Greater Baltimore Commitment:

A Study of Urban Minority Economic Development

United States Commission on Civil Rights

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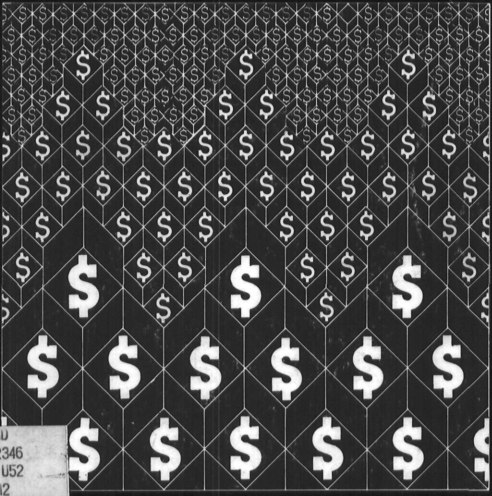

U.S. COMMISSION ON CIVIL RIGHTS

The U.S. Commission on Civil Rights is a temporary, independent, bipartisan agency established by Congress in 1957 and directed to:

- Investigate complaints alleging that citizens are being deprived of their right to vote by reason of their race, color, religion, sex, age, handicap, or national origin, or by reason of fraudulent practices;
- Study and collect information concerning legal developments constituting discrimination or a denial of equal protection of the laws under the Constitution because of race, color, religion, sex, age, handicap, or national origin, or in the administration of justice;
- Appraise Federal laws and policies with respect to discrimination or denial of equal protection of the laws because of race, color, religion, sex, age, handicap, or national origin, or in the administration of justice;
- Serve as a national clearinghouse for information in respect to discrimination or denial of equal protection of the laws because of race, color, religion, sex, age, handicap, or national origin;
- Submit reports, findings, and recommendations to the President and Congress.

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LETTER OF TRANSMITTAL

THE U.S. COMMISSION ON CIVIL RIGHTS
Washington, D.C.
April 1983

THE PRESIDENT
THE PRESIDENT OF THE SENATE
THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

Sirs:

The United States Commission on Civil Rights transmits this report to you pursuant to Public Law 85–315, as amended.

Greater Baltimore Commitment is based upon public hearings held in Baltimore, Maryland, in November 1981 and upon research conducted prior to, during, and since the hearings.

The report examines the continuing barriers to minority business enterprises and assesses the extent to which minorities have participated in or benefited from Baltimore's extensive redevelopment, much of it accomplished with direct public funds from the Federal Government. The Commission found that while redevelopment in Baltimore is most visible in the downtown area, Federal and city economic development funds have been invested primarily in Baltimore's neighborhoods and that community economic development projects have been equally pursued in both predominantly black and identifiably white neighborhoods. The Commission further found that except for deliberate and race conscious efforts, minority participation in the economic development of the city was negligible.

The report discusses Federal small business assistance programs and Federal minority participation requirements and makes recommendations for improving these programs.

The report concludes that what is needed is a comprehensive municipal strategy to foster economic development for the city's minority community. It is our hope that the findings and recommendations contained in this report will be of assistance in achieving this goal.

Respectfully,

Clarence M. Pendleton, Jr., *Chairman*
Mary Louise Smith, *Vice Chairman*
Mary Frances Berry
Blandina Cardenas Ramirez
Jill S. Ruckelshaus
Murray Saltzman

John Hope III, *Acting Staff Director*

PREFACE

The Commission undertook this study of urban minority economic development in accordance with its legal mandate to "study and collect information," to "appraise the laws and policies of the Federal Government with respect to discrimination or denials of equal protection of the laws," and to "serve as a national clearinghouse for information in respect to discrimination or denials of equal protection of the laws."

In 1980 the Commission conducted a field investigation and held a 4-day hearing in Miami to examine the underlying causes of racial and community unrest in that city. One of its findings was that the absence of Miami's black community from the economic mainstream in Miami, in the midst of an economic boom, proved to be a significant factor leading to the city's 1980 riots. Based on testimony and research, it appeared that the inability of minority entrepreneurs to obtain venture capital due to lack of collateral, equity, and "track record" was not unique to Miami. The Commission decided to examine the extent to which the black community is sharing in the economic development in a northern city also undergoing urban revitalization. By examining minority economic development more closely, the Commission could better evaluate programs and civil rights enforcement efforts designed to encourage minority entrepreneurship and suggest future strategies for the full participation of minorities in the urban economic mainstream.

Baltimore, Maryland, is typical of a number of industrial northeastern cities that, confronted with deteriorating physical and economic conditions since the end of World War II, have undergone major downtown commercial redevelopment. The city's population is over 50 percent black and many of its nonminority residents identify strongly with their ethnic origins.

Over the past 20 years Baltimore has undergone extensive downtown redevelopment with the most notable results being Charles Center and the new Inner Harbor. These projects, although largely private ventures, were made possible by city and State cooperation, as well as by the infusion of hundreds of millions of dollars in Federal funds. Of concern to this Commission is the effect of this type of commercial redevelopment on the urban poor and working class, most of whom are black, and whether urban revitalization is being achieved at the expense of providing basic services to those most in need.

At the outset of the project Commission staff looked at minority economic development from the standpoint of Baltimore's entire minority community. From this examination, Commission staff determined that minority economic development in Baltimore is, for the most part, black economic development. Hence, the focus of this report is on black economic development.

The project in Baltimore examined the barriers to minority economic development and the extent to which minorities have participated in or benefited from the city's downtown revitalization, particularly from the standpoint of minority business enterprises. Minority businesses are often unable to participate in large-scale construction projects because they are small and unable to meet bonding requirements. Loan and insurance redlining are commonly practiced with stultifying effects on minority entrepreneurs who want to set up businesses in predominantly minority communities.

The Commission further examined existing Federal small business assistance programs and Federal minority participation requirements and solicited testimony on strengthening these programs. The Commission's recommendations in the area of minority economic development should prove useful to policymakers at all levels of government.

ACKNOWLEDGMENTS

The Commission is indebted to the following staff members who participated in the preparation of this report under the supervision of Michael C. McGoings, Assistant General Counsel: Susan McDuffie, Stephen P. O'Rourke, and Karen Primack, staff attorneys.

The report is based on public hearings held in Baltimore, Maryland, under the direction of Michael C. McGoings. Staff members participating in the field investigation and hearings include Gregory Ford,* James Karantonis, Susan McDuffie, Stephen P. O'Rourke, Robert Owens, Karen Primack, Mary Grose, and Frances C. Lee.

The Commission also expresses its appreciation to Brenda Blount,* Mary Grose, Lorraine W. Jackson, Vivian Jones,* Frances C. Lee, and Michele Moree who provided support services necessary to the production of this report. Editorial assistance was provided by Gloria H. Izumi. Final preparation of the manuscript for publication was handled by Vivian Hauser, Audree Holton, and Vivian Washington.

The field investigation, hearings, and production of the report were under the overall supervision of Paul Alexander, Acting General Counsel.

*No longer with the Commission.

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Summary

Baltimore has demonstrated that it is a "can do" town. The city has many creative and innovative public and private sector leaders, whose joint efforts are rapidly transforming Baltimore from a stereotype of decaying urban blight to a model metropolis frequented by tourists from around the globe. Baltimore has achieved this dramatic turnaround of its image despite a precipitous decline in its manufacturing sector and the persistence of severe unemployment, problems related to its public school system, inadequate housing for minorities, and underutilization of minorities on public commissions of various kinds.

Not all of Baltimore's population has been included in its transformation. Minority economic development has not been a priority in Baltimore City. Although a few worthwhile efforts have been made along these lines, city efforts have largely addressed the exceptional instance by assisting particular minority business ventures.

Whether or not there has been a conscious effort to exclude minorities, a conscious effort to include minorities in the city's economic development plans and activities is required to address the evident disparity between minority economic development in Baltimore City and economic development for the mainstream community as a whole. What Baltimore needs is a comprehensive municipal strategy to foster economic development for the city's minority community on a large scale.

The city has recently taken steps to include the minority community in some city redevelopment projects, partially in response to pressures from the black community, which aggressively sought participation in the revitalization of the Inner Harbor and made such participation a condition for their support of the public referendum required for the project. As a result, developers and city leaders have jointly established programs to facilitate minority participation. The city has implemented an affirmative action program that covers all city contracts. City leaders testified at the Commission's hearing in Baltimore that this program was necessary for the progress they have made thus far in increasing the number of minorities involved in city contracting. Affirmative action requirements instituted by the Federal Government were said to be necessary for the progress of the minority community in the city overall.

Other race-conscious affirmative steps taken by the city include a cooperative effort with the recently opened Hyatt Regency Baltimore hotel and local job training and placement programs that provided a large number of jobs for minority workers. The city also approved an industrial revenue bond that was used to reestablish minority ownership of the Parks Sausage Company. The Wallbrook Junction Shopping Center, minority-owned and developed, was the recipient of long-term, low interest loans granted by the city. Minorities currently operate the city-owned and developed Marina. In addition, the city is undertaking the development of the Park Circle Industrial Park that will, if completed, generate a large number of jobs and contribute to the economic stabilization of the economically depressed Park Heights section of Baltimore. The city also approved a loan of $4 million to finance the "Shake and Bake" family

recreation center promoted by former Baltimore Colts football star Glenn Doughty.

One project, the Commercial Revitalization Program, undertaken to revitalize the city, has also benefited minorities. Oldtown Mall, once a deteriorated commercial area containing one black business, has been revitalized under this program that requires merchants to upgrade their properties with assistance from the city. Today, 33 percent of the businesses in Oldtown Mall are black owned.

Urban development action grants (UDAG) projects in Baltimore also demonstrate an effort by the city to include minorities, as is required by Federal law. Forty-five percent of the city's UDAG funds was spent in various city neighborhoods. Of that amount, 33 percent was spent in identifiably black neighborhoods, 30 percent in neighborhoods that are not racially identifiable, and 37 percent in identifiably white neighborhoods.

The city has combined UDAG and community development block grant (CDBG) monies to finance projects not otherwise fundable by either program separately because of various statutory or regulatory restrictions. One such combination financed new housing construction, while also supporting the training for a minority-owned residential development and construction company. CDBG money also partially funds a minority contractors technical assistance program for the city. Overall, the city awarded 12 percent of its total CDBG funds to minorities and 11 percent of the UDAG funds to minority businesses. However, despite all of these commendable initiatives, minority enterprise remains at a marginal level, which has contributed to the comparatively minimal level of minority participation in the city's redevelopment.

Although the effort to include a representative number of minority vendors in Harborplace has been successful, developers testified at the Commission's hearing that the scarcity of minority entrepreneurs in Baltimore made this objective difficult to achieve, especially since their marginal status caused a reluctance on the part of minority businesspeople to take a chance on relocating a business in a downtown marketplace.

The city and the developer made a conscious effort to meet their commitment to include minorities in the Harborplace development. They secured financing for minority vendors and, in some cases, arranged for the waiver of bonds and the expedition of contract payments in recognition of minority business cash flow problems. These methods were both effective and laudable. However, they are at best temporary solutions to a longstanding problem. Cash flow, inability to meet bonding requirements, and inability to secure financing are perennial problems facing minority would-be entrepreneurs. These problems must be addressed in a comprehensive, long-term manner if minority businesspeople are ever to enter the mainstream marketplace on a competitive basis.

Therefore, although some city projects have included minorities to a certain extent, there is more to be done. With some notable exceptions, these efforts have involved specific exceptional situations and have been limited to economic projects of lesser dimension. A large part of the responsibility for this task rests with the private sector. The mayor of Baltimore and various city agency heads testified at the Commission's hearing that the city will take steps to address the problems associated with the comparative lack of minority business enterprise in the city, but they need the assistance and cooperation of the private sector to succeed. Private sector leaders agreed that they had not fulfilled their leadership role in this respect, but stated that they were taking steps to address this deficiency.

Apparently, some efforts along these lines are already underway. Legislation to establish a $7.5 million loan fund to help start and expand businesses owned by socially or economically deprived persons in Baltimore was recently announced. The loan fund is reportedly the initiative of the Greater Baltimore Committee, a quasi-public organization that has been instrumental in the redevelopment of Baltimore City.[1] The loan fund is being packaged with funds from the Maryland National Bank, Union Trust Bank, First National Bank of Maryland, Mercantile Bank and Trust, Equitable Trust Bank, and Suburban Trust Bank. Each bank plans to invest in the loan fund on a percentage basis varying with the size of its assets.[2]

The State of Maryland will insure the loans. A special $2.5 million State fund proposed by Mary-

[1] See discussion on the role of the Greater Baltimore Committee in the revitalization of the city in chap. 1 of this report.

[2] Stanley Tucker, Maryland Small Business Development Financing Authority, telephone interview, Sept. 20, 1982; *see The Baltimore Afro-American,* Feb. 13, 1982.

land Governor Harry Hughes will guarantee 80 percent of the loans and also will pay interest subsidies of up to 4 percent to compensate banks making loans at below market interest rates. State guarantee is considered crucial to the success of this venture.[3]

This Commission is very much encouraged by this development. If implemented, it will further minority economic development in the city of Baltimore and will set an example for other municipalities around the Nation. Such a program would be a model of State, municipal, and private sector leadership.[4]

Many of the creative efforts undertaken by city agencies in Baltimore would not have been possible without Federal funds. The inclusion of minority vendors in Harborplace was made possible in large part by the city's ability to utilize $500,000 of community development block grant funds to match funds made available by local banks in the form of low interest loans to would-be minority vendors at Harborplace.

However, Federal agencies should greatly increase their level of procurements from minority businesses. The Federal Government should set an example for the Nation in this regard. Unfortunately, there is a long way to go before the level of procurements by Federal agencies will reflect a responsive approach to the problem of minority business exclusion from the mainstream marketplace of which the Federal Government is a large part.

As the report indicates, high unemployment rates have a severe effect upon minority economic development. In addition to experiencing a high unemployment rate, Baltimore is undergoing a shift from a blue-collar to a white-collar employment base that is having a negative effect upon blacks, who are employed in large numbers as factory workers. Further, testimony before this Commission revealed that Baltimore's black youth are not being employed in significant numbers by local employers although they possess entry level job skills. As the city continues its revitalization, specific programs should be developed to address these matters. Schools, unions, government agencies, and employers should plan and coordinate this effort as a team.

Finally, the report indicates that race is a factor that must be considered in the discussion of black ecomomic development. A range of problems, including the scarcity of black loan and bonding officers and the related lack of access to both commercial loans and bonds by potential black entrepreneurs, was revealed in testimony before this Commission. It is apparent, therefore, that although Baltimore has taken some steps to surmount the barriers to minority economic development within the city, there is much that remains to be done on the local, State, and Federal levels before black economic development will be commensurate with the need and the potential in Baltimore.

[3] Ibid.

[4] Senate Bill 827 establishing the State fund for loan guarantees and interest subsidies was signed into law by Governor Hughes on June 1, 1982. The original proposal called for a $15 million fund backed up by a $5 million State fund that would have guaranteed 90 percent of the loans. Ibid.

Chapter 1

Introduction

Black Business Development in the United States

The establishment of black businesses in America is not a recent development. Before the Civil War, free blacks were craftsmen and artisans and were engaged in personal service enterprises such as catering, beauty parlor and barbershop operation, and cleaning and pressing.[1] In 1863 there were approximately 2,000 such businesses.[2] By 1893 there were 17,000 black-owned businesses in the United States.[3] However, after the abolition of slavery, the growth of black businesses was often stymied by the lack of capital, the inability to secure credit, and the necessity to rely upon the black community for customers in the face of stiff competition from white businessmen, who could often offer services black businesses could not afford.[4] The exclusion of blacks from many employment opportunities also hindered traditional capital acquisition.[5]

As the turn of the century approached, black leaders stressed the importance of business ownership. At the Fourth Atlanta University Conference on the Negro in Business in 1898, the first resolution adopted called for greater support for, and participation of, blacks in business as the means for achieving economic growth for black America.[6] In furtherance of this objective, Booker T. Washington organized the National Negro Business League in 1900.[7] However, it was expanding opportunities that developed in relation to World War I that brought about the most substantial increase in the number of black businesses.[8]

Blacks migrated to the cities during World War I to fill jobs in newly expanding industries.[9] After 1920 black businesses were commonplace in the Southern, Midwestern, and Eastern States.[10] In 1930 there were approximately 56,000 black-owned businesses in the United States, which constituted 1.5 percent of all American businesses.[11] Black businesses, like all other American businesses, suffered greatly from the depression. From 1929 to 1939 total sales declined by 28 percent in black-owned stores and restaurants.[12]

A survey of black businesses in 1944 revealed a preponderance of personal services establishments remarkably similar to the types of businesses blacks operated in the antebellum South, including eating places, groceries, beauty parlors and barbershops,

[1] Timothy Mason Bates, *Black Capitalism: A Quantitative Analysis* (New York: Praeger Publishers, 1973), pp. 6–7.
[2] U.S., Department of Commerce, Bureau of the Census, *The Social and Economic Status of the Black Population in the United States: An Historical View, 1790–1978,* Special Studies Series, P-23, No. 80, p. 78 (hereafter cited as Bureau of the Census, *An Historical View).*
[3] Ibid.
[4] Bates, *Black Capitalism,* p. 8.
[5] U.S., Commission on Civil Rights, *Nonreferral Unions and Equal Employment Opportunity* (1982), pp. 10–11.
[6] Bates, *Black Capitalism,* p. 9.
[7] Ibid.
[8] Ibid.
[9] Ibid.
[10] Ibid., p. 10.
[11] Gunnar Myrdal, *An American Dilemma* (New York: Harper and Bros., 1944), p. 306.
[12] Ibid., p. 307.

cleaning and pressing, shoeshine and repair shops, and funeral homes.[13] There were also a number of black banks and insurance companies in existence by this time. Discrimination by white insurance companies led to the establishment of black insurance companies,[14] and there are several large successful black insurance companies currently in operation. The history of the development of black banks in America has been somewhat uneven,[15] but there are a number of relatively small but stable black banks existing today. The 1944 survey revealed that the greatest obstacle to successful business operation was the lack of capital. Lack of trained personnel was cited as the second most important obstacle.[16]

More recent surveys by the Bureau of the Census reveal that although the number of black businesses has grown, the type and size of the businesses remains the same. As of 1969, there were 163,073 black businesses, and approximately 38,304 of them had paid employees, indicating that the vast majority of black businesses were too small to provide job opportunities for the areas in which they were located.[17] In 1972, as was the case in 1969, the Bureau of the Census reported that nearly all black-owned firms were operated as sole proprietorships and continued to be concentrated in retail trade and selected services.[18] The proportion of black-owned firms to total American firms, excluding corporations, remained very small in 1972, as only 2.7 per cent of the total was black owned.[19]

A 1977 Bureau of the Census survey of minority-owned business enterprises, the most current source of comprehensive data available, reveals that the majority of black-owned firms are still concentrated in selected services and retail trade.[20] The 10 largest industry groups in terms of receipts in black-owned firms as of 1977 were, in order of size, automotive dealers and service stations, food stores, miscellaneous retail stores, eating and drinking places, special trade contractors, health services, personal services, business services, trucking and warehousing, and wholesale trade in nondurable goods.[21]

The majority of black-owned firms operated as sole proprietorships in 1977.[22] Of the total number of black-owned firms, 3.9 percent were partnerships and only 1.9 percent were corporations.[23] However, corporations accounted for 33 percent of the gross receipts while partnerships accounted for 11.1 percent.[24] Therefore, of the total number of black-owned firms, sole proprietorships, which constituted 94.3 percent of the total number, accounted for only 55.7 percent of the total receipts.[25] In addition to producing a relatively small share of the total receipts in comparison to their numbers, a continuing concern raised by the large number of sole proprietorships among black businesspeople is that they often offer few employment opportunities for the communities in which they are located because they generally are very small business enterprises.

Black Business Development in Baltimore

Baltimore, the largest city in Maryland, is the 10th largest city in the United States.[26] The city is located on the Patapsco River estuary, an arm of the Chesapeake Bay, and is 40 miles northeast of Washington, D.C. Although not incorporated until 1729, the city of Baltimore has been in existence since the early 17th century.[27] Following a first century of relatively little growth and commercial activity,[28] Baltimore enjoyed a vibrant and important commercial life during the 18th century. By the early 1800s the city was generally regarded as the

[13] Bates, *Black Capitalism*, p. 11.
[14] Ibid., p. 12; "Numerous publications emphasized the hazardous financial consequences [to insurers] caused by unfavorable Negro mortality rates. The best known of these publications was Frederick L. Hoffman's Race Traits and Tendencies of the American Negro which appeared in 1896. The author endeavored to show that because of social diseases, living conditions, and other undesirable circumstances, Negroes were undesirable insurance risks." Linda P. Fletcher, *The Negro in the Insurance Industry* (Philadelphia: University of Pennsylvania Press, 1970), p. 125.
[15] Bates, *Black Capitalism*, p. 12.
[16] Ibid.
[17] Bureau of the Census, *An Historical View*, p. 63.
[18] Ibid. This survey is conducted every 5 years. The last survey was in 1977 and the next will be in 1982. The data from the 1982 survey will not be available until 1984–85. Jerry McDonald, Bureau of the Census, telephone interview, Aug. 13, 1982.
[19] Bureau of the Census, *An Historical View*, p. 63.
[20] U.S., Department of Commerce, Bureau of the Census, *Survey of Minority Owned Business Enterprises* (1977), p. 5.
[21] Ibid.
[22] Ibid., p. 6.
[23] Ibid.
[24] Ibid.
[25] Ibid.
[26] U.S., Department of Commerce, Bureau of the Census, *Newsletter*, June 3, 1981, p. 3.
[27] Captain John Smith explored the Chesapeake Bay region in 1609. Leonard Calvert organized the colony of Maryland in 1634. Sherry Olson, *Baltimore, the Building of an American City* (Baltimore: Johns Hopkins Univ. Press, 1980), p. 2 (hereafter cited as Olson, *Baltimore)*.
[28] Sherry Olson describes this period as "the empty century" based upon the relative insignificance of Baltimore's commercial activities in the years preceding the Revolution. Ibid., p. 1.

preeminent commercial port on the continent because of its ideally located, inland, deep water port.[29]

Baltimore's growing population included diverse racial and ethnic groups.[30] Blacks were brought into the greater Baltimore area as slave labor by tobacco planters of the Eastern Shore.[31] As Baltimore's commercial ventures increased, and the city's economy centered upon shipping and manufacturing industries, the use of slave labor in the city eventually decreased.[32]

Successive waves of European immigrants arrived in Baltimore during the 18th and 19th centuries, including Germans, Poles, Italians, Greeks, Eastern European Jews, Bohemians, Ukranians, Lithuanians, Scots, Irish, and others. As these groups arrived, they formed small enclaves that ultimately solidified into distinct neighborhoods.[33] Free blacks[34] lived in strictly defined areas such as Oldtown, which they shared with a German population.[35]

Despite the presence of a predominantly free black community in Baltimore City, the legal status of such blacks was not far removed from servitude. In 1831, following the slave rebellion led by Nat Turner, the State created a commission to examine the issue of free blacks in Maryland.[36] It is estimated that the black population consisted of 100,000 black slaves living outside the Baltimore city limits and 50,000 free blacks, most of whom lived within the city.[37] The commission recommended the transportation of free blacks to Liberia, either voluntarily or by force. Although the recommendation was not implemented, the legislature enacted laws that dramatically circumscribed the rights of free blacks in Maryland.[38]

Blacks have owned and operated businesses in Baltimore since the 1800s. Most blacks who succeeded in business were craftsmen who went into service trades with capital carefully accrued through years of saving.[39] Blacks worked in at least 31 skilled crafts, including caulking and repairing ships, blacksmithing, carpentry, brickmasonry, shoemaking, brass foundry, stonecutting, millinery, tailoring, cabinetmaking, plastering, painting, plumbing, and cigarmaking.[40]

Beginning in the 1820s there was a proliferation of black self-help and mutual benefit societies. By the late 1800s over 35 benevolent associations existed among free blacks in Baltimore.[41] One was the Colored Businessmen's Association organized by Isaac Meyers in 1888[42] to unite black businessmen, and it sponsored trade fairs and seminars. The association was subsequently reorganized as the Baltimore Negro Business League under the auspices of the National Business League founded by Booker T. Washington.[43]

As early as 1827, a group of whites in Baltimore petitioned the Maryland House of Delegates for legislation to prevent free blacks from becoming hack, cart, or dray drivers, and in 1840 white laborers in Baltimore requested legislation to prevent the employment of free blacks in State-owned tobacco warehouses. Neither effort was successful.[44]

Further hostility toward black caulkers and other black artisans precipitated riots in 1858 and in 1859. Whites, again, unsuccessfully petitioned the State Legislature, this time to prohibit all free blacks in Baltimore and throughout the State from practicing a skilled trade. This hostile activity presaged future antiblack labor efforts that would lead to the

[29] Roberto Brambilla and Gianni Longo, *Learning From Baltimore* (New York: Institute for Environmental Action, 1979), p. 31.

[30] Blacks were present in Maryland shortly after the earliest settlements in 1634, but their exact status at that time is unclear. Acts of the provincial legislatures of 1664 and 1671 fixed lifetime servitude upon all resident blacks and their issue and upon all blacks brought into the State thereafter. *See* William George Paul, "The Shadow of Equality: The Negro in Baltimore, 1864-1911" (Ph.D. dissertation, University of Wisconsin, 1972), p. 10 (hereafter cited as Paul). *See also* Olson, *Baltimore*, pp. 4–5.

[31] Olson, *Baltimore*, p. 4.

[32] Paul, pp. 11–13.

[33] Olson, *Baltimore*, p. 118.

[34] Some blacks were released from slavery by slave owners, forming the nucleus of a free black class, but they were not numerous. In 1790 the total black population in Maryland was 111,079 of whom 8,043 were free; 323 of that number were in Baltimore. *See* Paul, p. 11.

[35] Olson, *Baltimore*, p. 121.

[36] Ibid., p. 97.

[37] Ibid.

[38] Ibid.

[39] James M. Abraham, "Black Business in Baltimore: 1850–1981," in *The Black Pages*, ed. Jaki Hall (Baltimore: Jaki Hall Enterprise, Inc., 1981), p. 14 (hereafter cited as Abraham); *see also* Bettye C. Thomas, "A Nineteenth Century Black Operated Shipyard, 1866-1884: Reflections upon Its Inception and Ownership," *The Journal of Negro History*, vol. 59 (1974) (hereafter cited as Thomas).

[40] Paul, p. 22; *see also* Thomas, pp. 1–2.

[41] Paul, p. 20; *see also* Thomas, p. 2.

[42] Abraham, p. 15.

[43] Ibid.

[44] Paul, p. 23.

elimination of free blacks from trades in which they had at one time been preeminent in Baltimore.[45]

During and after the Civil War, black businessmen in Baltimore faced discrimination by, and competition from, newly arrived European immigrants. In 1860 white mechanics petitioned the Maryland General Assembly to exclude blacks from their trade.[46] Although this effort failed, the hostility towards free black tradesmen and laborers never abated; after the Civil War, white caulkers persuaded the white joiners and ship carpenters to go on strike, and their unions levied stiff $25 dollar fines upon any who worked with the blacks. This effort was successful in effectively barring free blacks from working as caulkers in Baltimore, although many white employers were loath to fire their black workers who were renowned for their "management, workmanship, and dispatch."[47]

By the turn of the century, black businesses had attained a permanent but precarious position in Baltimore. Black businessmen faced stiff competition from whites, who were entering service trades once left exclusively to blacks.[48] Between 1900 and 1910 the number of black barbers decreased from 317 to 279. The black shoe repair shopowners suffered a similar fate, dwindling from 88 to 29 during the same 10-year period.[49]

World War I formed the backdrop for a period of social activism among blacks in Baltimore that included efforts to address racial discrimination as it affected the black community, including black businesses. This period of social activism continued for two decades, despite the depression.[50] Black businessmen were hampered by racially discriminatory policies in the banking, bonding, insurance, and real estate industries.[51] White merchants in black communities were urged by community activists to hire black employees, while black businesses began to expand into the previously racially restricted business areas of finance and real estate.[52]

The Second World War marked a period of great industrial expansion in and around Baltimore. The area's steel, aircraft, and shipbuilding industries were booming.[53] By August 1941, $1 billion in U.S. Government contracts were let in Maryland, and 50,000 people were working in defense plants located in the State, about half of them at Martin aircraft. The Baltimore area became a primary place to build both ships and airplanes for the war effort.[54] Many blacks were included in the expanding work force.

Following World War II, the city faced the problem of the deflation of the economic boom created by major wartime production in Baltimore.[55]

There was a period of readjustment as jobs disappeared, and the civilian population increased. By October 1945, 45,000 war production workers were laid off and 35,000 veterans returned to the city.[56] There was a massive turnover in industry outside the immediate Baltimore City boundaries, as industry diversified and converted to peacetime manufacturing.[57]

The movement of jobs to the suburbs was matched by the continued movement of whites out of the city. After reaching a peak of 950,000 residents in the late forties, the city of Baltimore steadily lost ground to the suburbs. In the 1950s the city's population declined by 10,000, in the 1960s by 33,000, and in the 1970s by more than 120,000. This essentially "white flight" to the suburbs totaled 200,000 between 1960 and 1975.[58] At the same time, Baltimore's black population grew by 114,000, many migrating from the rural South. In two decades the city's racial composition shifted from two-thirds white to majority black.[59] Today, almost 55 percent of Baltimore's 786,000 people are black, and large numbers of them are unemployed.[60] For 1981, according to the U.S. Bureau of Labor Statistics, 6.9

[45] Ibid, p. 24.
[46] Abraham, p. 15.
[47] Olson, *Baltimore,* pp. 183–84.
[48] Abraham, p. 16.
[49] Ibid.
[50] Abraham, p. 17.
[51] Olson, *Baltimore,* pp. 327–28.
[52] Abraham, p. 17.
[53] Olson, *Baltimore,* pp. 347–48.
[54] Ibid., p. 348.
[55] Ibid., p. 349.
[56] Ibid.
[57] For example, after the war, Westinghouse converted from X-ray inspection of armor plate to industrial uses of X-rays. Westinghouse and the Martin Company launched development work on airborne TV and FM radio transmitters. Ibid., p. 30.
[58] Eric Gerland, "The End of Baltimore as a Blue Collar Town," *Baltimore Magazine,* December 1980, p. 54.
[59] Ibid.
[60] U.S., Department of Commerce, Bureau of the Census, Advance Report, 1980 Census of Population and Housing, *Maryland Final Population and Housing Unit Counts,* p. 10 (hereafter cited as Bureau of the Census, *Maryland Final Population and Housing Unit Counts).See also Time Magazine,* Aug. 24, 1981, p. 44. Unemployment in Baltimore City as a whole in September 1981 was 10.7 percent. *See Baltimore Sun,* Nov. 7, 1981, p. 1.

