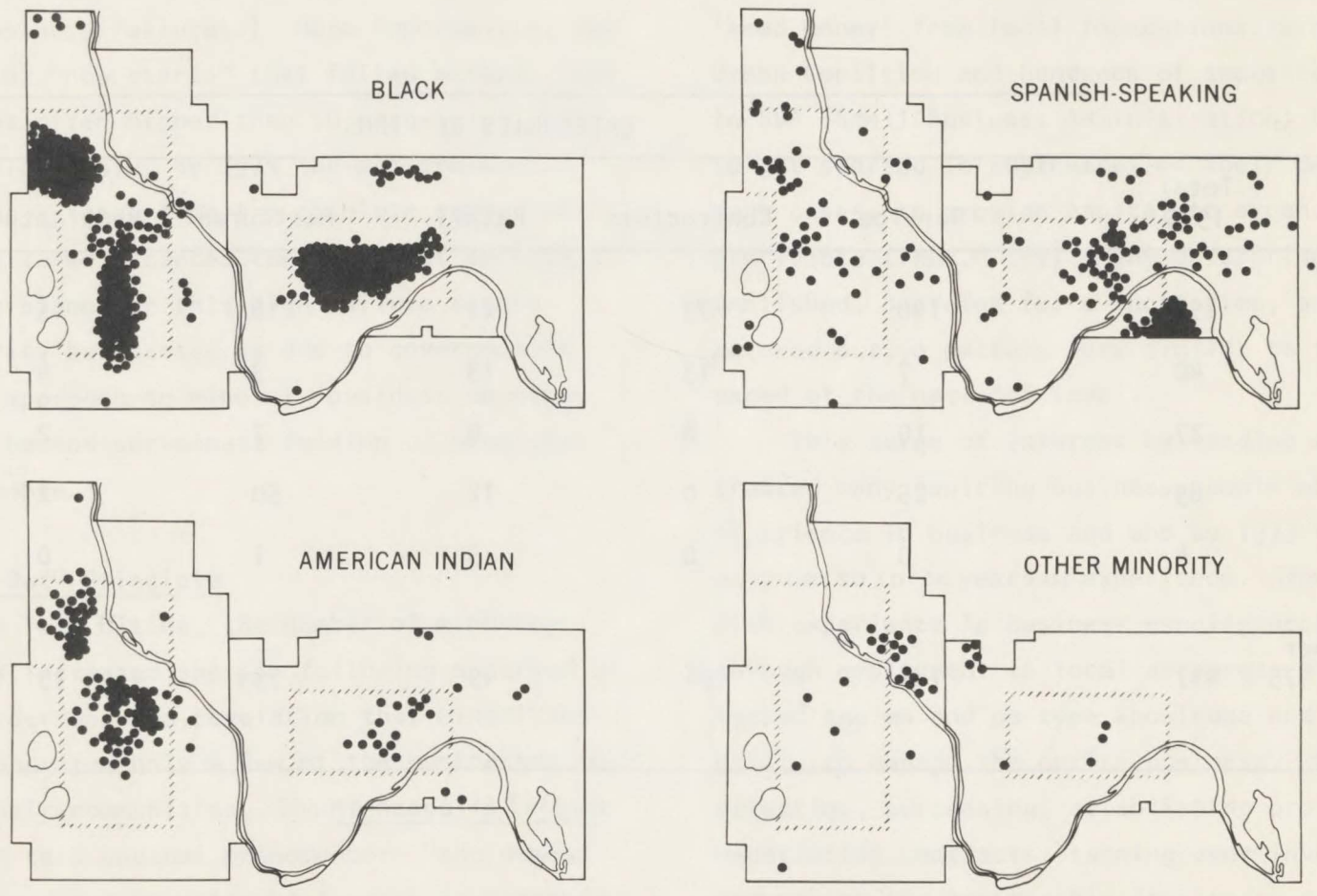
The minority population and minority-owned businesses are clustered in the Twin Cities (Figure 1). The majority of Minneapolis's 19,000 blacks live north (the "near north side") and south ("Powderhorn" and "Nokomis" or "South Minneapolis") of downtown. St. Paul's black population (10,930) is concentrated in the "Summit-University" area. The Spanish-speaking and American Indian populations are also highly clustered near the downtown areas, but other minorities (Chinese and Japanese especially)

are more dispersed. Minority populations are small in the Twin Cities: no minority population is larger than 5 percent of the total population.

Minority-owned businesses are primarily located in minority communities, but some are found in the downtown areas and in the suburbs (Figure 2, p. 40). Blacks own more businesses than any other ethnic group (Table 3). Their business ownership is concentrated in the service (140) and contractor (73) categories. Orientals are second with 89 establishments; more than 50 percent (50) are in the restaurant category. American Indians rank third in business ownership, and they are primarily contractors (13) or in retail business (13). Spanish-speaking Americans own the fewest number of businesses and are relatively evenly distributed among the service, contractor, and restaurant categories. In 1975, no ethnic group owned or operated more than five manufacturing firms and of the 417 minority businesses in the Twin Cities only 13 were listed as manufacturing. But these are almost unique because the majority of them survived from 1969 to 1975.

Minority business failures are common in the

Figure 1
POPULATION DISTRIBUTION OF MINORITIES, JULY 1973



Source: Metropolitan Council of the Twin Cities Area, compiled from 1970 Census data.

TABLE 3
 MINORITY ENTERPRISES IN THE TWIN CITIES METROPOLITAN AREA
 BY RACE AND CATEGORY, 1975

CATEGORIES OF FIRMS						
Ethnic Group	Total 1975	Service	Contractors	Retail	Restaurant	Manufacturing
Black	257	140	73	21	18	5
Indian	40	7	13	13	3	4
Spanish	27	10	8	0	7	2
Oriental	89	25	0	12	50	2
Other	4	0	0	3	1	0
Total number of firms, 1975	417	182	94	49	79	13

Twin Cities. Between 1969 and 1975, 250 minority-owned businesses failed (Table 4); most of them were located in minority communities. (See Figures 7 and 8 in the Appendix for detailed mapping of minority business failures.) More importantly, the percentage of "new starts" that failed between 1969 and 1975 was often higher than 50 percent of those surviving (Table 5). By 1974 the pattern had changed, but by that time the absolute number of business failures exceeded the number of survivals. Much of the blame for this high failure record among minority businesses is due to government's saturation approach to minority business development, and the indiscriminate funding of minority business people.

The "Peter-Out" Principle

In the Twin Cities, the number of minority-owned firms increased sharply following a period of civil disorder and the revelation that minorities owned and operated only a few of the businesses located in their communities. The Minneapolis Tribune reported on this unusual phenomenon: "the number of Negro-owned and-operated businesses in Minneapolis has grown sharply in the past year (1969)..." Reminding its readers that the failure rate among

new small businesses is traditionally high in the United States, the Tribune observed, "Still, since the fall of 1968, some 25 black entrepreneurs and one Mexican-American have received \$102,250 in 'seed money' from local foundations through the Urban Coalition and hundreds of thousands of dollars in SBA (Small Business Administration) backed loans to get started in businesses of their own...or, in many cases, to provide capital to expand already profitable firms." (69) Many enterprises were established, operated for a short time, and then petered out, a pattern very similar to that experienced at the national level.

This surge of interest by lending agencies attracted many aspiring business people who had no experience in business and who by 1973 had acquired only two to three years of experience. Those newcomers with experience in business usually acquired it through employment in local corporate firms. They lacked the ma and pa type knowledge and skill necessary to manage the entire business, which involves selecting, purchasing, establishing profit levels, negotiating contracts, turning over inventories, and making the innumerable day-to-day operating decisions so essential to the success of a business. The inexperience of these recruits has led to the

TABLE 4
 MINORITY BUSINESS FAILURES IN THE TWIN CITIES METROPOLITAN AREA
 BY RACE AND CATEGORY, 1969-1975

CATEGORIES OF FIRMS						
Ethnic Group	Total No. Firms	Service	Contractors	Retail	Restaurant	Manufacturing
Black	218	97	48	35	28	10
Indian	13	3	6	1	1	2
Spanish	8	2	0	4	2	0
Oriental	6	2	0	2	1	1
Other	5	1	0	3	1	0
TOTAL	250	105	54	45	33	13

TABLE 5
 MINORITY-OWNED BUSINESS STARTS AND FAILURES IN THE TWIN CITIES
 METROPOLITAN AREA, 1969-1975

	SATURATION PHASE			SELECTIVE PHASE				Totals
	1969	1970	1971	1972	1973	1974	1975*	
Firms in business by January	302	330	376	423	534	424	393	-
New starts	28	50	55	151	36	17	28	365
New starts that failed by 1975	14	25	34	111	15	2	0	201**
New starts still in business, 1975	14	25	21	40	21	15	28	164
Percent failures	50.0	50.0	61.8	73.5	41.7	11.76	0	-
Failures by year	0	4	8	40	146	48	4	250
Firms in business by December	330	376	423	534	424	393	417	-

* 1975 data is incomplete due to survey ending date.

** 49 firms established before 1969 also failed, bringing the total to 250

false belief that minorities lack a business tradition and has forced government assistance to minority entrepreneurs to focus on technical and managerial skills rather than on location, size, and economies of scale. (70)

Government, through its local offices and private agencies, organized and initiated programs to provide technical and financial assistance to prospective business people. Initially, these programs were modest and often voluntary. For example, the Service Corps of Retired Executives consists of "successful retired businessmen who donate their advice and experience, with their travel expenses paid by the men they help." (71) A similar program was designed by the Urban Coalition in association with the Minneapolis Urban League. One of the most successful efforts to assist minority business people was Business Enterprise for American Minorities, a program organized and administered by John Mitchell, a Honeywell employee. This kind of deliberate action by community leaders helped many poorly trained and inexperienced business hopefuls.

Incompetence and inexperience notwithstanding, the major hindrance to the growth of minority-owned businesses is investment capital. The major source of investment capital for minority-owned business

development in the Twin Cities has been the SBA, although the Community Development Corporation of St. Paul (CDC) and the Minority Economic Opportunity Fund (MEOF) also loaned capital for business development. These organizations were obliged to provide loans under unusual or nonconventional conditions, however, and in their enthusiasm to rectify the obvious inequity in the number of minority businesses relative to all businesses in the United States, they relaxed far too many standard lending procedures. Newly established business simply petered out. That is, businesses were established, operated for one or two years, and then failed. Others survived, but were never able to repay their loans. (72) For example, during the time that MEOF was active, it loaned \$133,000 to prospective minority businesses. Of this total, 2 percent was collected and 72 percent was written off. In St. Paul, the Community Development Corporation loaned \$325,000 of which 2 percent was collected and 4 percent written off (Table 6). SBA losses at that time cannot be determined, but overall losses in its program to assist minorities are indicative of the failure rate among these first loan applicants. SBA losses increased steadily from 1970 to 1975 for both business 7a and economic opportunity loans

TABLE 6

MEOF AND CDC LOAN ACTIVITY, 1971 - SEPTEMBER 1975

	1971	1972	1973	1974	1975	Totals	Write-offs as percent of total loans
<u>MEOF</u>							
Loans granted	\$133,320.25	-0-	-0-	-0-	-0-	\$133,320.25	
Collections	-0-	-0-	(\$ 1,500.00)	(\$ 650.00)	(\$ 1,035.28)	(\$ 3,185.28)	
Write-offs		(\$57,175.14)	(\$ 25,050.00)	(\$ 7,000.00)	(\$ 7,500.00)	(\$ 96,725.14)	
Balance						\$ 33,409.83	72.5%
<u>CDC</u>							
Loans granted	-0-	-0-	\$325,075.65	-0-	-0-	\$325,075.65	
Collections	-0-	-0-	(\$ 4,600.00)	(\$ 4,290.00)	(\$ 540.00)	(\$ 9,430.00)	
Write-offs	-0-	-0-	(\$112,789.19)	(\$162,932.11)	(\$29,005.70)	(\$304,727.00)	
Balance						\$ 10,918.65	93.7%

SOURCE: Charles W. Poe, "1975 Spring Hill Report." Mimeographed. Minneapolis, Minn.: Metropolitan Economic Development Association, 20 November 1975, Appendix E.

(Table 7). The highest losses in 1975 were for direct economic opportunity loans (18.99 percent) and guaranteed economic opportunity loans (12.60 percent). Economic opportunity loans go to promising minority business people. The SBA write-off rate for local business continues to climb; it reached 41.2 percent in fiscal year of 1976! (73) Overall, SBA losses from 1972 to 1975 never dropped below 11 percent, and in 1975 its overall losses had risen to 16.85 percent of all funds disbursed. Defaults of this magnitude reflect the pattern of growth characteristic of the saturation phase of government assistance in developing minority-owned businesses. Many new enterprises were established and operated for a short while, usually less than three years, and then failed. Indiscriminate lending to inexperienced business hopefuls, however, only partially explains this peter-out pattern; other factors operated to hinder minority business success in the Twin Cities.

Low management skills and undercapitalization are common barriers to prospective minority business people. Nevertheless, other less common but important problems also hinder minority business growth. Initially, minority business people failed to capture an adequate enough share of the retail

market to become viable enterprises. Even at this early stage, between 1969 and 1972, minority businesses made little effort to create consumer loyalty among minority residents or residents of the larger community. Nor did they attempt to accommodate various socioeconomic groups within these communities. In instances where minority entrepreneurs did cater to specific socioeconomic groups, lack of consumer loyalty resulted in a low sales volume and imminent failure. For example, J.LLS, Inc. was established by Lucase L. Smith in a facility previously occupied by Anthonie's Inc. The Minneapolis Tribune reports that J.LLS, Inc. "handles about the same kind of high-fashion clothing, in the same medium- to upper-price range, as did the successful Anthonie's shop, which moved to a larger building in the suburbs last July." (74) Nevertheless, the report revealed that "Since Smith opened J.LLS on August 4, business has been... 'terrible. We figure our first year's business should gross \$600,000, but we haven't yet had a month over \$14,000.'" (75)

Lack of consumer loyalty has long plagued black business people. (75) Community leaders readily admit that strong ethnic patronage does not exist in the black community. An unpublished

TABLE 7

SMALL BUSINESS ADMINISTRATION ACTUAL LOSSES,
FISCAL YEAR 1970 THROUGH 31 MAY 1975, BY PROGRAM AND BY TYPE

	DIRECT			IMMEDIATE PARTICIPATION			GUARANTEED			TOTAL		
	Cumulative disbursement	Actual losses	Percent of loss	Cumulative disbursement	Actual losses	Percent of loss	Cumulative disbursement	Actual losses	Percent of loss	Cumulative disbursement	Actual losses	Percent of loss
Business 7(a)	(dollars in millions)											
1970	\$805.0	\$35.5	4.41	\$1,530.5	\$25.3	1.66	\$1,003.0	\$ 5.6	0.57	\$3,338.5	\$ 66.5	1.99
1971	806.8	38.8	4.82	1,592.5	29.9	1.88	1,319.3	10.6	0.81	3,718.6	79.4	2.13
1972	834.5	44.9	5.39	1,635.1	35.5	2.17	2,393.0	24.9	1.05	4,862.5	105.3	2.17
1973	875.2	49.9	5.71	1,657.0	39.2	2.37	3,656.0	43.4	1.19	6,188.2	132.5	2.14
1974	903.2	53.5	5.93	1,669.2	42.2	2.53	4,953.9	67.6	1.37	7,526.2	163.3	2.17
1975 (31 May 1975)	955.6	60.8	6.37	1,680.6	44.8	2.67	5,818.0	114.3	1.97	8,454.2	219.9	2.61
Economic Opportunity												
1970	122.0	11.2	9.17	5.2	0.1	1.94	35.3	0.8	2.30	162.4	12.1	7.45
1971	177.0	17.2	9.72	6.2	0.2	3.14	50.4	2.7	5.42	233.5	20.1	8.59
1972	236.1	29.6	12.54	6.7	0.3	5.19	81.2	6.7	8.29	323.9	36.7	11.33
1973	298.2	42.3	14.18	7.3	0.6	8.00	129.8	11.2	8.62	435.3	54.0	12.41
1974	356.5	55.0	15.43	7.9	0.8	9.84	171.2	15.7	9.16	535.6	71.4	13.33
1975 (31 May 1975)	400.4	76.0	18.99	8.3	0.9	10.49	189.8	23.9	12.60	598.4	100.8	16.85

SOURCE: U.S. Congress, House, Subcommittee on SBA Oversight and Minority Enterprise of the Committee on Small Business, Minority Enterprise and Allied Problems of Small Business, 94th Cong., 1st sess., 1975, House Report No. 94-468, p. 18.

statement on the origin of the Buy-Black Campaign in Minneapolis discusses the level of consumer loyalty in the black community and how Buy-Black campaigns hoped to change that:

Although the Buy-Black Campaign was directed at white customers, there was a reaction in the black community...Public acknowledgement of white people's acceptance of these businesses made black customers follow suit. This implied that black customers apparently did not have confidence in black-owned businesses and would only accept them after the white man gave them his sanction. Inquiry with other black businessmen proved this to be true. Most service stations reported that it would take them upward of a year of doing business with white customers before black customers in the area would patronize them. Meyerhoff feels that this black prejudice against black businesses is really no surprise. It is one of the scars that a hundred years of white racism has left on black people. The white man has been telling the black man that he is inferior, for so long, that black people now believe this. So, if black people are inferior, so are black businessmen. Why should a black customer risk his hard-earned dollar on a questionable black business...However, when a black customer sees white customers express confidence in a black business... they begin to change their minds. So it seems that a black 'buy-black' activity naturally follows a white 'buy-black' campaign. (76)

Poor customer loyalty in the minority community means that minority business enterprises must appeal to all consumers. In 1969, for example, only one third of the black businesses in Minneapolis and St. Paul had more than 50 percent black customers. (77) Bad economic times city-wide, high inventories, and low consumer loyalty combined to force such enterprises into debt and eventually into bankruptcy.

