



10-1-1974

Need for Comprehensive Planning in the Minority Enterprise Program

Earl G. Graves

Follow this and additional works at: <http://scholarship.law.nd.edu/ndlr>



Part of the [Law Commons](#)

Recommended Citation

Earl G. Graves, *Need for Comprehensive Planning in the Minority Enterprise Program*, 50 Notre Dame L. Rev. 111 (1974).

Available at: <http://scholarship.law.nd.edu/ndlr/vol50/iss1/6>

This Commentary is brought to you for free and open access by NDLScholarship. It has been accepted for inclusion in Notre Dame Law Review by an authorized administrator of NDLScholarship. For more information, please contact lawdr@nd.edu.

A NEED FOR COMPREHENSIVE PLANNING IN THE MINORITY ENTERPRISE PROGRAM

*Earl G. Graves**

It has been five years now since that celebrated if dubious phrase "Black Capitalism" became a part of the national lexicon. Former President Nixon coined the phrase in his now-famous "Bridges to Human Dignity" speech during the 1968 presidential campaign vowing that blacks and other minorities too should have a "piece of the action" of America. In 1969, President Nixon by executive order established the Office of Minority Business Enterprise (OMBE). The much-publicized effort to bring minorities into the mainstream of America's economic life was under way.

The task, as revealed in a special study conducted by the Department of Commerce, was monumental. The census showed about 322,000 minority-owned businesses. This represented about 4.3 percent of an estimated total of 7,489,000 businesses. Gross sales for the minority-owned enterprises revealed an even more dramatic story. Total receipts for the 322,000 businesses were \$10.6 billion or approximately 0.7 percent of the \$1,498 billion total for all businesses. Black-owned businesses made up half the amount of minority businesses, but accounted for less than half its receipts.

Black-owned enterprises have increased to an estimated 190,000 companies, but total receipts have grown only minimally during the past four years. Still, in the recent June issue of *Black Enterprise Magazine*, it was disclosed that total receipts for the nation's top 100 black nonfinancial companies had increased 17.7 percent, a remarkable feat in a year marked by a national energy crisis, spiralling inflation, and other unsettling economic indicators. Equally as important as the economic vigor displayed by these companies was the fact that more than half of them had begun operation in 1968 or after. We have also seen the number of banks increase from a mere 10 just a decade ago to 37 today and, slowly but demonstrably, they are helping to provide the financial foundation to stimulate and develop business in black and minority communities.

Why then if minority business enterprise is demonstrating some encouraging signs of growth and stability are there so many doubts about its future development and direction? The basic cause for concern is that the overwhelming majority of black-owned enterprises are concentrated in small service or retail operations. Inhibited by low-growth potential and limited capital assets, it is questionable whether these establishments will add measurably to the capital accumulation needed to develop larger, more optimum-size establishments.

Another serious concern is that Blacks are underrepresented in the technological industries and at management levels requiring advanced business studies, two areas of great potential growth. Because of historic disadvantages, however, Blacks have received only minimal opportunities in these areas.

This is a concern not to be lightly dismissed because, as a number of business scholars and economists have indicated, most of the nation's recent economic

* President, Earl G. Graves, Ltd. Publisher and editor, *Black Enterprise Magazine*.

development is clustered in businesses employing a very highly educated work force with strong management capabilities. An equally cogent observation is that the very high failure rates among all small businesses is highly correlated with a lack of business/management education and related technical training. Yet, until recently, virtually no federal funds have been provided for this much needed education and training. The failure to close the gap in this critical deficiency takes on even more importance when one realizes that the failure rate in skilled technological establishments is about 20 percent compared to about 80 percent for all small businesses after five years.

Yet there have been some advances. Graduate business education began in this country in 1908, but by 1969 less than 600 minority group members had received graduate business degrees. Of this number, more than half had received degrees from the Atlanta University School of Business. However, a recent voluntary survey conducted by Educational Testing Services in 1972-73 indicated that out of approximately 67,000 students taking part in full- and part-time Master of Business Administration programs, 4,252 were minority students. And the present pace of educational activity among Blacks indicates that they are enrolling in college in increasing numbers and staying on for graduate and other advanced studies.