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percent of white adults and 19.1 percent of black adults were unemployed in the city of Baltimore.[61]

As of 1977, the most recent year for which data are available, there were 3,093 black-owned businesses in Baltimore.[62] However, those businesses employed only 2,642 persons.[63] No black businesses were among the city's top 20 employers.[64] The total volume of black business that year was $123 million, whereas the figure for retail sales alone for the city as a whole was far more than $2 billion.[65] Further, a Department of Commerce study indicates that although minority business enterprise increased on a national basis by approximately 25 percent from 1972 to 1977, there was less than a 2 percent increase in Baltimore during that same period.[66]

Overview of Mainstream Economic Development in Baltimore

Baltimore's overall economic development took place in stages;[67] however, the participation of the black community in the city's development throughout has been minimal.[68] The opening of the Erie Canal in the 1820s threatened Baltimore's position as a major distribution center of goods to the growing western market. Baltimore responded by building the Baltimore and Ohio Railroad, the first common carrier railroad in America, and subsequently doubled its population and wealth.[69]

During the Civil War, the economy of Baltimore advanced in an uneven fashion. Its industrial growth was limited. The city's primary growth sectors were tied to its role as a strategic transportation center; its essential military function was to keep the B&O Railroad operating. Shipyards were busy, oyster and vegetable packers expanded by selling tinned food for the armies, and the garment industry produced military uniforms.[70]

The city did not benefit from a wartime boom, nor did it suffer a postwar depression.[71] In fact, the period between the end of the Civil War and the beginning of World War I was marked by a series of "fat and lean years."[72] The eventual emergence of a period of great industrial expansion for the city was clearly linked to the increase in productivity caused by World War I. Between 1914 and 1919 the manufacturing labor force increased by one-third, manufacturing capital doubled, and the value of manufactured products and exports tripled.[73] It was during this period that Sparrows Point became the location for Bethlehem Steel.[74] Other new shipbuilding ventures also selected the Baltimore area as their locations. The prime locus of investment was the outer harbor at Curtis Bay, Canton, and Patapsco Neck.[75] Military installations and utilities accompanied the building of private industries in each district.[76]

Through the period of World War II, the city's employment base was dominated by manufacturing activity and central business district trade. The city was the source of 80 percent of the region's total employment during this time.[77] In the 1950s a decentralization of business and population began that accelerated through the 1970s. Today the city provides only 60 percent of all jobs in the region. Manufacturing activities now account for only 15 percent of all central city employment while ser-

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[61] James Earheart, Baltimore City Department of Human Resources, Research and Analysis Division, telephone interview, Aug. 13, 1982. Baltimore City officials believed the 6.9 percent unemployment rate for white adults to be too low. (See app. B, Mark Wasserman, physical development coordinator, city of Baltimore, letter to Paul Alexander, Acting General Counsel, U.S. Commission on Civil Rights, Oct. 26, 1982, comment 1. The data for black adults and white adults were confirmed by Derryl Carr, Local Area Unemployment Statistics, U.S. Department of Labor, Bureau of Labor Statistics, telephone interview, Dec. 7, 1982. For affirmative action data reporting purposes, the State of Maryland publishes "Affirmative Action Data" for Baltimore City. For 1981 it reported the following unemployment rates: white adults, 5.0 percent; black adults, 12.0 percent; white youth, 7.4 percent; black youth, 35.7 percent.

[62] U.S., Department of Commerce, Bureau of the Census, *Survey of Minority Owned Business Enterprises* (1977), p. 137.

[63] Ibid.

[64] Ibid.

[65] Ibid.

[66] Charles Obrecht, Greater Baltimore Committee, testimony, *Hearing Before the U.S. Commission on Civil Rights, Baltimore, Md.*, Nov. 17–18, 1981, p. 14 (hereafter cited as *Baltimore Hearing);* Greater Baltimore Committee, "Report of the Minority Business Development Subcommittee," March 1981, p. 3.

[67] Brambillo, *Learning From Baltimore*, p. 33.

[68] Walter Sondheim, chairman of the board, Charles Center-Inner Harbor Management Corp., testimony, *Baltimore Hearing*, p. 10.

[69] Brambillo, *Learning From Baltimore*, p. 33.

[70] Olson, *Baltimore*, p. 145.

[71] Ibid., p. 149.

[72] Ibid.

[73] Ibid., p. 295.

[74] Ibid., p. 292.

[75] Ibid., p. 294.

[76] Ibid.

[77] Katherine C. Lyall, "Interdependence in the Baltimore Metropolitan Economy," The Johns Hopkins University Center for Metropolitan Planning and Research, *Metro News*, June 15, 1980, p. 1.

vices, including government activities, have grown to 42 percent of total city employment.[78] By the end of this decade, manufacturing is expected to provide no more than 12 percent of city employment opportunities while services, including government, will provide nearly half of all city jobs.[79]

This state of affairs has evolved over a period of many years. By the mid-1950s, physical decay, the desertion of the inner city by white businesses and residents, and a growing black population that was characterized, to a significant degree, by a lack of education, employment opportunity, and poor housing combined to give the impression that the city was steadily deteriorating.[80] This situation gave impetus to what has emerged as the turning point in the city's postwar fortunes. The Greater Baltimore Committee, a quasi-public organization, was formed in 1955. It raised $225,000 in private funds and hired a city planner to draw up a master plan for the complete overhauling of downtown Baltimore.[81] The creation of the Greater Baltimore Committee and the commitment of the city to the concepts of revitalization contained in programs for the downtown redevelopment resulted in the city's massive use of Federal economic development programs, as well as millions of dollars in State development monies.[82]

Juxtaposed with the city's efforts to revitalize its downtown areas and salvage itself from economic disaster was the continued economic, educational, social, and political disenfranchisement of many of the city's black residents. Still characterized, to a significant degree, by the lack of employment, education, and decent housing, the city's black population finally exploded into violent social protest in April 1968 upon the assassination of Dr. Martin Luther King, Jr. For 4 days certain portions of the city were engulfed in flames.[83]

The Maryland Crime Investigating Commission which studied the causes of the civil unrest noted that:

> social and economic conditions in the looted areas constituted a clear pattern of severe disadvantages for Negroes compared with whites. . . .
>
> [and that the conditions which caused the rioting included]. . .ignorance, apathy, almost complete discrimination, slums, poverty, disease and lack of opportunity for decent jobs.[84]

In the years following the 1968 civil unrest, some positive developments occurred. The city government has made important moves forward. Blacks are now represented on some boards, councils, and other instruments of political power, and constitute 55 percent of the city's population.[85] Nevertheless, both political and economic power remain primarily in the hands of the white minority population.

[78] Ibid.
[79] Ibid.
[80] Olson, *Baltimore*, pp. 371–72; Sondheim Testimony, *Baltimore Hearing*, p. 9.
[81] Sondheim Testimony, *Baltimore Hearing*, pp. 9–10; Eugene Carlson, "Revival of Baltimore's Core Took Lots of Work and Time," *The Wall Street Journal*, Sept. 22, 1981, p. 29.
[82] Ibid. *See* chap. 4 of this report.
[83] Olson, *Baltimore*, p. 383.
[84] Maryland Crime Commission, *Maryland Crime Report*, No. 68–2, July 1968, p. 2.
[85] Bureau of the Census, *Maryland Final Population and Housing Unit Counts*, p. 10. *See also* Chris Benson, "Baltimore, It's a City of Progress, But Blacks Are Not Getting Their Share," *Ebony*, December 1968, p. 68.

Employment

Since the era of World War II there has been no significant change in the employment probabilities of blacks as compared to whites. Consistently since that time, the unemployment rates of black Americans have been approximately double the rates of whites.[1] Although the 1960s are viewed by many as having established parity for minorities in many respects, U.S. Government statistics show that, in the crucial area of the rate of employment, very little has changed.[2] The Bureau of Labor Statistics reported that, in 1981, the annual average unemployment rate was 15.6 percent for blacks and 6.7 percent for whites. For January through May 1982 the average unemployment rate was 17.8 percent for blacks compared to 8.0 percent for whites.[3] Table 2.1 presents national unemployment rates for blacks and other minorities compared with rates for whites since 1965.

Although rate of employment figures have shown little change, there have been some significant increases in minority incomes in recent years. However, compared to whites, minority incomes are still low. In 1980 the median income for white families was $21,904. For blacks, the median family income was $12,674.[4] Low income remains an important factor retarding the growth of minority business development, since it inhibits the formation of a capital base in the form of personal savings that could be used to develop minority business enterprise.

A historical overview provides a context for understanding the predicament of today's black worker. Blacks, as a general rule, had no opportunity to amass capital during slavery. No grant of capital accompanied the emancipation of slaves by the Federal Government.[5] Before 1910 the majority of black American workers were engaged in agricultural work in the South or in unskilled nonfarm labor. During World War I, large numbers of blacks migrated from the South to the North and began to penetrate the semiskilled job market in response to white labor force shortages and expansion within the

[1] Lester C. Thurow, "The Economic Status of Minorities and Women," *Civil Rights Digest*, vol. 8 (Winter/Spring 1976), p. 3 (hereafter cited as *Civil Rights Digest).*

[2] Ibid.

[3] U.S., Bureau of Labor Statistics, "Current Labor Statistics: Household Data," *Monthly Labor Review*, July 1982, p. 66.

[4] U.S., Department of Commerce, Bureau of the Census, *Money Income and Poverty Status of Families and Persons in the United States: 1980*, Current Population Reports, Series P-60, No. 127, p. 13.

[5] For a discussion of slavery and the emancipation of blacks in Baltimore, *see* Sherry Olson, *Baltimore, the Building of an American City* (Baltimore: Johns Hopkins Univ. Press, 1980), pp. 4–5. "There is very little information about servitude in Maryland before 1640, but the evidence is substantial that over the 1640's the distinction was being made between Negro slavery for life and white service for a term. White servants were often indentured for a term of seven years for payment of their ship passages, while some were sold into servitude as penalty for crimes, including the crime of indigence. When his term was finished, the servant was given fifty acres to farm. Over a few years, he might even accumulate the price of one or two slaves, to extend his operation. In contrast, it was extremely difficult for a black slave to obtain his freedom, and still more difficult for him to purchase land." Ibid.

TABLE 2.1
Unemployment Data — Nation

	Black and other	White
1965	8.1%	4.1%
1966	7.3	3.3
1967	7.4	3.4
1968	6.7	3.2
1969	6.4	3.1
1970	8.2	4.5
1971	9.9	5.4
1972	10.0	5.0
1973	8.9	4.3
1974	9.9	5.0
1975	13.9	7.8
1976	13.1	7.0
1977	13.1	6.2
1978	11.9	5.2
1979	11.3	5.1
1980	13.2	6.3

Source: U.S., Department of Labor, Bureau of Labor Statistics, Table II—Unemployment Data (April 1981) (Attached to letter to Paul Alexander in Commission file).

job market. Between 1910 and 1930, 480,000 blacks entered manufacturing industries in the North.[6]

However, the employment gains made by blacks during World War I and the 1920s were particularly decimated by the depression of the 1930s. Blacks in semiskilled and unskilled jobs in manufacturing were hard hit by rising unemployment. Building construction industry workers also suffered severe job losses. Many blacks lost their jobs to whites who moved into job categories of lower pay and status to avoid unemployment.[7]

During World War II, defense-related industries created numerous jobs that spurred the Nation's recovery from the depression. The job market for blacks, however, did not markedly expand until the growth of the armed services reduced the white civilian labor force. Black civilians in the labor force increased by almost 1 million between 1940 and 1944, in addition to the 700,000 who entered the armed services. During the 1940s, nearly 1.6 million black Americans left the South for various regions of the Nation, expecting to find work in growing industries. During World War II, large numbers of blacks found employment in semiskilled and skilled positions.[8] The economic gains achieved by black Americans during World War II and the Korean War significantly decreased between 1954 and 1960. Restrictive fiscal and monetary policies kept the pace of economic activity too slow to prevent a steady and significant rise in unemployment.[9]

Although today's recession and consequent high national unemployment rates present serious problems for all Americans, they particularly bode ill for black America.[10] History indicates that it is only in times of high national employment that blacks are drawn into the ranks of the employed in significant numbers.[11] The sixties demonstrate this phenomenon. The period of 1961–69 was one of sustained economic growth. In each year between 1966 and 1969, the aggregate unemployment rate was below 4.0 percent.[12] The number of blacks in the civilian labor force increased by 1,151,000 workers during that period, with adult black women accounting for 57 percent of that number.[13] The black unemployment rate declined sharply from 12.4 to 6.4 percent.[14]

In addition to the general gains in black labor force participation, significant upgrading occurred in their occupational status. The number of blacks employed in white-collar jobs rose from 16.1 percent to 27.9 percent, with significant increases in professional, technical, and clerical occupations. The number of black skilled crafts workers rose dramatically while the number of unskilled laborers and domestic workers showed a marked decline. The gains made by the black labor force between 1960 and 1970 exceeded those of any previous period. From 1960 to 1970 the median income of black families doubled from its 1960 level to $6,279, increasing from 55 percent to 64 percent of the median income of white families.

The tight labor markets of 1965–69 and the enforcement of equal employment opportunity laws helped make these gains possible.[15] The relative economic progress of racial minorities appears to require tight labor markets and low unemployment rates as necessary conditions. However, these have not been sufficient preconditions. Although many minorities make significant gains in an environment of strong labor demand and strict enforcement of antidiscrimination laws, many others may still be left behind. Black youth are among those who appear to benefit least from tight labor markets. Their unemployment rates have been at 25 percent and above throughout the past 20 years.[16]

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[6] Bernard E. Anderson, "Full Employment and Economic Equality," *Civil Rights Digest*, vol. 8, (Winter/Spring 1976), pp. 19–20.

[7] Ibid.

[8] Ibid., pp. 19–20. The number in manufacturing rose "from 479,000 to 998,000; those in trade rose from 288,000 to 617,000; and those in professional and semiprofessional occupations increased from 177,000 to 356,000. While these gains occurred, the number of black domestic workers markedly declined." Ibid.

[9] Ibid.

[10] The Nation's unemployment rate in March 1982 reached 9 percent, matching the post-World War II record set in 1975. Nearly 10 million American workers were unemployed in March 1982, and a record 1.3 million were considered too discouraged to look for work and were not included in the unemployment count. *See* United States Conference of Mayors, *Youth Unemployment in the Summer of 1982*, Apr. 26, 1982 (hereafter cited as Mayors' Report), p. 3.

[11] Anderson, "Full Employment and Economic Equality," pp. 19–20.

[12] Ibid., pp. 20–21.

[13] Ibid.

[14] Ibid., pp. 19–20.

[15] Ibid. Civil rights legislation, especially Title VII of the Civil Rights Act of 1964, 42 U.S.C. 2000e to 2000e-17 (1976 and Supp. IV 1980), helped minorities take advantage of the employment opportunities made available during this period of sustained economic growth.

[16] Anderson, "Full Employment and Economic Equality," pp. 20–21.

High unemployment for minorities begins at an early age and persists throughout the adult years. Further, unemployment rates for minority youths are far greater than for white youths, and earnings differentials worsen as the groups get older. At ages 16 and 17, white males average $3.00 per hour, but by age 26 or 27 they are averaging $7.00 per hour. Black males start at $2.60 per hour, but 10 years later their earnings have increased to only $4.80 per hour. Comparable figures for white females are $2.00 and $4.00 and for black females, $2.00 and $3.50.[17]

Significantly, future earnings can be partly predicted on the basis of current earnings and work experience.[18] Between 1956 and 1974, the annual population growth rate was 4.5 percent for black teenagers and 3.5 percent for white teenagers. The growth rate for the population aged 20 and over was 1.4 percent. For that same period, the annual rate of growth of employment for white teenagers was 3.9 percent, slightly higher than their rate of population growth. Employment growth at 2.2 percent per year for black teenagers did not keep pace with their 4.5 percent population growth. Although the national labor market has shown great flexibility in its ability to absorb increasing numbers of white teenagers, the opposite is true for black teenagers.[19] Joblessness among all teenagers was approximately 22 percent, according to the Federal Government's March 1982 report. For black and other ethnic group teenagers, 16–19 years of age, the figure is over 42 percent, seasonally adjusted.[20]

The city of Baltimore is undergoing various changes that affect its employment rate. Once known as a blue-collar town, the number of blue-collar job opportunities in Baltimore has been declining since World War II.[21] There were 1,738 manufacturing firms in the city in 1950, 1,513 in 1960, and 1,100 in 1970. Less than half of the number of firms in Baltimore after World War II were in existence by 1978. The city lost 40,000 manufacturing jobs in the last decade, primarily as the result of industrial relocation and automation.[22] The baking industry that was, for many years, a source of local jobs has declined by two-thirds.[23] As of December 1980 only two Fortune 500 corporations had their headquarters in Baltimore. The fact that Baltimore functions to a significant degree as a corporate branch town leaves the local work force particularly vulnerable.[24]

The primary manufacturers are also having difficulties. The two largest sources of blue-collar jobs in Baltimore, automobile manufacturing and the steel industry, have required Federal assistance. Aging plants and foreign competition have combined with a variety of other factors to force thousands of area steelworkers into unemployment.[25] The slump in the automobile industry forced the layoff of one-third of the workers at General Motors' local Broening Highway plant. Future plans to close the plant's truck division permanently will cost area workers another 1,000 jobs.[26]

Baltimore's manufacturing plants are modernizing in an effort to catch up with foreign competition, but modernization often leads to automation and the reassignment of workers rather than to an increase in their numbers.[27] The port is still a major source of blue-collar jobs; however, because shippers are strictly middlemen, they are dependent upon the health of other industries. The port economy is, therefore, vulnerable to change in any part of the world.[28]

According to findings released in April 1982 by Chase Econometrics, a subsidiary of Chase Manhattan Bank, the Baltimore metropolitan area, even with the success of its downtown redevelopment, lost more jobs last year than any other metropolitan region in the Northeast and was "unable to generate. . .strong growth in any sector" of business or industry.[29] The Baltimore area ranked 47th among 52 areas measured for growth or decline in nonagri-

[17] U.S., Commission on Civil Rights, *Youth Unemployment* (September 1980), p. 2.
[18] Ibid., pp. 1–2.
[19] U.S., Department of Labor, Employment and Training Administration, *Employment and Training Report of the President* (1978) (hereafter cited as *Employment and Training Report of the President)*, p. 70.
[20] Mayors' Report, p. 3.
[21] Eric Garland, "The End of Baltimore as a Blue Collar Town," *Baltimore Magazine*, December 1980, p. 54 (hereafter cited as *Baltimore Magazine)*.
[22] Ibid.
[23] Ibid.
[24] Ibid.
[25] Ibid.
[26] Ibid.
[27] Ibid. General Motors has announced plans to resume the plant modernization that it had earlier suspended. *See* "Washington Business," *Washington Post*, Jan. 31, 1983, p. 25. *See also* app. B, Mark Wasserman, letter to Paul Alexander, Acting General Counsel, U.S. Commission on Civil Rights, Oct. 26, 1982, comment 18 (hereafter cited as Wasserman Letter).
[28] *Baltimore Magazine*, p. 55
[29] *See* Andrew J. Moody, "Northeast Metropolitan Area Report" (Chase Econometrics, February 1982), p. 12. This study measured the decline in 1981 economic performance as a result of

cultural jobs. The area was ranked 48th in the nonmanufacturing sector and 45th in manufacturing employment. Overall, the Baltimore area was ranked sixth from the bottom in terms of 1981 economic performance.[30]

The report traced many of the city's economic difficulties to its reliance upon the steel and automobile industries. "Baltimore is a heavy-goods manufacturing center with an aged capital plant, which makes it highly responsive to national economic downturns," the report stated.[31]

Researchers at the University of Maryland found in the late 1970s that there was a tripartite division in the Baltimore work force on the basis of family income.[32] One-third of the work force was found to be in the middle to upper income group making $25,000 per year or more. Another third was the typically blue-collar working class group, and the final group was the underclass, primarily the welfare population or those relying primarily on nonpermanent jobs.[33]

It is estimated that the upper one-third has shrunk by 20 to 25 percent, partly because many of the people in this category were there because there were two wage earners in the family. If one of them lost a job, the family immediately sank down to the second level. In the second or working class level, again, there were many two wage earner families, so that following a series of layoffs by Baltimore employers such as General Motors, many of those families have been pushed into the third group with those on welfare. The unemployed or underemployed bottom category has been the major growth sector in the Baltimore work force in the last several years.[34]

Table 2.2 shows the percentage of jobs and income associated with different employment sectors in Baltimore. Although the public sector is the largest source of jobs (22 percent), it provides only 16 percent of personal income because of the lower average salaries paid by State and local governments. Federal employment provides only 3 percent of the city's jobs and 4 percent of personal income. Table 2.2 indicates that the greatest income opportunities exist in the areas of manufacturing, transportation, and utilities, although the number of jobs in manufacturing industries has been declining. This area experienced a decline from 27 percent of total jobs in 1970 to 17 percent of total jobs in 1978.[35] Table 2.3 shows the employment in private industry by race, ethnic group, and sex in Baltimore. The table shows that blacks are significantly underrepresented in the categories of officials, managers, and professionals and are found in significantly high percentages in the categories of laborers and service workers.[36]

Finding 2.1: Cutbacks in the Federal Comprehensive Employment and Training Act programs have had a disproportionate effect upon blacks in Baltimore.

Although Baltimore has been exceptional in its ability to secure Federal assistance in the past,[37] cities like it cannot expect the quantum growth in aid they received in the last 15 years.[38] Baltimore has the extremely difficult task of replacing the Federal dollars it has become somewhat dependent on to subsidize its employment pool when it is faced with both a general recession and its specific historically declining employment base. Since these programs in Baltimore have heavily served the black community, reduction in such ongoing programs as the Comprehensive Employment and Training Act (CETA) has a significant effect upon blacks.[39] The Comprehensive Employment and Training Act[40] is designed "to provide training and employment

the recession. The report noted that Federal, State, and local government cutbacks contributed, to a significant degree, to Baltimore's high unemployment rate, as it has throughout the Northeastern States.

[30] Ibid.

[31] Ibid.

[32] Melvin Levin, director, Community Planning Program, University of Maryland, testimony, *Hearing Before the U.S. Commission on Civil Rights, Baltimore, Md.*, Nov. 17-18 1981, p. 97 (hereafter cited as *Baltimore Hearing).*

[33] Ibid.

[34] Ibid.

[35] City Venture Corporation, *Jobs for Park Heights, A Program for Economic Revitalization* (1981), p. 13.

[36] U.S., Equal Employment Opportunity Commission, *1978 Report, Minorities and Women in Private Industry* (February 1980), pp. 11-22.

[37] Baltimore is the Nation's 10th largest city but has managed to become 4th in the receipt of Federal funds. *See* city of Baltimore, "CETA and Economic Development—A Case Study," *A Report on Minority Economic Development,* November 1981, vol. 3, pp. 8-10 (hereafter cited as CETA and Economic Development—A Case Study).

[38] *See Baltimore Magazine,* p. 56.

[39] Calvert C. McCabe, director, Baltimore Metropolitan Private Industry Council, testimony, *Baltimore Hearing,* p. 101. More than 85 percent of all Baltimore CETA enrollees since 1979 have come from neighborhoods with more than 60 percent minority populations. *See* city of Baltimore, "CETA Fact Sheet," *A Report on Minority Economic Development,* November 1981, vol. 3.

[40] The CETA program expired on Sept. 30, 1982, and the administration has announced that the program will not be reauthorized. The administration's proposed successor to the CETA program is the Job Training Act of 1982. This block grant proposal eliminates tax-free stipends to participants and greatly

TABLE 2.2
Employment Distribution in Baltimore

Employment	Percent of work force	Percent of personal income
Government:		
Federal, State & local	22%	16%
State and local only	19	12
Manufacturing	17	21
Transportation, utilities & communications	9	13
Construction	4	5
Wholesale & retail trade	20	27
Finance & insurance & real estate	8	8
Services	20	20
TOTAL	100 (432,188 employed)	100 ($6.6 billion)

Source: City Venture Corporation, Jobs for Park Heights, A Program for Economic Revitalization *(1981), p.13.*

TABLE 2.3
Occupational Employment in Private Industry for Baltimore, 1978

All Industries (1,700 UNITS)

Race/ethnic group/ sex	Total employ- ment	Officials and managers	Profes- sionals	Techni- cians	Sales workers	Office & clerical workers	Craft workers	Opera- tives	Laborers	Service workers
					Number employed					
All employees	346,243	40,065	30,919	17,428	29,603	66,352	45,130	61,173	24,080	31,493
Male	208,834	33,135	19,400	11,255	14,937	14,460	40,988	42,406	17,755	14,498
Female	137,409	6,930	11,519	6,173	14,666	51,892	4,142	18,767	6,325	16,995
White	268,108	36,794	27,874	14,350	26,065	54,181	37,126	40,576	13,062	18,080
Male	164,635	30,868	17,725	9,883	13,410	12,058	34,153	28,409	9,471	8,658
Female	103,473	5,926	10,149	4,467	12,655	42,123	2,973	12,167	3,591	9,422
Minority	78,135	3,271	3,045	3,078	3,538	12,171	8,004	20,597	11,018	13,413
Male	44,199	2,267	1,675	1,372	1,527	2,402	6,835	13,997	8,284	5,840
Female	33,936	1,004	1,370	1,706	2,011	9,769	1,169	6,600	2,734	7,573
Black	72,675	2,848	1,862	2,744	3,260	11,230	7,402	19,646	10,701	12,982
Male	41,092	1,944	872	1,162	1,361	2,161	6,350	13,491	8,098	5,653
Female	31,583	904	990	1,582	1,899	9,069	1,052	6,155	2,603	7,329
Hispanic	2,124	202	233	97	161	564	226	382	113	146
Male	1,228	165	163	73	108	138	200	231	86	64
Female	896	37	70	24	53	426	26	151	27	82
Asian/Pacific Islander	2,865	160	923	216	93	302	297	447	173	254
Male	1,591	110	628	124	48	90	210	195	79	107
Female	1,274	50	295	92	45	212	87	252	94	147
Am.Ind./Alaskan Native	471	61	27	21	24	75	79	122	31	31
Male	288	48	12	13	10	13	75	80	21	16
Female	183	13	15	8	14	62	4	42	10	15
					Participation Rate					
All Employees	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Male	60.3	82.7	62.7	64.6	50.5	21.8	90.8	69.3	73.7	46.0
Female	39.7	17.3	37.3	35.4	49.5	78.2	9.2	30.7	26.3	54.0
White	77.4	91.8	90.2	82.3	88.1	81.7	82.3	66.3	54.2	57.4
Male	47.6	77.0	57.3	56.7	45.3	18.2	75.7	46.4	39.3	27.5
Female	29.9	14.8	32.8	25.6	42.8	63.5	6.6	19.9	14.9	29.9
Minority	22.6	8.2	9.9	17.7	12.0	18.3	17.7	33.7	45.8	42.6
Male	12.8	5.7	5.4	7.9	5.2	3.6	15.2	22.9	34.4	18.5
Female	9.8	2.5	4.4	9.8	6.8	14.7	2.6	10.8	11.4	24.1
Black	21.0	7.1	6.0	15.7	11.0	16.9	16.4	32.1	44.4	41.2
Male	11.9	4.9	2.8	6.7	4.6	3.3	14.1	22.1	33.6	18.0
Female	9.1	2.3	3.2	9.1	6.4	13.7	2.3	10.1	10.8	23.3
Hispanic	.6	.5	.8	.6	.5	.9	.5	.6	.5	.5
Male	.4	.4	.5	.4	.4	.2	.4	.4	.4	.2
Female	.3	.1	.2	.1	.2	.6	.1	.3	.1	.3
Asian/Pacific Islander	.8	.4	3.0	1.2	.3	.5	.7	.7	.7	.8
Male	.5	.3	2.0	.7	.2	.1	.5	.3	.3	.3
Female	.4	.1	1.0	.5	.2	.3	.2	.4	.4	.5
Am. Ind./Alaskan Native	.1	.2	.1	.1	.1	.1	.2	.2	.1	.1
Male	.1	.1	*	.1	*	*	.2	.1	.1	.1
Female	.1	*	.1	.1	.1	.1	*	.1	*	.1

TABLE 2.3 (Continued)

All Industries (1,700 UNITS)

Race/ethnic group/ sex	Total employ-ment	Officials and managers	Profes-sionals	Techni-cians	Sales workers	Office & clerical workers	Craft workers	Opera-tives	Laborers	Service workers
				Occupational Distribution						
All Employees	100.0	11.6	8.9	5.0	8.6	19.2	13.0	17.7	7.0	9.1
Male	100.0	15.9	9.3	5.4	7.2	6.9	19.6	20.3	8.5	6.9
Female	100.0	5.0	8.4	4.5	10.7	37.8	3.0	13.7	4.6	12.4
White	100.0	13.7	10.4	5.4	9.7	20.2	13.9	15.1	4.9	6.7
Male	100.0	18.8	10.8	6.0	8.2	7.3	20.7	17.3	5.8	5.3
Female	100.0	5.7	9.8	4.3	12.2	40.7	2.9	11.8	3.5	9.1
Minority	100.0	4.2	3.9	3.9	4.5	15.6	10.2	26.4	14.1	17.2
Male	100.0	5.1	3.8	3.1	3.5	5.4	15.5	31.7	18.7	13.2
Female	100.0	3.0	4.0	5.0	5.9	28.8	3.4	19.5	8.1	22.3
Black	100.0	3.9	2.6	3.8	4.5	15.5	10.2	27.0	14.7	17.9
Male	100.0	4.7	2.1	2.8	3.3	5.3	15.5	32.8	19.7	13.8
Female	100.0	2.9	3.1	5.0	6.0	28.7	3.3	19.5	8.2	23.2
Hispanic	100.0	9.5	11.0	4.6	7.6	26.6	10.6	18.0	5.3	6.9
Male	100.0	13.4	13.3	5.9	8.8	11.2	16.3	18.8	7.0	5.2
Female	100.0	4.1	7.8	2.7	5.9	47.5	2.9	16.9	3.0	9.2
Asian/Pacific Islander	100.0	5.6	32.2	7.5	3.3	10.5	10.4	15.6	6.0	8.9
Male	100.0	6.9	39.5	7.8	3.0	5.7	13.2	12.3	5.0	6.7
Female	100.0	3.9	23.2	7.2	3.5	16.6	6.8	19.8	7.4	11.5
Am.Ind./Alaskan Native	100.0	13.0	5.7	4.5	5.1	15.9	16.8	25.9	6.6	6.6
Male	100.0	16.7	4.2	4.5	3.5	4.5	26.0	27.8	7.3	5.6
Female	100.0	7.1	8.2	4.4	7.7	33.9	2.2	23.0	5.5	8.2

*Less than 0.05 percent

Source: U.S., Equal Employment Opportunity Commission, 1978 Report, Minorities and Women in Private Industry, *February 1980, pp. 11-12.*

opportunitites for economically disadvantaged, unemployed and underemployed persons to enable them to secure self-sustaining, unsubsidized employment."[41]

Although the city of Baltimore is said to operate one of the Nation's best CETA programs, its Federal funding has, nevertheless, been severely cut.[42] The Baltimore CETA program has been linked to the economic development of the city. In 1977 a goal was established by the city to hire more city residents on city construction projects.[43] In 1978 an employment clause that requires contractors and the Mayor's Office of Manpower Resources, which has primary responsibility for the city's CETA program, to coordinate hiring was inserted in city contracts. Also, city community development block grant (funded by the U.S. Department of Housing and Urban Development) contractors are required to hire low- and moderate-income workers from the affected areas. Obligations under this clause have been met by contractors through the hiring of workers, including CETA program participants recruited by the Mayor's Office of Manpower Resources.[44]

In an effort to create jobs by helping existing businesses to expand, Baltimore CETA has joined with the Baltimore Private Industry Council and the City Venture Corporation in the redevelopment of a depressed section of the city known as Park Heights. The objective of this project is to attract businesses to Baltimore, while encouraging existing businesses to stay in the area. The Park Heights area is a predominantly low-income black community with an unemployment rate estimated at about 18 percent, generally, but much higher for youth. The goal for this project is to create 1,750 jobs in the industrial park and another 750 jobs in the remainder of the Park Heights corridor.[45]

Further, the Mayor's Office of Manpower Resources is cooperating with developers to create jobs for blacks. At Harborplace, the Mayor's Office of Manpower Resources, in cooperation with the Rouse Corporation, operated a referral service that placed 1,170 applicants, including CETA participants, into permanent jobs. As of October 1, 1981, approximately 91 percent of those placed were city residents, 62 percent were black, and 84 percent were unemployed.[46] Before the Hyatt Regency Baltimore hotel opened on October 6, 1981, a program jointly planned and implemented by the Mayor's Office of Manpower Resources and Hyatt staff was developed to ensure minority hiring by the Hyatt. A referral service was established for this purpose, operated by the city and housed at the city convention center. This service hired approximately 320 people. Of that number 48 percent were minority, 88 percent were city residents, and 82 percent were unemployed.[47]

increases the authority of State Governors, who would receive block grants for job training from the Secretary of Labor. The Governors would name State job training councils to review programs proposed by local level private industry councils. Proposals approved by the State group would be funded out of the Governors' allocated funds. Grants after the first year, FY 1983, would be based in large part on the performance of the approved local level training efforts. Success in placing trainees in private sector, unsubsidized jobs would increase a locality's chances for future funds, as well as increased funding, if needed. Another factor in renewal would be the amount of reduced welfare payments a local government generated by its training programs. Bureau of National Affairs, *Daily Labor Report,* Mar. 9, 1982, pp. 1-2.