Business history tells us that it is poor planning to assume that a location in a demographic transition zone is good without assessing the market potential in that zone. Middle income to high income black and white consumers are moving to the suburbs or are able to travel to the suburbs or downtown for goods and services. Such transition zones are usually occupied by less mobile and lower income consumers. To be successful, minority business people must understand how much demographic factors affect purchasing power and demand. Inventories and location are dictated by consumer demand and by consumer ability to pay. Many black businesses, for example, fail to change inventories and location to accommodate changes in the black community.

The Selective Phase

The numbers of new minority businesses have proved to be an adequate indicator of government and private performance toward achieving parity (percentage of total United States receipts) for minority businesses. (78) But progress is more intangible than number or size. Progress is measured by the opportunities for minorities to acquire a greater share of the wealth. Government and private commitment to our national policy of accelerating the growth and strengthening the profitability of minority business enterprises reflects the degree of concern they have for developing the entire community. During 1972 and 1973, government and private enterprises changed their approach to minority business improvement. The historic struggle of minorities for fuller participation has continued to be ignored, a source of anger for many minority business people. But the overall impact of this new approach has been to create fewer, more prosperous enterprises that are geared to the wider community. These modest gains reflect a more reasoned selective approach to minority business development. The following section discusses government and private efforts between 1972 and 1975 and presents evidence of their impact on minority busi-

ness development in the Twin Cities.

The selective approach in the Twin Cities evolved from the saturation approach. New organizations (with different programs) were formed, usually to replace those initially unsuccessful ones. These organizations and programs represent a change in government strategy to make good on its national commitment. In 1971, the Secretary of Commerce was given special legislative authority to coordinate federal efforts to provide additional technical and managerial assistance to disadvantaged entrepreneurs and to authorize and finance demonstration projects. In accordance with this new authority, OMBE redefined its mission (see discussion earlier) and redirected its efforts toward establishing viable, profit-making enterprises; it lobbied for and received legislative authority to establish minority lending programs; and it sought, through the SBA, purchasing contracts (SBA 8a) for minority suppliers. These efforts, national in scope, were administered locally through the regional and state offices of the OMBE. In the Twin Cities, the Metropolitan Economic Development Association (MEDA) and HELP Development Corporation (HELP) were formed to assume the responsibility of assisting with programs for prospective minority business people, programs

that had been originally administered by MEOF and CDC.

Backers and organizers of these new agencies perceived two possible strategies: they could help minorities develop enterprises that catered exclusively to the minority community, or they could assist minorities in developing enterprises that served an integrated but predominately white customer market. The first alternative was reasonable, but impractical. Available information showed that in 1969 black businesses had not established consumer loyalty in the black community. In fact, they had captured only one-tenth of the black market in the Twin Cities. (79) The black community alone is incapable of supporting several black-owned businesses. The second alternative offered possibilities because a few whites had enough confidence in minority products and services to purchase them. Furthermore, there were few major corporations in the Twin Cities that were compelled by government regulations to establish minority purchasing programs (Honeywell is an important exception).

Both alternatives offered possibilities for established business people and community leaders to help accelerate the growth of minority-owned businesses in the Twin Cities. Apparently neither

alternative was formally adopted, but over time these new organizations moved toward aiding minority-owned businesses that could potentially serve an integrated market. They immediately abandoned the saturation approach employed by MEOF and CDC and adopted a more cautious screening approach that emphasized entrepreneurial attributes, project potential, and the "bankability" of the applicant. In addition, emphasis shifted from exclusively black business hopefuls to all minorities (American Indian, Spanish-speaking Americans, and Orientals). But several assumptions about minority entrepreneurs that were developed during the saturation period carried over into programs formulated by these new organizations. For example, recent efforts to develop minority business represent a resurgence in their growth, not a lack of "business tradition." Nevertheless, many of the remedies designed to strengthen minority businesses in the Twin Cities continue to emphasize low management and technological skills, a strategy best suited to "new recruits."

Although more serious criticisms can be directed specifically at the SBA, they probably hold true for other organizations that have adopted a more cautious lending procedure during this selective

phase. Sensitive of its poor loan recovery record, the SBA tightened its lending procedures and formulated loan standards very similar to conventional bank procedures. This meant that the major source of high risk funds earmarked for minority business development was lost. The new lending policy of SBA and other organizations alienated members of the minority business community. (80) In addition, these precautions were viewed as part of the Ford administration's overall policy of "cutbacks" to reduce federal involvement at the state level, a policy more justly called the "new minimalism" policy. (81)

Another criticism of SBA, which may apply to other organizations, is that its programs preclude assisting non-SBA clients. In other words, SBA has an inherent conflict of interest in providing management and technical assistance to minority business people who are SBA loan recipients. In an attempt to protect its investments and loans, SBA concentrates its management and technical assistance services on its loan portfolio and 8(a) recipients, rendering itself incapable of providing adequate programs and services to those minority business people who have secured financing without SBA help but who still require management and tech-

nical assistance. For this reason, struggling but highly motivated minority business people may have been overlooked in favor of newly established business people.

Despite these persistent conflicts, government and private agencies did improve the status of minority business in the Twin Cities. Data published by the U.S. Census reveal the gains made in black-owned businesses between 1969 and 1972 (Table 8). Overall, black-owned businesses increased by 11 percent from 391 in 1969 to 435 in 1972. The greatest increase was in wholesale trade, with construction second. Transportation and utilities increased by 37 percent and manufacturing by 22 percent. Finance, insurance, and real estate decreased by 35 percent. The relative distribution of black-owned firms in the Twin Cities was very similar to that of the nation as a whole (Table 2 and Table 8). Retail trade and selected services accounted for 70.6 percent of all black-owned enterprises in the Twin Cities during 1972. Manufacturing and wholesale trade employed the fewest blacks.

Gross receipts increased substantially over this period (Table 8). As expected, selected services and retail trade were the fastest growing black enterprises. Black contractors represented

the fastest growing business.

A significant indicator of growth is the number of paid employees working in a firm (Table 8). Between 1969 and 1972, black firms with paid employees increased by only 2.1 percent, but their gross receipts increased by 133 percent. Those without paid employees increased by 14.2 percent, but their gross receipts increased by only 88.6 percent. Overall, gross receipts increased by 127 percent. In addition, overall increases in gross receipts and increases for firms with paid employees were greater than those for the nation as a whole.

Data on gross receipts (sales) for all minorities in the Twin Cities are unavailable, but the survey made for this report revealed that the absolute number of minority-owned businesses declined between 1972 and 1975, from 534 to 417. The largest number of failures occurred among firms established after 1969 and among those located in minority communities. The fewest number of failures occurred in downtown areas and in the suburbs. Even "south" Minneapolis, a relatively high income minority community and one considered most suitable for minority business development, experienced as many failures as the poorer communities.

Nevertheless, by the end of 1975 there were 417 minority-owned firms located in the Twin Cities area (Figure 3). Most of them were located in minority communities, but a sizable number were located in the downtown areas and in the suburbs. The largest minority-owned enterprises were located in the suburbs and in the downtown areas. Essentially, the largest, most stable minority business enterprises were located outside the "core" of the minority communities. (See Appendix, Figure 9) They either had the mobility to seek the more affluent black and white suburban consumer, or lending agencies had changed their policy from establishing minority firms solely in minority communities, which is essentially a "go public" strategy for minority business development.

Nevertheless, minority enterprises are often ill located either inadvertently or by design. One major locational problem stems from the saturation period. During that period, minority establishments providing similar or identical functions were located in proximity to each other. Although it is claimed that competitive advantages may be gained through clustering similar establishments, black business people did not perceive them and avoided clustering before 1969. Gunnar Myrdal, a Swedish

TABLE 8

MINNEAPOLIS-ST. PAUL BLACK-OWNED FIRMS BY INDUSTRY, 1972

Type of Industry	Number of Firms			Business Receipts (in thousands)		
	Amount	Percent of Total	Percent change from 1969	Amount	Percent of Total	Percent change from 1969
Firms with Paid Employees	98	22.5%	2.1%	\$28,373	88.4%	133 %
Firms with no Paid Employees	337	77.5	14.2	3,719	11.6	88.6
Selected Services	192	44.1	10	8,460	26.4	123
Wholesale Trade	4	0.9	300	D	-	-
Retail Trade	115	26.5	16	15,924	49.6	203
Manufacturing	11	2.5	22	D	-	D
Construction	34	7.8	70	2,398	7.5	656
Transportation and Public Utilities	26	6.0	37	415	1.3	D
Finance, Insurance, and Real Estate	24	5.5	-35	1,294	4.0	3
Other Industries	5	1.2	-	263	0.8	2
Industries Not Classified	24	5.5	-	255	0.8	-2
TOTAL	435	100.0	11%	\$32,092	100.0	127%

D = Withheld to avoid disclosing figures for individual companies.

- = Zero.

SOURCE: Adapted from U.S. Department of Commerce, Bureau of the Census, 1972 Survey of Minority-Owned Business Enterprises, Special Report: Minority-Owned Businesses-Black, MB72-1, 1974, pp. 70-71.

Figure 2
 MINORITY BUSINESSES ESTABLISHED BEFORE 1969

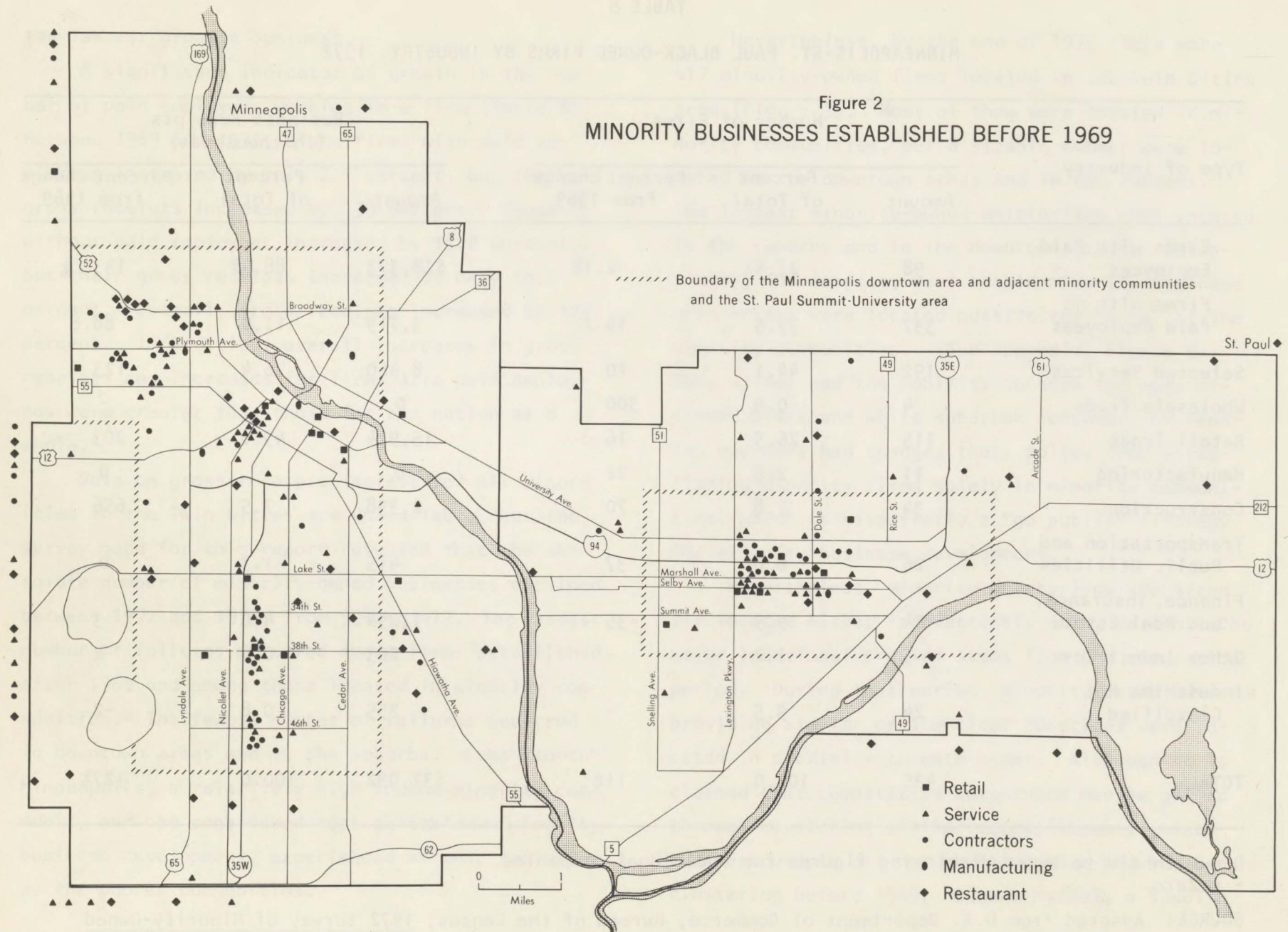
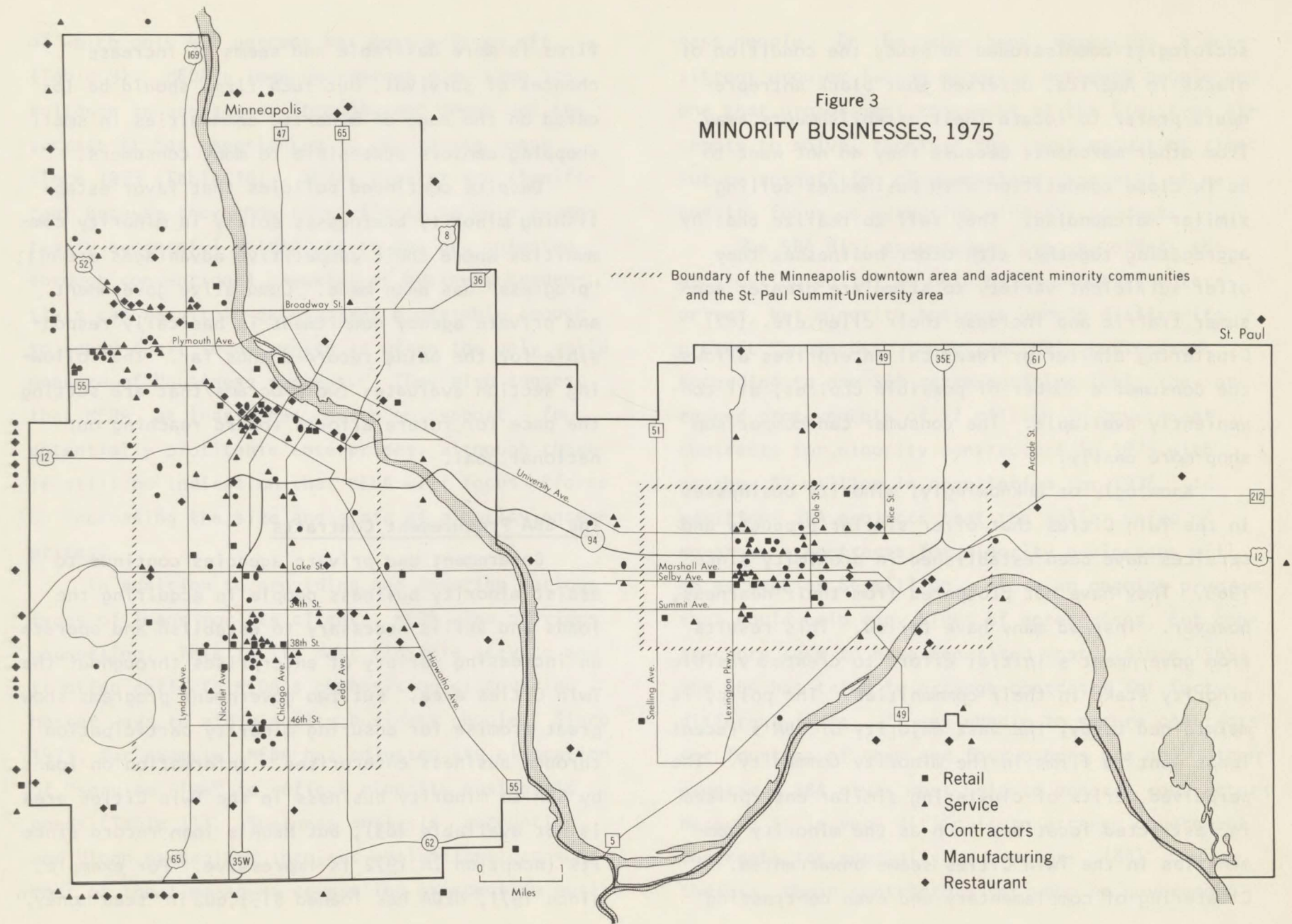


Figure 3
 MINORITY BUSINESSES, 1975



sociologist commissioned to study the condition of blacks in America, observed that black entrepreneurs prefer to locate their establishments away from other merchants because they do not want to be in close competition with businesses selling similar merchandise. They fail to realize that by aggregating together with other businesses they offer sufficient variety to stimulate greater consumer traffic and increase their clientele. (82) Clustering similar or identical enterprises allows the consumer a number of possible choices, all conveniently available. The consumer can comparison shop more easily.