No examination of the potential for minority economic development could be complete without some attention being given to the unemployment picture for Blacks, which historically has been twice that of the national average. Unemployment and underemployment among Blacks, particularly among black, male youths are exceptionally high. Programs to alleviate these Depression-level statistics for most young Blacks have been depressingly inconsistent, frequently temporary, and of the stopgap variety which lacked any clear focus. To be sure, unemployment coupled with the ubiquitous problem of crime in the ghetto has combined to dim much of the promise of minority economic development. While it is true that the Nixon Administration gave singular attention to establishing a viable minority enterprise program, it also moved determinedly to cut back or cut out social action plans sponsored by President Johnson's Great Society Program to help build a floor against the vagaries of poverty that afflict the urban and rural poor.

The Office of Economic Opportunity has been dismantled and the Model Cities Program has been cut back. What is central to these activities is that such social action and minority enterprise programs are not mutually exclusive concerns. Indeed, for the foreseeable future at least, they are mutually supportive. The present buying pattern in America suggests that whites buy from whites and that many upper- and middle-income Blacks also buy from whites; lower-income Blacks, for the most part, must buy from ghetto merchants. Capital and credit poor, the ghetto needs the stabilizing influence that comes with the infusion of federal funds and the knowledge that something is being done by the government and residents themselves to reshape conditions in their community. Without a solid capital base, the poverty-shackled ghetto will continue to discourage investment and business opportunities.

Moreover, it is a question of which effort is likely to affect the greater

number of people. So far, the minority enterprise effort has not been notably labor-intensive nor has its development affected as wide a range of minority group members as have social action programs. In 1973, revenues ranged from the \$46 million grossed by Motown Industries which employs 375 persons to JWM Corp., a Philadelphia electronics firm, which grossed \$1.6 million in sales and employs 150 persons. There are even those who argue that the publicity given to the minority enterprise program could conceivably backfire and have a detrimental effect on the minority community by unwittingly raising hopes for substantial economic gains to be derived from the program when its ultimate impact is yet uncertain.

The federal government under the Nixon Administration had become increasingly active in promoting the minority enterprise concept as the most effective way in which to bring minorities into the free enterprise system; levels of spending have gone up correspondingly. The OMBE, which coordinates the government's efforts, has contributed significantly to minority business development through loans, loan guarantees, and grants for technical and management assistance. The loan program which totalled \$107 million in 1969 climbed to \$750 million by 1974. Grants for technical and management assistances increased in a similar manner. During the same period, the procurement program increased the amount of supplies and services it purchased from minority vendors from \$13 million in 1968 to more than \$700 million in 1974 largely through a set-aside program designed primarily to aid minority firms in obtaining government contracts.

The Small Business Administration, the agency which has expended the most funds in the minority enterprise program, estimates that it will spend more than \$1 billion in program aid this year. At the same time, OMBE estimated its funding would increase to \$91 million this year. The funds include \$39 million from the former Office of Economic Opportunity and \$17 million from funds impounded in 1973 but nonetheless represent a dramatic increase from the \$3 million the agency was initially awarded. Yet after five years and four directors, OMBE and the entire minority enterprise program have yet to be clearly defined. In current parlance, the Administration has been jawboning industry to assist minority vendors in a variety of ways, but many nonminority businesses caught in a tight money squeeze with the prime rate at record levels do not exhibit the same enthusiasm for participation that was demonstrated at the inception of the program. The lack of specific goals also has not helped.

OMBE officials claim that surveys have been undertaken to determine where and how the program has been most effective, but the results of their findings have not yet been made public. Although the federal government has not produced any comprehensive evaluations of the impact of its minority enterprise program, independent studies have been made which give some insight into its development. Robert Yancy, professor of business at Atlanta University, revealed in a study of black businesses in Atlanta that there was little difference between black Atlanta-based firms that had received SBA loans and those which had not. The SBA loan program appeared to have no appreciable effect on black business development in Atlanta.

A study of 400 black businesses in Boston and New York disclosed that over half of them were not meeting their SBA loan obligations and that a third were in such difficulty that they were being liquidated. Another study revealed that minority businessmen were having five and six times the financial problems of nonminority businessmen and that SBA loans, for the most part, were granted to firms with low growth and profit potentials. There are no firm figures on the number of minority firms OMBE and the SBA have helped to get started. Estimates put the figure at around 2,000 with a failure rate of 25 to 40 percent in two years. At the present rate of growth, however, minority enterprise, if left solely to government efforts, would take some eight centuries to achieve parity in ownership with nonminority establishments.

The private sector has given some assistance to the development of minority enterprise. The number of new car dealerships has increased from near zero in 1969 to more than 150 today, and despite the energy crisis and inflation, growth in this area continues strong. The number of new gasoline and service stations has also increased dramatically in the last five years, but there is no clear data as to how lasting that increase will be or the prognosis for the future.