[41] U.S., Department of Labor, and U.S., Department of Health and Human Services, *Employment and Training Report of the President* (1980), p. 20. Under its several titles, CETA authorizes an array of activities that are to be planned and operated by State and local governments. "Prime sponsors, generally State and local governments of places with a population of 100,000 persons or more, are responsible for assessing local requirements and developing program activities designed to meet participants' needs. Services include classroom training, on the job training, work experience, public services employment, counseling, testing, job development, child care, and other supportive assistance. Sponsors can provide these services directly or through contracts or subgrants with such organizations as the State employment services, vocational education agencies, community groups, or private firms." Ibid.

[42] Levin Testimony, *Baltimore Hearing,* p. 106.

[43] CETA and Economic Development—A Case Study, pp. 8-10.

[44] Ibid.

[45] The population of the area is approximately 39,000 of whom 95 percent are black. Roughly 52 percent of the population is under the age of 24. The median family income is $11,600 compared to a regional average of $18,400. Unemployment averages 18 percent in Park Heights; however, it is estimated that nearly 50 percent of those under the age of 20 in the Park Heights area are unemployed. Ibid., pp. 10-11. Baltimore City officials, commenting on this section, said that the report did not adequately describe the Park Circle Industrial Park and suggested langugage for the report. See, app. B, Wasserman Letter, comment 3 (hereafter cited as Wasserman Letter). The suggested language was not incorporated into the report because all of the information it provided is in chap. 4 which discusses the Park Circle Industrial Park in detail.

[46] City of Baltimore, "Economic Development Linkages," *A Report on Minority Economic Development,* November 1981, vol. 3, pp. 4-5. CETA also cooperated with the school system's vocational education department. CETA-eligible students studying manufacturing trades made and sold some products as outdoor vendors at Harborplace. Lloyd Alston, assistant superintendent, Division of Vocational Education, Baltimore City Public Schools, testimony, *Baltimore Hearing,* p. 106.

Nevertheless, barriers to employment for CETA enrollees remain. According to the director of the Baltimore Private Industry Council, CETA training and placement programs must overcome an image barrier in the minds of potential employers if CETA is to be successful, because potential employers often lack confidence in program enrollees. Mayor Schaefer described the city's CETA program and its successes as follows:

> The Federal Government, when we used to go over and talk about CETA, they'd always say this—it is a quote in the *Congressional Record,* "But you can't count Baltimore's program. This is an exception. That was the good one. That's the exception," and my answer always is, "That shouldn't be the exception. That should be it."
>
> However, you've got to remember in a way who are you working with; who are you working with—people that never had an opportunity for a job, who had possibly lost motivation, who felt that the school systems had nothing for them because their parents weren't able to get a job, so they drop out. And you spend time and spend effort and work with them, and you see those kids get jobs, the way CETA employees did at the Hyatt Hotel.
>
> That's not the exception to the rule in Baltimore. It is not the exception to the rule. Many of the businessmen were so worried because they read that the CETA program in another city is bad, that they are going to be involved in this. They do not want to get involved in the press. They do not want to get involved with red tape. They do not want to get involved with filling out forms. They do not want to get involved in any of that.
>
> When we were able to work with the Hyatt—I keep saying the Hyatt because that's the last one we worked with. They did not believe they could do this, and now they've got a slide show that shows the success in Baltimore, using CETA employees.
>
> So they can be trained, and I've seen public service employees, not make-work jobs, but people who produced in the private sector, who produced in the public sector and did great work, and to say that the training programs did not work is not true.[48]

While continuing to be a great enthusiast of the CETA program, Mayor Schaefer has also expressed, with some reservations, support for a recently proposed Federal program that may affect urban unemployment. The administration has proposed the establishment of urban enterprise zones to attract businesses to 75 decaying high unemployment areas nationwide. The proposal would offer incentives to participating businesses, including a reduction in taxes and relief, in part, from government regulation in exchange for their provision of jobs and other benefits to designated areas.[49] The enterprise zones proposal would exempt participating businesses from Federal capital gains taxes and, through special tax credits, relieve them of approximately 75 percent of corporate income taxes. The 75 zones are yet to be selected. The administration proposal calls for the U.S. Secretary of Housing and Urban Development to designate up to 25 zones in each of the first 3 years of the program. These would be chosen in a national competition among areas nominated by State and local governments on the basis of proposals developed and submitted by those governmental units.[50]

Mayor Schaefer recently expressed concern regarding the lack of "up front money" for small minority businesses in the administration's enterprise zones proposal. Established corporations, said the mayor, would benefit from the tax incentives in the proposed program but, "you need something to be able to say to a firm, a reasonable firm, one with more than a reasonable chance of success, that they will be able to start in an enterprise zone."[51] Administration officials stated that "chosen cities would create special corporations to 'accept' grants from private foundations and corporations as start-up funds for minority businesses."[52] Because of the highly competitive nature of the administration's proposal, Maryland legislators have enacted State legislation to back development of enterprise zones

[47] "Economic Development Linkages," *A Report on Minority Economic Development,* vol. 3, pp. 4–5. (In addition, a training program was established by MOMR for more than 150 CETA-eligible city residents in a variety of hotel service operations. The Hyatt assisted in the screening process and honored their commitment by hiring 154 graduates of this training program.) Of the total number of 474 Hyatt hires, 64 percent were minority, 92 percent were city residents, and 88 percent were unemployed. This innovative service is being offered for use in all major downtown developments. Howard Johnson's, which recently broke ground for a major hotel in the Inner Harbor, has agreed to avail itself of similar services from MOMR. Merchants in the newly opened Lexington Market Arcade are also making use of this unique service. (See app. B, Wasserman Letter, comment 4).

[48] William D. Schaefer, mayor, city of Baltimore, testimony, *Baltimore Hearing,* pp. 249–50.

[49] Baltimore City officials believed that the report misstated Mayor Schaefer's position on enterprise zones (see app. B, Wasserman Letter, comment 5). No changes were made in the report as a result of this comment since the report neither states nor implies that the Mayor adovcates reductions in taxes and relief from regulation [to participating businesses] in exchange for the provision of jobs.

[50] *Washington Post,* Mar. 24, 1982, p. 43.

[51] *Baltimore Sun,* Mar. 25, 1982, p. 43.

[52] *Baltimore Sun,* Mar. 25, 1982.

in the State and to establish a revolving fund to encourage the participation of small businesses.[53]

Maryland State Senator Clarence Mitchell stated:

> members of Congress would be pressured to expand the Administration's blueprint to include seed money for minority businesses. We feel it is going to be rather difficult in many of the localities to get this program off the ground if there are no start-up funds, in light of the fact that already states are feeling the cuts in federal budgets. Lack of start-up money would undermine the black legislators' emphasis on minorities becoming employers as well as employees in the designated development areas.[54]

While acknowledging that as a city, "we're going to do less and less," Mayor Schaefer has touted a private industry effort in Baltimore. The Greater Baltimore Committee is running a "Blue Chip In" campaign that is initially attempting to raise $500,000 from local firms and create 200 jobs to address, in some small measure, the cutbacks in Federal outlays for job training.[55] These cutbacks will have a severe effect on Baltimore, where half of the municipal expenditures by 1976 were derived from Federal and State revenue sources.[56]

Finding 2.2: Minority unemployment, and especially minority youth unemployment, has reached critical levels in Baltimore.

Since the ability to secure and retain a job is often related to the ability to accumulate the capital necessary for business development, the Commission heard testimony on the status of minority employment in Baltimore. The unemployment rate in Baltimore City's minority community has been estimated to be 22 percent or more.[57] The rate of minority youth unemployment in Baltimore approaches 50 percent, despite the fact that many possess entry level job skills.[58]

Further, it has been observed that, overall, minorities usually hold the lowest level jobs in Baltimore, whether such jobs are in special federally funded programs, the private sector, or the public sector.[59] The fact that whites of comparable qualifications are more successful in securing jobs than blacks who apply for the same positions indicates that discrimination may still be a factor.[60]

In this respect, Baltimore is no different from the Nation at large. The 1978 *Employment and Training Report to the President* states:

> Equivalent educational attainment and work experience provide significantly greater payoffs to young white men than to their black counterparts, in terms of both earnings and job status. Therefore, among the several explanations that could account for the generally less favorable labor market experience of black teenagers racial bias on the part of employers is one of the most plausible.[61]

Private sector studies have made the same findings. According to the Committee for Economic Development (CED), "Fundamentally, the disproportionate share of blacks among the unemployed

[53] Ibid.; Maryland Senate bill 811, chap. 298 was passed on May 20, 1982 and has been signed into law by Governor Hughes Baltimore City officials commented on the ommission of the mayor's role in the passage of the State of Maryland's enterprise zone legislation. (See app. B, Wasserman Letter, comment 6). No changes to the report were made as a result of this comment since the report sought merely to note that the State of Maryland has seen fit to enact enterprise zone legislation and not to attach either credit or blame to the State's action in this regard.

[54] *Baltimore Sun,* Mar. 25, 1982.

[55] *Time Magazine,* Aug. 24, 1981, p. 47. *See* city of Baltimore, "Blue Chip-In, The Resource Book for Investing in Baltimore Futures," *A Report on Minority Economic Development, November 1981,* vol. 1. Baltimore City officials suggested language to be added to the report which characterized the Blue Chip In program more positively than seemed warranted (see app. B, Wasserman Letter, comment 8). According to Steven Kaiser, manager of publication information, Mayor's Office of Manpower Resources, Blue Chip In contributions made up only 1,741 of the 12,000 summer jobs for youth lost to Federal budget cuts. Blue Chip In raised $2.2 million of the $63 milllion the city lost in Federal job funds. This $2.2 million included funds for the summer jobs program plus an additional 27 year-round job projects. Steven Kaiser, telephone interview, Jan. 26, 1983.

[56] Melvin Levin, *Baltimore: A Viable City in the 80s* (undated), p. 8.

[57] *Time Magazine* has reported that minority community unemployment in the city of Baltimore is approximately 40 percent. *Time Magazine,* Aug. 24, 1981, p. 44. The mayor's office estimates that the rate of minority community unemployment is 22 percent. *See* app. B, Wasserman Letter, comment 9).

[58] Joseph Jones, area manpower representative, AFL-CIO, Human Resources Institute, testimony, *Baltimore Hearing,* p. 99. Baltimore City officials suggested changing the report to reflect that the 50 percent minority youth unemployment rate was partly attributable to the lack of entry level job skills (see app. B, Wasserman letter, comment 9). This recommended change was not made because it is directly contradicted by interviews and hearing testimony of Baltimore City school officials and others familiar with employment patterns in the city.

[59] Ibid., p. 100.

[60] Ibid. Baltimore City officials suggested that the statements by the witness that minorities usually hold the lowest level jobs in the city and that discrimination may still be a factor in hiring be labeled as "unsubstantiated conjecture" (see app. B, Wasserman Letter, comment 10). This suggestion was not followed since the position and expertise of the witness lends substantial credibility to his testimony. In addition, the most recent EEO-1 reports available for the city of Baltimore support these conclusions. See discussion in this chapter.

[61] *Employment and Training Report to the President* (1978), p. 75.

can in large part be traced to the effects of current and past discrimination."[62]

The city's view on this issue has been expressed as follows:

The decline in blue collar employment opportunities is an important factor in explaining a portion of the difficulty black high school graduates encounter in finding employment. Education and skill attainment, *as well as race,* are critical factors in this complex, economic puzzle[63] (emphasis added).

As this statement confirms, although Baltimore is experiencing a decline in its manufacturing sector, such decline is not a total explanation for the failure to employ minority high school graduates in greater numbers. In addition, it is important to note that the city's services sector is expanding and that the city continues to employ a large number of commuters from the surrounding suburbs.[64]

In considering the causes for high unemployment among minorities in Baltimore, the Commission spent a portion of its time reviewing the courses of study offered by the local public school system. Baltimore has the fourth largest school system in the Nation.[65] In 1981-82, school enrollment in Baltimore City schools in the regular day program was estimated by school officials to be between 122,000 and 124,000. Of that number black enrollment constituted approximately 79 percent.[66]

There is no question that employers in Baltimore are not hiring local high school graduates, who are predominantly minority,[67] in significant numbers although many such students have entry level job skills and adequate academic skills. City public school students are demonstrating a higher level of academic ability by achieving significantly higher norms in both reading and mathematics than in previous years.[68] In 1981 there were 6,000 local high school graduates. As of November 1981 only 278 had been placed in permanent employment in Baltimore. This is a dismal statistic, even though some of the 6,000, approximately 1,500, went to college after graduation. That still leaves 4,000 unemployed high school graduates of the class of 1981 from Baltimore high schools.[69] School officials are concerned that this state of affairs may become a two-edged sword. According to Superintendent of Schools John Crew:

If young people believe there are no jobs to be had upon completion of an education, if they believe they are being trained and that little or nothing will come of that training, why should they demonstrate their best in the classroom? School systems are traditionally accused of producing students not prepared to take on challenging jobs because they lack skills. It may be that if students do lack skills it is because they believe they have been deceived by an "American Dream" that hard work results in reward—in this case a "Job." I affirm that our children have to be shown that hard work has its rewards and that one of these

[62] Research and Policy Committee, Committee for Economic Development, *Jobs for the Hard to Employ, New Directions for a Public Private Partnership* (1978), p. 27. The CED is an independent research and educational organization of 200 business executives and educators. Ibid., p. 4.

[63] App. B, Wasserman Letter, comment 11.

[64] *See* Levin, *Baltimore: A Viable City in the 80s,* pp. 9–11, 56; and Katherine C. Lyall, "Interdependence in the Baltimore Metropolitan Economy," The Johns Hopkins University Center for Metropolitan Planning and Research, *Metro News,* June 15, 1980, p. 1.

[65] Mary S. Harris, equal employment opportunity officer, Baltimore City Public Schools, interview in Baltimore, Md., Sept. 1, 1981.

[66] N. Craig Cutter, staff director, Office of Planning and Statistical Reports, Baltimore, letter to Karen Primack, U.S. Commission on Civil Rights, Oct. 8, 1981.

[67] In the 1981–82 school year the white student population was approximately 21 percent. *See* Baltimore City Public Schools, Center for Planning, Research and Evaluation, Office of Planning and Statistical Reports, "Systemwide Net Roll Data for the School Years 1953–54 through 1980–81" (April 1981).

[68] John Crew, superintendent of Baltimore City Public Schools, interview in Baltimore, Md., Sept. 29, 1981, pp. 1-5 (hereafter cited as Crew Interview). At the time of the hearing, the most current available (1981) Baltimore public school systemwide scores on the California Achievement Tests were as follows, according to Edna Mosley, staff specialist, Office of Testing Evaluation, Baltimore City Public Schools, Nov. 1, 1981.

Reading:*Grade* 2–2.6; 3–3.4; 4–4.4; 5–5.6; 6–6.6; 7–6.8; 8–8.0; 9–9.0; 10–9.3; 11–10.9.

Mathematics:*Grade* 2–3.0; 3–3.8; 4–4.9; 5–6.2; 6–7.4; 7–7.5; 8–8.4; 9–9.0; 10–10.0; 11–11.1.

On June 17, 1982, Superintendent John Crew announced California Achievement Test results for spring 1982. In reading, Baltimore students averaged 3 months behind the national norm overall, but scores for 9th and 11th graders were 4 months higher than the national norms. In mathematics, Baltimore students were 3 months above the national norms overall, but grades 8 and 10 scored below the national average. Dr. Crew stated that "taken together half of the kids in Baltimore City are above the norms." By definition, half of the students in the national sample score above the norm and half below. These scores represent a significant improvement in the students' test scores. *See Baltimore Sun,* June 18, 1982, p. C1.

[69] Alston Testimony, *Baltimore Hearing,* p. 104. Baltimore City officials questioned the source and accuracy of these statistics as well as the existence of a program of systematic followup of graduate achievement. (See app. B, Wasserman Letter, comment 12). The Commission believes that the position and expertise of the witness citing the statistics lends substantal credibility to their accuracy. In addition, the existence of a followup system for graduates was confirmed by the interviews of Carolyn Boston, coordinator for guidance and placement, and Charles Wilson, department head, job opportunities subdivision, Baltimore City Public Schools, Sept. 8, 1981.

is the possibility of a rewarding job. . . .Otherwise there is no point for education beyond a love of learning, and in a depressed economy it is hard to love learning if you can't put bread on the table.[70]

School work-study programs have not been spared. "Baltimore City Public Schools were receiving over $10 million [in Federal funding] for youth employment 3 years ago, and are receiving merely $172,000 for school year 1981-82," stated Dr. Crew. That results in a drop from 27,000 youths employed in 1979 to 530 employed for the school year 1981-82.[71]

Baltimore's minority youth are also suffering from the drastic cutbacks in Federal summer youth employment programs. Cutbacks in this program sparked a request by the Joint Economic Committee of Congress to the U.S. Conference of Mayors to determine the severity of youth unemployment problems in the Nation's cities and the effects that cuts in the Federal Government's summer youth employment program would have on those programs. One hundred and twenty-five cities responded, including Baltimore, which was among over 30 cities anticipating very serious adverse effects from program cutbacks.[72] Baltimore reported that the city anticipated "severe hardships for youth dependent upon summer income to support families and to provide funds for school."[73]

Employer perceptions may be a contributing factor in the inability of minorities to secure jobs in Baltimore. Dorothy Mead, District Director of the Baltimore district office of the Equal Employment Opportunity Commission, believes that employers in the local hotel industry, for example, are hesitant to hire blacks in positions that are highly visible to their customers.[74] Ms. Mead stated that employers in the

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[70] John L. Crew, superintendent of schools, Baltimore City, Testimony on Unemployment and the Factors Affecting Employment, August 1981, p. 7 (hearing convened in Baltimore by Rep. Barbara Mikulski).

[71] Ibid., p. 9. Baltimore City officials said that the effects of the Federal budget cuts were not accurately described because of the omission of Baltimore's participation in the experimental "youth incentive entitlement program," which "brought huge, but temporary infusions of funding" (see app. B, Wasserman Letter, comment 13). The report was not changed as a result of this comment because all city officials, without exception, described Federal budget cutbacks as having had severe consequences for many city school programs. In referring to the youth incentive entitlement program, the Baltimore City officials gave no dollar amount or time period, and did not allege that the temporary funding significantly reduced the numbers of school youth unemployed in 1981-82, as compared to previous years, which was the focus of Dr. Crew's remarks.

[72] Mayors' Report, p. 15.

—Three out of four of the 125 survey cities reported overall youth unemployment rates in the 11-30 percent range. Only five of the cities believe their youth unemployment is below 10 percent, whereas 16 of the cities report a rate above 30 percent. For the 125 cities, the average overall youth jobless rate was reported to be almost 23 percent.

—The minority youth unemployment rates reported by the survey cities were much higher than the overall rates. Three out of four survey cities put these rates in the 21-60 percent range, with the average for all cities reporting at almost 40 percent.

—Ninety-one percent of the survey cities reported that SYEP allocations for this summer are below those received last summer. Two out of three of the cities are experiencing reductions that are 11-20 percent below last year; 10 cities have been reduced between 30 and 37 percent.

—Almost 90 percent of the survey cities plan to serve fewer youth this year than last. These cities report that about 53,400 fewer eligible youth will participate this summer because of the funding reductions.

—Eighty-six percent of the survey cities do not anticipate that any other sources of public funds will be available to them this summer to compensate for the SYEP allocation losses they have experienced; 55 percent do not believe that any private sources of funds, jobs or services will be available either.

—A substantial portion of the youths eligible for the SYEP in the summer of 1982 will go unserved, according to the sample cities. On average, the survey cities estimate that well over half of all of their eligible youth will remain unserved after all resources have been exhausted. In 110 of the sample cities, over 1.35 million youth are expected to go unserved.

—Two out of three of the survey cities indicated that the youth who *are* served in this summer's program will feel the effects of funding cuts in the form of fewer working hours and reduced services.

—Over half of all survey cities fear that youth crime, in one form or another, will increase as a result of the SYEP reductions and overall conditions this summer. According to many officials, this summer will see fewer youth employed, and more youth on the streets with nothing to do.

—One-fourth of the local officials participating in the survey believe that summer youth employment problems will produce an increased number of school dropouts, in that more youth will have to stay out of school to seek work for family income, and more will lack the money they need to return to school in the fall.

—Over 80 percent of the survey cities believe that proposals to shift responsibility for local employment and training programs to the state level—proposals now being examined by Congress—will, if implemented, produce adverse effects for youth employment programs. Loss of local control and failure of states to meet locally-identified needs were among the reasons given for concern. Ibid., Summary.

[73] Ibid., p. 17. Baltimore City officials suggested additional language in this paragraph concerning the Blue Chip In program (see app. B, Wasserman Letter, comment 14), which was rejected because it overstated the success of the program. See footnote 55.

[74] Dorothy E. Mead, District Director, Equal Employment Opportunity Commission (Baltimore district office), interview in Baltimore, Oct. 5, 1981. Baltimore City officials cited the Haytt experience to contradict the assertion that race is a factor in the ability of blacks to secure jobs (see app. B, Wasserman Letter, comment 14). *But see* testimony of Calvert C. McCabe, director

retail food and clothing industry believe that the public will not frequent their establishments if they employ a majority of black employees. She cited as an example the lack of black employees in many of the restaurants in the Inner Harbor and downtown areas of Baltimore. It is difficult to find blacks working in the higher class restaurants, according to Ms. Mead.[75] She stated further that although blacks and women are employed by the fast food chains, they are not significantly represented in managerial positions in the local fast food industry.[76] In fact, recent Equal Employment Opportunity Commission statistics reveal that blacks are underrepresented in managerial and professional positions across the board in private industry in Baltimore. These data show, in addition, that blacks make up significant percentages of the workers employed in categories such as laborers and services.[77]

Finding 2.3: The city government, unions, local job training and placement programs, and the school system do not cooperatively plan and operate programs for job training and placement. The predominantly black school system has not initiated specific programs to promote business ownership as a career option for its graduates.

According to the coordinator of guidance and placement for Baltimore City schools, there is no evidence that minority entrepreneurship is advanced in any way by specific programs within the public school system.[78] In this regard the assistant superintendent for vocational education stated:

> Unfortunately we have not done much in terms of letting young people know more about entrepreneurship. That is one of our current thrusts that we will include that in every single one of our trades areas. That is my direction now. And we are busy getting ready to give youngsters those skills. In addition, we work very, very closely with Junior Achievement. . . .[79]

The school system is making an effort to train students for jobs; however, it cannot solve the problem of youth unemployment singlehandedly. Within the school system, 14,619 high school students, of whom 79 percent are minority, are enrolled in 62 skill training programs. In addition, a variety of work-study and on-the-job work experiences are offered. These have approximately 90 percent minority enrollment. The West Side Skills Center scheduled to open in September 1982 with a 2,000 student capacity is an example of city efforts to provide job-related training for public school students.[80]

School officials point out that they sometimes feel as if they are in a no-win situation. The coordinator of guidance and placement for Baltimore City schools stated that some employers appear to use ploys to avoid hiring students. On the one hand, employers will say that students do not need specific training because they will train them. On the other hand, employers will say that the students are not able to do the particular job they want done. No matter what the school system does, it is wrong.[81]

Superintendent Crew stated that he meets with local business people on a regular basis and is "informally" consulted by the city when planning for economic development occurs. Dr. Crew stated that at one time the school system had a staff person in the mayor's office who served as liaison between the school system and the mayor's office who kept him informed.[82]

Testimony before this Commission revealed that some job training and placement programs were not training and placing unemployed workers in terms of the actual job market. Programs were said to be taking an assembly line approach to job training and placement instead of finding out what the person

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of the Baltimore Private Industry Council, in response to the question whether it was necessary to have an intervention program such as the Hyatt program because the race of applicants generally excluded them from the job market. McCabe Testimony, *Baltimore Hearing*, pp. 101, 108, 111.

75 Ibid.

76 Ibid.

77 *See* table 2.3 and discussion preceding it.

78 Carolyn Boston, coordinator of guidance and placement, Baltimore City Public Schools, interview in Baltimore, Md., Sept. 8, 1981 (hereafter cited as Boston Interview).

79 Alston Testimony, *Baltimore Hearing*, p. 105.

80 "Labor Market Development—Training for Jobs," *A Report on Minority Economic Development*, vol. 3, p. IV. An alternative school work program for dropouts, known as the Harbor City Learning Center, is funded with Federal CETA funds and enrolls about 500 students per year. An Eastside Skills Center, which will focus on the careers of the 1990s, is in the advanced stages of planning and has been identified as the city's highest priority for funding and development. See app. B, Wasserman Letter, comment 15.

81 Boston Interview.

82 Crew Interview. According to the mayor's office, Dr. Hilbert Stanley, who was principal of Lake Clifton High School at the time of his interview by Commission staff, serves as liason between the Department of Education and the mayor's office. See app. B, Wasserman Letter, comment 16.

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could do and placing him or her into the appropriate available job.[83] This criticism has also been made of the public school job training programs.

Regarding the school system's alleged failure to develop training programs geared to emerging growth sectors, the assistant superintendent for vocational education, Lloyd Alston, stated that to some degree this perception is accurate, but the establishment of the West Side Skills Center will address this concern.[84] Although the school system is slow to change, Dr. Alston believes that it is providing the basic training that can be extended to "finer applications." Unfortunately, the system had to close two classes recently established in business machine maintenance, which is a source of well-paying jobs, because the system could not afford to pay competitive salaries to qualified teachers.[85]

Superintendent John Crew pointed out that the job market in Baltimore is not currently geared to high technology. Most jobs are in the service area, and overall, Baltimore public school students do have entry level skills for service area jobs. Therefore, Dr. Crew believes, the high unemployment rate in Baltimore cannot be blamed upon the high schools.[86]

Although there are various programs geared for job training and placement in the city, some more successful and amenable to minority participation than others, the school system is not a full partner with the unions, public and private sector planners, and employers in the planning and implementation of the job training and job placement effort for the city. The public school system has not been effectively linked to the city's economic development program. This is a critical omission because the school system has primary access to the youth of the city.[87]

It is clear that the provision of jobs is critical to social and economic stability. Several witnesses at the Commission's hearing testified regarding the social problems related to the lack of jobs. As one witness stated:

> In America today, what you do—your employment is your pass card, even as it is in South Africa. At a cocktail party, within 30 seconds, or in a bar within 30 seconds, they say "What do you do?" In Washington, D.C., the number of business cards that attest to the fact that I am somebody—maybe the 13th assistant to the second deputy to the fourth submarine strike force—is your criteria. And I'm saying to you that if you would walk up to a person and say "What do you do?" and they say, "I do nothing, I have no job, I am no one," that that lowered self-esteem is going to lead and is leading to hostility and resentment that spreads over everyone, black business people, middle class, and everyone else. They are acting out the role to which they have been assigned.[88]

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[83] Jones Testimony, *Baltimore Hearing*, p. 100. Baltimore City officials did not agree that job training and placement programs did not match the actual job market (see app. B. Wasserman Letter, comment 17). The lack of a match between available jobs and available job training was a common complaint in Baltimore. Notwithstanding the validation procedures of CETA-funded training programs and curricula by labor market advisory committees, this complaint has been commonly made with regard to CETA programs nationwide.