Knowingly or unknowingly, minority businesses in the Twin Cities that offer similar products and services have been established in proximity since 1969. They have not prospered from their nearness, however. Instead many have failed. This results from government's initial effort to create a visible minority stake in their communities. The policy is maintained today; the vast majority of SBA's recent loans went to firms in the minority community. The perceived merits of clustering similar enterprises in restricted locations such as the minority communities in the Twin Cities seems unwarranted. Clustering of complementary and even contrasting

firms is more desirable and seems to increase chances of survival, but such firms should be located on the edge of minority communities in small shopping centers accessible to many consumers.

Despite continued policies that favor establishing minority businesses solely in minority communities where their competitive advantages are nil, "progress" has been made. Cumulative government and private agency commitment is basically responsible for the gains recorded thus far. The following section evaluates two programs that are setting the pace for future efforts toward reaching our national goal.

The SBA Procurement Contracts

Government and private agencies continue to assist minority business people in acquiring the loans and skills necessary to establish and operate an increasing variety of enterprises throughout the Twin Cities area. But two government programs show great promise for ensuring minority participation through business enterprises. Information on loans by SBA to minority business in the Twin Cities area is not available (83), but MEDA's loan record since its inception in 1972 is impressive. For example, since 1971, MEDA has loaned \$151,602 in "seed money,"

of which only 4.8 percent has been written off (Table 9). MEDA's loan guarantees also show its reliance on assistance through seed money and the success it has experienced in recovering loans since 1973 (Table 10). These figures are significant because they show that efforts to help potentially successful entrepreneurs who are selected through conventional checking of business credentials can result in enterprises profitable enough to repay their loans, which is often the only valid measure of "business success." They also suggest that MEDA, at least, has chosen to support a few potentially profitable enterprises, although there is still no indication that MEDA will focus efforts on increasing the size and scale of minority enterprises.

In addition to providing and insuring various types of loans for its clients, MEDA also provides counseling. This is its most flexible service and it often reflects MEDA's emphasis on discovering better ways to aid minority business people. Since 1973, for example, MEDA has adjusted its allocation of "service time" to reflect minority business's needs (Table 11). Business analysis, accounting, and "loan packaging" (project evaluations) consume most of the time spent counseling prospective busi-

ness people. On the other hand, marketing, a persistent problem facing minority business people and one that procurement contracts of the 8(a) type attempts to solve, receives the least amount of time. Future reshuffling of counseling time will of necessity focus on marketing minority products.

The SBA 8(a) procurement program offers the greatest potential to help build minority enterprises, but minority business people dislike its present "boom-bust" impact on their businesses. According to one SBA representative (84), they arranged procurements of \$2 million in government contracts for minority contractors in 1975 with another \$2 million in negotiation for 1976. In addition, SBA projects that the dollar value of government contracts for minority businesses will go as high as \$4 million. It is an ongoing program that could help many kinds of enterprises, but contractors seem to have benefited most. Since 1969, the SBA has tried to arrange contracts for forty different firms. It was unable to secure contracts for fourteen of them and four others are new in their program. SBA gives most help to general contractors because it is very difficult to arrange government contracts for specialty contractors. (84) Nevertheless, those contractors for whom no government

TABLE 9

MEDA LOAN ACTIVITY, 1971 - SEPTEMBER 1975

	1971	1972	1973	1974	1975	Total	Write-offs as percent of total loans
<u>MEDA</u>							
Loans Issued	- 0 -	\$ 3,600.00	\$25,198.00	\$58,310.92	\$64,493.11	\$151,602.03	
Collections	- 0 -	- 0 -	(1,786.68)	(46,658.52)	(39,736.85)	(88,182.05)	
Write-offs	- 0 -	- 0 -	(4,098.00)	- 0 -	(3,195.82)	<u>(7,293.82)</u>	4.8%
Balance						\$ 56,126.16	

SOURCE: Charles W. Poe, "1975 Spring Hill Report," Mimeographed. Minneapolis, Minn.: Metropolitan Economic Development Association, 20 November 1975, Appendix E.

TABLE 10

MEDA LOAN GUARANTEES, 1973 - SEPTEMBER 1975

Date of Awards	Amount of Guaranteed Loans	Honored Loans	Loans Repaid 1974	Loans Repaid 1975	Loans Outstanding	Percent of Loans Repaid
1973	\$11,000.00	\$ 9,000.00	\$ 8,000.00	\$ 1,000.00	\$ 2,000.00	81.8%
1974	1,150.00	1,150.00	350.00	800.00	0.00	100.0%
1975	<u>2,500.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>2,500.00</u>	--
TOTAL	\$14,650.00	\$10,150.00	\$ 8,350.00	\$ 1,800.00	\$ 4,500.00	69.2%

SOURCE: Adapted from Charles W. Poe, "1975 Spring Hill Report," Mimeographed. Minneapolis, Minn.: Metropolitan Economic Development Association, 20 November 1975, Appendix E.

contracts could be arranged are still given "lots of assistance."

Valuable though this "assistance" is, the SBA procurement contracts still provide the highest potential for growth. Between 1971 and 1975, the SBA arranged ninety 8(a) contracts. Some contractors received as many as thirteen separate contracts, totaling \$1,554,000. One contractor received five contracts over the five-year period for a total of \$4,383,000. The mean number of contracts was 4.7, but all contracts totaled \$10,627,400. (84)

All minority contractors have benefited from this program, but black contractors predominate, totaling twenty-three for 57.5 percent. Eleven Indian and six Chinese contractors also participated. (84)

MEDA encourages its clients to participate in 8(a) procurement programs, but directs much of its effort toward arranging contracts with private industries. Nevertheless, government agencies remain the major source of procurement contracts for MEDA clients. In 1973, MEDA acquired more than \$421,000 in government and private contracts. In 1974, the amount rose to \$1,605,492, of which \$1,389,930 was for government contracts. At the end of 1975, MEDA had arranged an estimated \$1,643,506 in government

and private industry contracts. MEDA foresees a substantial increase in 8(a) procurement type contracts with private industry in the near future, especially if a purchasing council is formed for that purpose. (85) Although lacking a purchasing council, MEDA will probably acquire \$1 million or more in government and private contracts for its clients in fiscal year 1976.

Despite SBA's claim that its objective is to "ensure profits" for minority contractors, many business people denounce the program and suggest that it should be reorganized. Data on minority business persons' attitudes toward certain government programs designed to assist them are few and those that do exist are inconclusive. (86) Nevertheless, the conclusions drawn from these fragmentary data are consistent with findings elsewhere (87) and should be seriously considered. One problem minority business people have stems from the low profit they gain from 8(a) contracts. In 1975, the profit margin on the contracts arranged by SBA varied between 5 and 20 percent. (88) Minority contractors say it is usually nearer 5 than 20 percent, which is too low for them to show a profit. Yet minority business people are willing to participate in the 8(a) procurement programs because they

TABLE 11

DISTRIBUTION OF MEDA CLIENT SERVICE TIME

	COUNSELING HOURS					
	1973		1974		1975 *	
	Number of hours	Percent of total	Number of hours	Percent of total	Number of hours	Percent of total
Business Analysis	2,589.4	46.9	1,827.6	30.6	2,596.7	46.9
Accounting	1,632.4	29.6	1,949.4	32.7	1,354.8	24.5
Loan Packaging	956.9	17.4	1,827.6	30.6	1,298.4	23.5
Marketing	337.7	6.1	365.5	6.1	282.3	5.1
Total Hours	5,516.4	100.0	5,970.1	100.0	5,532.2	100.0

*Twelve-month estimate; actual total hours for January through September, 1975 were 4,709.

SOURCE: Charles W. Poe, "1975 Spring Hill Report," Mimeographed. Minneapolis, Minn.: Metropolitan Economic Development Association, 20 November 1975, Appendix E.

believe it may help them get established as viable, ongoing business enterprises.

Another more serious problem is associated with the "boom-bust" nature of the 8(a) contract program. Minority contractors complain that the contracts are too often one shot arrangements. When a contract is arranged, they must gear-up their production for it. They complain that the major corporations do not follow up with another contract, and when they do it is often for an entirely different product. This constant reorganizing of production facilities and retraining of personnel is costly. Minority business cannot cope with the costs arising from this discontinuous demand. To "ensure profits" and stable operations for minority enterprises, the SBA and MEDA must seek to reduce the boom-bust impact that 8(a) procurement contracts have on minority business profits and operations. They could do this by arranging follow-up contracts to produce similar products or provide similar services for several years. Government contracts may not allow this continuity, but private industry contracts should. Greater emphasis, then, should be placed on arranging procurement contracts in the private sector of our economy.

Minority Vending Programs (MVP)

OMBE sought legislation in 1971 to compel private corporate enterprises to assist minority enterprise development. It was successful and on 18 October 1971, Federal Procurement Regulations, Title 4 became effective. Its most important provision stipulates the conditions under which private industries must establish a purchasing program with minority enterprises. It states that: "on government contracts over \$500,000, the (corporate) contractor will contract to agree to establish a minority (purchasing) program." (89) These programs became known as: Minority Vending Programs (MVP).

Several corporations, including Burlington Northern Railroad, have refused to honor this provision. (90) On the other hand, many companies have complied and have initiated comprehensive programs to help minority business people produce a product with a "secure" market. In December, 1971, for example, Honeywell complied with government regulations and established a goal of 1 percent of its 1972 expenditures for goods and services in the United States to be placed with minority suppliers. Honeywell's record is fair: "the initial goal of 1% of purchases (approximately \$4.5 million) was surpassed by \$500,000 in 1972. Honeywell is expecting

to place approximately \$6.5 million for 1974. By contrast, only \$1.7 million were placed in 1971, when minority purchasing was only voluntary policy."

(91) The exact number of firms establishing minority vending programs in the Twin Cities is difficult to determine but in addition to Honeywell, Jewel Company, Inc., Universal Oil, Inc., Western Electric, and 3M Company are all involved in some form of minority purchasing programs.

Discontent Among Minority Venders

Although this strategy obligates private industry in our economy to minority business development and its prospects seem promising, minority business people are dissatisfied with the program.

(92) Indications of this discontent are judged from a survey made of minority business persons' attitudes toward contract arrangements with Honeywell. (93) Initially, the MVP developed by Honeywell justifiably focused on minority industrial firms owned by blacks. Later it involved other minorities. The program assisted those companies that generated the largest number of jobs and the highest total wages in the minority community. The attitude survey selected sixteen firms from Honeywell's Minority Vending Directory, but four had

closed and two refused to be interviewed. Nine of the firms were black-owned and one was Japanese-American. The total number of employees was 265; one firm employed 140 workers and another employed 70, but the typical size was 6 employees. All business people had sold or were selling to Honeywell, and most (7) had arranged their own contracts.

Minority business people expressed several objections to the program. Eight of them felt their dealings with Honeywell through its MVP had negligible and even adverse effects on their firm's growth. Only three said it was vital to the success of their business. The business people said there was no follow-up in purchases or technical assistance from Honeywell. On the other hand, they expressed hope for the program: several said they accepted the initial order, often at a low profit margin, in hopes of receiving future orders that never came. Fluctuating demand and frequent withdrawal of demand were the major objections minority business people had to the program. They said these problems are the ones that lead most often to bankruptcy. (94)

Additional problems plague minority business people and, combined with those discussed above, have served to frustrate and alienate participating

business persons. Seemingly, minority business people are quite willing to enter into an arrangement that has the potential of creating profitable, ongoing business enterprises for them. But they feel the procurement contracts make them basically subsidiaries to larger companies that are uncommitted to helping them succeed.

Four comments from minority business people best summarize the objections to the MVP:

"The 8(a) contract negotiators are really tough. This is a fairly competent company, but we have never been able to break even on an 8(a)."

"We have been quite happy with our 8(a) contracts. The profit margins on them are very slim, but when you have been in business for 30 years, you know how to cut costs. We need work, and will take anything we can get our hands on."

"Let me put it this way. 8(a)'s usually cost you money, but they do give you experience, and buy you time until better things come along."

"No one that I know of has ever been shown any profit on an 8(a) contract. Just more 'Nixon politics.'" (95)

Those business people interviewed believe Honeywell could make more consistent purchases of minority products and services, that it could enter into joint ventures and drop competitive bidding,

and that it could increase its purchases. In essence, these small enterprises are ill-equipped to handle extreme fluctuations in demand and they believe major firms like Honeywell should voluntarily purchase from minority businesses on a consistent basis. They argue that, following government guidelines of subcontracting to minority business people only when they receive a government contract of \$500,00 or more does not provide the "secure," continuous demand minority business people need to create profitable and stable enterprises.

The SBA has not indicated its awareness of these objections, but MEDA seems to have recognized the crucial need for regular purchases by corporate businesses in the Twin Cities. To ensure such purchases, MEDA has proposed to organize the Twin Cities Purchasing Council (TCPC). (96) "The Council will be an affiliate of the National Minority Purchasing Council, a national organization funded by OMBE." MEDA hopes to ensure consistency of purchases from minority business by "establishing an on-going business relationship between its clients and the major corporations' purchasing departments." Without major commitments by private industries to minority business development in the Twin Cities little progress toward parity will be achieved.

Agencies like MEDA continue to seek ways to gain such a commitment.

MEDA outlines two prerequisites that must be met before accelerated growth in minority business enterprises can occur: 1) Local executives and staff members of major corporations must be committed to instituting purchasing programs with minority business people. Quotas must be set as a matter of policy and staff personnel must be directed to meet these quotas. 2) Corporations must provide minority suppliers with the organization and qualifications necessary to supply corporations. Assistance will be needed in most phases of the program "to help them (minority business people) secure and fulfill the contracts." This kind of intangible commitment by government and private industry, when achieved, will go far toward achieving parity for minority businesses.

Local Barriers to Progress

An equally important, but intangible, aid in progress toward parity would be increased inter-agency communication. OMBE and SBA's national level organizations have been severely criticized for "re-inventing the wheel," but local level organizations also fail to communicate problems or successes they

have experienced while assisting minority businesses. Instead, like OMBE and the SBA, they have become rivals. This is especially true between the city-based agencies of MEDA and HELP, where only letters of cooperative intent can be found. On the other hand, when MEDA's clients overlap with those of the local office of the SBA, constructive information is frequently passed on from one agency to the other. But, if no overlap in clients exists, no communication seems to occur. For example, the Hager survey revealed that very few of the minority vendors interviewed were aware of MEDA and the services it rendered to minority business people. (97) These data are inconclusive and more study is required before lack of interagency communication can be definitely considered a hindrance to minority business development.

Nevertheless, MEDA believes that minority businesses benefit from dialogue between local level agencies designed to help minority business enterprise grow. To facilitate communication between itself and government agencies, for example, MEDA and the Federal Executive Board of the Twin Cities (FEBTC) are housed in the same office suite. MEDA has forged working relationships with several other agencies and organizations. Examples are: the

Minnesota Accounting Aid Society; the Minnesota Business Opportunity Committee, a task force of FEBTC; and the Business Leadership Training Program.

The FEBTC assists minority business people in several ways. Many of these involve MEDA directly or involve other lending agencies: It sponsors seminars on small purchases from minorities, arranged for the treasury approved transfer of \$15 million by Customs to minority banks, holds meetings on location at minority enterprises for their convenience to provide counseling on problems they may have, recommends minority business people to MEDA when it feels they will benefit from MEDA's services, provides assistance to minority contractors so they will complete a job successfully and profitably, helped in developing a guide and checklist to be used in training members of MEDA's Construction Contractors Association regarding handling government contracts, and assists in acquiring SBA 8(a) contracts for minority contractors. (98)

Undoubtedly, MEDA's efforts to communicate with other agencies are commendable, but they often are inadequate. The "go public" concept, which MEDA seems to subscribe to, requires a concerted effort metropolitan-wide. Government and community-

based agencies should develop a plan that defines how they can systematically contribute to ensuring greater participation for minorities in our free enterprise system through business ownership. As yet, no metropolitan scale plan exists and independent organizational action remains inadequate. (99)

Conclusions and Recommendations

The unprecedented commitment of the national government in 1968 to ensure minorities greater participation in the American free enterprise system through ownership of business enterprises has not been realized. Government programs, both federal and state, local agency assistance programs, and private industry involvement have all failed to achieve parity, however defined, for minority business people. The reasons for this failure are many, but five stand out: 1) Too much time and effort, and too many resources have been spent by government on unproven, small-scale minority business enterprises and on inexperienced, overly zealous minority business aspirants for the sake of increasing the number of minority business enterprises in America. 2) Too much emphasis is still being placed on providing training programs (in management and accounting and other entrepreneurial skills) for new recruits whose entrepreneurial qualities are nil. 3) Too few programs designed to ensure minority participation in American society stress an increased size and scale of business operation that would allow minority enterprises to produce as cheaply as corporations. 4) Too much

emphasis has been placed on minority community locations for minority enterprises, forcing similar enterprises to cluster in poor demand areas. 5) Government and private industry have given too little commitment to our national policy of equity for minority business people, thereby severely hindering minority expansion into newer, growing industries and dampening minority pride in self-achievement and community development.