Probably one of the most publicized efforts of private sector involvement was the Minority Enterprise Small Business Investment Company Program (MESBIC). Maurice Stans, then Secretary of Commerce, said in the fall of 1969 that the goal of the program was 100 MESBIC commitments by June 1970 and 100 licensed and operating MESBICs a year later. The program somehow never quite reached that goal and today there are 56 MESBICs in operation with more than \$25 million in private capitalization. They have the capacity, through government borrowing, to develop almost \$100 million in equity capital for minority entrepreneurs.

But despite its promise, Derek Hansen, a former director of development at OMBE and one of the pioneers in the MESBIC experiment, contends that the MESBIC program never really got off the ground. "The MESBIC program's problem has not been a failure to meet its goals," said Hansen in a recent article, "but its miniscule expenses in relation to its support: a mere \$1 million from 1969 to 1973. The aggregate amount of MESBIC capital actually invested in minority business nationwide amounts to approximately \$12 million to \$14 million. Private sponsors have spent about \$10 million on the program in overhead, bad debts and the cost of capital invested. The MESBIC Program," Hansen concluded, "still has the basic competence to provide much needed, high risk equity capital to minority businesses, but it cannot do it without support from the government half of the supposed 'private-government' partnership."

What emerges from any serious study of the government effort to encourage and develop minority business enterprise over the past several years is that of a well-publicized campaign which frequently fell short of comprehensive planning and adequate funding levels. Equity and debt capital, still the bane of the average minority businessman, is no more easily obtainable and no way has yet been found to obtain much needed venture capital. SBA loans to minority businessmen have increased, but the average minority loan is less than

half that granted to a nonminority small businessman. The government's 8a program with its set-asides for minorities has also increased dramatically, but it must be stepped up even further if it is to have any meaningful impact upon minority vendors.

More important, perhaps, is that if the minority enterprise effort is to succeed then the Ford Administration and future administrations must be more understanding of the total needs of black and poor communities. Majority business development has always been aware of the totality of its environment and the need for public and private sector support.

In the case of the minority business enterprise, it is essential that minority communities be revitalized if attempts to empower Blacks and other minorities economically are to succeed. Additionally, there is a need to develop a total, comprehensive plan that will take into account the legacy of minority deprivation and plan accordingly. It was inconsistent and detrimental for the Nixon Administration to claim to have a determined and progressive minority development program while at the same time cutting back and cutting off needed social programs.

Samuel I. Doctors and Sharon Lockwood complained: "How can the Nixon Administration hope to establish a strong minority business community while it cuts back or entirely cuts off support" of community action programs? Doctors, a member of the Presidential Advisory Council and long-time student of the minority enterprise program, also criticized the Nixon Administration's failure to "help minority businessmen enter areas with higher growth potential through a carefully planned and articulated long-term economic development program, or to provide adequate business/management education and training opportunities."

What is clear after years of effort is that *we do not know* what impact the minority enterprise program has had in the past or will have in the future. The question is, what has this program which has expended more than \$3 billion in the last five years brought in the way of concrete development for minorities? While it is unrealistic to expect to overcome a deficit of 300 years in so short a time, an evaluation of those efforts is essential to the program's future well-being.

There are those who claim the minority enterprise program has grown mindlessly and has been more concerned with numbers than with positive results. Like many bureaucratic agencies, OMBE has been accused of husbanding its findings, releasing only that information which is favorable to its development and abjuring all other. Whatever the claims, one course is clear. There is a critical need to examine the effectiveness thus far of government efforts in order to determine whether they have helped or had little influence on the development of minority business enterprise. Whatever the results of the studies undertaken by OMBE and other government agencies, it is important that they be studied in order to insure that minorities will have a fuller and fairer share of the economic wealth of this nation.

More importantly, the minority business effort must be directed to larger, more optimum-size business enterprises that are likely to have some impact on future development. We must identify those areas which have the necessary

growth and profit potential and pursue those operations. The future of minority business development is not in the operation of marginal enterprises where the owner merely ekes out a profit and provides himself with a measure of independence. It is estimated that by 1990 our gross national product will have grown to \$2.4 trillion. Will Blacks and other minorities get a share of this new and expanding market or will we fall further and further behind? There is a need now for full disclosure of the progress or lack of it in the minority enterprise field. Only with a detailed examination of where we have been will we be able to know where we are going and how we are to get there.