[84] Lloyd Alston, assistant superintendent, Division of Vocational Education, Baltimore City Public Schools, interview in Baltimore, Md., Sept. 30, 1981.

[85] Ibid.

[86] Crew Interview. Baltimore City officials believed that the draft report incorrectly described two sources of employment for future public school graduates (see app. B, Wasserman Letter, comment 18). However, hearing testimony, interviews conducted by Commission staff, and information collected during this study support the conclusions that the city's industrial sector will not provide the very large portion of the city's employment sector that it has provided in the past, and that qualified minorities have not, to a significant degree, been hired for service sector jobs in Baltimore.

[87] Baltimore City officials listed several programs which the report did not mention as evidence of the school systems participation in job training and job placement (see app. B, Wasserman Letter, comment 19). It is a conclusion of this report that a substantive role for the school system in the planning and implementation of the city's job training and job placement program as a whole is lacking. Further, the programs that do exist within the city as a whole, including those operated by the school system, do not effectively address the city's job market in terms of either current or future manpower needs. The mere existence of various programs is not sufficient to address the lack of an effective overall planning and implementation role for the school system or the lack of effective coordination between the school system and others responsible for job training and placement in the city.

[88] Raymond Haysbert, testimony, *Baltimore Hearing*, pp. 44–45.

Chapter 3

Black Businesses in Baltimore

In 1974 researchers at Johns Hopkins University compared black business ownership in the Baltimore Standard Metropolitan Statistical Area (SMSA) to eight other similar SMSAs in terms of population and socioeconomic conditions based on data collected in 1969, the most comprehensive data base available at that time.[1]

Their study revealed that Baltimore's black-owned business sector consistently lagged behind black owned-business sectors in the other SMSAs as well as behind the white business sector in Baltimore. Black firms and employees of black firms were compared to the size of the black community in each metropolitan area studied to obtain per capita figures. In terms of the numbers of employees of black firms, or in terms of SMSAs with the largest share of black firms, Baltimore consistently ranked seventh out of nine or ninth out of nine, indicating that the Baltimore SMSA's black business community is not doing as well relative to the size of the black community as the eight other metropolitan areas studied. The second area of study, black-owned business relative to the total business community, showed that the Baltimore SMSA generally ranked fifth out of nine. This slightly better result was tempered by the fact that the Baltimore SMSA's proportion of black to total population is the second largest of the nine metropolitan areas selected.[2]

Of the 3,093 black firms in existence in Baltimore as of 1977, only 553 had paid employees, constituting approximately 17.8 percent of the total of black businesses, and accounting for 76.3 percent of all black business gross receipts. Black businesses without paid employees, that is, 2,540 businesses, accounted for 23.7 percent of all black business gross receipts.[3] In Baltimore, as in the Nation at large, the majority of these firms are in the retail business and selected services such as construction, property maintenance, real estate management, automobile repair, and insurance brokerage. Of the 553 firms with paid employees, 422 were in such areas.[4]

Black business enterprise in Baltimore is not having a substantial influence upon the city's economic mainstream. Black-owned businesses provided jobs for less than 1.5 percent of all employed blacks in the city, with an average of four employees

[1] The SMSAs examined were Baltimore, Atlanta, Cincinnati, Detroit, Newark, Philadelphia, Pittsburgh, and Washington, D.C. The primary data source, *Minority Owned Business* 1969, published by the U.S. Census Bureau, contains Standard Industrial Classification information for 30 SMSAs. From this list 21 SMSAs were eliminated because black-owned firms represented less than 85 percent of all minority-owned business, blacks were less than 7 percent of the SMSA total population, or black-owned firms numbered less than 1,000. In the Baltimore SMSA, black firms represented 94 percent of the total number of minority firms. *See* Johns Hopkins University Center for Metropolitan Planning and Research, *Black Owned Business: A Pilot Study of Baltimore and Other Selected SMSAs* (1974), pp. 2–10 (hereafter cited as *Black Owned Business: A Pilot Study).*

[2] *Black Owned Business: A Pilot Study,* pp. 4–5.

[3] Robert Hearn, associate director, Center for Metropolitan Planning and Research, Johns Hopkins University, testimony, *Hearing Before the U.S. Commission on Civil Rights, Baltimore, Md.,* Nov. 17–18, 1981, p. 29 (hereafter cited as *Baltimore Hearing).See* U.S., Department of Commerce, Bureau of the Census, *Survey of Minority Owned Business Enterprises* (1977), p. 137.

[4] Ibid.

each. The mean annual wage provided by these businesses was approximately $6,895.[5]

Finding 3.1: Baltimore's black community remains outside the city's economic mainstream and lags behind black economic development in the Nation as a whole.

Although black business enterprise in Baltimore shares some characteristics with the development of minority business enterprise nationally, the fact remains that the rate of growth for black business enterprise nationally was at least 10 times greater than that for Baltimore despite the fact that Baltimore is a majority black city.[6] There are various theories explaining the slow growth of black business enterprise in Baltimore. Blacks in Baltimore have had their economic base in the school system and in social service agency employment, primarily in the public sector, which often does not lead to business ownership and economic development.[7] The public sector, in large part because of the enforcement of equal employment opportunity laws, is often more accessible to blacks seeking employment than is the private sector. This situation is not peculiar to Baltimore. One witness at the Commission's hearing in Baltimore put it this way:

> Let me say I think there's a national trend which affects Baltimore as well. I would make the claim that the gains within minority employment have really been made in the public in contrast to the private sector for a number of reasons, one being the enormous expansion of Federal activity which trickled down to local levels. I think, however, there is another trend which is terribly important and that has to do with the public sector being very critical for minorities at the entry level. And once the experience is gained at the entry level, then people begin to move into the private sector. Now, I must say that movement has been, in my judgment, all too slow.[8]

The opinion was also expressed, however, that the primary responsiblity for black economic development in Baltimore was delegated to various financial and technical assistance agencies that have not done the job.[9] In addition, it is thought that the private sector has a major responsibility for black business development in Baltimore that it has not exercised.[10] For example, the Greater Baltimore Committee's subcommittee for minority business development found that:

> There has been inadequate involvement and/or commitment by the leadership firms and institutions in the private sector towards this vital community issue [of minority business development]. . . .The Subcommittee feels that the area of business contacts represents a natural source of potentially effective intervention by the private sector.[11]

Others cite the failure of the black community to transfer numerical majority into political power and control of the city government. For more than a decade, the city's black population has been in the majority, but as of the summer of 1982 there was yet to be a black in any of the top three offices in Baltimore: mayor, city council president, or comptroller.[12] Only 6 of the current city council's 19 members are black. Further, less than 25 percent of the city's management positions are filled by black employees.[13]

Some theorize that it is difficult for blacks to win elections in Baltimore on the black vote alone, and whites generally have not been willing to support black candidates in Baltimore. Others point out, however, that blacks in Baltimore have divided themselves into political camps, often warring against each other. This political schism is often referred to as the East-Side–West-Side coalitions among blacks, referring to demographic locations of political strength in the city.[14] Finally, black businesses in Baltimore have not had the type of market access, apart from that of the black commu-

[5] Ibid.

[6] Charles S. Obrecht, testimony, *Baltimore Hearing*, p. 14; Report of the Minority Business Development Subcommittee, Greater Baltimore Committee, March 1981, p. 3 (hereafter cited as GBC subcommittee report.)

[7] Robert Hearn, interview in Baltimore, Md., Oct. 28, 1981.

[8] Hearn Testimony, *Baltimore Hearing*, p. 32. One witness believed that going into business, unlike teaching, the ministry, law, or medicine, was not viewed as a high status occupation by many blacks in Baltimore. Daniel Henson, testimony, *Baltimore Hearing*, p. 235.

[9] Obrecht Testimony, *Baltimore Hearing*, p. 15. *See* GBC subcommittee report, pp. 4, 8.

[10] Ibid.

[11] GBC subcommittee report, pp. 4, 8.

[12] Robert Douglas, "Will the New Racial Politics Divide and Conquer Baltimore?" *Baltimore Magazine*, October 1980, p. 61. As this report went to press, Clarence Burns became the first black Baltimore City Council president in the wake of the resignation of former City Council President Walter Orlinsky.

[13] Ibid. According to William Lunsford, political consultant for Cope '83, an organization that is working to involve larger segments of the black population in Baltimore in the political process, there are 196,000 registered black voters in Baltimore, comprising 47 percent of the total number of registered voters. The turnout rate of registered voters is approximately 30.8 percent. William Lunsford, telephone interview, Aug. 13, 1982.

[14] Ibid.

nity, which allows for business growth and development.[15] The GBC subcommittee report stated that "the most successful effort in the area of market access stems from the growing 'set aside' legislation; while the most effective private initiative is provided by the Greater Baltimore Minority Purchasing Council (GBMPC)."[16] The GBMPC is part of a national network of such groups, funded by a combination of the membership fees of participating local businesses and Federal funds. The GBMPC, like other purchasing councils across the Nation, identifies capable minority firms and encourages GBMPC members to increase their business with such firms.[17]

According to the GBC:

> The major problems would appear to be: a) the GBMPC has only 40 business members and the overwhelming majority of their significant and impressive increase in purchases has been due to the efforts of primarily 12 member firms; b) "set aside" legislation sometimes includes groups which effectively allow majority [white] firms to circumvent the major intent of the law, and c) minority businesses have been effectively limited to marketing their products and services mostly to the minority community. In a survey conducted by the Subcommittee, minority businessmen placed majority business contacts as the single most important factor necessary for their success.[18]

Whatever the cause, it is apparent that there are serious deficiencies in the development of black business enterprise in Baltimore City. Some of the problems have their roots in the history of the city's redevelopment.

Finding 3.2: A coordinated effort undertaken by Baltimore's municipal government and the city's private leadership over the past 30 years has revived an economically decaying central business district.

Planning for the redevelopment of Baltimore began 30 years ago. In the early 1950s, the newest hotel and office buildings in Baltimore were 30 years old. Companies were moving to the suburbs and the city government considered relocating in an outlying neighborhood. Manufacturing jobs that were the mainstay of the economy were rapidly dwindling. A city commission forecast civic bankruptcy if downtown property values continued to decline.[19]

Today, Baltimore's revitalized downtown is the result of a sustained efort by a small group of private sector executives, planners, and politicians. An effort to renovate the entire downtown section of the city was rejected in favor of a concentrated effort upon the depressed 33-acre site between the financial and retail districts of the city. The result was Charles Center, a high rise office development and the first multi-use, public-private development in the heart of an American city.[20]

Both State and local governments supported the private sector initiative. The city's mayor, Thomas D'Alesandro, Jr., committed the city government to making the planned development a success.[21] Governor Theodore R. McKeldin, a former mayor of Baltimore, pushed a $25 million bond issue through a special session of the State legislature.[22] Development of Baltimore's Inner Harbor area, that now reportedly rivals Florida's Walt Disney World in the number of annual visitors, followed directly in the wake of the development of Charles Center.[23] The city has also signed a disposition agreement with the David Murdock Company related to the redevelopment of the retail district. The Murdock Company will either rehabilitate or build new office buildings on property in Baltimore's Lexington Market area.[24]

In addition to supporting and following through on the private sector redevelopment initiative, Baltimore's municipal government, under the leadership of the incumbent mayor, William D. Schaefer, has also taken steps to attract middle-class persons into the city. The city, for example, is providing low interest mortgages to middle-class home buyers in its Coldspring Housing Redevelopment project.[25] It is important to note that although this impressive redevelopment activity has stemmed some of the population outflow and has enhanced tax revenues, it has not replaced the dramatically reduced industri-

[15] Raymond Haysbert, president, Parks Sausage Company, testimony, *Baltimore Hearing*, pp. 34, 39.

[16] GBC subcommittee report, p. 8.

[17] Ibid.

[18] Ibid.

[19] Eugene Carlson, "Revival of Baltimore's Core Took Lots of Work and Time," *The Wall Street Journal*, Sept. 22, 1981, p. 29; *SeeBaltimore's Charles Center, A Case Study of Downtown Renewal*, ed. Martin Millspaugh (1964) (hereafter cited as *A Case Study of Downtown Renewal)*.

[20] Ibid.

[21] Ibid.

[22] Ibid.

[23] Ibid. The Inner Harbor area is the site of Harborplace, a development featuring two multi-use, multistory pavilions housing retail shops and eating establishments.

[24] C. William Pacy, president, Market Center Development Corp., testimony, *Baltimore Hearing*, pp. 119–20.

[25] *New York Times*, July 9, 1978, p. E5.

al base. Further, the effect of this redevelopment, so far, in helping the poor and underprivileged is not as impressive.[26]

Finding 3.3: Without deliberate and race-concious[27] efforts to ensure minority participation in large-scale economic development projects, minority participation remains negligible.

The redevelopment of Baltimore had its genesis in the fifties, a period when Baltimore was racially segregated in all components of community life, including housing, education, and employment.[28] No blacks, businesspersons or otherwise, participated in the planning for the city redevelopment undertaken by the business community under the aegis of the Greater Baltimore Committee.[29] Today, the lack of black participation in the planning process is acknowledged by local leaders, who point out that progress has been made in Baltimore in terms of including the local black majority population in current activities engendered by the city's ongoing redevelopment.[30]

The desegregation of the public school system is cited as one factor that led eventually to the measure of progress in this regard that has taken place. However, Walter Sondheim, chairman of the board of Charles Center-Inner Harbor Management Corporation, testified before this Commission that he had observed, over the last 25 to 30 years in Baltimore, that the "mere" removal of the statutorily required segregated school system in Baltimore did not bring about equality. He found that human beings will not do what is necessary to remove the remaining barriers facing minorities unless there are laws requiring that it be done.[31] In Mr. Sondheim's opinion, the city of Baltimore, "certainly [has] made more progress with [affirmative action] rules and regulations and law than we would have made without it. I don't think there's any doubt of that."[32] James Rouse, founder of one of the world's largest real estate development and management companies, and developer of Baltimore's Harborplace agrees. As he put it, "If there weren't affirmative action laws, there wouldn't *be* any action."[33]

Although acknowledging that the black community has not had a major role in either the planning or the implementation of city redevelopment, city leaders point out that the city has implemented a numerical goals program whereby a minimum of 15 percent of the total value of all contracts awarded by the city must go to minority businesses[34] and that city-approved contracts are meeting those goals.[35] Further, some benefits in terms of jobs have been created for the black community. The Hyatt Regency Baltimore hotel, recently opened for business, is an often-cited example of what the city sees as an appropriate solution for minority inclusion in redevelopment projects. According to Mr. Sondheim, as many as one-half of the jobs at the hotel went to minorities, as the result of a cooperative effort by the city, the hotel, and local training and placement programs.[36]

The preeminent example of affirmative action in the redevelopment of the city, according to Mr. Sondheim, is the Rouse Company's development of Harborplace. Harborplace is "notable in the fact that it shows what a determined developer can do if he has the conviction and the desire to do something, that the Rouse Company, in the construction of Harborplace, in the leasing of Harborplace, and in the management of Harbor Place, in all of those

[26] A survey among 11 major cities revealed that Baltimore ranked near the bottom in terms of levels of poverty, degree of education, percentage of overcrowded housing, and other social indicators. Ibid. *See* Bob Cheeks, executive director, Baltimore Welfare Rights Organization, testimony, *Baltimore Hearing*, pp. 35-38 regarding the problem of the displacement of the poor by redevelopment activities and the failure to provide housing and jobs for disadvantaged persons in Baltimore.

[27] Race-conscious efforts take race into account in problem solving. For a thorough discussion of this approach, see Judge Wisdom's opinion in U.S. v. Jefferson County Board of Education, 372 F.2d 836 (1966), in which he stated:

> The Constitution is both colorblind and color conscious. To avoid conflict with the equal protection clause, a classification that denies a benefit, causes harm, or imposes a burden must not be based on race. In that sense, the Constitution is colorblind. But the Constitution is color conscious to prevent discrimination being perpetuated and to undo the effects of past discrimination. This criterion is the relevancy of color to a legitimate governmental purpose. 372 F.2d at 877.

[28] Walter Sondheim, Jr., chairman of the board, Charles Center-Inner Harbor Management Corp., testimony, *Baltimore Hearing*, p. 10.

[29] Ibid.

[30] Ibid., pp. 12-13.

[31] Ibid., p. 11.

[32] Ibid., p. 12. *See also* testimony by Alan Hoblitzell, president, Maryland National Bank, regarding affirmative action as an effective management tool. *Baltimore Hearing*, p. 95.

[33] James Rouse, quoted in "The Rise and Fall of the Greater Baltimore Committee," *Baltimore Magazine*, May 1982, p. 85. Emphasis in the original.

[34] Shirley Williams, compliance officer, Baltimore City Law Department, testimony, *Baltimore Hearing*, pp. 142-43.

[35] Ibid., p. 142. For a further discussion of the Baltimore minority business goals program, see chap. 4 of this report.

[36] Sondheim Testimony, *Baltimore Hearing*, p. 13.

things has shown a significant sensitivity to the need for doing something affirmative about minority participation," he said.[37] Minorities also successfully bid for city contracts to operate a large parking garage near Harborplace and to operate the Harborplace Marina.[38] Despite these successes, however, the Greater Baltimore Committee recently found that: "Baltimore City, in spite of a black population which has now assumed majority status, has been experiencing a period of virtually no real growth among minority owned businesses in terms of number of firms, size or average receipts."[39]

Mr. Rouse, a founder of the GBC, is concerned about whether or not the GBC will respond effectively to this situation. He said:

> Black businesses need to be formed, supported, nourished into healthy development. White business needs to be *pressed* into doing what it should do to help. It *is* possible for the GBC to be effective in sponsoring more black businesses. If they will really fight they could be effective.[40]

Finding 3.4: A major factor affecting the overall lack of minority business development is the inability to obtain credit.

According to Leslie Lewis, president of the Lewis Financial consulting firm, many businesses need three kinds of capitalization: short-term credit, permanent capital, and equity. Short-term credit, either through support by suppliers or bank credit, is needed to finance current assets. In addition, most new businesses require some form of permanent capital in the form of debt to allow for growth and the generation of sales until the business can repay the debt. Equity is the money value of a property or of an interest in a property in excess of claims or liens against it. In almost every case a small or new business lacks equity and permanent debt capital and is, therefore, too dependent upon and overburdened by short-term credit.[41]

In 1944 Gunnar Myrdal in *An American Dilemma,* a classic study of American society, observed that:

> The Negro businessman, furthermore, encounters greater difficulties in securing credit. This is partly due to the marginal position of Negro business. It is also due to prejudiced opinions among the whites concerning the business ability and personal reliability of Negroes. In either case a vicious circle is in operation keeping Negro business down.[42]

Today, the lack of access to financial resources is still said to be a primary cause of the lack of minority participation in the redevelopment of the city of Baltimore.[43] The annual report of the Maryland State Office of Minority Affairs, January 1980, states that "Risk capital, especially start up capital, is nearly impossible to raise either from lending institutions or investors."[44]

The Regional Planning Council, Baltimore Region, stated in its report that "Financial obstacles to minority business development have spanned the whole business horizon."[45] Access to capital for minority businesspeople is severely limited. Although credit for most new business is always somewhat of a problem, and is exacerbated for most businesses by high interest rates, minority businesses suffer from both the general problems facing small businesses and the particular marginal nature of many minority businesses. New minority businesses are often denied credit by banks because they lack sufficient net worth and collateral.[46] Minority businesspeople are often discouraged from going into business by lenders who require as collateral all property owned, both real and personal, when the loan could be collateralized by the equipment or property that is being purchased or by the business that may have substantial assets.[47]

Further, testimony at the Baltimore hearing revealed that minorities are often steered away from

[37] Ibid.

[38] Ibid., p. 17.

[39] GBC subcommittee report, p. 4.

[40] James Rouse, *Baltimore Magazine,* p. 85. Emphasis in the original.

[41] Leslie Lewis, president, Leslie Lewis Financial Company, testimony, *Baltimore Hearing,* p. 63.

[42] Gunnar Myrdal, *An American Dilemma* (New York: Harper and Bros., 1944), p. 309.

[43] Joseph Haskins, vice president for business and finance, Coppin State College, testimony, *Baltimore Hearing,* p. 56. *See* Johns Hopkins University Center for Metropolitan Planning and Research, *Report of the Task Force on Financial Institutions and the Minority Community* (1976), p. vi (hereafter cited as *Financial Institutions and the Minority Community).*

[44] Maryland State Office of Minority Affairs, *Annual Report,* app. A.

[45] Regional Planning Council, Baltimore Region, *ECONOMY,* Dec. 17, 1977, pp. 4–24 (hereafter cited as Regional Planning Council).

[46] Stanley Tucker, deputy director, Maryland Small Business Development Financing Authority, testimony, *Baltimore Hearing,* pp. 63–64. *See Financial Institutions and the Minority Community,* p. vi.

[47] Henry Edwards, president, Superpride Markets, Inc., testimony, *Baltimore Hearing,* p. 58.

positions as commercial loan officers although that position is one of the most important in a bank.[48] Minorities who are hired by banks are allegedly very often placed in areas such as customer service, customer relations, and check clearance, as opposed to commercial lending and trusts.[49]

Witnesses before this Commission related their personal experiences as loan officers in major banks in the country and testified as to the connection between the lack of black commercial loan officers and the scarcity of commercial loans to black loan applicants. As commercial loan officers usually have discretionary lending ability that would cover the amounts requested by many small business loan applicants, the lack of minority loan officers coupled with institutional biases reinforces built-in patterns of discrimination.

One former bank loan officer described banking circles as consisting of a conservative white male network, especially at the senior levels.[50] The employment of a small number of minorities as bank officers was said to be the result of affirmative action laws.[51] There is allegedly a tendency on the part of the banking establishment as a whole to feel that minorities are irresponsible, unpredictable, and unreliable.[52]

Another witness, also a former bank loan officer, alleged a one to one relationship between the lack of minority loan officers and the failure of minority loan applicants to benefit from the discretionary loan authority of bank loan officers.[53] He also stated that bank loan regulations are generally interpreted literally for minority loan applicants, while the loan applications of whites are more likely to be treated with more flexibility and leniency.[54]

The ability or inability to establish a good working relationship with a loan officer is critical for most businesspeople, but it is especially critical for marginal businesspeople and many black businesses in Baltimore fit into this category, as many do not know how to prepare a business loan package and cannot afford to contract for such services. It also has been observed that often there is a communications gap between minority loan applicants and white commercial loan officers.[55] Unfortunately, very few minority bank officers have lending authority of any significance in Baltimore City.[56]

Baltimore's lending institutions that submitted EEO–1 reports to the Equal Employment Opportunity Commission for 1978 showed a total employment figure of 22,908. Blacks made up 17.5 percent or 4,024 of the total employment in these lending institutions. The lending institutions reported that 7,052 positions, or 30.7 percent, of all employees were in managerial and professional positions. Blacks occupied only 6.4 percent (454) of those positions. In services, the lowest level employment category, blacks filled 188 or 43.6 percent of the 431 total jobs.[57]

These figures clearly show that blacks are not present in any significant numbers in managerial and professional positions in lending institutions in the city of Baltimore. These figures are significant also because the lending process is not governed solely by objective criteria. Subjectivity plays an important role in the granting of loans. For that reason, the stratification that exists in American society today works to the disadvantage of black businesspeople with regard to securing loans from commercial lending institutions.[58]

Baltimore City bankers and other persons experienced as bank loan officers testified before this Commission that the first rule of banking is to "know your customer."[59] Personal rapport with the customer, as well as objective documentation about the customer's ability to repay a loan, is significant in the granting of loan applications.[60] Blacks are often at a significant disadvantage, therefore, when dealing with banks that have not made the policy decision to hire black loan officers.

This is not to say that blacks should be hired as loan officers solely to provide services to black loan applicants or that only black loan officers can provide such services; nor is it to suggest that loans should be made to minorities regardless of their ability to repay the loans. However, the effective

[48] Haskins Testimony, *Baltimore Hearing*, p. 54.
[49] Joseph Haskins, vice president for business and finance, Coppin State College, interview in Baltimore, Md., Sept. 9, 1981.
[50] Ibid.
[51] Ibid.
[52] Ibid.
[53] Robert Quarles, executive director, Urban Economic Development Center, Coppin State College, testimony, *Baltimore Hearing*, p. 31.
[54] Robert Quarles, interview in Baltimore, Md., Aug. 31, 1981.
[55] Will Jackson, president, Jackson Oil Company, testimony, *Baltimore Hearing*, pp. 57–58.
[56] Quarles Testimony, *Baltimore Hearing*, p. 31.
[57] U.S. Commission on Civil Rights, Staff Memo, Lending Institutions—City of Baltimore, Employment Patterns, 1978.
[58] Lewis Testimony, *Baltimore Hearing*, p. 66.
[59] Ibid.
[60] Ibid.

implementation of an affirmative action plan to increase the number of minority commercial loan officers would help create a business environment responsive to potential minority customers and consistent with the legitimate requirements of Baltimore's financial institutions. The hiring of black commercial loan officers is one affirmative step toward addressing the lack of equal access to credit for minorities, by giving minorities some influence on and input into banking practices, if only through their presence and the examples they would have the opportunity to set when providing services to minority loan applicants.

Banks in other cities such as New York and Philadelphia have gone further. They have established urban affairs lending divisions that specialize in providing loans to minority businesses.[61]

Although some white bankers have developed a rapport with some black customers and assisted in the development of particular black businesses in Baltimore, they are in the minority.[62] Witnesses were careful to point out that the mere hiring of more black loan officers would not constitute a total solution to the problems of black businesspeople in dealing with banks in Baltimore.[63] It is not sufficient just to hire more black loan officers; they must also have lending authority within key banking areas that are significant to black loan applicants. More blacks should be appointed to positions as commercial lending officers for banks and as bonding officers for surety houses,[64] and overall institutional policies and practices that exclude or limit participation by otherwise qualified black applicants should be revised.

Finding 3.5: Surety companies fail to issue bonds to minority applicants in significant numbers.

In addition to a lack of access to bank loans, the inability of black entrepreneurs to secure bonds is a major disability. The inability to obtain bonding from any source is a problem for a substantial portion of Baltimore's black contractors.[65] This is not a new problem, nor is it peculiar to Baltimore. The background for this issue has been described as follows:

> Black contractors have been the victims of exclusionary practices of the construction craft unions, which have, in the past, denied them entry into the construction trades. . .these exclusionary practices have made it almost impossible for black workers to acquire construction skills and to enter the construction business through the normal channel of graduating from skilled worker and foreman into small scale contracting and then, with the accumulation of experience and capital, into larger and more complex work. It has also made it impossible for black contractors to have available to them the quantities of skilled workers needed for large enterprise. When to this pattern is added lack of access to financing, the result is an almost total inability of black contractors to qualify for surety bonds needed for participation in most. . .public construction work. . . .Thus, black contractors find themselves in a kind of circular trap where their lack of experience in bonded work makes it virtually impossible to obtain surety bonds for construction work requiring such bonds and thereby gain experience on this type of work, even though they might otherwise have the ability to perform.[66]

Hanford Jones, director of the Maryland Minority Contractors Association, testified that as many as 75 percent of the association's members could not secure bonds.[67] As was found in the case of bank loan evaluation policies, surety house lending policies effectively prevent many blacks from securing bonds.

Several factors are included in the evaluation of applicants for surety bonds. A financial statement, past experience, and general business operation are included in the evaluation.[68] Blacks often have difficulty meeting these basic requirements. Regardless of the desirability of a financial statement, many black contractors operating as sole proprietors have not had the occasion to need a financial statement nor the financial resources to employ an accountant to prepare such a statement. Many have had most of their past business experience in small projects, such

[61] Leslie Lewis, interview in Baltimore, Md., Oct. 13, 1981.

[62] Lewis Testimony, *Baltimore Hearing*, pp. 67–68.

[63] Ibid., p. 81.

[64] Ibid. Some Baltimoreans believe the lack of access to capital can be addressed by the establishment of a minority-owned bank. The State of Maryland has issued a charter that will allow for the establishment of such a bank if a minimum of $2 million is raised to underwrite its operation. The funds have been raised and the Harbor Bank of Maryland held its grand opening in the fall of 1982. *See* Haskins Testimony, *Baltimore Hearing*, p. 52. *See also* *Baltimore Sun*, June 8, 1982, p. D1.

[65] Hanford Jones, executive director, Maryland Minority Contractors Association, testimony, *Baltimore Hearing*, pp. 69–70. *See* discussion of the bonding issue in the GBC subcommittee report, pp. 6–7.

[66] G. Douglas Pugh, "Bonding Minority Contractors," in *Black Economic Development*, ed. William F. Hoddard and G. Douglas Pugh (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1969), pp. 138–39.

[67] Jones Testimony, *Baltimore Hearing*, p. 70.

[68] Charles Brown, president, Charles Brown, Jr. and Associates Insurance Agency, testimony, *Baltimore Hearing*, p. 70.

as home improvement, and therefore have had no previous need to apply for a bond.[69] As a result many black contractors seeking a bond for a major project have no prior bonding history.

Bond requirements are not restricted to the construction industry. In Baltimore, businesses that sell to the State must furnish bonds for any sales over $25,000.[70] If black contractors do not have a track record of job performance, obtaining a bond is difficult, and without a bond, securing certain larger contracts and expanding to larger markets is impossible. It is a vicious circle.[71]

There are two types of bond markets: the primary market and the secondary market. The cost to the contractor is substantially higher in the secondary market because there is a higher cost associated with what the lender perceives to be a higher risk of nonperformance and, therefore, a greater likelihood that the lender will have to pay on behalf of the contractor.[72] Because of the higher cost associated with the secondary bond market, bids submitted by minority contractors on jobs are often out of line with those submitted by white contractors who are bonded by the primary market at a lower rate and who can reflect their lower costs in lower bids.[73]

As the secondary bond market is made up exclusively of higher risk applicants who could not secure bonds in the primary market, it would appear that the default rate of the secondary market should be higher than that for the primary market. In Baltimore, however, that is not the case. The two primary bonding houses in Baltimore are U.S. Fidelity and Guaranty Company and the Fidelity Company. Both had higher loss ratios than the secondary bond market in Baltimore for the years 1979 and 1980.[74] This brings into question the underwriting rules utilized by those houses, the same rules that preclude most minorities from securing bonds on the primary market. The inability of minority entrepreneurs to secure capital[75] is linked to another major problem—the lack of access to markets outside the black community.