Government, local agencies, and private industry have, however, made some progress toward parity. More could be achieved if government and other organizations were fully committed to achieving parity for minority businesses. Without full commitment, greater participation for minorities through business enterprises is doomed. But damnation is not inevitable.

Greater strides could be made toward establishing enterprises of sustained growth (businesses with reasonable profits) through business training for young minority aspirants at the university level and through apprenticeships; through adequate funding and arranging of secure markets; through planned, dispersed, or clustered (small shopping

center) locations of similar enterprises; and through expansion into newer, growing industries.

Even greater progress is possible providing that some earlier areas of emphasis are ignored or are absorbed into a systematic plan to assist minority business people. For example, efforts could be directed toward acquiring more franchises for minority businesses. Franchising arrangement is "one of the promising opportunities for young Negroes aspiring to a business career, but lacking money and experience...." (100) Another useful effort could be arranging "buy-outs" of established, strategically located (suburban or downtown) enterprises for prospective minority business people. Research has shown "that black entrepreneurs who borrow to purchase already existing and established businesses (including franchises) have a greater chance of success than those borrowing to start new firms." (101) The advantage of promoting a "buy-out" policy is that it allows for expanding the size and scale of minority business enterprises that are geared to a general market, not just to the minority market.

This is essentially a "go public," "reformist" position. It rejects the rhetoric of the neocolonial philosophy and the overly zealous goals proposed

for and stemming from the saturation period as unobtainable and even undesirable for minority community development. Instead, equity in terms of location, size, and economies of scale, allowing minority business enterprises to be competitive with large corporate firms and to contribute to minority community development, is a more obtainable and desirable goal. Emphasis would shift to fewer, but larger, minority enterprises whose products and services have appeal beyond the minority community.

This recommendation does not ignore the unique economic and social history of minority communities in the United States, nor does it reject the vast differences between minority communities and possibly the applicability of unique solutions, at least in the short-run. But long-run solutions should not be designed to create or perpetuate minority communities as separate, closed economic entities developing alongside of but separate from the larger community. Unquestionably, special efforts will have to be made initially to ensure minority community development, but community convergence, not divergence, should be our national goal.

General Model of Community Development

My last recommendation is that our national goal of parity for minority business people include a strategy for minority community development. Such a strategy would seek to reform rather than discard our free enterprise system through increasing public and private commitment to minority enterprises. The aim would be to accelerate minority business development to ultimately achieve community convergence.

Figure 4 outlines a model of minority community development through minority business development.(102) It proposes that government and private programs place greater emphasis on fewer but larger (in size and scale) minority business enterprises that have a high potential to operate at a reasonable level of profit. Initiation of new projects originating within and outside the minority community, acquisition of franchises, arrangement for "buy-outs" in good locations, procuring SBA type 8(a) contracts from government and private industries, and providing high level technical skills for prospective business people are all required to rapidly increase minority business growth. These efforts will initially be concentrated on minority firms, but firms whose product and service appeals

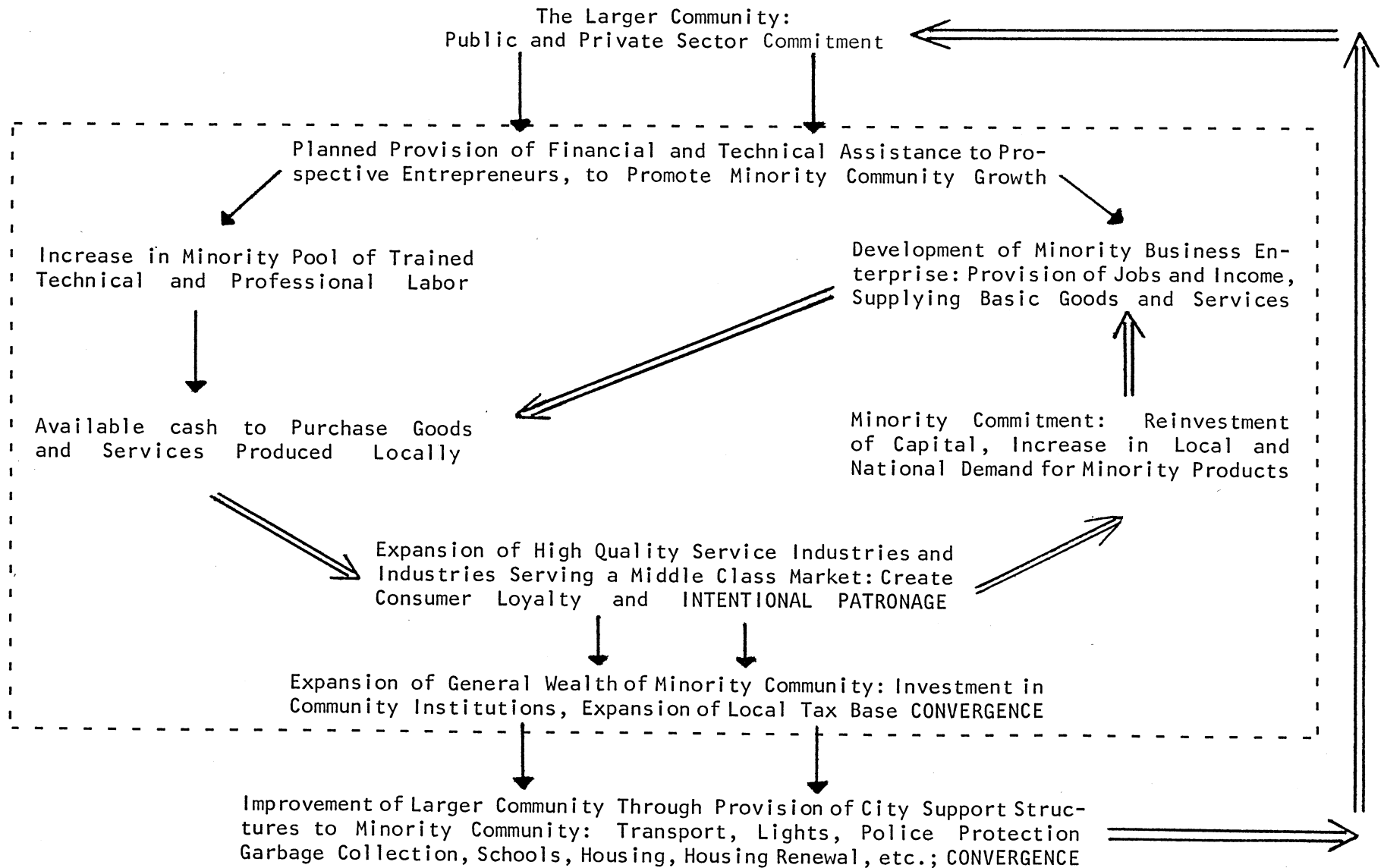
to the larger community. Such firms will be accessible to members of the larger community, but re-investments by minority business people will of necessity be geared to the minority community.

Community development is envisioned as an important side effect of successfully operating businesses (Figure 4). Such businesses provide technical opportunities, jobs, and income to members of the community who are then able to purchase goods and services provided by minority firms. Minority business people are initially obligated to reinvest capital in the minority community and to initiate programs that create and sustain consumer loyalty among a diverse clientele. This is the most important "loop" in the model and will take considerable time to achieve. This aspect of the model emphasizes the necessity for interdependence and intentional patronage between minority residents and minority business people.

Reliance on intentional patronage for minority businesses is an old concept. In the 1880s, for example, blacks were encouraged to go into business and develop a merchant class for self-defense and for the promotion of wealth and mutual cooperation. Young men were urged to become businessmen and the mass of blacks were asked to patronize their business

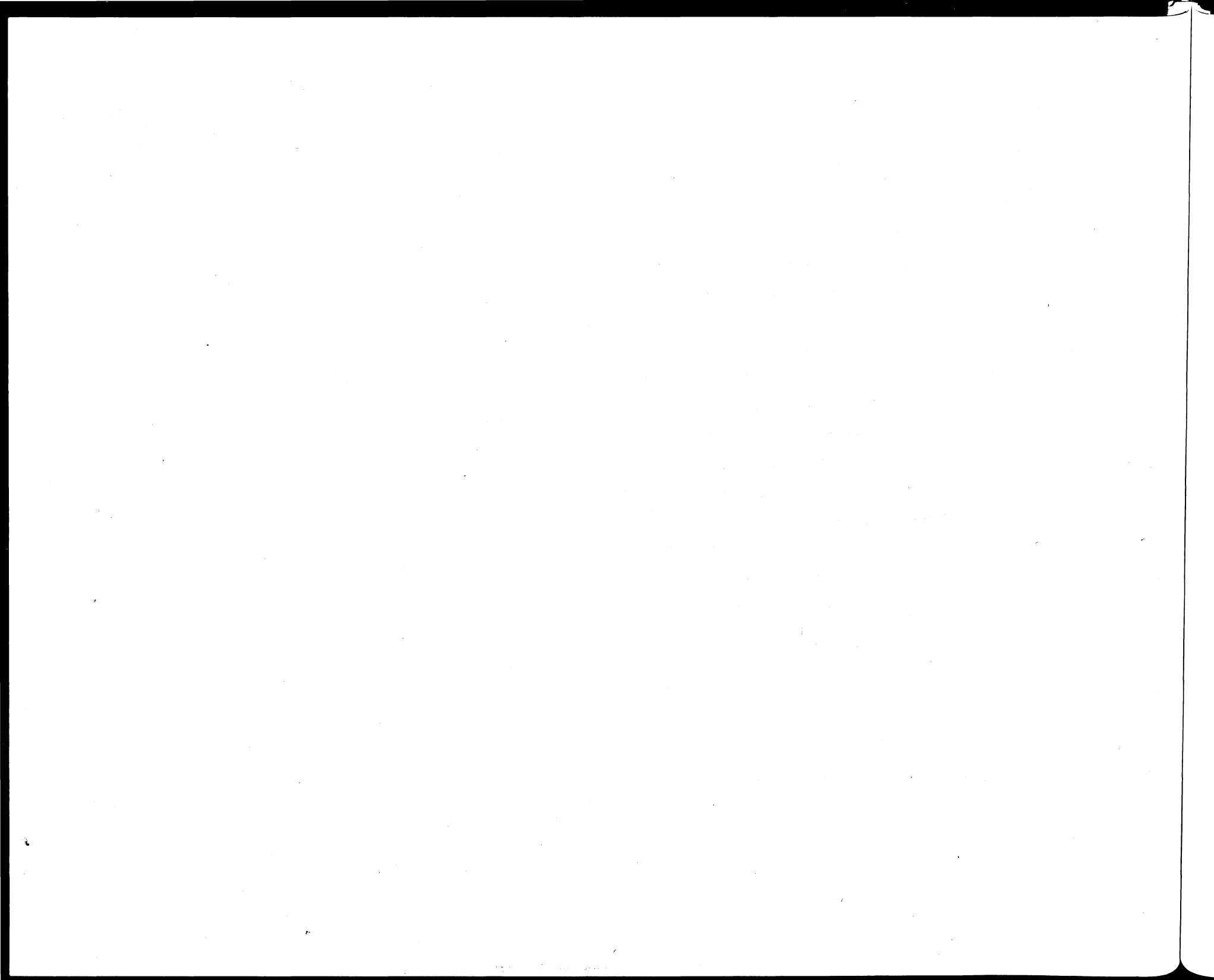
FIGURE 4

COMMUNITY DEVELOPMENT THROUGH MINORITY ENTERPRISE:
A MODEL OF CONVERGENCE



enterprises "even at some disadvantage..." (103)
The concept is still used successfully today. Although minority community loyalty is suggested, at least initially, the model indicates that parochialism must ultimately give way to an open community and to the realization that sustained growth can only be achieved in a metropolitan context.

Convergence is possible when minority business people cater to low, middle, and high income consumers alike. In this way community wealth expands, the taxbase improves, and the minority community contributes to the development of the larger community. In the process, minority business enterprises will have alleviated the poverty of the minority community relative to the larger community. The tendency toward divergence within the minority community will have been reversed and convergence will dominate. But community convergence is doomed without government, private industry, and minority commitment to uncommonly bold strategies for minority business growth. Nevertheless, the model suggests one way to bridge the chronological gap in economic development between the two urban communities in America.



Appendix: Changes in Minority Business Distribution between 1969 and 1975 in the Twin Cities Area

At a number of points in this report, the location of minority businesses is singled out for special treatment because of the strong association between location and minority business failure. The series of maps included here are designed to show three aspects of minority business in the Twin Cities: the location of minority firms from 1969 to 1975, the location of firms that failed from 1969 to 1975, and the surge in minority business moves from 1969 to 1975.

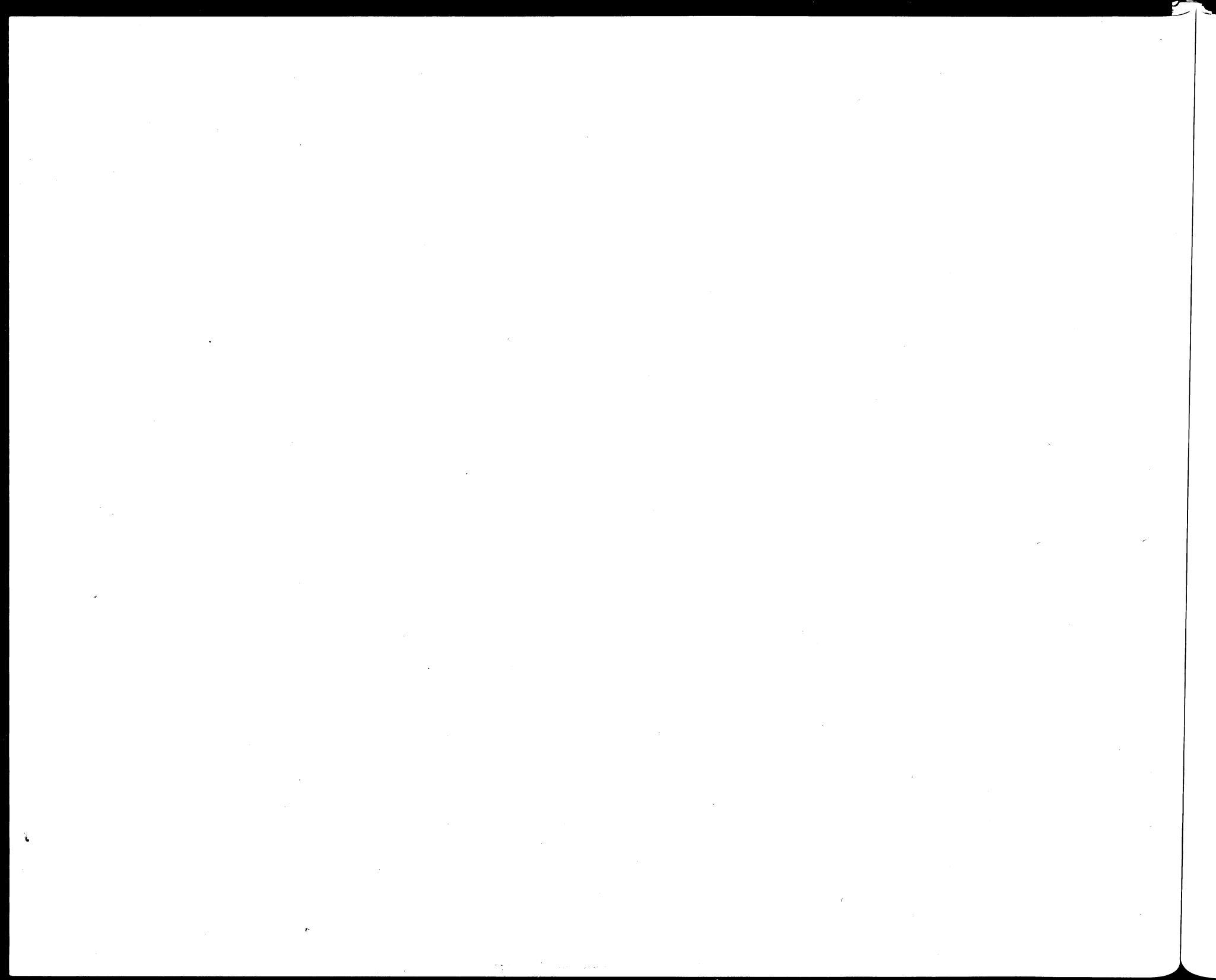
Locational Bias of Minority Business

During the period between 1969 and 1972, new minority-owned businesses were often ill located either inadvertently or by design (Figures 5 and 6). The majority of new businesses were located exclusively in minority communities with little regard for their impact on existing firms, the declining demand for "ethnic" products, the transitional nature of the population and the desperately low, though increasing, level of disposable income of the residents. Many of these newly established businesses failed within two years. Indeed, the

largest number of failures occurred among businesses established between 1969 and 1972, when government and private efforts to promote minority business development were most intense (Figures 7 and 8).

After 1972, government and private efforts centered on locating minority-owned businesses in the downtown areas of St. Paul and Minneapolis, the suburban areas, and on the periphery of minority communities. These efforts are discussed in this report as a "go public" policy. And, if success is measured in terms of size and business longevity, this policy has been successful. Except for those businesses initially established in minority communities, the largest, most stable (in terms of continued operation) minority-owned businesses are now located outside the minority community (Figure 9). In addition, minority entrepreneurs became more willing to exercise their option to relocate their firms in more desirable locations. Between 1972 and 1975 the number of moves increased substantially. The majority of those who moved were still operating in 1975 (Figures 10 and 11).

The majority of minority businesses continue



to be located in minority communities. The reason for this persistent locational bias, the impact it has had on the economic conditions in minority communities, and a more detailed analysis of the maps provided here will be included in a forthcoming publication on Black Entrepreneurship and the Growth of Minority Residential Areas in the Twin Cities.

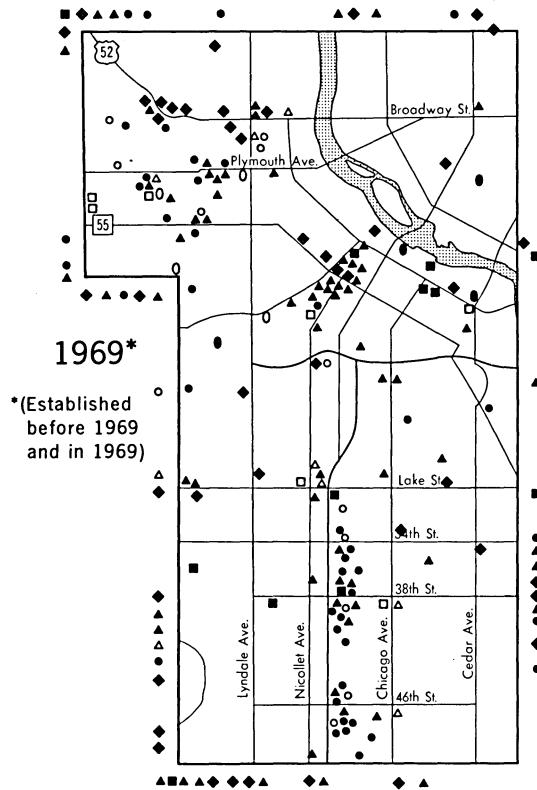
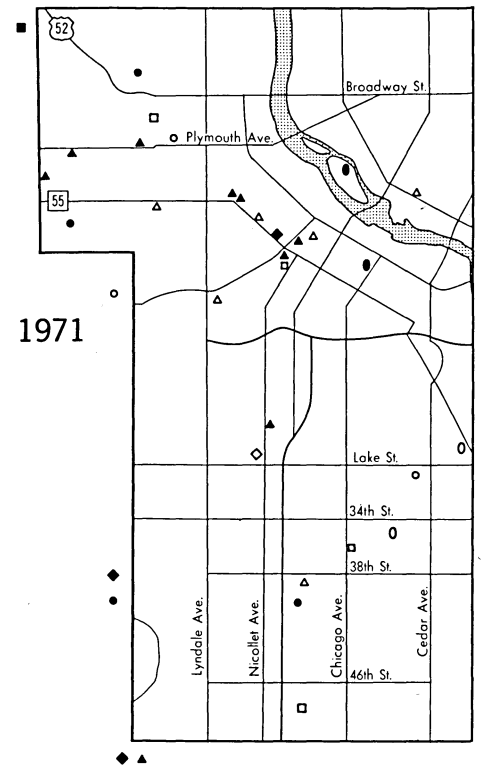
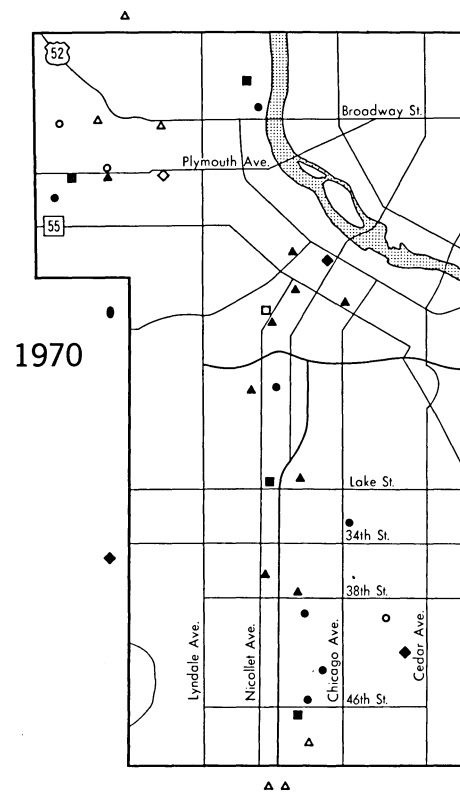
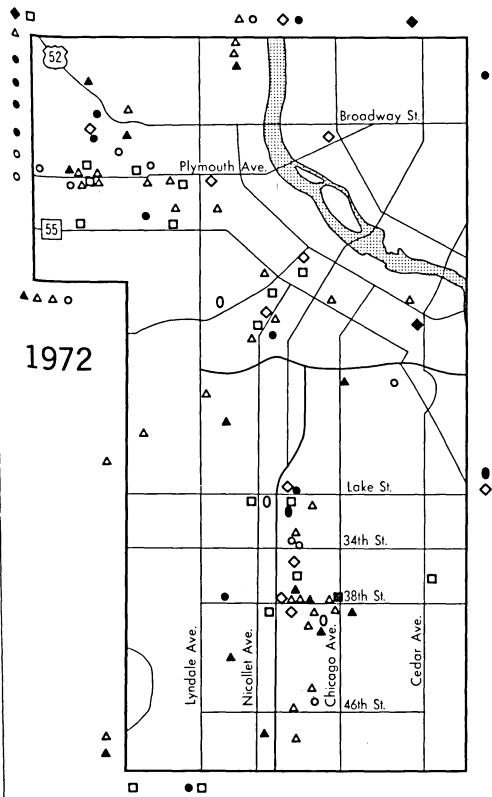
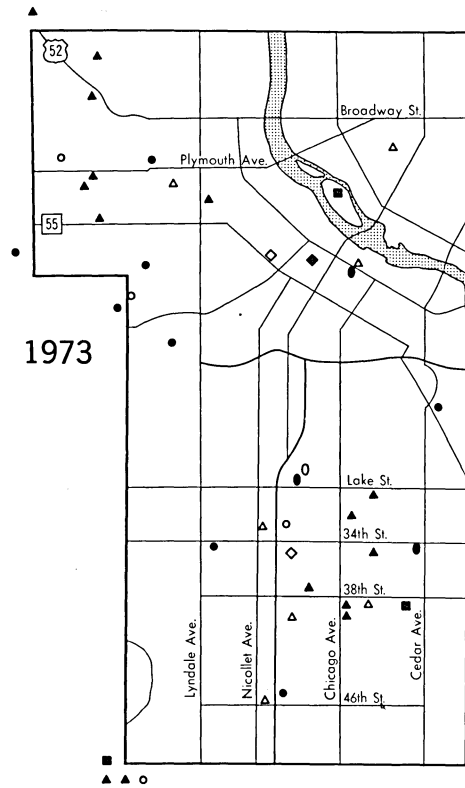


Figure 5
 MINNEAPOLIS MINORITY BUSINESSES ESTABLISHED 1969-1975

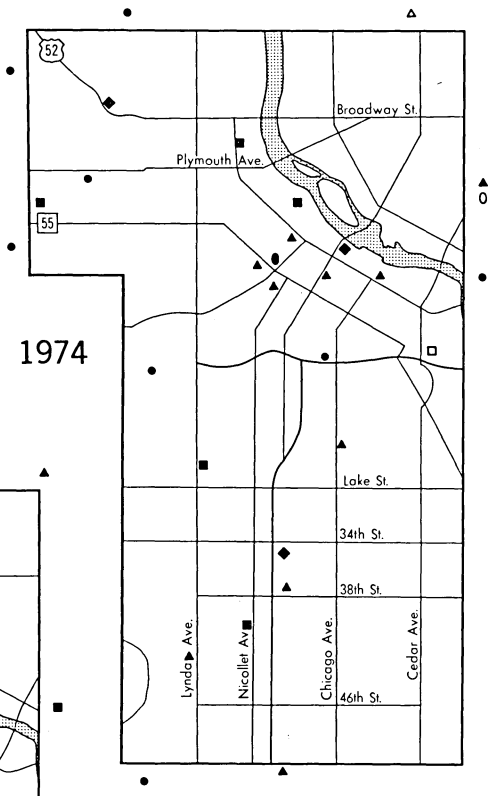




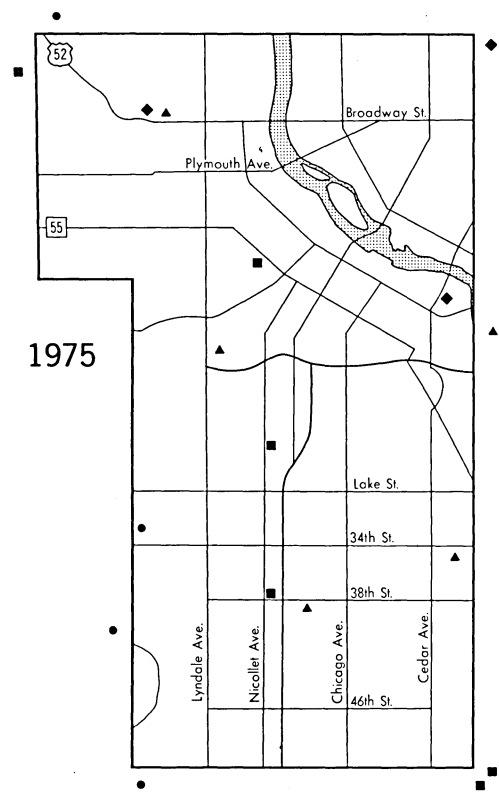
1972



1973



1974



1975

- Retail
- ▲ Service
- Contractors
- Manufacturing
- ◆ Restaurant

- Remaining in business through 1975
- Business failures between year of establishment and 1975