Finding 3.6: The lack of marketing skills and business management skills compounds the problem of the lack of sufficient resources to expand outside the black community.

Witnesses before this Commission testified that blacks have not had the opportunity to gain business management experience or to expand into the mainstream marketplace after getting started in business. This is the end result of many years of employment discrimination within the private employment market, in terms of lack of access to corporate managerial experience.[76] The lack of business experience and the lack of business management skills have been pointed out as key problems facing minority entrepreneurs in Baltimore,[77] and there are indications that these problems affect the entire State of Maryland, according to the annual report of the Maryland State Office of Minority Affairs, which stated: "There is a clear indication that the need exists for the coordination, planning, and delivery of education and training programs which will assist and improve the business status of minority business entrepreneurs."[78]

Specifically, blacks have not had the opportunity to gain experience in the basic skills of operating a business, including financial planning, securing financing, making acquisitions, and maintaining a cash flow.[79] In its December 1977 General Development Plan for the Baltimore Region, the Baltimore Regional Planning Council said:

> A salient problem of minority business has been inadequate financial and managerial resources which have restricted the supply of capable entrepreneurs, managers, and technicals. . . .A lack of adequate managerial and technical training has also hindered minority businesses. This is a problem for small businesses in general. Proprietors of

[69] Ibid.
[70] Edwards Testimony, *Baltimore Hearing*, p. 58.
[71] Ibid.
[72] Brown Testimony, *Baltimore Hearing*, p. 71–72.
[73] Ibid.
[74] Ibid.
[75] Even if capital were available, today's high interest rates price loans out of the reach of most minority businesspeople. The current recession and the accompanying high cost of money have caused one technical assistance agency in Baltimore to caution its clients against even seeking loans in today's financial climate. *See* Samuel Daniels, executive director, Council for Equal Business Opportunity, interview, Baltimore, Md., 1981.
[76] Quarles Testimony, *Baltimore Hearing*, p. 30; *see* Edwards Testimony, *Baltimore Hearing*, p. 49.
[77] The GBC subcommittee report cites a black business-related survey finding of the need for a "strong and consistent emphasis placed upon educational efforts of a more long range nature. Frequent mention was made of the pervasive feeling within the black community that participation in the business sector is simply not a viable alternative for a young person to pursue. The direct connection between [this] problem and the attitude created or not created by the formal educational process was stressed." p. 7. *See* chap. 3, finding 3.3 of this report, for further discussion of this issue.
[78] Maryland State Office of Minority Affairs, *Annual Report*, app. A.
[79] Edwards Testimony, *Baltimore Hearing*, p. 49. *See,Annual Report*, Maryland State Office of Minority Affairs, p. 14.

small businesses often lack the time or do not appreciate the need for management training programs offered by business and professional schools.[80]

Blacks have been confined to the black community marketplace by a combination of factors, including a lack of capital, lack of skilled staff, and the lack of business experience.[81] This is not peculiar to Baltimore. Dr. Andrew Brimmer has analyzed the available data for black businesses nationally and has reached the following conclusions:

> As we have looked at the evidence, a rather disturbing trend seems to be underway. First, from the trend of sales of black-owned businesses over the last several years, it is clear that the share of overall economic activity enjoyed by black-owned businesses has been declining steadily. . . .These statistics show that the gross sales of black-owned businesses have declined relative to sales of all businesses in the United States. Blacks have been getting a smaller share of the market. The absolute level of sales of black businesses, of course, has been rising. Yet, it has been rising more slowly than the sales of all firms in the economy. Moreover, black-owned businesses share of the income of the black community has been declining as well. . . .Those trends have been documented through 1977—based on figures from the Commerce Department's survey of black-owned businesses, the Census Bureau's money income figures, and the sales figures from the Bureau of Economic Analysis in the Department of Commerce. . . .Our hunch is as follows: We think that black-owned businesses are still concentrated substantially in the inner city, and they have not been able to migrate with the black consumer to the suburban shopping centers and to shopping areas of the fringes of cities. In other words, black-owned businesses are still located essentially where they have been traditionally situated, while the shopping patterns of their principal consumers have changed substantially. . . .These trends lead us to the following conclusion: It seems quite evident that, if black-owned businesses are to share in the growth of the American economy during the 1980's, they will have to diversify the lines in which they are engaged, and they will have to shift the location at which they are actively operating.[82]

Finally, it is the view of some black businesspeople that racism plays a role in denying a share of the majority marketplace to blacks.[83] Louise Johnson, president of Johnson Associates and chairperson of the Greater Baltimore Women's Political Caucus, stated that, while women do face some special problems in the business world, her biggest problem was not her sex, but her race. She maintained that racism was the major problem facing black businesswomen. Renna McGuire, executive secretary of the Maryland Black Chamber of Commerce, agreed, stating that equal opportunity and/or set-aside laws ostensibly designed to help minorities are too easily circumvented.[84]

Programs operated by the U.S. Small Business Administration have been of some assistance to minorities in addressing the problems of insufficient resources, limited access to markets, and inadequate business skills. The Small Business Administration's 8(a) and economic opportunity loan programs in particular were singled out by witnesses before this Commission as deserving some measure of credit in these areas.[85] The GBC subcommittee stated that: "the most successful public effort in the area of market access [for minority businesspeople] stems from the growing 'set aside' legislation."[86]

However, such programs are not without flaws. The failure to provide sufficient technical assistance and bureaucratic red tape were among the criticisms of such programs enumerated by witnesses.[87] In its review of programs having varying measures of responsibility for minority business enterprise in Baltimore, the minority business development subcommittee of the GBC found that:

> Among public agencies charged with promoting MBD [Minority Business Development], the Subcommittee feels that there exists a significant degree of: (a) lack of cooperation, (b) overlapping responsibility, (c) duplication of effort, and (d) lack of any successful movement to date among the agencies and governmental units involved in MBD to cooperatively set priorities for the expenditure of the limited funding and manpower which is available.[88]

[80] Regional Planning Council, pp. 4–24.

[81] Ibid. The GBC subcommittee report stated that the related area of expanding business contacts "represents a natural source of potentially effective intervention by the private sector." *See* p. 8.

[82] Andrew F. Brimmer, president, Brimmer and Company, Inc., "Developing and Expanding Minority Enterprises in the 1980s: Problems and Prospects" (remarks before the Minority Resources Subcommittee Seminar of the Center for Metropolitan Planning and Research, Johns Hopkins University, Oct. 20, 1980).

[83] Jackson Testimony, *Baltimore Hearing,* p. 52.

[84] Louise Johnson and Renna McGuire, interview in Baltimore, Md., Aug. 26, 1981, pp. 2–3.

[85] Ibid. *See* 15 U.S.C. §637(a)(Supp. 1980), and 42 U.S.C. §§2901 (1976).

[86] GBC subcommittee report, p. 8.

[87] Edwards Testimony, *Baltimore Hearing,* p. 50. *See* detailed description and analysis of Small Business Administration programs in chap. 5 of this report. *See* the discussion of technical assistance programs in Baltimore in the GBC subcommittee report, p. 4.

[88] GBC subcommittee report, p. 4. *See* discussion of Federal and city agencies and their roles in minority economic development in chaps. 4 and 5 of this report.

Finding 3.7: With the exception of federally guaranteed loans, commercial lending institutions are unable to document either the number of minority businesses to whom they have made loans or the amount of loans actually extended.

Apart from requirements by the Small Business Administration that banks participating in federally guaranteed loan programs keep records of the numbers of minority loans granted, banks and surety houses in Baltimore are unable to document the number of loans made to minorities.[89] This lack of information complicates the analysis of commercial lending policy and the ability of lending institutions to monitor their own activities.

Testimony before this Commission revealed that banks in Baltimore do not record the race of loan applicants for any type of mortgage or commercial lending.[90] Bankers cited the history of the utilization of such records to discriminate against minorities in the lending process and subsequent Federal Government decisions to require the removal of racial indicators from applications as the reasons for the lack of information.[91]

Lenders from surety houses that issue bonds stated that their practice of not keeping data on the number of loans made to members of racial minority groups was based upon the same rationale.[92] In any event, failure to monitor and redress shortcomings in the accessibility of the commercial lending market, whether in the form of bank loans or bonds, is having a substantial effect upon the ability of blacks to become involved in business enterprise.

[89] Robert Irving, executive vice president, Equitable Trust Bank, testimony, *Baltimore Hearing*, p. 94.
[90] Ibid.
[91] Alan Hoblitzell, president, Maryland National Bank, testimony, *Baltimore Hearing*, p. 94.
[92] Willard Holley, assistant vice president, U.S.F. & G. Co., testimony, *Baltimore Hearing*, p. 94.

Chapter 4

Municipal Leadership and Corporate Responsibility

Finding 4.1: The city of Baltimore has taken numerable and often risky and innovative steps to foster minority economic and business development. Those efforts have been moderately successful. Various municipal officials and private leaders recognize the need for a continuing and more concerted effort.

Baltimore City, through its various agencies and in conjunction with the quasi-public agencies that it directs, has taken numerable steps to provide financial assistance, managerial assistance, and markets to minority-owned firms and other firms and projects that directly and indirectly benefit the economic base of the city's black community. Race was frequently a conscious and deliberate underlying factor in many of the city's actions that directly assisted minority enterprise and economic development.[1] Risks were taken that might otherwise have been avoided, and limited staff and financial resources extended beyond the ordinary in attempts to sustain and foster minority entrepreneurship.[2] Some of the efforts demonstrated innovation, flexibility, and resourcefulness infrequently exhibited by municipal or other levels of government generally. Examples of these race-conscious efforts include municipal loans to minority developers that were, in one instance, used to develop a shopping center and, in another, used to develop a family entertainment center.

The model cities program was one of the first attempts in economic development in Baltimore's black community. Planning for the economic development, as well as other components of the model cities program, began in 1968 and implementation began in 1970. The program, however, ended in 1974. Although hindered by failure to target limited resources effectively and by problems resulting from the program's citizen participation requirements, model cities was the genesis of a number of efforts that survive.[3]

[1] Bernard L. Berkowitz, president, Baltimore Economic Development Corporation, testimony, *Hearing Before the U.S. Commission on Civil Rights, Baltimore, Md.* Nov. 17-18, 1981, p. 125 (hereafter cited as *Baltimore Hearing).* Mark Wasserman, physical development coordinator, City of Baltimore, testimony, *Baltimore Hearing,* pp. 129-30; M.J. Brodie, commissioner, Department of Housing and Community Development, City of Baltimore, testimony, *Baltimore Hearing,* p. 134.

[2] Brodie Testimony, *Baltimore Hearing,* p. 140.

[3] Lenwood M. Ivey, executive director, Urban Services Agency (formerly executive director, Community Action/Model Cities Agencies in Baltimore), interview in Baltimore, Md., Aug. 19, 1982; Elva J. Edwards, associate director, Urban Services Agency (former deputy director, Model Cities Program in Baltimore), interview in Baltimore, Md., Aug. 12, 1982. Some programs, such as those offered by the Council for Equal Business Opportunity, preceded model cities. Some model cities efforts, in particular programs to provide technical assistance and capital to minority entrepreneurs, were forerunners of current efforts. Most of the present programs whose antecedents were model cities efforts are administered by Baltimore's Urban Services Agency, the successor to both model cities and the community action agency. *See,* app. B, Mark Wasserman, physical development coordinator, City of Baltimore, letter to Paul Alexander, Acting General Counsel, U.S. Commission on Civil Rights, Oct. 26, 1982, comment 20 (hereafter cited as Wasserman Letter). For information on the development and implementation of the model cities

Since 1975 there have been 79 instances in which direct financial assistance was provided to minority firms by the city and 5 instances in which assistance was given to firms or for projects that provided significant economic benefits to the minority community.[4] In addition, 15 programs that offer assistance to minority businesses[5] have received funding from the city. Nevertheless, these city efforts generally have involved specific programs or projects and been limited to economic models of lesser dimension. Minority business development in Baltimore remains stalled.

Despite the city's efforts, neither the business community, the black community, nor the larger community in Baltimore believe that minority business development is an important priority in Baltimore. William Boucher, former executive director of the Greater Baltimore Committee, which represents the city's business community, in testimony before the Commission, discussed the gap between municipal efforts and results:

> [I]t seems to me that the city can put higher on its priority the affirmative action programs which we have said exist. My experience [however] is, [that] it is hard to find the concrete results [of those programs]. Therefore, it seems to me that. . .the city has to both have a policy and let that policy be known.
>
> [It is also important] to enforce the policy. I think we have had policies. . . .[B]ut I don't think many people around town know what the city's policy is. I don't think. . .the political leadership of the city has [made] this a high enough priority.[6]

Raymond Haysbert, president of Baltimore's largest minority-owned company, concurred and testified before the Commission that municipal efforts to remove the obstacles that confront minority entrepreneurs "have not been effective."[7]

City officials contend, however, that a more explicit and comprehensive strategy would be less effective than the approach it is now pursuing for four reasons.

First, it is claimed that the small size of the minority business community is primarily responsi-

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program, see generally, Charles M. Haar, *Between the Idea and the Reality: A Study in the Origin, Fate and Legacy of the Model Cities Program* (Boston: Little, Brown and Co., 1975); Bernard J. Friedan and Marshall Kaplan, *The Politics of Neglect: Urban Aid from Model Cities to Revenue Sharing* (Cambridge, Mass.: MIT Press, 1975).

[4] City of Baltimore, *A Report on Minority Economic Development* (November 1981), vol. 1, sec. I, pp. I-1 to I-12 (maintained in Commission files).

[5] Four of the 15 programs are revolving loan funds financed, at least in part, with municipal funds or Federal funds obtained or made available by the city. Specifically, the Park Heights Development Corporation revolving loan fund, which was established to make below-market rate loans available to minority businesses and create jobs in a minority neighborhood, received a $500,000 grant from the Economic Development Administration (EDA), $25,000 from the Private Industry Council, and $25,000 in community development block grant (CDBG) monies. The YORKY loan fund, which has extended 25 percent of its loans to minority projects, received $50,000 in CDBG monies. The Fells Point commercial loan pool received a $593,385 urban development action grant (one-third of the construction jobs on the Fells Point project are held by minority workers and 6 percent of the total contract amount was awarded to minority firms), and the Council for Equal Business Opportunity (CEBO) loan pool, which provides capital to minority businesses received a $1 million grant from Baltimore's Urban Services Agency. Another five programs offer managerial and technical assistance and are generally, though not exclusively, serving minority-owned businesses. The Urban Economic Development Center at Coppin State College, which targets its assistance to minority firms, received a $95,000 EDA grant. Control Data, Inc., operates two business resource centers and is opening a third. The Park Circle and York Road Centers are targeted towards minority firms. The York Road Center is partially funded with $20,000 in CDBG funds and the new Park Circle Center has been the beneficiary of a $4 million industrial revenue bond. Three of the five technical assistance programs are operated by CEBO. One limited to neighborhood strategies areas receives a $230,000 per year grant from Baltimore's Urban Service Agency (USA), another serving minority firms citywide received a $500,000 grant from USA, and the third is specifically oriented towards assisting minority construction contractors and receives $250,000 annually from USA. Of the remaining six programs, two involved the mayor's office of manpower training; the first was the use of $88,000 of CETA funds to create or expand minority businesses through employee training, and the second was a $540,128 contract with a minority-owned employment training program. The remaining four programs include (1) the development of the *Minority Business Directory* by the city's law department that identifies minority-owned and operated firms so as to help city contractors meet the required minority participation goal in city contracts; (2) the neighborhood business revitalization program, which provides long-term financing for small business fixed asset improvements ($12.5 million or 13 percent of the dollar value of all loans have gone to minority firms); (3) the now defunct model cities economic development program which provided venture capital to minority-owned firms; and (4) the mayor's advisory committee on small business, which offers technical assistance and referral service for small businesses. Ibid., vol. 1, sec. II, p. I-12.

[6] William Boucher, testimony, *Baltimore Hearing*, p. 216. *See also*, ibid., p. 224. Baltimore City officals objected to these remarks by Mr. Boucher. (See app. B, Wasserman Letter, comment 21.) Mr. Boucher was executive director of the Greater Baltimore Committee (GBC) for 26 years, from 1955 to 1981. The executive director of the GBC at the time of the hearing requested that he not be asked to testify because he had just assumed that position within the preceding month. However, the then president of the GBC, the past and present chairman, of the GBC minority business committee, its senior executive staff member, and other business leaders did testify, and, in each case, their views are reflected in the report and their testimony is either quoted or cited in the text.

[7] Raymond Haysbert, testimony, *Baltimore Hearing*, p. 40; *see also*, Bob Cheeks, executive director, Baltimore Welfare Rights Organization, testimony, *Baltimore Hearing*, pp. 35–37.

ble for limiting the effectiveness of the city's minority business development program. Consequently, an expanded minority business and economic development program would, given the size of the minority business community, have been no more successful than those efforts that were undertaken.[8] Second, it is claimed that a more aggressive and systematic minority business and economic development program would place burdens and requirements on private sector activity in Baltimore, and the city cannot threaten its precarious economic base by placing itself at a competitive disadvantage compared to either suburban Maryland or other sections of the country in its attempts to foster economic growth.[9] Third, an aggressive, comprehensive, and systematic minority business and economic development strategy could, it is feared, generate a political backlash from the city's white community.[10] Finally, city officials assert that there is a limit to what government can accomplish in this area without greater assistance from the private business community. Only the private sector, particularly large business and financial institutions, has the expertise needed to implement successfully a comprehensive minority business and economic development strategy. Government incentives, sanctions, and exhortations, while useful, cannot compel the private sector to undertake such a project,[11] and the private sector initiative, commitment, and leadership required to mobilize and target its expertise have been lacking.[12]

Although these four considerations reflect dynamics that, if ignored, could undermine or limit a comprehensive and aggressive plan, they cannot obscure the precarious toehold that the black community has in Baltimore's developing economic structure.[13] For this reason civic leaders in Baltimore testified that a sense of urgency must accompany any effort to foster minority economic development if it is to be successful.[14] Indeed, some Baltimore officials concede the need for an enlarged and more comprehensive municipal strategy to foster minority economic growth.[15]

Bernard Berkowitz, president of the city's industrial development agency, testified before the Commission that a "comprehensive, multifaceted approach" to developing minority business growth was required[16] and that "a number of ingredients for a successful program. . .have to be added or enlarged."[17] According to Mr. Berkowitz, such an approach would, at a minimum, simultaneously target (1) industrial and commercial development in or adjacent to low-income minority neighborhoods, (2) coordination with the educational system, particularly to improve technological training, (3) the development of a source of venture capital for minority business, and (4) an improved technical and managerial assistance program.[18]

Mr. Berkowitz, stated, however, that the private business and financial community must assume an important role, particularly with regard to financing, if any comprehensive strategy to foster minority business and economic development is to be successful.[19] Other municipal officials and business leaders agreed.[20] Urban minority economic development requires a working partnership of local government, the private business sector, and the minority community. The specifics of such a partnership in Baltimore can only be developed by the mayor's office, the business community, and the minority community working collaboratively. Nevertheless, city government can exercise leadership and mobilize public resources to create incentives for private sector

[8] William D. Schaefer, mayor of Baltimore, testimony, *Baltimore Hearing*, pp. 245–46. *See also*, Mark Wasserman, interview in Baltimore, Md., Oct. 14, 1981 (hereafter cited as Wasserman Interview).

[9] Wasserman Testimony, *Baltimore Hearing*, p. 145–46. Bernard L. Berkowitz, interview in Baltimore, Md., Oct. 2, 1981 (hereafter cited as Berkowitz Interview).

[10] Wasserman Interview. *See also*, Schaefer Testimony, *Baltimore Hearing*, pp. 241–43 (in which the mayor testified that compiling, presenting, or publicizing evidence of municipal efforts to assist minority economic development can itself create problems of racial politics); *but see*, app. B, Wasserman Letter, comment 23.

[11] Schaefer Testimony, *Baltimore Hearing*, p. 244; Wasserman Testimony, *Baltimore Hearing*, pp. 145–46.

[12] Wasserman Interview.

[13] See chap. 3 of this report.

[14] *See*, Walter J. Sondheim, chairman of the board, Charles Center-Inner Harbor Management Corp., testimony, *Baltimore Hearing*, pp. 26–27; Charles F. Obrecht, testimony, *Baltimore Hearing*, p. 27; Daniel P. Henson, testimony, *Baltimore Hearing*, pp. 238–39.

[15] Berkowitz Testimony, *Baltimore Hearing*, pp. 127–28; Brodie Testimony, *Baltimore Hearing*, pp. 144–45.

[16] Berkowitz Testimony, *Baltimore Hearing*, p. 127. *See also*, Brodie Testimony, *Baltimore Hearing*, p. 140.

[17] Berkowitz Testimony, *Baltimore Hearing*, p. 127.

[18] Ibid.

[19] Ibid.

[20] Schaefer Testimony, *Baltimore Hearing*, p. 245; Brodie Testimony, *Baltimore Hearing*, pp. 144–45; Boucher Testimony, *Baltimore Hearing*, p. 215; David M. Noer, vice president, Commercial Credit Corporation, testimony, *Baltimore Hearing*, p. 217; Obrecht Testimony, *Baltimore Hearing*, p. 15.

participation in a comprehensive minority business development program.[21]

Baltimore's recent history clearly demonstrates the critical importance of mayoral leadership and commitment. Beginning with the initial plans for Charles Center up to the present, the business community has, for reasons of both civic pride and profit, been closely involved with and invested in Baltimore's downtown redevelopment. Their efforts, however, might well have been fruitless without "the enthusiastic and participatory support of four mayoral administrations."[22] The "total commitment" of the city's public leadership to the downtown redevelopment was a pivotal element in its success.[23] Similarly, the success of private efforts to foster meaningful and sustained minority business and economic growth will depend upon the leadership and support of Baltimore's municipal government.[24]

Finding 4.2: Baltimore's downtown redevelopment spawned the creation of a number of innovative quasi-public agencies. These entities and the traditional city agencies have adopted programs and taken steps to assist minority business and economic development. These efforts have met with varying degrees of success.

The urban revitalization that reversed the decay of downtown Baltimore and attracted national attention was accomplished under aggressive municipal leadership spanning a number of administrations.[25] Private sector initiative, planning, and commitment were critically important to this process. Yet, the private sector development of Baltimore's business district was made possible by city cooperation and creative municipal government with regard to both the management and financing of the economic development process.[26]

Management

Municipal responsibility for economic development in Baltimore is lodged in the planning department, the department of housing and community development, and with the mayor's coordinator for physical development.[27] Baltimore has, however, also created a number of quasi-public corporations, responsible to the city, with administrative responsibility for specific municipal development projects. These corporations were established as a means to tap human resources and skills not otherwise available to city government. They are also designed to administer municipal development projects with a managerial style compatible with and familiar to private sector developers.[28]

The first such corporation, the Charles Center-Inner Harbor Management Corporation (CCIHMC), was created in 1965. The first phase of Baltimore's downtown redevelopment occurred in the late 1950s when the city adopted the newly formed Greater Baltimore Committee's Charles Center plan. That project was managed by two civic leaders, J. Jefferson Miller and Martin Millspaugh, who operated on personal contracts with the city. In 1965, when much of the original plan was nearing completion, Messrs. Miller and Millspaugh were asked by the city to undertake the planning and implementation of the next phase of downtown development, a 20-year program of renewal projects surrounding the Inner Harbor. Rather than continuing to operate on the basis of personal contracts, a

[21] *See,* Committee for Economic Development, *Public-Private Partnership: An Opportunity for Urban Communities* (February 1982) pp. 29–31.

[22] U.S., Department of Housing and Urban Development, and U.S., Department of Commerce, *Local Economic Development Tools and Techniques: A Guidebook for Local Government* (July 1980) p. 81.

[23] Ibid.

[24] Baltimore City officials believe that the implication here is that the mayor has not given full support to minority economic development and, claiming that they were ignored, cite specific examples of the mayor's leadership role in support of minority economic development. *(See,* app. B, Wasserman Letter, comment 24.) Each of the municipal efforts cited as being ignored is, in fact, discussed, often at length, at some point in the report. The principal concerns addressed in this section of the report are, first, whether more comprehensive, and better coordinated efforts to assist minority economic and business development are required and, second, whether those private sectors most involved, including the black and the white business communities, perceive the efforts that have been undertaken as sufficient or effective.

[25] Schaefer Testimony, *Baltimore Hearing,* p. 240.

[26] Sondheim Testimony, *Baltimore Hearing,* pp. 8–10.

[27] Johns Hopkins University, Center for Metropolitan Planning and Research, *Local Economic Development: Baltimore SMSA* (June 1979), p. 8 (hereafter cited as *Local Economic Development); Municipal Handbook* of the city of Baltimore (1977), pp. 81–84, 102–105 (hereafter cited as *Municipal Handbook).* The city council also has a policy and planning committee. *Municipal Handbook,* p. 32.

[28] Martin S. Millspaugh, president, Charles Center-Inner Harbor Management Corp., interview in Baltimore, Md., Sept. 22, 1981 (hereafter cited as Millspaugh Interview).

private nonprofit corporate entity, CCIHMC, was created to accomplish this task.[29]

The corporation's sole contract is with the city. Its policies are established by the mayor and city council, and it is responsible to the commissioner of housing and community development. The city has advanced a revolving fund from which the corporation pays its expenses, and the city reimburses the fund on a monthly basis for expenses incurred by CCIHMC. CCIHMC has three functions.[30] It coordinates all city agencies involved in the development projects within its area, including the departments of real estate, public works, and surveys. It acts as a client for the various projects' public designers in that it supervises the work of the planners and developers through a direct delegation of authority from the city, and it recruits and negotiates contracts between the city and developers.[31]

In the 1970s Baltimore City created two other similiar quasi-public agencies with specific administrative and managerial economic development responsibilities—the Baltimore Economic Development Corporation (BEDCO) in 1976 and the Market Center Development Corporation (MCDC) in 1979.[32]

BEDCO was established to expand employment opportunities and increase the municipal tax base by promoting industrial development in the Baltimore area. BEDCO's primary focus is industrial retention and attraction, and it functions as the nerve center of the city's industrial development efforts.[33] Like CCIHMC, its administrative functions flow through the department of housing and community development; its operational control, however, is in the mayor's office of physical development.[34]

BEDCO pursues its industrial retention and attraction objectives by: (1) acting as the source and contact point for industrial firms seeking plant location, project financing, and assistance in dealing with governmental regulations or obtaining services from government, (2) offering financial incentives and technical services to industrial firms to encourage their location or expansion in Baltimore, and (3) acquiring, developing, maintaining, and making available to industrial users an inventory of industrial real estate sites.[35] Currently, BEDCO is coordinating the development of eight specific industrial projects.[36] In all, BEDCO is responsible for nearly 400 acres of industrial development, and when all of its projects are fully developed, 7,500 jobs and over $100 million in private investment are expected to have been generated.[37]

One project, in its early stages of development, the Park Circle Industrial Park, is intended to provide significant employment opportunties for black workers and business opportunities for black entrepreneurs.[38] Another innovative BEDCO economic development project, the Raleigh Industrial Building, has had positive consequences for the development of minority business enterprises in Baltimore. The Raleigh Building, an eight-story, 330,000 square foot loft building in southwest Baltimore, was purchased by the city through BEDCO and, with a $4.7 million grant from the Economic Development Administration, converted into a vertical industrial park.[39] The building is geared towards smaller startup firms needing "incubator" space. Of the 16 tenants in the building, 4 are minority-owned and operated. Approximately 130 of the 240 employees in the Raleigh Building are on the payroll of those minority firms and many of them are black.[40] One of the minority tenants, a

[29] Charles Center-Inner Habor Management, Inc., *Fact Sheet* (undated) (maintained in Commission files).

[30] Millspaugh Interview.

[31] Ibid.

[32] Berkowitz Testimony, *Baltimore Hearing,* p. 115; William C. Pacy, president, Market Center Development Corporation, interview in Baltimore, Md., Oct. 20, 1981. MCDC, which has specific responsibility for the development of areas adjacent to entrances to the mass transit system under construction in Baltimore, is discussed later in this chapter.

[33] Berkowitz Testimony, *Baltimore Hearing,* p. 115.

[34] *Local Economic Development,* p. 8.

[35] Baltimore Economic Development Corp., *1980 Corporate Report,* p. 1 (hereafter cited as BEDCO, *1980 Corporate Report).* In addition to sites it has acquired and developed, BEDCO maintains a file of privately and city-owned land and buildings as a research source for real estate agents, developers, and local companies desiring to relocate and out-of-town companies desiring to move to Baltimore. Ibid., p. 12.

[36] Ibid., pp. 20–27.

[37] Ibid, pp. 8, 20–27. BEDCO also operates a business retention program. A network of city and State officials who have frequent contact with business firms, private sector leaders operating through the Greater Baltimore Committee, and a research team feed information concerning both specific firms that are considering relocation and industrial sectors that are experiencing slower growth locally than nationally to BEDCO's business retention staff. Those firms or industrial sectors are then contacted and informed of available assistance from BEDCO. Ibid., pp. 12–16.

[38] Berkowitz Testimony, *Baltimore Hearing,* pp. 116–17. Park Circle Industrial Park is discussed later in this chapter.

[39] *See,* app. B, Wasserman Letter, comment 25.

[40] City of Baltimore, *A Report on Minority Economic Development*

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security guard company, employs over 400 persons who work elsewhere, and many of them are black.[41] The benefits of BEDCO's other industrial development projects, however, have accrued primarily, though not entirely, to white businesses and employees.[42]

Financing

Baltimore has aggressively sought Federal monies and combined them with municipal, State, and private funds to finance its economic development projects.[43] In addition to revenues from Federal grants, Federal revenue sharing,[44] State and local taxes, and assorted service charges, the city sells both self-supporting and non-self-supporting general obligation bonds to finance its various programs and projects.[45] Non-self-supporting projects are those whose operating costs and debt service (principal and interest) are partially funded from the city's general tax revenues.[46] In contrast, the debt service and operating costs of self-supporting projects are designed to be covered entirely by user charges such as commercial and industrial loan repayments. The city has issued non-self-supporting economic development bonds totaling $10.8 million, primarily to acquire, develop, and/or redevelop vacant or underutilized industrial properties. Since 1958 Baltimore voters, in both black and white neighborhoods, on 10 occasions, have approved urban renewal/community development bond authorizations totaling $9.15 million. Funds from these bond sales are used to meet Federal grant stipulations that require local jurisdictions to maintain their funding effort for community development projects. For example, these monies are used to supplement physical improvements that are funded principally with community development block grant monies.