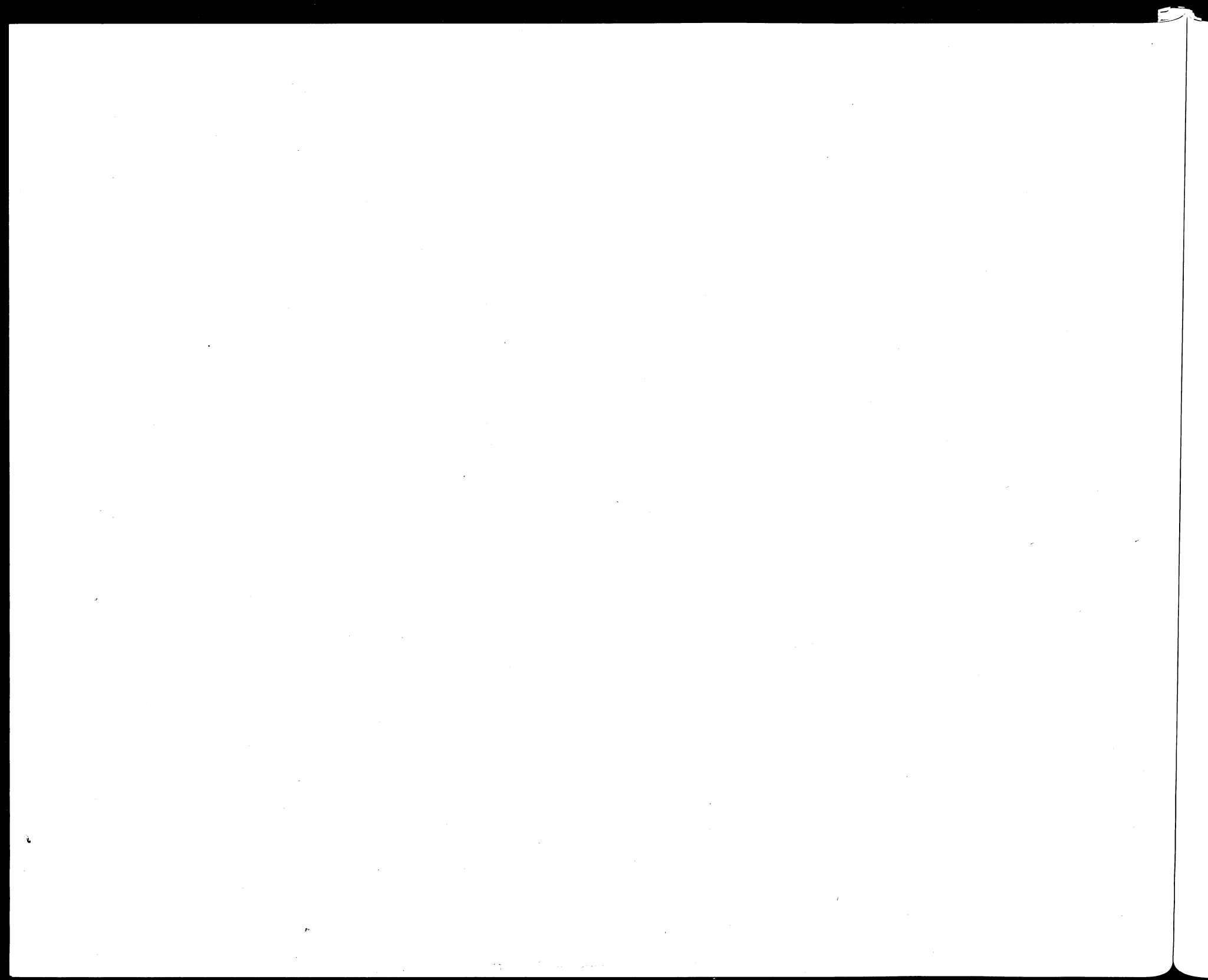


Figure 6
ST. PAUL MINORITY BUSINESSES ESTABLISHED 1969-1975

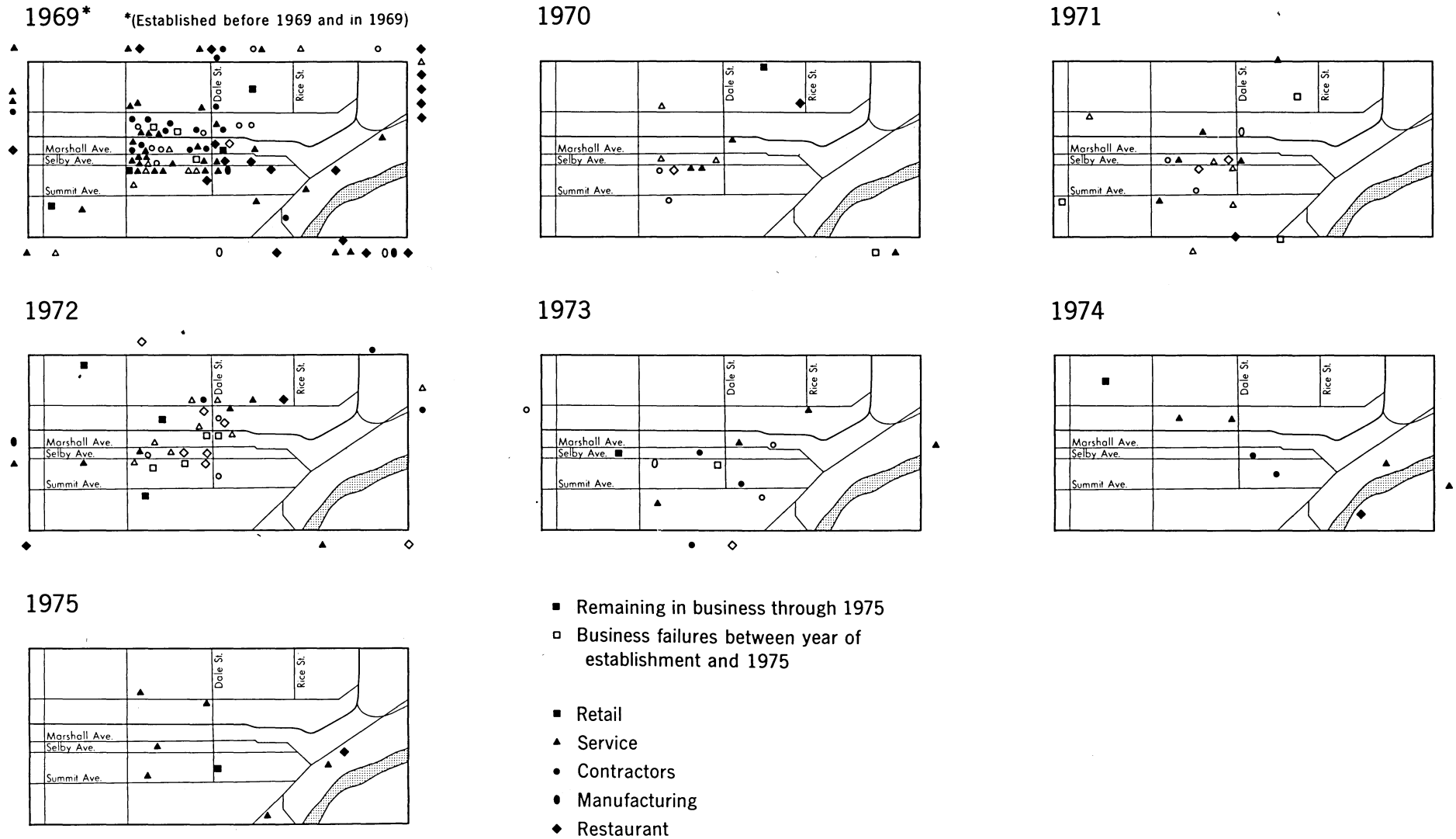
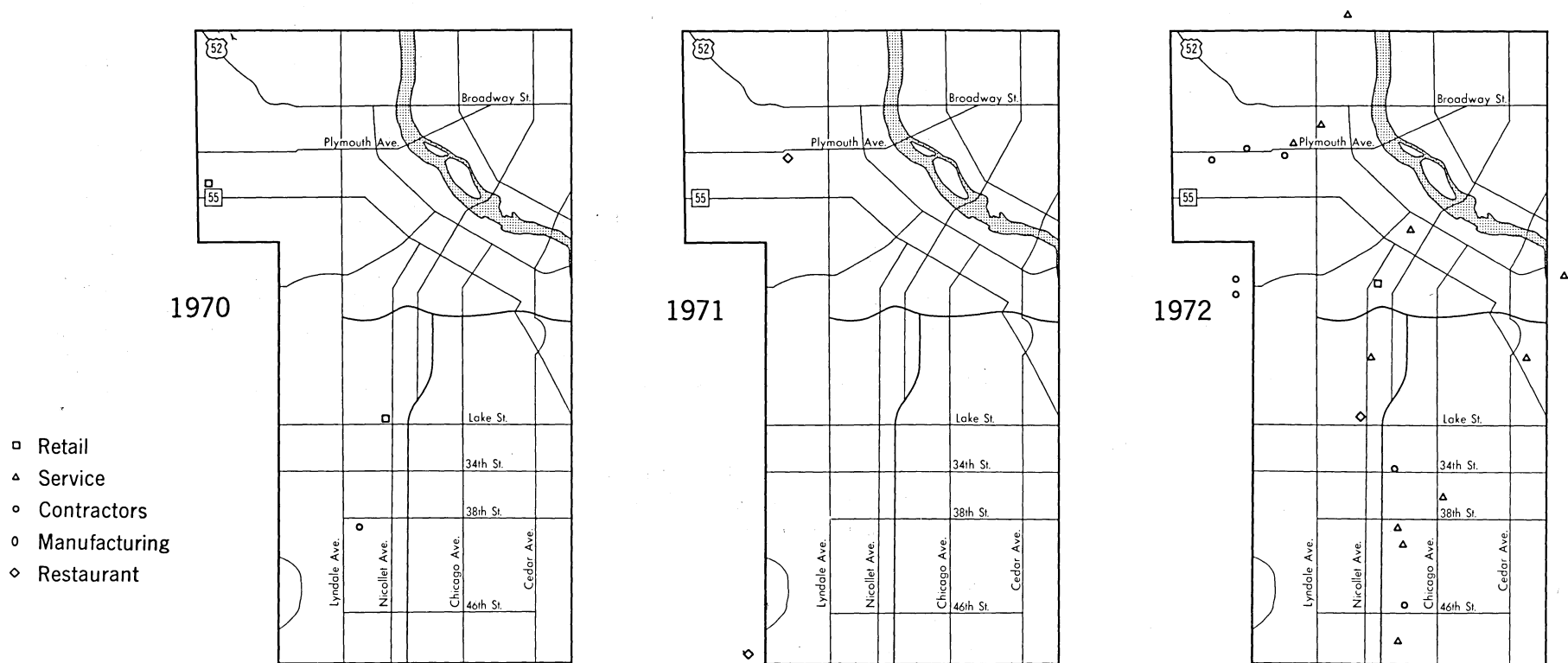


Figure 7
MINNEAPOLIS MINORITY BUSINESS FAILURES, 1970-1975



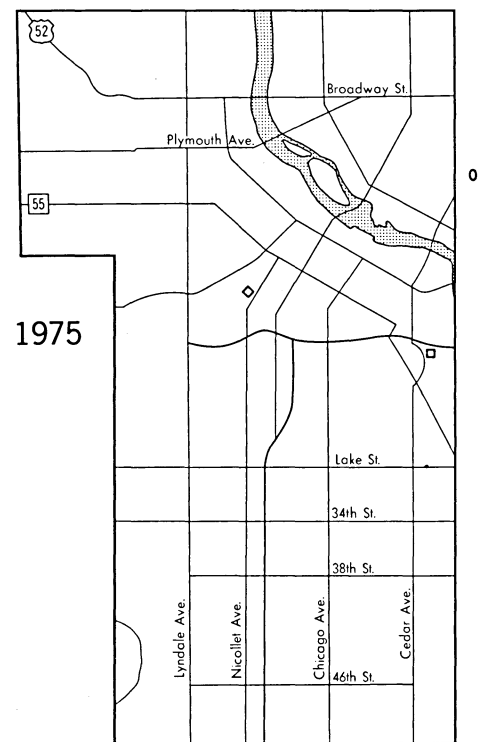
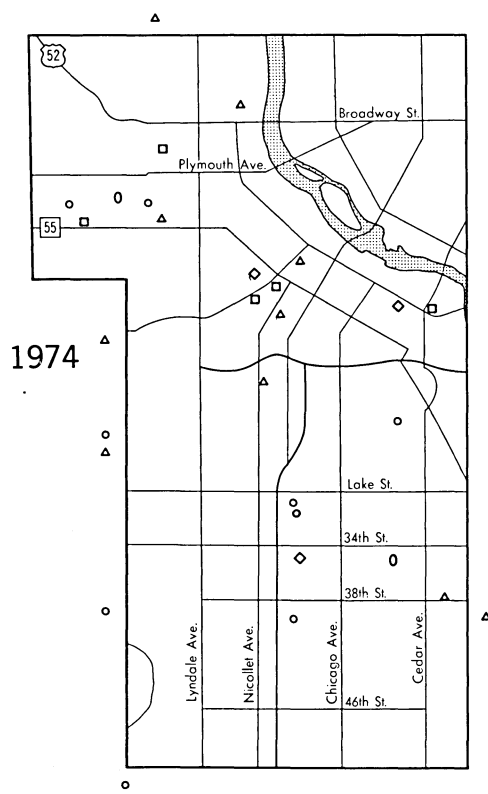
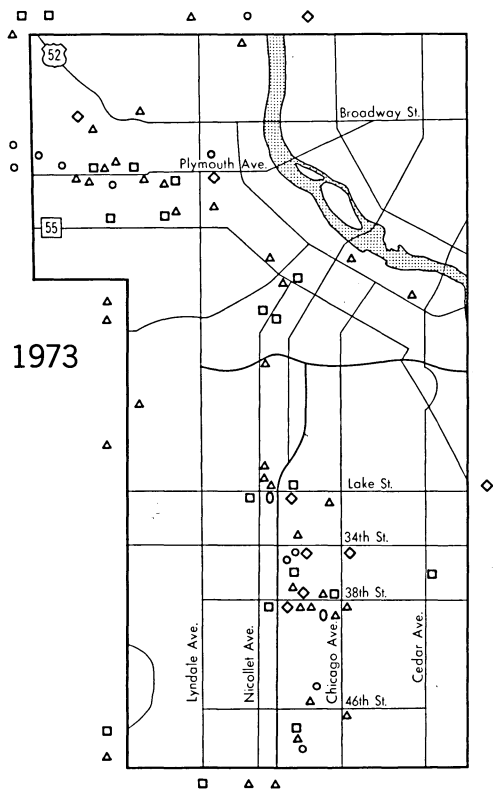
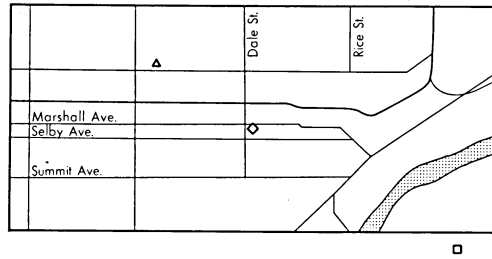
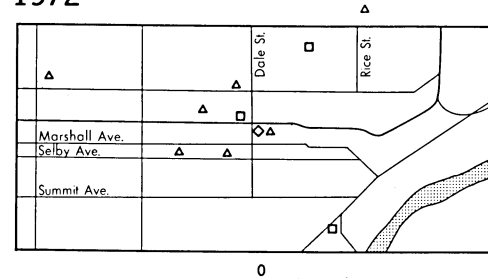


Figure 8
ST. PAUL MINORITY BUSINESS FAILURES, 1970-1975 *

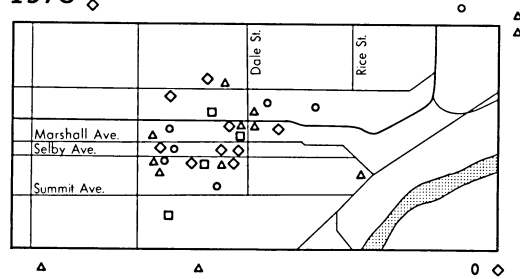
1971



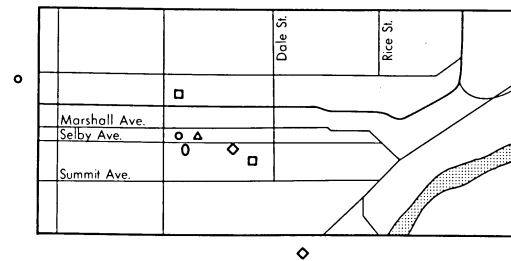
1972



1973



1974



- Retail
- △ Service
- Contractors
- ◊ Manufacturing
- ◇ Restaurant

*No business failures in St. Paul
in 1970 and 1975

Figure 9

MINORITY FIRMS WITH SEVEN OR MORE EMPLOYEES, 1975

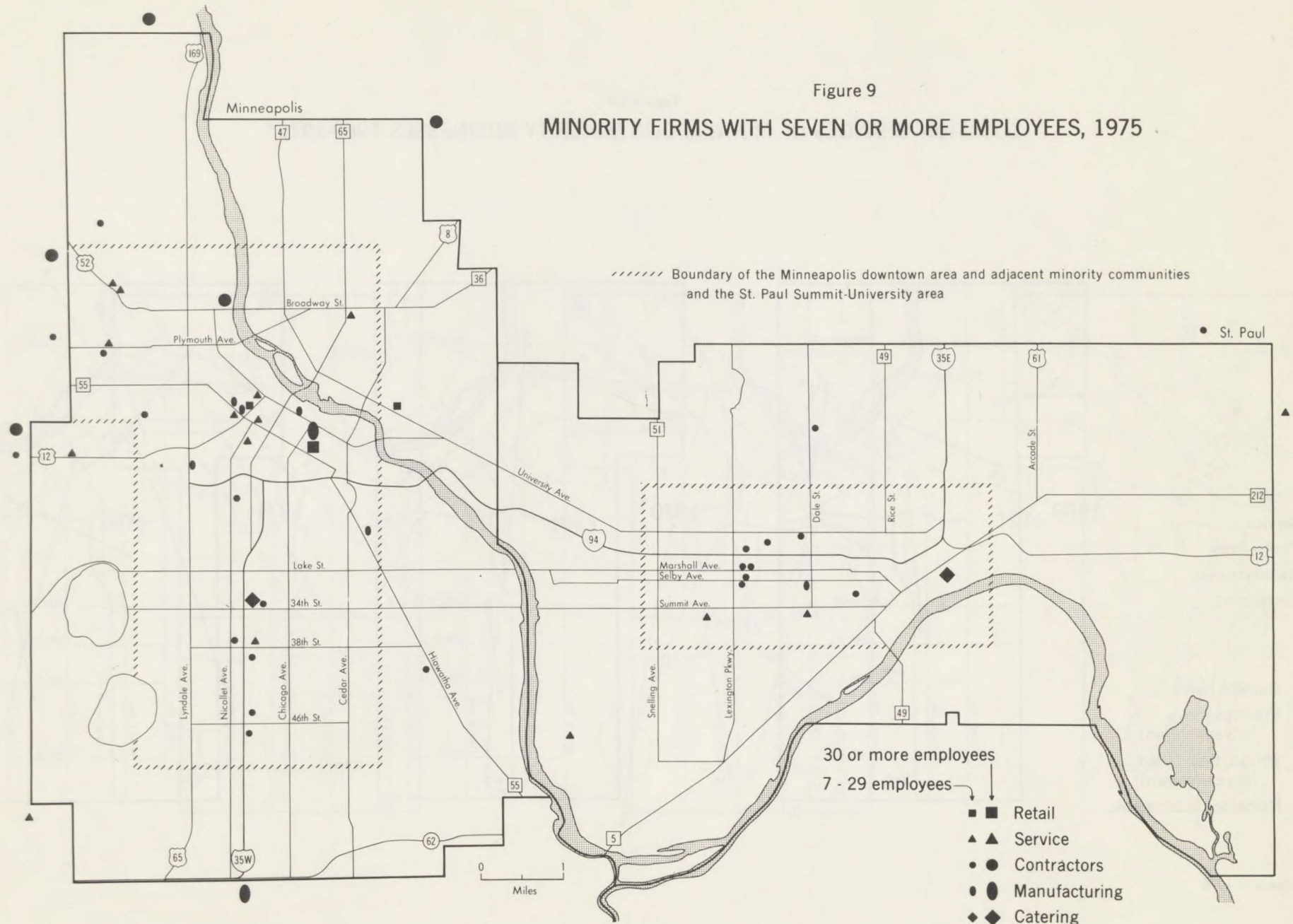
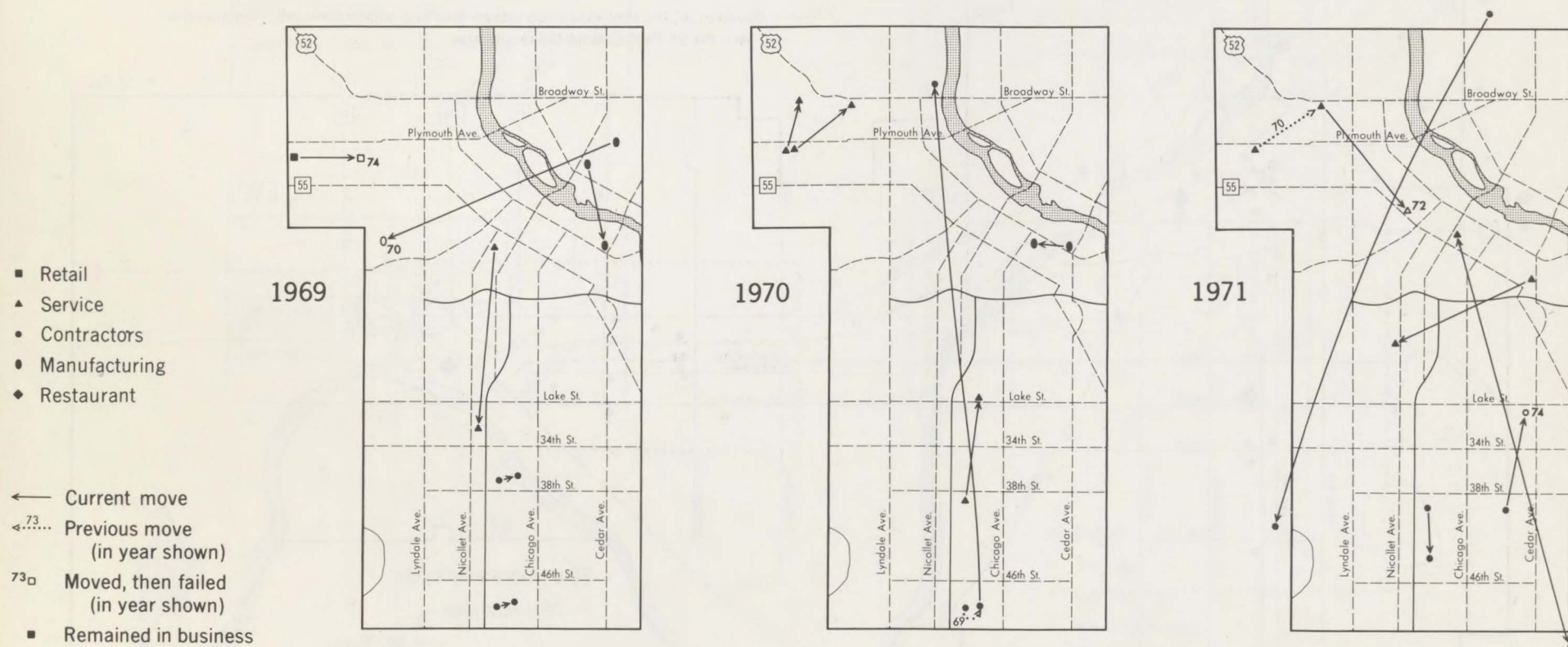
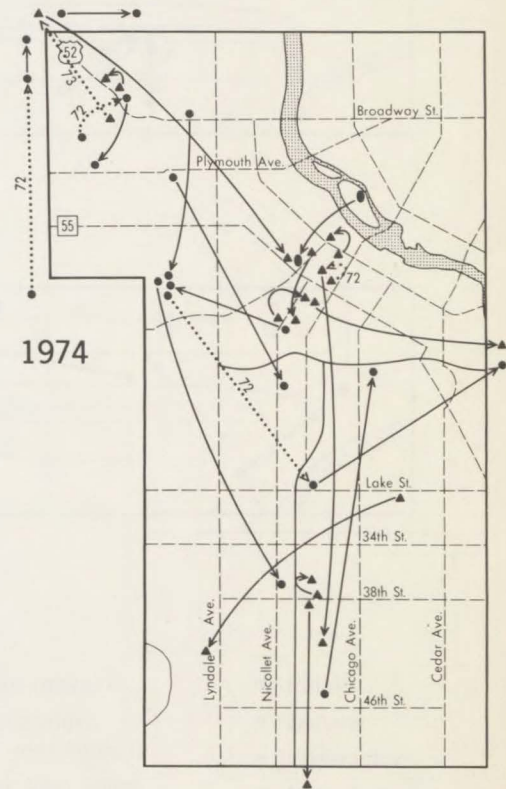
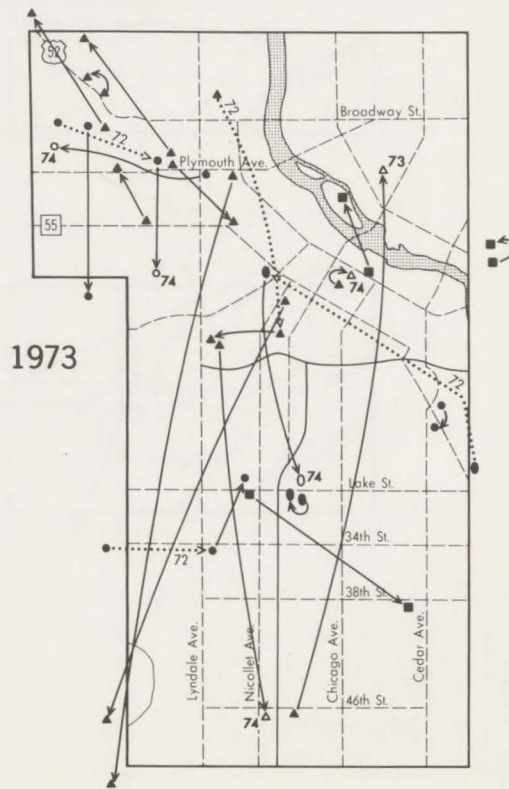
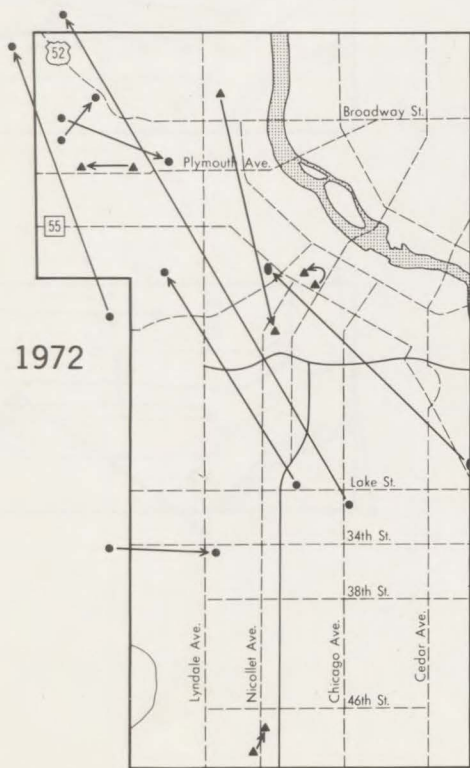


Figure 10
 LOCATION CHANGES OF MINNEAPOLIS MINORITY BUSINESSES 1969-1975*



*No moves in 1975



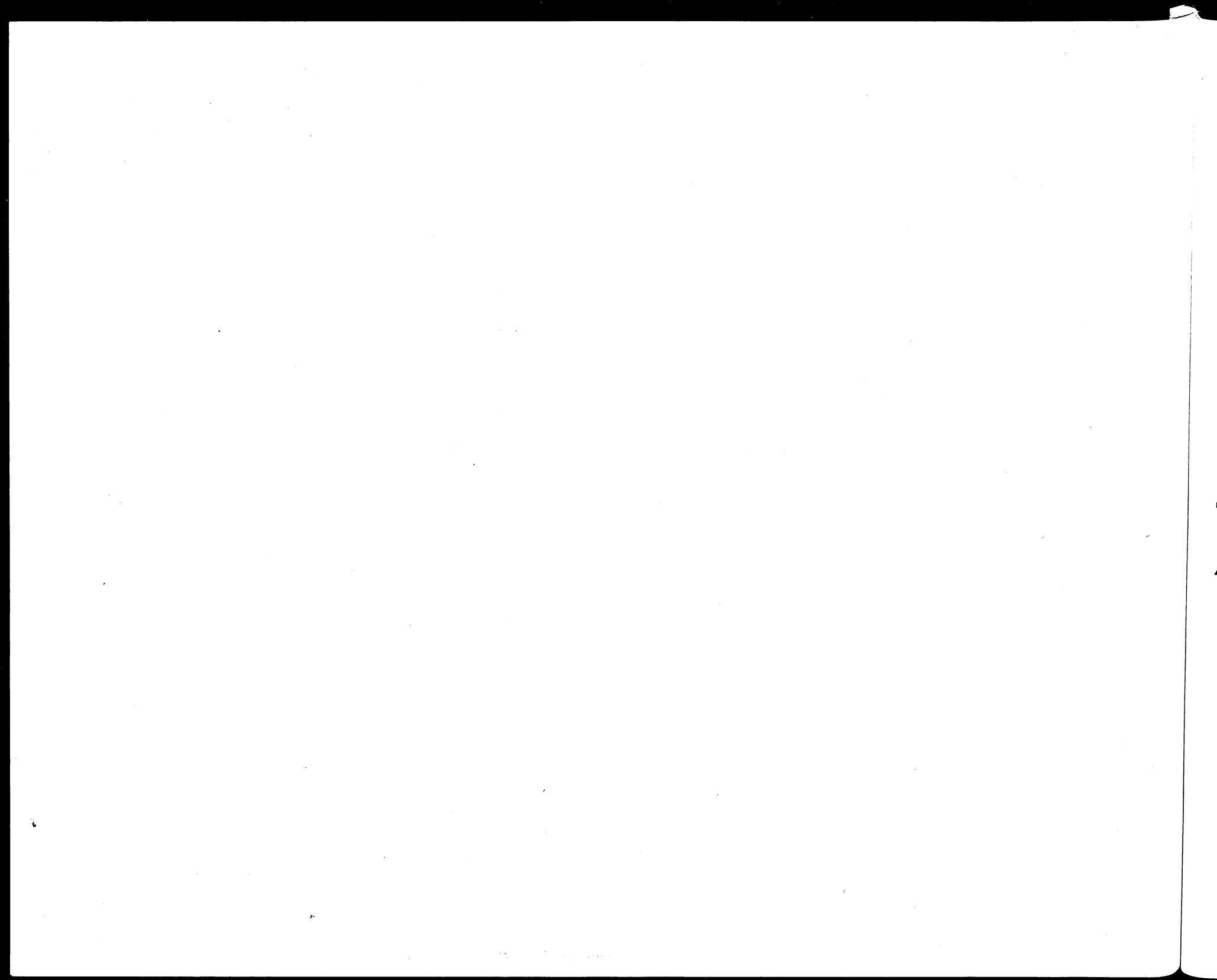
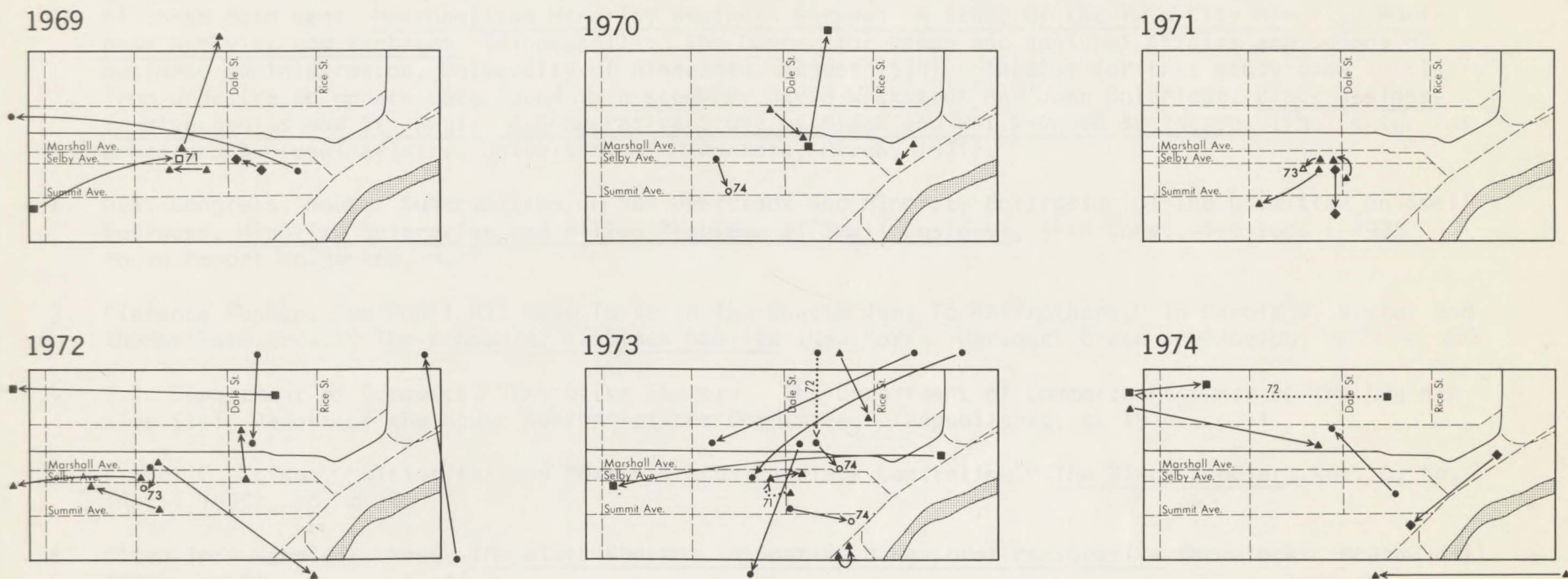
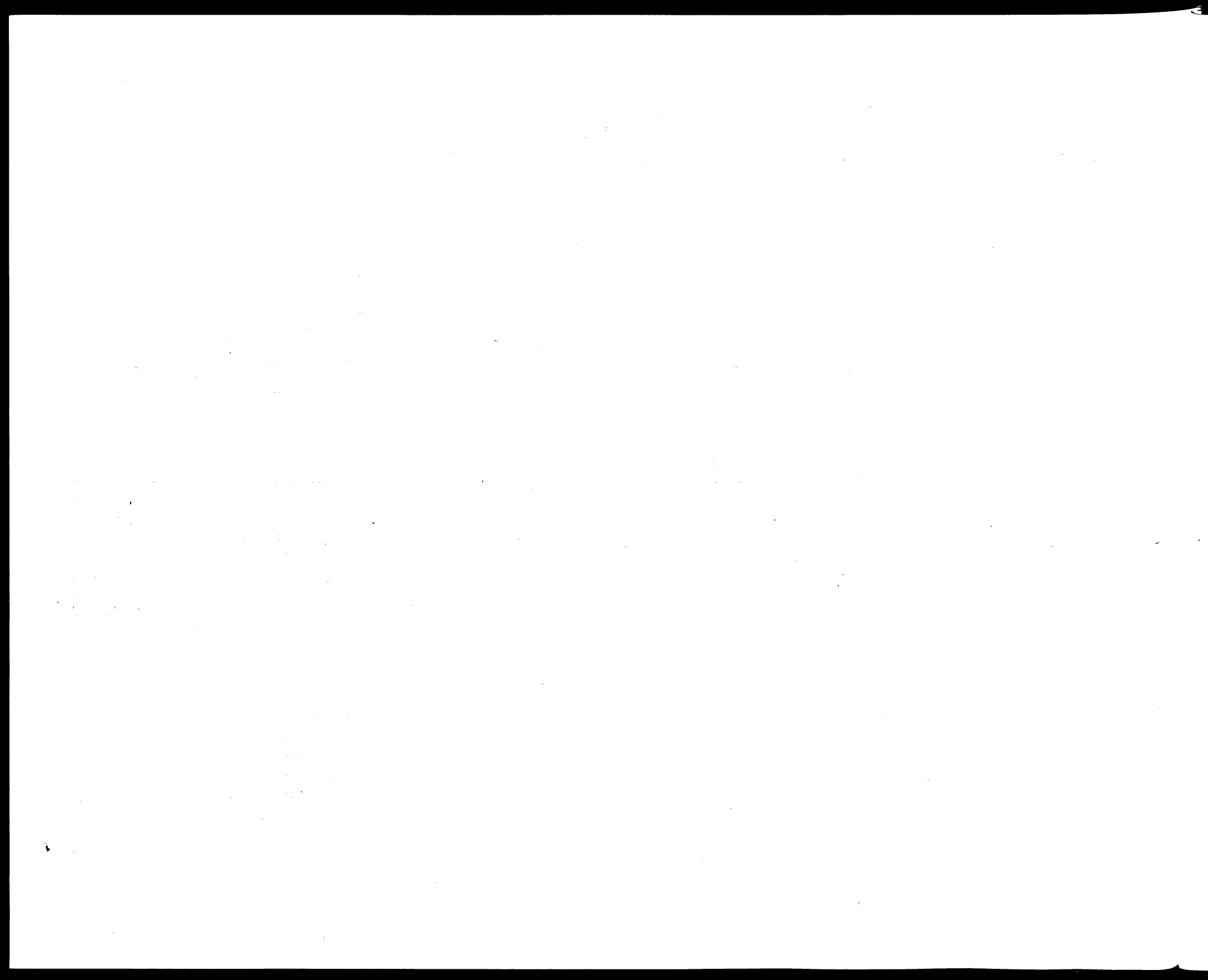


Figure 11
 LOCATION CHANGES OF ST. PAUL MINORITY BUSINESSES 1969-1975*



- ← Current move
- ←.73... Previous move (in year shown)
- 73◻ Moved, then failed (in year shown)
- Remained in business
- Retail
- ▲ Service
- Contractors
- Manufacturing
- ◆ Restaurant

*No moves in 1975



Notes

1. Survey data collected in 1974 by Jane S. Brown to assess the impact of the Metropolitan Economic Development Association on its clients were re-analyzed for this study. For Jane S. Brown's analysis of these data see: Metropolitan Minority Business Survey: A Study of the Twin City Minority Business Activity and Problems (Minneapolis: The Center for Urban and Regional Affairs and School of Business Administration, University of Minnesota, August 1974). Impulse for this study came initially from a desire to update data found in a study by David Wickstrom and John Holdridge, Black Business in Minneapolis and St. Paul: A Comparative Study of Black and White-Owned Businesses (The Center for Urban and Regional Affairs, University of Minnesota, March, 1971).
2. U.S. Congress, House, Subcommittee on SBA Oversight and Minority Enterprise of the Committee on Small Business, Minority Enterprise and Allied Problems of Small Business, 94th Cong., 1st sess., 1975, House Report No. 94-468, p. 2.
3. Clarence Funnye, "We Don't All Have To Be In The Ghetto Just To Be Brothers," in Harold G. Vatter and Thomas Palm (eds.), The Economics of Black America (New York: Harcourt Brace Jovanovich, 1972), p. 263.
4. U.S. Department of Commerce, "Executive Summary: The Department of Commerce Response to the Legislative Staff Report of the House Appropriations Committee," (unpublished, c. 1974), p. 1.
5. Arthur L. Tolson, "Historical and Modern Trends in Black Capitalism," The Black Scholar, Vol. 6, No. 7 (April 1975), pp. 8-14.
6. Cited in: Harold M. Rose, The Black Ghetto: A Spatial Behavioral Perspective (New York: McGraw-Hill, 1971), p. 61.
7. For a full discussion of black efforts to participate in America's free enterprise system as self-employed business people, see: Robert J. Yancy, Federal Government Policy and Black Business Enterprise (Cambridge, Mass.: Ballinger Publishing Co., 1974).
8. "Department of Commerce Response," p. 2.
9. Tolson, "Trends in Black Capitalism," p. 12.
10. U. S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1975, p. 493.