Baltimore City has used the money from the sale of its self-supporting bonds primarily to establish revolving loan funds that, in addition to other purposes, support innovative housing rehabilitation, homeownership, and commercial revitalization programs.[47]

In addition to these traditional sources of municipal funding, Baltimore City has also made extensive use of two unique financing mechanisms, a quasi-public loan fund administered under a series of trust agreements and industrial revenue bonds that are administered largely through BEDCO.

The Trustees

In 1976 the city of Baltimore established the first two of four trust agreements under which it makes direct loans and loan guarantees from the sale of self-supporting municipal bonds.[48] The trust agreements

(November 1981), vol. 2, BEDCO section, p. 3 (maintained in Commission files) (hereafter cited as *A Report on Minority Economic Development).* Although based on data inconsistent with its statement that 240 people work in the Raleigh Building, BEDCO reports that approximately 30 percent of the jobs in the building are held by blacks and 85 percent of the Howard Security Company's employees are black. Ibid., vol. 1, sec. II, Leverage Through City Projects and City-Related Projects, p. II–1.

[41] Ibid., vol. 1, sec. II, p. II–1.

[42] Baltimore City officials objected to this conclusion. *(See,* app. B, Wasserman Letter, comment 26). There are no minority-owned businesses in either the Holabird Industrial Park, Crossroads Industrial Park, or the Bayview Industrial Park. Bernard L. Berkowitz, telephone interview Aug. 17, 1982. Additionally, less than one-third of all jobs in the Holabird Industrial Park, Crossroads Industrial Park, and Bayview Industrial Park are held by blacks. *A Report on Minority Economic Development,* vol. 1, sec. II, p. II–1. The specific efforts made by BEDCO to assist minority economic development as well as the external factors which have limited its effectiveness are discussed elsewhere in this chapter, most specifically in the section on BEDCO-assisted financing. *See,* footnotes 60, 61, 65–78, and the accompanying text.

[43] Baltimore's use of Federal funds in its economic and community development projects is discussed more fully later in this chapter.

[44] Baltimore received $24.7 million in revenue sharing funds in FY 1981 and estimated receiving $24.5 million in FY 1982. City of Baltimore, *Fiscal 1982 Budget in Brief* (undated), p. 28 (hereafter cited as *FY 1982 Budget in Brief).* Over 70 percent of Federal revenue sharing funds received by the city of Baltimore, $17.3 million, are allocated to the fire and police departments. City of Baltimore, *Fiscal 1982 Departmental Budget Requests and Board of Estimates Recommendations* (undated), vol. I, p. C–2.

[45] All information concerning the authorization and sale of municipal general obligation bonds has been supplied to the Commission by the Department of Treasurer, City of Baltimore. The source for information concerning the programs funded by various bond issuances is the city of Baltimore's brochure, *Bond Issues 1980/81* (1980) (maintained in Commission files).

[46] Funds from the sale of non-self-supporting bond sales are primarily used for municipal capital improvements; i.e., schools, recreation centers, parks, multipurpose centers, swimming pools, and other community development projects. The city reports that "an analysis of capital allocations (1970–1981) indicates that minority areas, in general, have received very favorable treatment." *A Report on Minority Economic Development,* vol. 1, sec. IV, pp. i, 4–5.

[47] Some of these specific programs and the extent to which they have fostered minority economic development are discussed more fully later in this chapter. Overall, the city identifies $33 million in direct financial assistance that it has provided to minority firms. *A Report on Minority Economic Development,* vol. 1, sec. I, pp. 1, I–9 and I–12.

[48] Trust Agreement by and between the Mayor and City Council of Baltimore, the Commissioners of Finance of Baltimore City and Lawrence B. Daley and Charles L. Benton, Jr., Trustees (Dec. 22, 1976) (maintained in Commission files; hereafter cited as

provide that two named trustees oversee the funds from the sale of these bonds and make determinations as to appropriate loans[49] or guarantees that support residential, commercial, or industrial rehabilitation and development.[50] The trust agreement system was created to streamline procedures under the control of the board of estimates[51] for the disbursement of loans and the creation of loan guarantees in support of various development projects.[52] In 1977 the trustees' responsibilities were expanded, first, to include monies from Federal and other noncity sources and, then, to include funds accrued as interest and other earnings from the city's capital budget.[53] Under these four trusts the city, between 1976 and 1981, has extended loans or loan guarantees totaling over $125 million for 97 different projects. The trustees report that $13.3 million in loans or loan guarantees (10.3 percent of the total) were made to 16 minority developers. Another 25 projects identified by the trustees as "aiding minorities" received $44.1 million in loans and loan guarantees.[54] Table 4.1 shows the amount of assistance that minority developers and projects identified as aiding minorities have received from these funds.

Two projects in particular that were developed by minority developers are cited by municipal officials as specific efforts undertaken by the city of Baltimore through the trustees to foster minority entrepreneurship—the shake and bake project and the Wallbrook Shopping Center.[55]

The shake and bake project is a family recreation center, combining as its major components a bowling alley, roller rink, food stands, and electronic games. The project was the brainchild of Glenn Doughty, a popular former member of the Baltimore Colts, the city's professional football team.[56] M.J. Brodie, Baltimore's commissioner of housing and community development, described the project and the city's efforts to assist Mr. Doughty in the project's development:

> It was a marvelous idea. It was just unfundable because no one had seen such a gadget and the only bowling alleys seen in this country for many years were built out in the suburbs, surrounded by large asphalt parking lots, and if anybody was going to fund a bowling alley that was the prototype.
>
> So we sat down and tried to figure ways to do it and applied for and received about $1.8 million UDAG [urban development action grant] to assist doing it. We issued revenue bonds as the city to assist doing it. . . .
>
> [T]he bond houses. . .insisted that the city guarantee the revenue bonds 100 cents on the dollar, which. . .made. . .the UDAG. . .unusable. . . . [I]t was a question of the project not happening or the city finding some way to step forth and finance the entire project, $4 million worth.
>
> [I]t was through the trustees mechanism. . .that the board of estimates agreed to make Mr. Doughty a loan of the $4 million. . . .[G]iven the unique nature of the project and the possibility that it. . .might not succeed. But it seemed to us that it had at least enough going for it to justify such a venture. . . .It is under construction. And I think that's one of the best examples of the city being able to step in with a mechanism, i.e., the trustees, which I don't believe is available in any other city in the country.[57]

Trust Agreement No. 1); Trust Agreement No. 2 by and between the Mayor and City Council of Baltimore, the Commissioners of Finance of Baltimore City and Lawrence B. Daley and Charles L. Benton, Jr., Trustees (Dec. 22, 1976) (maintained in Commission files; hereafter cited as Trust Agreement No. 2). Mr. Benton, is the director of finance, city of Baltimore and Mr. Daley was the deputy treasurer, Department of the Treasurer, City of Baltimore. *Municipal Handbook*, pp. 69, 120.

[49] Trust Agreement No. 1.

[50] Trust Agreement No. 2.

[51] The board of estimates is responsible for formulating and executing the city's fiscal policy. It consists of the mayor, the city comptroller, and the president of the city council, each elected at-large to 4-year terms, and the city solicitor and director of public works, both of whom are mayoral appointees. Charter of Baltimore City, Art. VI, §§1-2(a) (1964 version as amended) printed in *FY 1982 Budget in Brief*, p. 1; Sharon Perlman Krefetz, *Welfare Policy Making and City Politics* (New York: Praeger, 1976), pp. 25-26. All municipal financing decisions are also reviewed by the board of finance, which consists of the mayor, the comptroller, and three mayoral appointees. Charter of Baltimore City, Art. VI §2(d); City of Baltimore, Bureau of the Budget and Management Research, *Memorandum; The Board of Finance* (Oct. 7, 1981) (maintained in Commission files).

[52] Wasserman Testimony, *Baltimore Hearing*, p. 136.

[53] Trust Agreement No. 3 by and between the Mayor and City Council of Baltimore, the Commissioners of Finance of Baltimore City and Lawrence B. Daley and Charles L. Benton, Jr., Trustees (Jan. 26, 1977) (maintained in Commission files); Trust Agreement No. 4 by and between the Mayor and City Council of Baltimore, the Commissioners of Finance of Baltimore City and Lawrence B. Daley and Charles L. Benton, Jr., Trustees (July 13, 1977) (maintained in Commission files).

[54] *A Report on Minority Economic Development*, vol. 3, trustees section (not paginated).

[55] M.J. Brodie, interview in Baltimore, Oct. 15, 1981, (hereafter cited as Brodie Interview); Wasserman Interview; Berkowitz Interview.

[56] *A Report on Minority Economic Development*, vol. 3, trustees section, p. c.; Brodie Interview.

[57] Brodie Testimony, *Baltimore Hearing*, pp. 136-37. In April 1982 construction was underway on the project. The *Baltimore Sun*, Apr. 20, 1982, p. E1, E10. The city reports that its exposed investment in the shake and bake project has risen to $4.75 million. The shake and bake project is also an example of linking assistance to minority entrepreneurs with community and eco-

TABLE 4.1
Trust Assistance to Minority Economic Development, 1976-1981
Trust Agreement #1 (Direct Loans From Bonds)

Residential	Number	(% of Total)	Value	(% of Total)
Total	14		$48,670,258.51	
Minority developers	2	(14.3)	937,258.51	(1.9)
Projects aiding minorities	4	(28.6)	16,766,000.00	(34.4)
Industrial				
Total	14		$15,403,000	
Minority developers	2	(14.3)	472,000	(3.1)
Projects aiding minorities	3	(21.4)	3,450,000	(22.4)
Commercial				
Total	3		$ 363,500	
Minority developers	0	(0)	(0)	(0)
Projects aiding minorities	0	(0)	(0)	(0)

TABLE 4.1 (Continued)
Trust Agreement #2 (Loan Guarantees)

Residential	Number	(% of Total)	Value	(% of Total)
Total	15		$14,647,200	
Minority developers	1	(6.6)	775,000	(5.3)
Projects aiding minorities	7	(46.6)	4,589,200	(31.3)
Industrial				
Total	4		$ 2,750,555.66	
Minority developer	0	(0)	0	(0)
Projects aiding minorities	0	(0)	0	(0)
Commercial				
Total	2		$ 300,000	
Minority developer	0	(0)	(0)	(0)
Projects aiding minorities	0	(0)	(0)	(0)

Trust Agreement #3 (Direct Loans From Federal & Other Than City Bonds)

Total	35		$23,203,489	
Minority developers	9	(25.7)	7,424,449	(32)
Projects aiding minorities	12	(34.3)	3,483,100	(15)

Trust Agreement #4 (Accrued Projects)

Total	8		$5,185,708	
Minority developers	1	(12.5)	100,000	(1.9)
Projects aiding minorities	0	(0)	(0)	(0)

Trust Agreement #4B (Accrued Projects—Hyatt Hotel)

Total	2		$16,200,000	
Minority developers	0	(0)	(0)	(0)
Projects aiding minorities	2	(100)	16,200,000	(100)

Source: City of Baltimore, A Report on Minority Economic Development *(November 1981), vol. 3, trustees section, p. A.*

Similarly, the city, through its trustees, provided long-term, low-interest loans to finance the development of the Wallbrook Junction shopping center by two minority owner-developers in a predominately black neighborhood. The board of estimates approved a $2.75 million, 30-year loan at 3 percent interest after private financing could not be obtained for the development of the center.[58]

BEDCO-Assisted Financing and Industrial Revenue Bonds

In addition to serving as an ombudsman for businesses seeking basic business information, resolving problems, and guiding business requests through city, State, and Federal channels, BEDCO also helps local businesses package loan requests and obtain financing. This assistance includes obtaining loan guarantees and/or low-interest, long-term loans, matching appropriate Federal, State, and city programs with individual business needs, and working with local financial institutions in structuring financial packages.[59] BEDCO reports that, in 1980 and 1981, approximately 25 percent of its staff time was spent working with minority firms and individuals providing technical, management, and financial assistance and developing industrial centers to provide opportunities for minority business development.[60] Bernard Berkowitz, BEDCO's president, testified before the Commission that one of BEDCO's "important priorities" is the furtherance of both minority employment opportunities and minority business development opportunities.[61]

BEDCO's industrial development efforts are critically important to the city's minority work force. Black workers are represented to a greater extent in the industrial work force in Baltimore than in the downtown's developing clerical, office, and retail industries job market.[62] Successful industrial development, therefore, has greater immediate benefits to minority workers than downtown office and retail development. Unemployment in Baltimore is directly related to the loss of blue-collar jobs. The employment opportunities being created in the city's economic growth sectors have generally not been available to those who have traditionally entered the industrial work force. Without, and often even with, a high school diploma it is very difficult to enter the office, retail, or service labor markets.[63] Retention of those plants currently located in the city that employ significant numbers of black workers is vitally important to the city and its minority community, and retaining as much of the city's industrial base as possible has been a major BEDCO effort.[64] As part of its unemployment strategy, BEDCO has coordinated its assistance programs with the city's manpower training program in an attempt to provide employment opportunities for unemployed city residents, a substantial percentage of whom are black. To this end every firm that receives financial assistance through BEDCO meets with a representative from the city's manpower training program.[65]

Despite its efforts, BEDCO has not been as successful securing financial assistance for minority firms as it has for white firms.[66] In 1979 only 3.6 percent of all BEDCO-assisted financing was obtained for minority firms.[67] In that year BEDCO

nomic development efforts. Baltimore City has, in addition to financing the project, undertaken capital improvements, focused community development monies, and assisted, both financially and otherwise, other business enterprises in the area. *See,* app. B, Wasserman Letter, comment 27.

[58] *A Report on Minority Economic Development,* vol. 3, trustees section, Wallbrook Shopping Center project subsection, p. r.; Brodie Interview.

[59] BEDCO, *1980 Corporate Report,* pp. 18–20. *See also,* app. B, Wasserman Letter, comment 32. Loan packaging assistance is also mentioned in footnote 5 and the text accompanying footnotes 88, 97, and 128.

[60] *A Report on Minority Economic Development,* vol. 2, BEDCO section, p. 1.

[61] Berkowitz Testimony, *Baltimore Hearing,* p. 115.

[62] Berkowitz Interview. See chap. 3 of this report for a more detailed discussion of employment in Baltimore.

[63] Ibid. As discussed in chap. 3 of this report, black jobseekers with a diploma have greater difficulty obtaining employment than similarly educated whites.

[64] Ibid. BEDCO's most visible, if not principal, effort in this regard involved its efforts to induce the General Motors Company to expand its plant in the Fort Holabird Industrial Park, 170 acres developed with a $10 million EDA grant that the city acquired when the Department of Defense closed Fort Holabird. The city obtained a $10 million UDAG to assist the financing of the plant expansion and modernization. In 1981 General Motors, after having spent $35 million in improvements and committing itself to another $40 million in obligations, informed the city that it was indefinitely delaying its expansion and modernization plans. Ibid; BEDCO, *1980 Corporate Report,* pp. 2, 6, 20–21. The city reports that in 1982 General Motors renewed its commitment to modernize and expand the plant. *See,* app. B, Wasserman Letter, comment 28.

[65] *A Report on Minority Economic Development,* vol. 2, BEDCO section, p. 4. The representative is from the STARTERS program, which began in 1981 to help employers screen and train employees from a potential pool of job applicants trained under the CETA and other publicly funded programs. Ibid.

[66] *But see,* app. B, Wasserman Letter, comment 29.

[67] *A report on Minority Economic Development,* vol. 2, BEDCO section, p. 6.

assisted 28 firms in arranging $36.9 million in financing;[68] only 3 of those firms were minority-owned, and they received $1.3 million in BEDCO-assisted financing.[69] In 1980 BEDCO-assisted 54 companies in arranging $208.6 million in financing;[70] 5 minority-owned firms received $3.0 million in BEDCO-assisted financing, or 4.8 percent of the total.[71] A substantial portion of that total was a $2.1 million industrial revenue bond that was used to reestablish minority ownership of Parks Sausage. Bernard Berkowitz, BEDCO's president, testified concerning the city's decision to finance the reacquisition:

> [W]e were criticized for proposing and approving a revenue bond issue for the acquisition of the Parks Sausage's manufacturing firm here. That had been a minority-owned company which was sold to a larger national firm which was nonminority and in turn sold to a conglomerate and there was a great danger that not only would that not be a minority-operated and owned company but that through the process of sale that the plant could be closed down. But we felt that it was a very important thing to maintain Parks in Baltimore, maintain the employment, and have minority ownership again.[72]

During the first 10 months of 1981, BEDCO assisted in arranging $223.9 million in financing for Baltimore firms. Eight of those projects involved minority firms that received a total of $4.6 million or 3.4 percent of the total. As of November 1981, BEDCO reported that 11 additional projects involving approximately $10 million in financial assistance to minority firms are "in the pipeline."[73]

There are a number of reasons why the amount of financing BEDCO has been able to assist minority firms in obtaining, though growing, is so low. As was noted in chapter 2, the growth of minority businesses in Baltimore has stalled. BEDCO itself reports:

> For every successful deal completed involving a minority firm, perhaps 9 or 10 projects which come through the doors of BEDCO do not come to fruition due to lack of financial backing, lack of management experience, inability to develop a marketing plan and inability to sell the project to potential investors.[74]

Over the last 3 years industrial revenue bonds (IRBs) have been the largest source of BEDCO-assisted financing.[75] Over $400 million in IRBs have been authorized by the Baltimore City Council in the 3-year period from 1979 to 1981.[76] All firms seeking an IRB from the city must apply to BEDCO. Since 1979 BEDCO has asked all firms receiving IRB approval to make a special effort to hire minority residents of Baltimore City. In 1981 BEDCO revised the IRB application to require an applicant to disclose the racial composition of its work force and commit itself to developing a recruitment and training program in conjunction with the city's manpower program. The city council had considered requiring that IRB-assisted firms adopt affirmative action plans containing numerical

[68] BEDCO, *1980 Corporate Report*, p. 19.
[69] *A Report on Minority Economic Development*, vol. 2, BEDCO section, p. 1.
[70] BEDCO, *1980 Corporate Report*, p. 19.
[71] *A Report on Minority Economic Development*, vol. 2, BEDCO section, p. 8. A sixth minority-owned communication firm received ombudsman assistance from BEDCO in obtaining a business location. The 4.8 percent calculation is based on a deduction of $145 million from the total for two bonds that financed new coal export facilities. Including those two bonds in the calculations reduces minority participation in BEDCO-assisted financing to 1.3 percent. Ibid.; BEDCO, *1980 Corporate Report*, p. 19.
[72] Berkowitz Testimony, *Baltimore Hearing*, p. 125. *See also*, app. B, Wasserman Letter, comment 22.
[73] *A Report on Minority Economic Development*, vol. 2, BEDCO section, pp. 1–2. The sources of financial assistance that BEDCO has been able to tap for minority businesses highlight the difficulties minority firms have obtaining financing from private sector financial institutions. See chap. 3 of this report for a discussion of the barriers confronting minority businesses in their attempts to obtain financing. While only a small amount (3 percent) of all BEDCO-assisted financing has been obtained from private sources, virtually none of this private financing was obtained for minority enterprises. Ibid., p. 6.
[74] Ibid., p. 3. BEDCO's president estimated that BEDCO often exerts 10 times the effort to assist a minority firm than a white-owned firm. Berkowitz Interview.
[75] *A Report on Minority Economic Development*, vol. 2, BEDCO section, p. 4. In Maryland, counties and municipalities have been able to issue industrial development revenue bonds (IRBs) since 1963. Under sec. 103 of the Internal Revenue Code, interest on industrial development revenue bonds is exempt from Federal income tax if certain requirements are met. The Code is complex, but basically the requirements for tax exemption are:

> (1) The issuer must be a governmental body; (2) the proceeds must be used for the acquisition of land or depreciable property; (3) either the amount of the issue must be $1 million or less or the total capital expenditures by the user in the political subdivision where the project is located during the six year period beginning three years prior to the issue and ending three years after the issue must not exceed $10 million; and (4) limitations are placed on the bond by a substantial user of the financial project. *See*, I.R.C. §103(c).

[76] *A Report on Minority Economic Development*, vol. 2, BEDCO section, pp. 4–5. Approximately $200 million of those authorizations occurred on Oct. 15, 1981, when the Baltimore City Council, fearing the introduction of Federal legislation restricting IRBs, authorized 62 such bonds. The *Baltimore Sun*, Oct. 15, 1981, p. 1.

goals and timetables. They refrained, however, because of fears that the city would be at a competitive disadvantage in relation to other areas that have not adopted such requirements and in the hope that BEDCO's efforts to achieve the same results administratively would be successful.[77]

BEDCO reports that $9.1 million, or 3.2 percent, of $282 million in tax-exempt financing (including IRBs) it provided or assisted firms in obtaining from 1979 to October 1981 went to minority firms and that 25 to 38 percent of the jobs created or retained with IRB financing were held by minorities.[78]

The Department of Housing and Community Development

In addition to its oversight responsibility for the city's quasi-public development corporations, the Baltimore Department of Housing and Community Development (HCD) itself operates a number of programs that foster minority economic and business development.

For instance, HCD is responsible for the city's public housing and housing assistance programs. Since 1970, all new public housing in the city has been for the elderly and disabled. The city reports that approximately 22 percent ($48.4 million) of the $219.39 million in public housing construction and substantial rehabilitation was undertaken by minority-owned and operated firms.[79]

Another HCD program that has benefited the growth of minority businesses has been its recent homeownership mortgage assistance program. In July 1981, using funds from the sale of municipal bonds, the city created a $50 million mortgage loan fund. Eligible city home buyers can use the program to purchase homes in the city with small downpayments and below market interest rates. During the program's first 4 months, $11 million in mortgages had been approved and at least some minority real estate agents benefited substantially.[80]

Rehabilitation Services

The neighborhood development division of HCD, using funds from a number of different public and private sources,[81] provides loans and engages contractors to undertake housing rehabilitation throughout the city. HCD Commissioner Brodie described the city's housing rehabilitation program and the market it has developed for minority contractors:

> I think perhaps our most successful. . .[effort to develop minority entrepreneurship has]. . .been getting minority companies involved in housing rehabilitation. It's a fruitful business for the future. It's a business in which one can make a profit, can start a company, see it grow, and that's a piece of the American dream, which is hard to come by these days. There was not a rehabilitation industry in Baltimore. So we have. . .by planting the seeds, created such an industry and found a number of young black people who could go into that business and come up through the ranks.[82]

Between July 1, 1980, and June 30, 1981, the city committed $8.6 million in loans to rehabilitate 635 dwelling units and completed work on 859 units.[83] Minority contractors received $1.1 million of the rehabilitation contracts approved under the program during that time period.[84] HCD also reports that from January 1, 1979, to October 1, 1981, 89 minority contractors received $6.5 million in rehabilitation contracts for work on 457 "cases" under the program.[85]

In addition to providing loans enabling homeowners and landlords to rehabilitate their property, HCD hires contractors for demolition and rehabilitation of city-owned property. From January 1975 to October 1981, HCD awarded 49 contracts totaling $10.7 million for rehabilitation work on public

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[77] Berkowitz Interview.

[78] *A Report on Minority Economic Development,* vol. 2, BEDCO section, p. 6. The $282 million figure does not include IRBs totaling $145 million for coal development. Ibid; BEDCO, *1980 Corporate Report,* p. 19. One loan (for the reaquisition of Parks Sausage) accounted for $2.1 million of the $9.1 million in assistance.

[79] *A Report on Minority Economic Development,* vol. 2, HCD section, public housing subsection (not paginated).

[80] Brodie Interview. The mortgage program has four parts with special set-aside features for low- and moderate-income and first-time home buyers. Subsequent to the Commission's hearing, a second $50 million installment was sold. *See,* app. B, Wasserman Letter, comment 30.

[81] *A Report on Minority Economic Development,* vol. 2, HCD section, rehabilitation programs subsection. The fund sources include loans from funds acquired by city bond sales, loans from funds set aside from Federal community development block grants, funds from the State of Maryland housing rehabilitation program, Federal sec. 312 housing rehabilitation monies from HUD, funds from Federal employment training programs, and private funds. Ibid.

[82] Brodie Testimony, *Baltimore Hearing,* p. 139.

[83] *A Report on Minority Economic Development,* vol. 2, HCD section, rehabilitation programs subsection, pp. 1–2. Most of this work was for single-family units; the 635 units represent 539 "cases" or applications. Ibid. Contracts for many of the units completed were awarded during the previous year.

[84] Ibid.

[85] Ibid., pp. 9–12.

housing and 70 contracts totaling $628,740 for demolition work to minority contractors.[86]

Commercial Revitalization and Shopsteading

The city, through HCD, has also created two related innovative programs to support and foster entrepreneurship, the commercial revitalization program and a smaller "shopsteading" program.

Under the commercial revitalization program, businesses in small commercial strips located throughout Baltimore's neighborhoods are assisted in the rehabilitation and upgrading of their establishments. The program originated without Federal funds. It was premised on the realization that commercial activity in the city's neighborhoods equals, if not surpasses, downtown commerce.[87] City officials work with merchant associations, commercial property owners, and community residents to develop design standards that, once agreed upon, are adopted by the city council as a mandatory part of the city's urban renewal plan. These standards may include restrictions or requirements for store signs and advertising, requirements that building facades be restored, and requirements that a particular harmonious color scheme be used by all businesses in a specific commercial area. In return for the merchants' agreement to upgrade their properties and comply with these new standards, the city undertakes capital improvements, provides assistance in planning and implementing promotional events, provides low-interest, long-term rehabilitation loans, and assists with packaging SBA loan applications.[88]

The commercial revitalization program began with the Oldtown Mall. When the revitalization program was begun in 1968, Oldtown was a rundown commercial strip with only one black-owned business, a shoe store. Today, the mall is a viable and upgraded neighborhood business center and 30 percent of the businesses are black owned.[89] Commissioner Brodie, in testimony before the Commission, discussed the effort to revitalize Oldtown:

> It's been done not through magic but through a combination of hard work and money. [In the beginning] we. . .asked. . .[SBA]. . .to join us in improving life in the Oldtown Mall. They took a slightly dubious view of it and so we asked them. . .if there was a statutory problem in making such loans, and there wasn't, and we asked them if there was a regulatory problem, if they were making such loans, and there didn't seem to be one. So we thought maybe there was a psychological problem, and what we did, therefore, was to try and make it very easy for them. So using city money, we set up an LCD, a local development corporation,[90] . . .used that as a conduit, and funded 10 percent of that with city money to try and cushion the shock of any potential future defaults of loans that went bad. And so it was then a question where they couldn't say no.[91]

Commercial revitalization projects have been completed in 12 areas throughout the city and public improvements totaling approximately $6.8 million have been undertaken by the city in support of the program. Eight of the 12 areas are in neighborhoods that have significant black populations,[92] and they were the principal beneficiaries of the city's public improvement efforts.[93] The city has extended or assisted merchants in the program to obtain 175 loans worth $25.3 million. Twenty-one, or 12 per-

[86] Ibid. (not paginated). As the city's housing authority, HCD can often process payments to its contractors within a week. Completing, submitting, and waiting for invoices to be processed and paid by the city can often take weeks, a delay small contractors often cannot absorb. HCD has attempted to ensure that payments are made promptly to the small minority contractors with whom it does business in an effort to help them stay afloat. Brodie Testimony, *Baltimore Hearing*, p. 141. HCD also reported that it actively seeks minority architects for its rehabilitation projects. Brodie Interview.

[87] Brodie Testimony, *Baltimore Hearing*, pp. 134–35. The program was also designed to promote community stability and, by fostering and supporting small businesses, provide new job opportunities. *See*, app. B, Wasserman Letter, comment 31. Researchers who have investigated the issue of job creation have concluded that small businesses are the primary source of new jobs in the country. *See* David L. Birch, "The Job Generation Process" (Program on Neighborhood and Regional Change, Massachusetts Institute of Technology, Cambridge, Mass., 1979).

[88] Brodie Interview; *A Report on Minority Economic Development*, vol. 2, HCD section, commercial revitalization program subsection, pp. 42–43.

[89] Brodie Testimony, *Baltimore Hearing*, p. 134; *A Report on Minority Economic Development*, vol. 2, HCD section, Oldtown subsection (not paginated).

[90] Local development companies can be established to receive SBA loans and disburse them to meet the equity capital and long-term financing needs of small business concerns. *See*, 15 U.S.C.A. §696 (Supp. 1981).

[91] Brodie Testimony, *Baltimore Hearing*, p. 135.

[92] In four areas every census tract contained over 40 percent minority housing. In another four a portion of the census tracts contained over 40 percent minority housing. *A Report on Minority Economic Development*, vol. 2, HCD section, commercial revitalization program subsection.

[93] Ibid. The eight neighborhoods received $4.366 million in capital improvements. HCD has 24 planned commercial revitalization projects; 17 are in areas with a significant black population. Of $5.52 million total allocated for public improvements related to the program, $3.97 million was allocated for improvements in those 17 areas. Ibid.

cent, of those loans have gone to black entrepreneurs.[94]

Mark Wasserman, Baltimore's physical development coordinator, described some of the obstacles to greater minority participation in the commercial revitalization program that existed and some of the steps that the city took to surmount them:

> [We] had started out with a very definite quid pro quo arrangement. . .[We] wanted the private sector to develop a certain amount of investment before the public sector funds would come in to leverage them. . .[W]e have gradually adjusted our formula [and decreased the financial contribution required of the merchants] recognizing some of these difficult circumstances that face minority entrepreneurs. . . .
>
> Second. . .when we found. . .that minorities in commercial areas tend to be tenants—and we were restricted by our bond authorization [from making loans to tenants]—we went to the state legislature and had it changed so [that] we could. . .[W]e have been as flexible as we can to come at this problem.[95]

It also became apparent that even in black residential areas many of the merchants were white. Consequently, the commercial revitalization staff were instructed to find black-owned businesses for program participation even though they might not be in areas that the program was originally designed to revitalize.[96]

Another aspect of Baltimore's commercial revitalization program is the shopsteading program designed to return vacant city-owned storefronts to the tax rolls. Applicants first present proposals to the city for the establishment of a business in one of the eligible storefronts. If the application is approved, the shopsteader purchases the property for $100. The shopsteader must then arrange financing within 3 months, bring the property up to code within 6 months and, within a year, have established an operating business. The shopsteader must also agree to run the business for 2 years before either the property or business can be sold. The city either provides low-interest, long-term loans for rehabilitation or assists the shopsteaders in obtaining such financing elsewhere. Twenty-four shopsteads have been established in Baltimore, and they received approximately $2 million in financial assistance. Seven are owned and operated by minorities, and they received financial assistance totaling $683,810.[97]

Baltimore's MBE Program

In October 1980, Baltimore adopted a minority business enterprise (MBE) program designed to "assure greater and more consistent minority business enterprise participation" in the city's procurement programs.[98] The program established a 15 to 25 percent minority participation goal on all city contracts[99] for construction projects, purchases of equipment and supplies, and professional or any other services. Before contracts are awarded, they are reviewed by the equal opportunity compliance office of the city's law department for a determination of compliance with the minority participation requirements.[100] To ensure that monies designated for minority businesses go to bona fide minority firms and not front companies, minority contractors must be certified by the city before they are eligible for awards. This certification process involves a review of company documents and interviews with the enterprise's principals to determine if the company is actually owned and controlled by a minority businessperson or persons.[101]

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[94] Ibid.

[95] Wasserman Testimony, *Baltimore Hearing,* pp. 135–36.

[96] Brodie Testimony, *Baltimore Hearing,* p. 134.

[97] *A Report on Minority Economic Development,* vol. 2, HCD section, commercial revitalization subsection. Baltimore also has created a homesteading program that operates with regard to residential property much like the shopsteading program does for commercial property. Homesteaders purchase, for their own use, vacant city-owned residential property for a nominal fee and rehabilitate the structures with financial assistance from the city. The city reports that as of Mar. 1, 1981, 196, or 44 percent, of the 441 homesteaders are black. Ibid.

[98] Ibid., law section, p. 2; City of Baltimore, *Minority Business Enterprise Program for the City of Baltimore* (November 1980), p. 1 (hereafter cited as *Baltimore's MBE Program;* maintained in Commission files).

[99] Black Americans, Hispanic Americans, Asian Americans, American Indians, American Eskimos, and American Aleuts are minorities for purposes of Baltimore's MBE program. Ibid., glossary. Women's business enterprises can be used by city contractors to accomplish a 15 percent goal as long as 10 percent is attained with minority business or, if a contractor has reached 15 percent of a 25 percent goal, women's business enterprises can be used to accomplish the remainder of the goal. Ibid., p. 2, sec. C.2.

[100] The city's MBE program, by requiring that contractor bids for city contracts demonstrate compliance with the minority participation requirements, is stricter than the minority participation requirements of the U.S. Environmental Protection Agency, which funds some city contracts. The city has pursued litigation asserting its rights to enforce its more strigent MBE program requirements. *See,* app. B, Wasserman Letter, comment 33; Shirley Williams, compliance officer, City of Baltimore Law Department, telephone interview, Nov. 24, 1982.

City contractors are required to submit postcontract award reports to the city contracting agency at various intervals of project completion demonstrating minority business participation.[102] Failure to comply with the MBE bid specifications and the intent of the program can result in (1) withholding of payment; (2) suspension of the contract; (3) termination of the contract in whole or in part; (4) rendering the contractor a nonresponsive bidder; and (5) assessing liquidated damages. In addition, contractors found to have knowingly attempted to evade the requirements are ineligible to receive future contracts from the city for a period of 1 year.[103]

The MBE program was first instituted in the department of public works (DPW). In the last quarter of 1980, 17.9 percent, or $1.4 million of $7.9 million expended by the DPW, went to certified minority business enterprises.[104] During the first three quarters of 1981, minority businesses received $2.1 million, or 15 percent, of the $14.3 million in contracts awarded by DPW.[105] During the same period, 22.6 percent, or $1.6 million of the department of housing and community development's $6.9 million of expenditures went to minority enterprises.[106] Between June 1981, when the MBE program was instituted in the bureau of purchases, and September 1981, minority contractors and suppliers received $7.8 million, or 60 percent of the $13 million in bureau of purchases' procurements contracted for during that time.[107] In eight cases, city contracts were not awarded to the lowest bidder because they were not in compliance with minority business enterprise goals.[108]

Finding 4.3(a): Federal funds have been critically important elements of Baltimore's development efforts. The most significant Federal programs include urban development action grants, community development block grants, housing rehabilitation monies from the Department of Housing and Urban Development, grants from the Economic Development Administration, and loans and loan guarantees from the Small Business Administration.

Finding 4.3(b): The city of Baltimore generally has used and disbursed such Federal funds in a manner and for projects that benefit all segments of the community.

Finding 4.3(c): Federal funding reductions in these programs seriously threaten Baltimore's development efforts.

Baltimore has used substantial amounts of Federal monies to finance its economic development projects.[109] For example, as of September 30, 1981, Baltimore had received, or received commitments for, $30.8 million in urban development action grants (UDAGs)[110] from the Department of Housing and Urban Development to fund 20 different projects.[111] The city had also received 33 grants

[101] Shirley Williams, compliance officer, City of Baltimore Law Department, testimony, *Baltimore Hearing,* p. 138. The initial certification procedure for minority firms was relatively streamlined. The procedure was changed and made more rigourous following complaints by the Maryland Minority Contractors Association that nonminority firms were being falsely certified. Ibid. Between June 15, 1981, when the certification procedure was modified, and Nov. 14, 1981, 23 firms applied for minority certification, 6 were rejected. Shirley Williams, memorandum, Nov. 14, 1981 (maintained in Commission files).

[102] *Baltimore's MBE Program,* sec. III, C. 5, pp. 12–13.

[103] Ibid., sec. III, C. 3, pp. 11–12.

[104] *A Report on Minority Economic Development,* vol. 2, law department section, p. 2.

[105] Ibid.

[106] Ibid.

[107] Ibid.

[108] Ibid., p. 3.

[109] When the downtown revitalization first began in the late 1950s with the Charles Center project, it was undertaken without Federal funds. In the mid-1960s, as a result of legislative changes (*see,* Pub. L. No. 87-27, §14, 75 Stat. 57 (codified as amended at 42 U.S.C. §1464 (1976)), Title I HUD monies could be applied to commercial projects like those undertaken in Baltimore. Each of the city's three downtown development projects—Charles Center, Inner Harbor Phase I, and Inner Harbor Phase II—has made extensive use of Federal funds combined with municipal and private monies. The Federal grant and loan programs that helped finance the redevelopment projects generally required the city to match them at a 1 to 2 ratio, and city bonds, approved by referendum, were used to undertake the public improvements such as property condemnation and street, sewage, and utility hookups. When public funds first became available for downtown commercial development, they accounted for over 80 percent of the cost of the projects undertaken. Today that ratio is reversed. From 1950 to mid-1981 over $847 million had been invested in Baltimore's downtown development projects. Just under half that amount, $402.3 million, has been public monies, and in the decade from 1970 to 1980 close to $200 million in Federal funds were spent on Baltimore's downtown redevelopment. Martin S. Millspaugh, Jr., president, Charles Center-Inner Harbor Management, Inc., interview in Baltimore, Sept. 22, 1981. *A Report on Minority Economic Development,* vol. 1, sec. V, p. 4.1.

[110] 42 U.S.C.A. §5318 (Supp. 1981).

[111] Donald G. Dodge, Deputy Assistant Secretary for Program Management, U.S. Department of Housing and Urban Development, letter to Paul Alexander, Acting General Counsel, U.S. Commission on Civil Rights, Dec. 17, 1982. (See app. B; hereafter cited as Dodge Letter). The city of Baltimore reported commitments of $49.3 million for 27 projects. *A Report on Minority Economic Development,* vol. 2, HCD section, pp. 6–7.

from the Economic Development Administration (EDA) totaling $27 million.[112] Unlike the UDAG and EDA programs that provide categorical grants, the community development block grant (CDBG) program,[113] administered by HUD, is a special revenue sharing program that, in 1974, replaced a number of categorical HUD assistance programs. Beginning in March 1975, when the block grant program began, up to the end of 1981, the city received over $225 million in CDBG monies.[114]

One of the advantages of using public monies to assist private development is that it provides municipal officials a tool with which to induce the private sector into business relationships with minority businesses, foster minority business development, and ensure minority participation in large-scale development projects.[115]

Department of Housing and Urban Development Programs

The principal Department of Housing and Urban Development programs that provide funds to the city of Baltimore for large scale urban development are the community development block grant program, the urban development action grant program, and the section 312 rehabilitation program.[116] Between 1975 and 1980 Baltimore received approximately $296 million from HUD under these programs and other special HUD grants.[117]

Urban Development Action Grants

Urban development action grants are provided to a city to leverage private investment in distressed urban areas and to provide the gap financing necessary to make a particular project economically feasible.[118] UDAGs are awarded competitively and constitute the major Federal effort to induce private sector involvement in urban economic development.[119]

HUD evaluates UDAG applications on the basis of 12 criteria which require that the UDAG grant, in addition to being an absolutely necessary financing component of the project, be used to create permanent new private sector jobs available to the long-term unemployed.[120] In addition, each UDAG application must show that the proposed project will have a beneficial impact on the special problems of low- and moderate-income persons and minorities.[121] UDAG funds may be used by the city to provide low interest rate loans, or preferably as a low interest rate loan with a kicker, i.e., a percentage of profits including cash flow, sale, refinancing, and syndication.

As of September 30, 1981, the city of Baltimore reported that it had received commitments for $49,250,606 in UDAG monies to fund 27 different projects.[122] Projects receiving UDAG monies and the amounts received are listed in table 4.2.

Redevelopment in Baltimore has been, both because of its size and location, most visible in the downtown area. The city reports that during recent years, at least, Federal as well as city economic development funds have been invested primarily in Baltimore's neighborhoods and that community economic development projects have been pursued equitably in both predominately black and identifiably white neighborhoods.[123] The city reports that projects located in neighborhoods received approximately 45.4 percent of all UDAG monies, downtown projects received 35.3 percent, and economic development projects designed to generate employment opportunities located in neither the downtown nor the neighborhoods received 19.3 percent of all UDAG monies.[124] Of the UDAG monies spent on projects in the neighborhoods, the city reports that 37 percent was for projects in neighborhoods identifiably white, 33 percent in identifiably black neigh-

[112] *A Report on Minority Economic Development,* vol. 1, sec. V, p. V–4; 42 USCA §§3121–3246h (1977 and Supp. 1980).

[113] 42 U.S.C. §5301–5317 (1976 and Supp. III 1979).

[114] City of Baltimore, *Community Development in Baltimore; A Report on the City's Use of the Community Development Block Grant* (1981), p. 1 (hereafter cited as *Community Development in Baltimore);* City of Baltimore, *Fiscal 1982 Budget in Brief,* p. 25.

[115] Wasserman Testimony, *Baltimore Hearing,* p. 130.

[116] Claire Freeman, Deputy Assistant Secretary for Community Planning and Development, U.S., Department of Housing and Urban Development, testimony, *Baltimore Hearing,* p. 154.

[117] Harold Young, Director of Community Planning and Development, Baltimore office, U.S., Department of Housing and Urban Development, testimony, *Baltimore Hearing,* p. 154.

[118] 42 U.S.C.A. 5318 (Supp. 1981).

[119] Freeman Testimony, *Baltimore Hearing,* p. 155.

[120] 42 U.S.C.A. §5318 (Supp. 1981).

[121] *Id.*

[122] *A Report on Minority Economic Development,* vol. 2, HCD section, pp. 6–7. *But see,* app. B, Dodge Letter, in which the U.S. Department of Housing and Urban Development reports that Baltimore City received commitments of $30.8 million for 20 projects.

[123] Wasserman Testimony, *Baltimore Hearing,* pp. 131–32.

[124] *A Report on Minority Economic Development,* vol. 1, sec. V, p. V–3.

TABLE 4.2
Baltimore's Urban Development Action Grants

			% of Construction jobs to minorities	% Total contract dollar amount to minorities
1.	Hyatt Hotel	$10,000,000 in UDAG funds	Not available	33%
2.	Oldtown	3,360,155 in UDAG funds	50%	91%
3.	Coldspring (4,500,000)**	4,518,665 in UDAG funds	50%	13%
4.	Area 20*	2,800,000 in UDAG funds	UDAG funding not used	
5.	Shake & Bake*	1,400,000 in UDAG funds	UDAG funding not used	
6.	West Canton*	609,000 in UDAG funds	Not available	
7.	North Charles (309,500)**	309,000 in UDAG funds	Not available	30%
8.	Caddilac-Fairview	3,500,000 in UDAG funds	Not available	Minority contract total $1,000,000 total available
9.	Fells Point:			
	Anchorage	702,582 in UDAG funds	Construction not started	
	Commercial	630,135 in UDAG funds	33%	6%
	Homeowners	1,539,000 in UDAG funds	Construction not started	
10.	300 Block N. Charles	325,000 in UDAG funds	50%	35%
11.	Mount Winans	831,600 in UDAG funds	22%	18%
12.	Highlandtown*	140,000 in UDAG funds	25%	11%
13.	Hollins Market	170,000 in UDAG funds	20%	16%
14.	East Area Partnership	266,800 in UDAG funds	40%	19%
15.	Henderson's Wharf*	3,975,000 in UDAG funds	Construction not started	
16.	Orleans Square	302,000 in UDAG funds	Construction not started	
17.	Southwest Homeowners Fund	160,000 in UDAG funds	100%	44%
18.	Martin DePorres	146,144 in UDAG funds	73%	67%
19.	General Motors Expansion*	9,100,00 in UDAG funds	Pending	
20.	Curtis Bay	589,425 in UDAG funds	Construction not started	
21.	Lyric Theater	315,000 in UDAG funds	50%	31%
22.	Roundhouse Square	715,000 in UDAG funds	Construction not started	
23.	Washington Hill	987,500 in UDAG funds	Construction not started	
24.	Berlin Steel*	300,000 in UDAG funds	Not available	
25.	Mt. Winans Phase II	965,600 in UDAG funds	22%	18%
26.	H. & S. Bakery	360,000 in UDAG funds	Not available	
27.	NRS Housing	233,000 in UDAG funds	15% expected	Not yet available
TOTAL		$49,250,606		

**U.S. Department of Housing and Urban Development reports that this project was not the recipient of an urban development action grant. Donald G. Dodge, Deputy Assistant Secretary for Program Management, U.S. Department of Housing and Urban Development, letter to Paul Alexander, Acting General Counsel, U.S. Commission on Civil Rights, Dec. 17, 1982.*
***U.S. Department of Housing and Urban Development reports an urban development action grant amount different from that reported by the city of Baltimore (HUD figures are in parenthesis). Donald G. Dodge, Deputy Assistant Secretary for Program Management, U.S. Department of Housing and Urban Development, letter to Paul Alexander, Acting General Counsel, U.S. Commission on Civil Rights, Dec. 17, 1982.*

Source: City of Baltimore, Department of Housing and Community Development, Sept. 30, 1981. But see *Donald G. Dodge, Deputy Assistant Secretary for Program Management, U.S. Department of Housing and Urban Development, letter to Paul Alexander, Acting General Counsel, U.S. Commission on Civil Rights, Dec. 17, 1982.*

borhoods, and 30 percent in neighborhoods that are not racially identifiable.[125]

Community Development Block Grants

HUD also administers the community development block grant program. The city reported that approximately 76 percent of all CDBG funds it had received were spent on projects in 38 Baltimore neighborhoods, 14 percent on downtown revitalization projects, and 10 percent on administrative costs or economic development projects located in nonresidential, nondowntown areas.[126] Overall, the city reports that 53 percent of its CDBG funds were spent for development projects that directly benefitted the minority community or in identifiably black neighborhoods, 28 percent on projects or in neighborhoods not racially identifiable, and 19 percent on projects that primarily benefited the city's white community or in neighborhoods that are predominately white.[127] CDBG funds are sometimes used for specific projects designed to generate economic development through the creation of employment opportunities and an enhanced tax base.[128] More often, they are used for community development projects and capital improvements in neighborhoods. Baltimore City reports that approximately 28 percent of all its CDBG monies were spent on housing rehabilitation, 41 percent on other physical improvements, and 31 percent on nonphysical projects.[129]

Baltimore City has often combined UDAG and CDBG monies in creative ways to finance projects not otherwise fundable by either program separately because of various statutory or regulatory restrictions. For instance, CDBG money cannot be used to create new housing and no more than $15,000 per housing unit can come from UDAG sources, a prohibitive restriction in today's market. Combined, however, the two programs can finance new housing construction while also supporting the training of a promising young minority-owned residential development and construction company.[130]

Economic Development Administration Grants

The Economic Development Administration in the U.S. Department of Commerce is responsible for administering the Public Works and Economic Development Act of 1965.[131] EDA grants are used to support economic development projects that encourage job-producing industrial and commercial businesses to locate or expand operations in distressed areas.[132] Baltimore has received 33 grants from EDA totaling $27 million.[133] The city reports that EDA grants have been used primarily to fund projects in Baltimore's neighborhoods and have also been equitably distributed on the basis of need throughout all neighborhoods. Sixty percent of all EDA grant monies have been spent on neighborhood projects, 15 percent on downtown projects, and 25 percent on projects that are neither downtown projects nor neighborhood projects.[134] Approximately 58 percent of the EDA money spent on neighborhood projects was spent in identifiably black neighborhoods.[135]

Baltimore's ability to continue its economic development has been threatened by proposed funding

[125] Ibid. The city reported that the following UDAG-funded projects were in predominately black neighborhoods: Oldtown, shake and bake, Mt. Winans, E. Area Partnership, Orleans Square, Martin DePorres, Mt. Winans II; the following in identifiably white neighborhoods: W. Canton, Fells Point, Highlandtown, Henderson's Wharf, and Curtis Bay; and the following in "neighborhoods not racially identifiable": Coldspring, Hollins Market, S.W. Homeowners Fund, Roundhouse Square, and Washington Hall. Ibid.

[126] Brodie Testimony, *Baltimore Hearing,* p. 132. *See also,* app. B, Wasserman Letter, comment 34.

[127] "CDBG Capital and Non-Capital Expenditures" (information supplied by the city of Baltimore to the Commission at its hearing in Baltimore, Md., Nov. 17, 1981; maintained in Commission files).

[128] CDBG funds are sometimes used to provide low-interest loans directly to businesses. *See,* for example, *A Report on Minority Economic Development,* vol. 1, sec. I, p. J-5. While the city's department of housing and community development has been the recipient of most CDBG funds, in recent years the urban services agency (USA) has also received significant CDBG monies. City of Baltimore, *1982 Budget in Brief,* p. 25. USA has funded, at least partially with CDBG monies, a business packaging and counseling assistance program and a minority contractors technical assistance program. *Community Development in Baltimore,* pp. 41–43.

[129] "CDBG Capital and Non-Capital Expenditures" (information supplied by the city of Baltimore to the Commission at its hearing in Baltimore, Md., Nov. 17, 1981; maintained in Commission files.)

[130] Brodie Interview. Both the UDAG and CDBG program have not only benefited the city of Baltimore and its minority neighborhoods but to a lesser extent, minority-owned businesses. The U.S. Department of Housing and Urban Development reports that Baltimore awarded 12 percent of its total CDBG monies to minorities and that 11 percent of the UDAG dollars it received have gone to minority businesses. Young Testimony, *Baltimore Hearing,* p. 156.

[131] 42 U.S.C.A. §§3121–3246h (1977 and Supp. 1980).

[132] *Id.*

[133] *A Report on Minority Economic Development,* vol. 1, sec. V, p. V–4.

[134] Ibid.

[135] Ibid.

reductions in the major Federal urban community and economic development programs. Bernard C. Berkowitz, president of the Baltimore Economic Development Corporation, discussed the effect on Baltimore of reductions of Federal funding in the EDA grant program:

[EDA] funds have been the backbone for providing the money for infrastructure [improvements] in our industrial parks. . .And if President Reagan's rescission proposal had been carried out by Congress. . .Baltimore would not have received any EDA grants during fiscal year 1981.

Fortunately. . .[because the recision was not entirely approved by Congress]. . .Baltimore was able to get several projects that were in the pipeline approved by EDA.[136]

Nevertheless, the number of industrial economic development projects the city will be able to undertake will be reduced by 50 percent because of cuts in the Federal budget.[137] Baltimore City had considered purchasing a building in the downtown retail district to support a firm that employs 400 people. EDA's refusal to guarantee a loan for that undertaking foreclosed it.[138]

Baltimore, like other cities, is also faced with reduced funding from both the UDAG and CDBG programs. Because UDAG grants are competitive, it is impossible to predict Baltimore's shortfall in 1982 over previous years. The city has, however, had to plan for a 30 percent reduction in UDAG funds.[139]

Baltimore also was told to assume a 15 percent cut in the amount of CDBG monies it will be receiving from HUD.[140] Commissioner Brodie described the consequences of that reduction in testimony before the Commission:

It affects us on the operating side—that is we're proposing to have to lay off. . . .

It [also] means a great cutback in starting new things. And you're dealing in 38 different neighborhoods. . . .What you're trying to do is to move a whole bunch of pieces on the board a step forward every year, and we can't simply take 15 percent off and have meaningful activities in a number of neighborhoods. So we're going to probably be forced to focus the dollars that are available to us in fewer neighborhoods, which means some others will have to wait a year or two, or even more, to receive the kind of activities that at full funding we would have been able to have in this year.

In the housing area, which is probably even more severe, we have either completed or under construction. . .about $73 million worth of. . .housing, all done by minority developers in this city. It represents close to 2,000 units. . . .[L]ooking at the. . .figures for next year. . .Baltimore will be "lucky" to receive enough funding to do one project, and maybe none.[141]

Small Business Administration Loans

In addition to the reductions in the HUD and EDA programs, SBA loans, particularly direct business loans, are increasingly more difficult to obtain because of cuts in SBA's budget. Although SBA loans are generally disbursed by the SBA and not the city,[142] their availability is often an important element in the ultimate success of a nonresidential development project. A completed project requires tenants, and business tenants, particularly during their startup phase, need their own financing.[143] From the very beginning, therefore, it is important to the entire development package that prospective business tenants are able to obtain financing. Minority businesses, because they frequently cannot independently obtain financing from private commercial sources,[144] depend upon the SBA for financial assistance more than nonminority businesses. Thus, the availability of SBA loans and loan guarantees is a particularly critical element of any plan that seeks to ensure the inclusion of minority-owned and operated businesses in completed projects. Those who have developed projects

[136] Berkowitz Testimony, *Baltimore Hearing*, pp. 117–18. In 1978, Congress found that regional development programs supported by EDA were an essential part of any Federal policy to promote full employment and eliminate racial and ethnic discrimination. 15 U.S.C. §3101 (Supp. III (1979)); *see also*, U.S., Commission on Civil Rights, *Civil Rights: A National, Not a Special Interest* (1981), pp. 77–82.

[137] Berkowitz Interview.

[138] Wasserman Interview. EDA reports that the loan was not rejected because of budget reductions but because there was no assurance of repayment. Carlos C. Campbell, Assistant Secretary for Economic Development, U.S. Department of Commerce, letter to Paul Alexander, Acting General Counsel, U.S. Commission on Civil Rights, Oct. 29, 1982.

[139] Wasserman Interview.

[140] Brodie Testimony, *Baltimore Hearing*, p. 133.

[141] Ibid., p. 133.

[142] Baltimore has, however, created a "certified development company" and a local development company through which it disburses SBA loans directly to businesses and has found them to be effective vehicles with which to pursue its economic development plans. Berkowitz Testimony, *Baltimore Hearing*, p. 116.

[143] W. Scott Ditch, vice president, Rouse Company, testimony, *Baltimore Hearing*, pp. 113–22.

[144] See chap. 2 of this report.

that have generated and included minority businesses credit SBA financing for their success.[145] Bernard Berkowitz, president of BEDCO, testified before the Commission that the city of Baltimore was concerned about the detrimental effect that funding cuts in the SBA program would have on its economic development program.[146]

The cuts in each of the programs, SBA, EDA, CDBG, and UDAG, have reciprocal effects on the use that can be made of remaining funds. Projects are undertaken using combinations of funding from different sources.[147] In addition, Federal monies from these various programs have, in Baltimore, almost always been leveraged not only with other Federal monies, but also with State, municipal, and private funds that by themselves would be insufficient to finance a desired development project.[148] The loss of each Federal dollar, therefore, reduces the investment capital available for economic development projects in Baltimore by an amount many times that single dollar's worth. Mark Wasserman, physical development coordinator for the city of Baltimore, described the cumulative effect of reductions in funding levels for so many urban development programs: "I think it's fair to say that in our tool chest a number of the hammers and screwdrivers and other things we rely on very much to build our house are being taken away from us."[149]

Finding 4.4: Significant minority participation in large urban economic development projects does not occur without deliberate and race-conscious efforts designed and undertaken to ensure such minority participation.

In its earliest stages, concern for the inclusion of minorities in the city's development process was minimal, as rebuilding the downtown was clearly the overriding concern. Mr. Wasserman explained:

> [T]aking the historical perspective is the key here. . . .[When the]. . .downtown redevelopment began in the 1950s—it was a matter of survival, the core of the city was decaying. The core of the city served both white and black, and it was a matter of deep commitment on everyone's part to see the city resurge and redevelop.[150]

The development plan created by the city's business interests was an attempt to stem this tide of economic and physical deterioration in the center city. Baltimore, in the 1950s, was a segregated city in all components of community life, education, employment, housing, and commerce, and minority businesspersons were not involved in the plan's creation or early implementation.[151] Concern for minority participation in the redevelopment of downtown Baltimore was clearly only tangential and, to the extent that it existed, was naive and simplistic. Concerned white business and civic leaders apparently believed that minorities would participate in the Charles Center project "because of the types of people involved" in its development and because the desegregation of Baltimore's schools would solve all the city's racial problems.[152]

Contemporaneous with the early stages of Baltimore's redevelopment, the Supreme Court of the United States issued its opinion in *Brown v. Board of Education*[153] declaring segregated public schools unconstitutional. Walter Sondheim, chairman of the board of the Charles Center-Inner Harbor Management Corporation and president of the Baltimore School Board when *Brown v. Board of Education* was decided, in testimony before the Commission, described the then prevailing mood:

> I think people of good will, of whom there were a substantial number, felt that a great load had been lifted from their shoulders, and. . .felt that this would solve all our problems, just the removal of a segregated school system would solve our problems.
>
> And. . .I've learned. . .[since that] time—that a lot more has to be done than that.[154]

From the earliest days of its downtown redevelopment, antidiscrimination provisions, at least with regard to tenancy in completed projects, were included in all agreements between the city and its developers.[155] The city came to realize, however, that antidiscrimination provisions alone were insufficient to ensure the participation of minority contractors and businesses in the development process and

[145] Ditch Testimony, *Baltimore Hearing*, p. 115.

[146] Berkowitz Testimony, *Baltimore Hearing*, p. 118; Brodie Interview; Wasserman Interview. SBA loan programs are discussed more fully in chap. 5 of this report.

[147] Wasserman Interview. Brodie Interview.

[148] Berkowitz Testimony, *Baltimore Hearing*, p. 118; Millspaugh Interview. Additionally, when providing loans to small businesses, particularly minority-owned small businesses, the city generally has been willing to accept a subordinate position when its funding is part of a package of private and other public funds. *See*, app. B, Wasserman Letter, comment 35.

[149] Wasserman Testimony, *Baltimore Hearing*, p. 134.

[150] Ibid., p. 129.

[151] Sondheim Testimony, *Baltimore Hearing*, pp. 10, 22.

[152] Ibid., pp. 10–11.

[153] 347 U.S. 483 (1954).

[154] Sondheim Testimony, *Baltimore Hearing*, p. 11.

[155] Ibid., p. 17.

began to require that developers reach out and affirmatively include minorities in their projects as employees and contractors. Mr. Sondheim, in testimony before the Commission, discussed the evolution of the city's attempts to foster minority participation in its development projects:

History is a strange thing. . .[the initiation of the Charles Center project was] not very many years ago, but we had much less structure for. . .[ensuring minority participation]. . .than we have now. . . .[156]

[W]e move[d] from the removal of a statutory segregated system. . .over a period of the last 25 or 30 years, into a structure where we said, "Well, removal of that isn't enough. We have to remove barriers and we have to have a more assertive attitude about it."

We end up finding at each stage that something more has to be done in order to achieve the goals that we have set for ourselves, because we don't. . .do what we have to do to achieve those goals unless we have a structure that tells us to do it, by which I mean law. And so that we now move into affirmative action and the setting of goals in order to achieve the things that we want. It is a shame that we have to do that, but I think that it is obvious that we do.[157]

Because of certain deliberate race-conscious affirmative efforts, Baltimore City is able to cite a number of instances where minorities have significantly participated in the city's large downtown development projects. A minority developer was a 50 percent partner in the development of one of downtown Baltimore's large new parking garages,[158] and, in another case, a black entrepreneur was selected to operate the municipally developed marina.[159] In both cases race was a consideration in the city's decision.[160] While not involving minority developers, the city also cites its efforts to have a Federal Social Security Complex Headquarters located in the redeveloped downtown and its decision to place a campus of the Community College of Baltimore on a site in the Inner Harbor as conscious attempts to ensure that the benefits of the downtown redevelopment were enjoyed by all.[161]

In general, however, the development of downtown Baltimore has been undertaken by large, white-owned and, in most instances, out-of-town development firms.[162] Baltimore's experience demonstrates that minority participation in large-scale development projects does not occur without conscious and aggressive efforts. M.J. Brodie, commissioner of housing and community development, in testimony before the Commission, discussed the municipal efforts required:

[Minority participation in large scale development projects] doesn't happen automatically. No. . . .[w]e're talking about fields which have not been traditional fields in Baltimore for young black people to see themselves building a career, as a developer, as a banker. . . .[T]here has to be a conscious opening up of opportunities, which I think is clearly a part of what the city's role is, and making that path, which is difficult and full of failures, less difficult and reduce the likelihood of failure by guarantees and by occasionally some subsidies. . . .It takes some of that. I think that we who are in it every day see how far we have to go. . . .[163]

Minority participation in Baltimore's major downtown projects would have been negligible, without such deliberate race-conscious efforts. As it is, minority participation in Baltimore's large-scale development projects has been spotty[164] and generally confined to the smaller aspects of the development process, such as small subcontracts that are comparatively less profitable and construction jobs that are inherently temporary.[165] The structural barriers to minority entrepreneurship discussed in chapter 3 of this report persist and have effectively forestalled the development of minority businesses in the city. Too few minority contractors exist that are large enough and able to obtain the bonding necessary to participate in a significant way in the city's major downtown redevelopment projects. Commissioner Brodie testified concerning the difficulties

[156] Ibid., p. 10.

[157] Sondheim Testimony, *Baltimore Hearing,* p. 11.

[158] Millspaugh Interview.

[159] Brodie Testimony, *Baltimore Hearing,* p. 130.

[160] Millspaugh Interview; Brodie Interview.