11. U. S. Department of Commerce, Bureau of the Census, The Social and Economic Status of the Black Population in the United States, 1974, Current Population Reports, Special Studies, Series P-23, No. 54.
12. U. S. Census, Statistical Abstract, 1975, p. 493.
13. Tolson, "Trends in Black Capitalism," p. 12.
14. U. S. Census, Statistical Abstract, 1975, p. 493.
15. Samuel I. Doctors and Veta T. Appel, "Nixon's Minority Capitalism: Full Steam to Where," Business and Society Review/Innovations, No. 7 (Autumn, 1973), pp. 64-70.
16. Ibid., p. 68.
17. Ibid., pp. 68-69.
18. For a detailed report on the evolution of government programs, see: U.S. Executive Office of the President and Office of Management and Budget in cooperation with U.S. Department of Commerce and Small Business Administration, Inter-agency Report on the Federal Minority Business Development Programs, March 1976.
19. U.S. Department of Commerce, Office of Minority Business Enterprise, "OMBE Mission, Goals, and Measure of Progress," unpublished memo to all OMBE employees, OMBE Order 101-1 (revised), effective January 14, 1976.
20. Ibid., p. 1.
21. Ibid., p. 2.
22. Ibid., p. 1.
23. Ibid., p. 1.
24. Ibid., p. 2.
25. Scholars objected to government selecting as its top priority the enhancement of a few middle-class owners and often unscrupulous entrepreneurs while virtually ignoring the problem of severe unemployment in minority communities. See, Thaddeus H. Spratlen, "A Black Perspective on 'Black Business Development'," Journal of Marketing, Vol. 34 (October, 1970), pp. 72-73.

26. Andrew F. Brimmer, "Desegregation and Negro Leadership," in Business Leadership and the Negro Crisis, ed. Eli Ginzberg (New York: McGraw-Hill, 1968), pp. 39 and 42.
27. For an analysis of minority business development in south-central Los Angeles after the "riots;" see: Frederick E. Case, Black Capitalism: Problems in Development: A Case Study of Los Angeles (New York: Praeger, 1972).
28. Although expressed by several authors, this view is most elegantly stated in Earl Ofari, The Myth of Black Capitalism (New York: Monthly Review Press, 1970), pp. 66-100.
29. The "Planned Communal Economy" alternative is discussed in: William K. Tabb, The Political Economy of the Black Ghetto (New York: Norton, 1970), p. 142.
30. The debate over the worthiness of "black capitalism" or minority enterprise as a means of increasing the number of self-employed minorities is best illustrated by the views held by the editors of the Wall Street Journal and George Meany of the AFL-CIO Executive Council. For details see: Vatter and Palm, Economics of Black America, pp. 242-245.
31. Ibid., p. 244.
32. Ibid., p. 244.
33. See Tabb, Political Economy of the Black Ghetto, p. 145. I object to this kind of "cover your bases" approach to problems as important as this one is to black Americans. After 144 and 2/3 pages of analyzing the ghetto analogously as an underdeveloped, separate entity, Professor Tabb offers a significant qualification (the book is 146 pages long): "Black liberation in a meaningful sense cannot take place in a divided society. Separate can never be equal. At the same time, the nature of black oppression dictates that the struggle for justice--political and economic--involve blacks organizing blacks and whites supporting black struggles, but not attempting to lead them."
34. Nathan Wright, "Black Power," in Business Leadership, ed. Ginzberg, pp. 57-58.
35. See: Tabb, Political Economy of the Black Ghetto, p. 35; Ofari, Black Capitalism, pp. 12 and 88-100; and Raymond S. Franklin and Solomon Resnik, The Political Economy of Racism (New York: Holt, Rinehart and Winston, 1973).
36. Franklin and Resnik, Racism, pp. 88-89 and 268-69.
37. Clarence Funnye, "Just To Be Brothers," pp. 261-265.

38. Ibid., p. 263.
39. Ibid., p. 262.
40. Ibid., pp. 263-64.
41. Brimmer, "Desegregation and Negro Leadership," p. 46.
42. Franklin and Resnik, Racism, pp. 88-89.
43. This view is expressed by many black leaders. Early in the discussion of community development through black capitalism, the black congressional caucus supported the Community Development Corporation (CDC) in its recommendation to President Nixon. The caucus recommended that CDC's funding be increased by at least \$50 million for the development of community-based minority business ownership. See Vatter and Palm, Economics of Black America. Senator E. W. Brooke not only envisioned Community Development Corporations contributing to community growth, but he expressed the belief that they could make minority communities "self-sufficient." To help them become self-sufficient, Congress would need to appropriate billions of dollars for minority community development. For a full statement of Senator Brooke's position, see: Edward W. Brooke, "Black Business, Problems and Prospects," The Black Scholar, Vol. 6, No. 7 (April 1975), pp. 2-7.
44. Franklin and Resnik, Racism, p. 189.
45. Ibid., p. 190.
46. The federal government began specific programs to aid minorities in 1968. Construction projects in model cities areas must, where possible, be constructed by community labor and hopefully from model neighborhoods. The Small Business Administration, through federally guaranteed loans, procurement 8(a) contracts, and technical assistance, helped 2,300 minority-owned businesses in fiscal year 1968. At that time, it hoped to assist 6,500 new firms in fiscal year 1969 and 14,000 in fiscal year 1970. See U.S. Council of Economic Advisors, "Private Enterprises in Ghetto Development," in Vatter and Palm, Economics of Black America, p. 255. This initial effort to aid minorities, especially minority business people and later minority contractors, from minority communities is commendable, but the development of similar industries in restricted communities creates excessive competition, which often results in minority business failure.
47. Employee benefits are becoming more attractive and often include reasonable high wages, safe and increasingly pleasant working conditions, group insurance (for health, accidents, and old age), subsidized travel and housing, corporate-owned leisure facilities, and more. All of these can be provided more cheaply by a large firm than by a small one.

48. Tolson, "Trends in Black Capitalism," pp. 8-14.
49. "Small Business: The Maddening Struggle to Survive," Business Week (June 30, 1975), pp. 96-104.
50. The erosion of black businesses has been unusual across the nation. "A nationwide survey by the New York-based Black Economic Research Center of 800 black business firms revealed that 40 percent of those operating in 1972 were not operating in 1975. This was several times the percentage of white business failures. Overall, the 1974 recession so badly affected black businesses that more than 35 percent of these firms were less profitable in 1974 than in 1973. The Center's report projected a 23.6 percent decline in the number of black firms with paid employees from 31,893 in 1972 to 24,379 by the end of 1975." For the full report see Alex Poinsett, "1975: Another Year of Erosion," Ebony, January 1976, p. 120.
51. Personal communication with a representative of the Small Business Administration.
52. Brian J. L. Berry, Sandra J. Parsons, and Rutherford H. Platt, The Impact of Urban Renewal on Small Business (Chicago: Center for Urban Studies, University of Chicago, 1968), pp. 90-172.
53. "Small Business," p. 96.
54. The arguments for minority business go beyond economics and focus on society. Minority business can aid community development, but equally important, it can create a heritage with which blacks can associate the black movement of the 60's. Business can support the arts and enterprises that help perpetuate achievements such as minority-owned publishing companies, theaters and museums. Of course, such enterprises require money to remain operational.
55. This study emphasizes the growth of minority-owned businesses in the Twin Cities that resulted from all the efforts of assistance. For a critical analysis of federal programs geared to minority business people, see: Yancy, Government and Black Business.
56. Tolson, "Trends in Black Capitalism," p. 9.
57. The Office of Minority Business Enterprises was established to assist only minorities, whereas the Small Business Administration was founded (in 1953) to assist all small business enterprises. OMBE's "unique mission" is stated in all reports regarding it: see "Organization and Management Study of the Office of Minority Business Enterprise," McManis Associates, November 1, 1975; 94th Congress, Minority Enterprise and Allied Problems of Small Business; U.S. House Appropriations Committee, "Internal Investigation of the Office of Minority Business Enterprise," C. R. Anderson, Chief of the Survey and

Investigation Staff, March 10, 1975, (unpublished); U.S. Department of Commerce, "Response to the Investigative Staff Report of the House Appropriations Committee,"; and U.S. Inter-agency "Report on the Federal Minority Business Development Programs."

58. "Minority Ownership Will Increase the Economy," Richmond Post, May 28, 1975. Also see, "Minority Business Agency Should Be Saved," Washington Star News, June 1975.
59. U.S. Department of Commerce, Bureau of the Census, Statistical Abstracts of the United States, 1972, p. 471, and U.S. Census, The Social and Economic Status of Negroes in the United States, 1970.
60. U.S. Department of Commerce, Bureau of the Census, 1972 Survey of Minority-Owned Business Enterprise, Special Report: Minority-Owned Businesses-Black, MB72-1, 1974, p. 1.
61. U.S. Department of Commerce "Response to the Investigative Staff Report of the House Appropriations Committee," p. 2.
62. U.S. Department of Commerce, Office of Minority Business Enterprise, Progress of the Minority Business Enterprise Program 1974, (September 1975), p. 1.
63. Rose, The Black Ghetto, pp. 61-76.
64. See Yancy, Government and Black Business, pp. 10-13.
65. Critics of OMBE point out that "the number of minority businesses that are successful or have failed, and the reasons for the success or failure is not known by OMBE. OMBE has attempted, unsuccessfully, through in-house studies and contracted effort to develop this information. As a result, OMBE is severely handicapped in proposing definite plans and in implementing concrete actions to increase the effectiveness of its funded organizations." Anderson, House Appropriations Committee, "Investigation of OMBE," p. 9.

SBA has similarly recognized the need for information that can be used to evaluate its impact on minority-owned businesses. New data collecting methods have been employed or planned:

In order to properly monitor progress in the 8(a) program, SBA testified that it is enforcing the requirement that the 8(a) contractor submit a quarterly financial statement to SBA. It is also contemplating a stipulation that an audited annual statement be a condition of program participation.

In addition, SBA plans to increase its 'surveillance' effort from the central office. The subcommittee was advised that this activity will include continuous scrutiny of management and divestitive [SIC] agreements to insure that they are compatible with the best interests of our client firms.

94th Congress, Minority Enterprise and Allied Problems of Small Business, p. 13.

66. SBA assisted those businesses at the lower end of the business spectrum and new starts, both of which are most likely to fail. Thus, its loan size was geared to the size of the businesses encouraged, traditional black businesses. Understandably, 80-90 percent of all minority-owned businesses continue to look to the SBA for loans and other assistance.
67. Federal programs, administered through OMBE and the SBA, are seen only as "stop-gap" measures because the types of enterprises encouraged by the federal government for minorities are so different from those established by minorities without federal assistance.
68. Minority business people, especially contractors and manufacturers, have not received a large share of government or private industry contracts. "The U.S. Civil Rights Commission recommended that the federal government increase the dollar value of its contracts with minority and women-owned businesses by fiscal 1980 to an amount equal to the percentage of such businesses among all firms. The commission reported that of the \$57.5 billion worth of goods and services contracted for by the federal government in 1972, only \$400 million (less than one percent) in contracts had gone to minority-owned businesses." See Alex Poinsett, "1975: Another Year of Erosion," p. 120.
69. Howard Erickson, "Negro-owned Businesses Increase Sharply in City," The Minneapolis Tribune, Sunday, January 18, 1970, p. 6.
70. This is not to say that managerial and technical training are unnecessary. On the contrary, they are very necessary and since SBA was created it has been providing just that. Business Week, June 30, 1975, p. 101.
71. Erickson, "Negro-Owned Businesses," p. 6.
72. Charles W. Poe, "1975 Spring Hill Report," Mimeographed. Minneapolis, Minn.: Metropolitan Economic Development Association, November 20, 1975.
73. Personal communication. On August 13, 1976, Mr. Bart Reitano, Assistant Director for Finance and Investment, SBA, informed of SBA's delinquent and liquidation status for minority business people: "In order to arrive at the percentage of minority loans which require special attention due to the

fact of being at least 60 days delinquent in payments and/or carried in our liquidation portfolio, we arrived at the average percentage of 41.2% of the loans in those categories."

74. Erickson, "Negro-owned Businesses," p. 6.
75. See for example, Yancy, Government and Black Business, pp. 12-13, and Ofari, The Myth of Black Capitalism, p. 29.
76. An unpublished statement on the origins of the Buy-Black Campaign in Minneapolis, initiated by Peter Meyerhoff of the National Buy-Black Campaigns, 1115 Plymouth Avenue North, Minneapolis, 1970, pp. 3-4.
77. For a comparative evaluation of black and white consumer patronage see Wickstrom and Holdridge, Black Business in Minneapolis and St. Paul.
78. Doctors and Appel, "Nixon's Minority Capitalism," p. 66.
79. Wickstrom and Holdridge, Black Business in Minneapolis and St. Paul, p. 16. These authors go on to demonstrate how essential the current and potential white consumer is to minority business success; see page 17. Black business has yet to capture the black market nationally; see Flournoy A. Coles, Jr., Black Economic Development, (Chicago: Nelson-Hall, 1975), p. 110.
80. MEDA, for example, in its "1975 Spring Hill Report," defended its lending policy and reduction in clients by stating that the latter reflected "our aging in the community." MEDA affirmed: "We have made strong efforts to communicate our willingness to work with people. As a consequence, many of those who saw MEDA as a source of 'free money' no longer seek us out, and moreover, we have been able to dissuade people from starting ill-conceived, under-resourced business ventures."
81. See Vernon E. Jordan, Jr., "The New Minimalism, My Turn," Newsweek, February 23, 1976, p. 9. A possible outcome of this policy is that minority business people will lose their principal supporter, OMBE, at the federal level.
82. Gunnar Myrdal, An American Dilemma: The Negro Problem and Modern Democracy, (New York: Harper & Row, 1944), p. 308.
83. Efforts were made to obtain information on SBA loans to minorities in the last twelve to eighteen months in order to determine the extent to which loans were awarded to firms located in the minority community. This information had not been made available by the time this report was printed.
84. Personal communication, Mr. Charles McCoy of the Small Business Administration.

85. Poe, "1975 Spring Hill Report," pp. 22-23.
86. David Hager, "Minority Business Enterprise Research: Metro Executive Internship Honeywell Incorporated," unpublished, June 1974.
87. See, for example, Ellen Boneparth, "Black Businessmen and Community Responsibility," Phylon, Vol. 37, No. 1 (March 1976), pp. 26-42; and Edward D. Irons, "Black Entrepreneurship: Its Rationale, Its Problems, Its Prospects," Phylon, Vol 37 (March 1976), pp. 12-25.
88. Personal communication, representative of the SBA.
89. Hager, "Minority Business Enterprise Research," Appendix, (Honeywell's "Minority Vendor Program Guidelines," p. 17.)
90. See Judi Moen, "Purchasing from Minority Enterprise at Burlington Northern, Inc.," University YMCA metro intern, June 7, 1976.
91. Hager, "Minority Business Enterprise Research," unpublished report.
92. Minority business people seem to equate procurement contracts with government and private industry and call both "8(a) contracts."
93. Hager, "Minority Business Enterprise Research."
94. Ibid.
95. Ibid.
96. See Poe, "1975 Spring Hill Report." In January 1976 the Minnesota Minority Purchasing Council (MMPC) was established and between January 1, 1976, and June 30, 1976, it had arranged \$4,567,237 in contracts with Twin Cities firms for minority products. Personal communication, representative of MEDA.
97. Hager, "Minority Business Enterprise Research."
98. The FEBTC is involved in many other activities that directly benefit minority businesses. For a detailed review of its activities, see: Federal Executive Board of the Twin Cities, 1973-74 Annual Report--Submitted by Paul W. Jansen, August 15, 1974.

99. Minnesota Minority Business, Incorporated has the potential to provide such a structure. Its organizers should solicit ideas from all sectors of our region. For details, see Kris White and Milton Kennedy, "Business...", Summit University Free Press, July 1976, p. 16.
100. Eugene P. Foley, "A Small Business Program for the Ghetto," in Vatter and Palm, Economics of Black America, pp. 245-48.
101. William Bradford and Timothy Bates, "An Evaluation of Alternative Strategies for Expanding the Number of Black-Owned Businesses," The Review of Black Political Economy, Vol. 5, No. 4 (Summer 1975), p. 380.
102. This model of community development is derived from Myrdal's model of cumulative upward causation. See Richard J. Chorley, and Peter Haggett (eds.), Models in Geography, (London: Methuen, 1967), p. 258.
103. Yancy, Government and Black Business, pp. 12-13.

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