[161] Wasserman Testimony, *Baltimore Hearing,* p. 129; Millspaugh Interview. The Social Security Complex provides a significant number of entry level jobs for low-skilled, low- and moderate-income persons, many of whom are black. Berkowitz Interview; *A Report On Minority Economic Development,* vol. 2, HCD section, Metro West Social Security Complex subsection. The community college provides its students access and programs tailored to meet the needs of the downtown business community. Minority students constitute almost 70 percent of the campus' student body. Ibid., HCD section, subsection on land development, p. 4.

[162] Brodie Interview.

[163] Brodie Testimony, *Baltimore Hearing,* p. 140.

[164] Millspaugh Interview.

[165] *A Report on Minority Economic Development,* vol. 1, sec. I, exhibit B (data on minority participation as temporary and permanent employees and as contractors for selected UDAG-funded projects). *See also,* Hanford Jones, testimony, *Baltimore Hearing,* pp. 70–73; Charles L. Brown, Jr., testimony, *Baltimore Hearing,* pp. 70–71.

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encountered attempting to find minority developers for large metropolitan projects:

> Downtown development in this city or any other, in most cases. . .requires an enormous amount of capital. There are few [black developers with enormous amounts of capital] in this country. . . .We have reached out for black developers, not just people from Baltimore, wherever we can find them throughout the United States. There are very few investing in major downtown projects because of the capital demands. Whenever there has been an opportunity I think we have reached out with a very long reach to find the. . .[marina operator], to find the. . .[parking garage developer] and to try to get them involved.[166]

Nevertheless, because public monies, both Federal and local, are used to finance the city's projects, the developers and the eventual tenants can be, and have been, required to take affirmative steps to ensure minority participation in the construction of the different projects and also as tenants and employees in the completed projects.[167]

In two recent cases, the staffing of the Hyatt Hotel and the development of Harborplace, the city worked with the developers to enhance minority participation in new and meaningful ways. The Hyatt Hotel was financed, in part, with a $10 million UDAG grant. The city and the developer agreed that employment opportunities in the completed hotel would be filled in conjunction with the city's manpower training program. The employment service for the hotel, operated by the city, hired 320 people; 48 percent were minorities and 82 percent had been previously unemployed.[168]

Harborplace

In Harborplace the city, the developer, and the general contractor demonstrated that it is possible to complete a major development project and ensure minority participation in all its stages. Harborplace demonstrates that, with a comprehensive strategy and commitment from the top levels of both the private sector and the city, a large and profitable project can be constructed on schedule while providing employment for minority workers and contracts for minority-owned construction companies as well as business opportunities for minority entrepreneurs in the completed project.

Harborplace is part of two related urban renewal projects, Inner Harbor I and Inner Harbor West. Over $100 million in Federal funds were spent in the redevelopment of this area.[169] Baltimore's Inner Harbor is designed to capture the tourist and convention trade and attract city and suburban shoppers and diners. It includes an aquarium, a world trade center, a science center, a Hyatt Regency hotel, the headquarters building for the Chesapeake and Potomac Telephone Company, and Harborplace—135 specialty shops and restaurants in two pavilions on the shores of the harbor, developed by the Rouse Company.[170]

Municipal funding for Harborplace required the city to place a bond referendum before the city's voters in 1972.[171] A coalition of minority contractors and religious leaders used the opportunity to spotlight the issue of minority participation in the project. One consequence of the referendum was a public commitment by the city and the developer to include minority workers and contractors in the project's construction. James Rouse, chairman of the board of the Rouse Company at the time of the referendum, discussed its importance in testimony before the Commission:

> [T]hat referendum was a marvelous experience and a marvelous thing for Harborplace because it involved the whole city. . . .[I]f the black community had not supported Harborplace, it would have been defeated in the referendum. It had to have the support of the black community and that called for meetings with the black leadership in the city. . .[I]n those meetings. . .we had to represent that we really meant that this would be a place for all people, and it would be important to the black community that Harborplace be built and be successful.
>
> That meant we had to talk about employment and—both in construction and afterwards in the shops and restaurants—and the role that black business would play, and we asserted that we would give special attention to that, that there would be special attention to the employment of black people and there would be special attention given to creating, if necessary, bringing black businesses into Harborplace.[172]

[166] Brodie Testimony, *Baltimore Hearing*, pp. 130–31.
[167] Wasserman Testimony, *Baltimore Hearing*, p. 130
[168] *A Report on Minority Economic Development*, vol. 3, MOMR section, economic development linkages subsection.
[169] *A Report on Minority Economic Development*, vol. 1, sec. V, p. V–2.
[170] City of Baltimore, *Fact Sheet, Baltimore's Inner Harbor Shoreline Program* (September 1981) (maintained in Commission files).
[171] City of Baltimore, *The Inner Harbor Program, Baltimore, Md., Summary and Fact Sheet* (May 1981), p. 1.
[172] James Rouse, testimony, *Baltimore Hearing*, pp. 258–59.

The affirmative action plan that the Rouse Company developed had three parts: construction jobs, construction contracts, and leasing[173] Working in conjunction with the city and the general contractors, the Rouse Company targeted a 10 percent goal of the total contract value for minority subcontractors and a 25 percent goal for minority participation in construction jobs. The Rouse Company also organized a special effort to identify potential minority entrepreneurs and help them open businesses in Harborplace. Finally, the company sought to fill 50 percent of those jobs created in Harborplace, over which it had control, with minorities and assisted minorities in obtaining employment with the businesses that opened in the project.[174]

The Rouse Company reported that it exceeded its goals for minority contractors and minority employees in the construction phase of the project.[175] In addition, 22 of the 128 original businesses that opened in Harborplace were minority owned.[176]

Scott Ditch, a Rouse Company vice president, testified that the minority participation goals for Harborplace were established following a survey with the general contractor of the minority-owned construction and contracting firms and skilled tradesmen available in the area's labor force.[177] The Rouse Company then undertook additional affirmative steps to ensure that its targeted goals were achieved. Biweekly conferences were held with the general contractors to review upcoming bids with minority subcontractor organizations. Selected bidders' lists were reviewed for purposes of verifying minority bidders as bona fide minority contractors. The general contractor's purchasing power was sometimes used to assist minority contractors to bid competitively on subcontractors. In some cases, bonding requirements were waived for minority contractors, and arrangements were made by the Rouse Company and the general contractor to assist minority contractors' cash flow by expediting contract payments. In addition, subcontracts were reduced to appropriate minimum levels, and payment of retained amounts was expedited after satisfactory completion of work.[178]

Mr. Ditch emphasized the importance of continuous involvement and oversight by the developer to ensure the successful implementation of the affirmative action plan:

> [T]he work is an ever changing. . .picture as you develop a project like that, but it takes a keeping after it and I think that's important. As other things come up, for instance minor adjustments, workload [changes], or. . .where new people need to be brought in or hired. . .keeping at it week after week was a help, I believe.[179]

The most difficult aspect of the Rouse Company's affirmative action plan involved the creation of minority-owned businesses for location in the completed project. Although there were 3,093 black businesses in Baltimore in 1977, few operated on a level where they could move into Harborplace and compete. The Rouse Company found few successful black retailers willing to move to a new, untried location, particularly as it would usually require changing from a largely black to a largely white market.[180] Because of these difficulties, the Rouse Company refrained from establishing numerical goals for minority participation as retailers and vendors in Harborplace. Mr. Ditch explained the constraints as perceived by the Rouse Company:

> [W]hen we are creating a retail project like Harborplace, we are dealing with a lot of different kinds of merchants. We are, in effect, promising each of those merchants that that whole project will present itself to the public. We're in a sense promising our lenders and investors that we will be able to service the debt and pay the expenses on the building. Therefore, we're up against a deadline, and to set a quota. . .[for minority participation as business tenants] that we would have perhaps significant difficulty, if not impossibility, of meeting. . .would not just be a further spur for us to bend our efforts, but it could be a detriment to the entire project by leaving vacancies there next to

[173] Ditch Testimony, *Baltimore Hearing,* p. 112.

[174] *Harborplace Affirmative Action Program; Affirmative Action Goals* (February 1979) (maintained in Commission files); *Summary of Achievements of Affirmative Action* (June 1980) (maintained in Commission files). The Rouse Company, through its subsidiary, Harborplace Limited Partnership, manages the pavilion and has a security and maintenance staff. Each business and vendor in Harborplace is responsible for its own hiring.

[175] Ditch Testimony, *Baltimore Hearing,* p. 113.

[176] Ibid.; *Harborplace Affirmative Action Program; Summary of Achievements.* Slightly over 10 percent of the total contract value was subcontracted to minorities. Over 40 percent of the construction workers on the project were minorities. Over 90 percent of the Harborplace Limited staff are minorities. Minorities hold 40 percent of all jobs at Harborplace, and over 60 percent of those hired through the referral service established by the Rouse Company in collaboration with the city's manpower training programs are black.

[177] Ditch Testimony, *Baltimore Hearing,* pp. 113–14.

[178] *Harborplace Affirmative Action Program, Summary of Achievements.*

[179] Ditch Testimony, *Baltimore Hearing,* p. 114.

[180] Ibid., pp. 114, 124.

people, by having the place only partially leased against a quota that might not be possible.[181]

The Rouse Company, however, did implement a plan to establish minority businesses in Harborplace. A special leasing team headed by an experienced officer of the company made a concerted effort to find existing minority-owned businesses. Advertisements were placed in Baltimore's black-owned newspapers, and conferences held with the city's black business community.[182] The major barriers confronting the Rouse Company, in its attempt to ensure minority participation as business tenants in Harborplace, were the same as those that act to limit minority business growth generally, lack of managerial and technical experience and inadequate access to capital.[183] To ease some of the financing problems, the city made $500,000 in CDBG matching funds available to one of the large commercial banks, which then offered low-interest loans to minority-owned and other businesses getting started in Harborplace.[184] Mr. Ditch credited this assistance from the city and the availability of SBA financing as instrumental factors in the creation of those minority-owned business that did open in Harborplace.[185]

Commissioner Brodie discussed the value of the Rouse Company's achievements as an example and positive role model for other developers in future projects:

There's. . .a role to be played in the private sector. . .speaking very pragmatically about what needs to be done to bring black Baltimoreans into the mainstream of the economic life of this city. . . .[186]

[N]ow [we can] say to the private sector. . .here are two excellent examples. . .there are others but those happen to be big and recent. . . .Now we want you, David Murdock, [a developer beginning another large downtown development project]. . .to do as well as Jim Rouse. . .did. . .in Harborplace. . . .I think that kind of useful role model is the best way for us to try and promote [minority economic development]. I think if that fails, then we're going to have to go. . .to regulations and statutes.[187]

[181] Ibid., p. 113.
[182] Ibid., p. 114.
[183] Ibid., p. 122.
[184] Ibid., p. 115; *A Report on Minority Economic Development,* vol. I, sec. I, p. J-1.
[185] Ditch Testimony, *Baltimore Hearing,* p. 115.
[186] Brodie Testimony, *Baltimore Hearing,* p. 144.
[187] Ibid., p. 145. (Commissioner Brodie also mentioned the hiring system used to staff the new Hyatt Hotel as an example of corporate involvement that could be emulated. *See,* note 168 and the accompanying text.)

Park Circle Industrial Park and the Retail District Revitalization

Two large development projects are underway in Baltimore, each of which has the potential to improve significantly the economic base of the city's minority business community. Both projects are in the early stages of implementation and differ significantly from each other. One, the development of an industrial park and employment center in Park Circle, offers the hope of significant employment and business opportunities for the residents of that largely black neighborhood. The other, the transformation of the city's deteriorating downtown retail district into an upgraded office, retail, and residential area, will again test the commitment of Baltimore's public and private leadership to ensuring that the area's minority population participates fully in the city's economic development.[188]

The Park Circle area is approximately 40 acres of vacant and underutilized land at the southern end of the Park Heights neighborhood. The Park Heights area is a predominantly low-income black community. Unemployment in Park Heights is estimated at about 18 percent, generally, but is much higher among the youth population.[189]

The land for the Park Circle project had been owned by the Maryland Mass Transit Administration and used as a construction storage area. The State planned to develop a bus facility on the property when, under pressure from both the community and the city, it agreed to make the land available for industrial development and sell it to the city.[190]

BEDCO is coordinating the project and has contracted with the City Venture Corporation, an affiliate of Control Data Inc., to market the area for possible business tenants and develop and implement

[188] In addition, the city is also developing an 80-acre site in northwest Baltimore, the Seton Business Park. The project is in its incipient stages, but the city hopes to develop it as a research and development site attractive to high technology firms. Seton Park presents the opportunity for providing minority entrepreneurs access to this growth industry. BEDCO, *1980 Corporate Report,* p. 24.
[189] Berkowitz Testimony, *Baltimore Hearing,* p. 116.
[190] Ibid., pp. 116–17.

a job creation and stabilization strategy for the area.[191] In addition, Control Data has begun construction of a 10,000 square foot, $4 million building that will house a business and technology center (BTC). The building will provide office and industrial space at affordable rates, and the BTC will provide a range of financial and technological services to those businesses.[192] The city has leased two buildings on the site to the Park Heights Development Corporation (PHDC), a neighborhood development company. PHDC has received one $700,000 EDA grant to renovate the buildings and make them available to industrial lessees and another $500,000 EDA grant to be used as a revolving fund for loans to area business.[193] In addition, Commercial Credit Company, another Control Data affiliate, has opened a bindery on the site that is expected to employ 200 people.[194] Two firms, a minority-owned electronics firm and a plastics manufacturer, are in business on the site, and the city has assisted each in obtaining funding.[195] It is anticipated that to be successful the project will require the infusion of $5.5 million in public monies, of which $2 million will be provided by the city.[196]

BEDCO has announced that before it will dispose of any land in the Park Circle Industrial Park, any firm entering the area must commit itself to an employee recruitment and training program operated in conjunction with the city's manpower training program.[197] The city intends to provide employment opportunities to residents of the adjacent neighborhood. The goal for the project is to generate 2,250 jobs, 1,750 in the industrial park itself and another 750 in the surrounding community.[198] The project's success could measurably improve the economic base of the surrounding community and also provide significant opportunities for the development of viable black-owned businesses. In testimony before the Commission, Bernard L. Berkowitz, BEDCO's president, described the importance of the Park Circle Industrial Park project: "The Park Circle Industrial Park is one of the most important projects that Baltimore City has and it's one that Mayor Schaefer has described as having an importance comparable to the Inner Harbor project."[199]

The second major development project, now in the early stages of implementation, is the rehabilitation of Baltimore's downtown retail district. The project is being managed by the Market Center Development Corporation (MCDC), a quasi-public entity similar to the Charles Center-Inner Harbor Management Corporation and BEDCO. MCDC is responsible for the development of areas immediately adjacent to planned subway sites. The largest area is in the present retail district.[200] MCDC helped merchants in the area develop rehabilitation standards for their businesses, much like the standards that are part of the city's commercial revitalization program in other commercial areas of the city. Those standards have been enacted by the city council and are now mandatory aspects of the city's urban renewal plan.[201]

The most ambitious current aspect of MCDC's retail district efforts involves the development of 1 to 2½ million square feet of primarily office space on 5 acres adjacent to the Lexington Market.[202] MCDC president William Pacy testifed that the agreement with the project's developer, the David H. Murdock Development Company, prohibits discrimination and requires affirmative action in numerable places. The developer's compliance with those requirements will be monitored by both MCDC and by Baltimore's Department of Housing and Community Development.[203]

Richard Brothers, the vice president of the Murdock Development Company responsible for its Baltimore project, testified before the Commission that the Murdock Development Company is "very cognizant" of the various antidiscrimination, affirmative action, and minority participation provisions contained in the disposition agreement and "will certainly" comply with them.[204] The Murdock Company itself will hire very few persons; rather it will hire most of its management team as consul-

[191] BEDCO, *1980 Corporate Report*, p. 23.
[192] Berkowitz Interview.
[193] Ibid.
[194] Ibid.
[195] Ibid.
[196] Ibid.
[197] Berkowitz Testimony, *Baltimore Hearing*, p. 117.
[198] Ibid., pp. 116–17. The city intends to have the area designated an urban enterprize zone if Federal legislation is adopted providing tax relief for businesses operating in such zones. *See*, S. 2298 97th Cong., 2d Sess. (1981).

[199] Berkowitz Testimony, *Baltimore Hearing*, p. 116.
[200] William C. Pacy, president, Market Center Development Corporation, testimony, *Baltimore Hearing*, p. 119.
[201] Ibid.
[202] Ibid., pp. 119–20. The Lexington Market is one of six city food markets.
[203] Ibid., p. 120.
[204] Richard Brothers, testimony, *Baltimore Hearing*, p. 121.

tants. Murdock Company staff will, however, oversee the consultants and make them aware of the requirements contained in the agreement it signed with the city.[205] Although the Murdock Company is not a local Baltimore company, it has begun to become familiar with the local minority business community.[206]

The Rouse Company's achievements with regard to minority participation in the development of Harborplace have established a benchmark against which future development efforts can be evaluated. Mr. Brothers testified that the Murdock Company "will make a very strong attempt to duplicate the. . .efforts that the Rouse Company made" and ensure minority participation in the construction phase of its project.[207] However, because the project for which he is responsible primarily will involve the creation of office rather than retail space, Mr. Brothers doubted that the Rouse Company's achievements with regards to minority business tenants could be duplicated.[208]

Finding 4.5: If minorities are to participate fully in and benefit from economic development, coordinated and sustained private sector involvement in developing and fostering minority businesses is essential. The Greater Baltimore Committee has assumed responsibility for developing minority business growth in Baltimore.

Government can provide incentives and sanctions that foster economic and minority business development. Both processes, nevertheless, remain essentially private sector responsibilities. James Rouse, former chairman of the board of the Rouse Company, testified before the Commission concerning the effort required to include the minority community as a full and active participant in the economic life of Baltimore and the county:

I just think it has to be pushed and pushed. . . .I think that most of the negative things that exist. . .are not a product of. . .deliberate exclusion or segregation or bigotry.

I think they are largely the product of unawareness and habituated style. . . .The white community moves with its friends. . .in a socially segregated society. . . .[T]his emphasizes the division so that the white businessman does not take that extra effort to include the corresponding black business leader, just as a natural part of the process of things happening. . . .[Black business leaders are]. . .excluded, and it isn't so much excluded as overlooked. And the answer to it is to make the white business community aware of the overlooking so that we behave differently. . . .[209]

William Donald Schaefer, Baltimore's Mayor, also discussed the necessity for private business involvement in any effort to foster minority entrepreneurship:

I think we [the public sector] can't help the minority [entrepreneur] unless the private sector helps us. . . .I didn't mind at all trying to help minority firms. I thought it was our duty and we wanted to do it.

But, the important thing was that, if the minority firms worked for the city, they had to be qualified to work in the private sector; they could not only work for goverment. [T]hey have to work with the business community in order to do it. That's up to the private sector to do.[210]

Baltimore's business community is organized in the Greater Baltimore Committee (GBC). From 1955, when it was formed, to 1978 the GBC had approximately 100 members, mostly larger industrial and financial institutions and was independent of the chamber of commerce, which represented the city's smaller retail interests.[211] Since 1978, when it joined with the Chamber of Commerce of Metropolitan Baltimore, it has had approximately 850 members.[212] William Boucher III, staff director of the GBC from its earliest days until his resignation in 1981, described the GBC's efforts in the area of minority economic development during his tenure:

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[205] Ibid.
[206] Ibid.
[207] Ibid.
[208] Ibid. Richard Brothers, interview in Baltimore, Nov. 12, 1981.
[209] Rouse Testimony, *Baltimore Hearing*, pp. 260–61.
[210] Schaefer Testimony, *Baltimore Hearing*, p. 245.
[211] Boucher Testimony, *Baltimore Hearing*, pp. 224–25.
[212] Ibid., p. 225. "Formerly an elite group of top corporate executives, socially and professionally well known to each other, GBC now has several thousand members from small and medium-sized firms whose concerns and interests are often quite different from those traditionally espoused by GBC.
"This change in structure presents a major challenge to GBC. Will it be able to evolve into an effective instrument for the mobilization of a broader spectrum of business support in civic affairs, or will it waiver in purpose and fade? There is, at present, no other organization in Baltimore capable of stepping into the role played by GBC in focusing private-sector action on public projects. If the transition cannot be made, the city will lose a major partner in the redevelopment process." Committee for Economic Development, *Public-Private Partnership, An Opportunity for Urban Communities* (February 1982), p. 12 (hereafter cited as *Public-Private Partnership).* Based on Katherine C. Lyall, "A Bicycle Built for Two: Public-Private Partnership in Baltimore's Renaissance" (paper prepared for the Committee on Economic Development, New York, 1980.)

[S]ince I had staff responsibility for 26 years of that organization until October 1 [1981], I will tell you quite candidly one of the great disappointments of that period was that we did not do more in the field of minority efforts, economic development, social minority efforts.[213]

Mr. Boucher testified that, in his view, the private business and professional communities have the primary responsibility for fostering minority economic development because they have the greatest stake in the success of our economic and political system and because they are effective and pragmatic problem solvers.[214] Other Baltimore business leaders agreed.[215]

Private sector involvement in urban social and economic problems is not unprecedented.[216] David M. Noer, vice president of the Commercial Credit Corporation, testified that from a strategic business perspective, urban problems such as obstacles to minority business development present fundamental questions of business survival.[217] Moreover, even from a short-term tactical business perspective, the resolution of such problems can be transformed into a profitable undertaking.[218] Mr. Noer said that the private sector can foster minority business development by: (1) providing financial support, (2) encouraging corporate personnel as individuals to apply their skills and business expertise to the development of particular minority enterprises, and (3) directly and indirectly linking a business' strengths and corporate profits to minority business development.[219]

A recent statement by the Committee for Economic Development analyzed the necessity and potential for collaboration between city governments and the business community to resolve urban problems.[220] It stated that five important considerations should govern private sector involvement in public issues. Each is applicable to business efforts to foster minority business development. First, policymaking for corporate public involvement should be integrated into the business-planning function of the organization. A process must be established for planning and coordinating private sector public involvement within the context of overall management objectives. Second, corporate public involvement should be closely coordinated and assured the regular attention of the chief executive officer and top management; commitment must begin at and move down from the top levels of the organization. Third, career advancement of middle echelon managers within the organization should be based, in part, on effective performance of stated public involvement objectives. Fourth, the use of relevant and appropriate expertise should be assured. Both the particular business and organizational strengths of the corporation should be used in a manner most likely to be effective and specific expertise developed as needed. Finally, and particularly relevant to Baltimore, branch offices should be held accountable for involvement in their communities.[221]

In 1981, after receiving the report of its subcommittee describing the lack of minority business development in Baltimore and the ineffectiveness of existing programs designed to assist such businesses, the Greater Baltimore Committee organized a new 18-member committee to design a plan responsive to the problems confronting minority businesses.[222] Daniel Henson, former national director of the Minority Business Development Agency of the Department of Commerce, was the first executive director of the new GBC committee. He described its task: "Our present activity is involved in determining what vehicles need to be in place and actually putting them in place and implementing something in this 18-month period. So we do, in fact, intend to—we are charged with, implementing things."[223]

The new GBC committee has a formidable task. Its membership, a majority of whom are black businesspersons, includes the top corporate officers of some of the largest firms in the city and its

[213] Boucher Testimony, *Baltimore Hearing*, p. 225.
[214] Ibid., p. 215.
[215] Noer Testimony, *Baltimore Hearing*, pp. 217–18; Obrecht Testimony, *Baltimore Hearing*, p. 15.
[216] *See, Public-Private Partnership.*
[217] Noer Testimony, *Baltimore Hearing*, pp. 217–18; *see also*, David M. Noer, interview in Baltimore, Nov. 4, 1981.
[218] Ibid.
[219] Ibid.
[220] *Public-Private Partnership.* The Committee for Economic Development is a nonprofit, nonpartisan, nonpolitical independent research and educational organization of 200 business executives and editors.
[221] Ibid., pp. 81–85, 92.
[222] Bernard L. Manekin, chairman, Greater Baltimore Committee, testimony, *Baltimore Hearing*, p. 214.
[223] Henson Testimony, *Baltimore Hearing*, p. 200. *See*, app. B, Daniel P. Henson, letter to Paul Alexander, Acting General Counsel, U.S. Commission on Civil Rights, Oct. 18, 1982, in which he provides an update of GBC minority business development activities.

chairman, Alan Hoblitzell, is the president and chief executive officer of Maryland National Bank.[224] The committee and the GBC have the resources and expertise needed to develop a strategy to foster minority business development in Baltimore. Unexpected external factors will undoubtedly arise. Nevertheless, the committee's efforts and the ability of the GBC to mobilize Baltimore's business community will help determine the economic future of the city's minority population.

[224] Manekin Testimony, *Baltimore Hearing*, pp. 212–13. Obrecht Testimony, *Baltimore Hearing*, pp. 18–19. Charles F. Obrecht, interview in Baltimore, Oct. 7, 1981.

Federal Programs to Foster Minority Business Development

The Leadership Role

Finding 5.1: Although the Federal Government cannot bear the sole responsibility, strong leadership on the part of the Federal Government is required if minority business development is to occur.

As discussed in chapter 4, Federal funds have played an important role in the redevelopment of Baltimore's urban center. As discussed in chapters 3 and 4, Federal job training programs, if properly implemented and coordinated with economic development strategies, can operate to ensure that employment opportunities created by economic development are made available to minority and other workers who would otherwise be denied them. The Federal role in fostering minority business and economic development, however, extends well beyond these economic development and employment training programs.

Baltimore's business leaders, in testimony before the Commission, emphasized the critical need for both leadership and programs from the Federal Government, if minority business development is to become a reality. William Boucher, former executive director of the Greater Baltimore Committee, who testified that he believes the private sector has the primary responsibility for fostering minority business development,[1] also discussed the necessity for leadership from the Federal Government:

> I think one of the most important responsibilities of the Federal role, from the President right on down, is the moral leadership. . . .I think the most important thing the Federal Government can do is to make this issue a paramount issue and a high priority. I think it was Teddy Roosevelt who said, that the presidency is a [bully] pulpit and it is in that sense of making this an issue that is constantly on the mind of the government and the people of the country that you are going to make. . .a greater change.[2]

Other business leaders agreed:

> [T]he only way we're going to get really meaningful progress is [through] a public-private partnership that involves a strong. . .commitment from the Federal government for improvement in the minority business area.[3]

The Federal leadership role in fostering efforts to ensure that the minority business community becomes a full and permanent participant in our Nation's economic life cannot be limited to "[bully] pulpit" leadership. Baltimore's business leaders emphasized that financial and programmatic commitments from the Federal Government are also necessary if minority business development is to occur. Bernard Manekin, chairman of the Greater Baltimore Committee, testified:

> I think to get this program started or going in a meaningful [way] and, hopefully, [produce] a permanent contribution to our economic life and well being, the government is going to have to get involved in a number of programs

[1] William Boucher III, testimony, *Hearing Before the U.S. Commission on Civil Rights, Baltimore, Md.*, Nov. 17–18, 1981, p. 215 (hereafter cited as *Baltimore Hearing).*

[2] Ibid., pp. 215–16.

[3] Charles F. Obrecht, Jr., testimony, *Baltimore Hearing*, p. 19; *see also*, Bernard Manekin, chairman, Greater Baltimore Committee, testimony, *Baltimore Hearing*, p. 214; David M. Noer, vice president, Commercial Credit Company, testimony, *Baltimore Hearing*, pp. 218–19; Daniel P. Henson, executive director, Greater Baltimore Committee, Minority Business Development Committee, *Baltimore Hearing*, pp. 219–20.

that are going to take a rather substantial sum of money initially.[4]

In addition to the related economic development and training programs discussed previously, there are a number of Federal programs specifically designed to foster minority business development. In 1978 Congress passed Public Law 95-507,[5] an extensive revision of the Small Business Act of 1953[6] and the Small Business Investment Act of 1958,[7] in an attempt to foster minority business development and increase the number and amount of Federal procurement contracts awarded to small and small disadvantaged business firms.[8] Included among its provisions are amendments to the section 8(a) program for socially and economically disadvantaged firms,[9] the section 7(j) management assistance program,[10] the 8(d) subcontracting program,[11] and the section 15 small business set-aside program.[12] In addition, the legislation made substantive changes in the surety bond guarantee program[13] and the minority enterprise small business investment company (MESBIC) program.[14]

The law sets forth as the policy of the United States, that: "small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in the performance of contracts let by any Federal agency."[15]

There are two types of Federal programs designed to assist minority businesses. The first makes available to minority entrepreneurs the business opportunities that exist because the Federal Government itself is a substantial purchaser of goods and services from the private sector. These take two forms: one, the 8(a) program, reserves certain Federal contracts exclusively for small and small disadvantaged businesses; the other requires all Federal agencies to establish numerical goals to increase the extent of minority business participation as contractors and subcontractors in their procurement activities. Other Federal programs are designed to provide financial, technical, and managerial assistance directly or indirectly to minority-owned businesses.

The 8(a) Program

Finding 5.2: Although the goals of the Small Business Administration's 8(a) program are worthy and necessary, administration of the program has been seriously deficient and has undermined the achievement of basic program goals.

Using the authority granted it under section 8(a) of the Small Business Act, the Small Business Administration acts as a prime contractor for Federal departments and agencies and then subcontracts the work on a noncompetitive basis to eligible socially and economically disadvantaged firms.[16]

Since its inception the management and effectiveness of the 8(a) program have been frequently reviewed and criticized. The General Accounting Office, in its April 1981 *Report to the Congress: The SBA 8(a) Procurement Program: A Promise Unfulfilled,* listed nine previous GAO and internal SBA reports that had been critical of the administration of the 8(a) program.[17] The U.S. Commission on Civil Rights in 1975 noted that the 8(a) program suffered from serious problems of understaffing and a lack of effective planning and coordination.[18]

In addition, congressional hearings also have identified recurring problems with the management of the 8(a) program.[19] Nevertheless, the 8(a) program retains the potential to be an important and valuable tool for fostering the development of minority business enterprises. While the problems with the program are well-known, its accomplishments are not. The 8(a) program has provided thousands of minority-owned firms access to an

[4] Manekin Testimony, *Baltimore Hearing,* p. 214. *See also,* Noer Testimony, *Baltimore Hearing,* pp. 218–19; Henson Testimony, *Baltimore Hearing,* pp. 219–20.

[5] Pub. L. No. 95-507, 92 Stat. 1757 (codified at 15 U.S.C.A. §§631–633, 636, 637–637c, 644, 681–683, 687, 687i, 694a, 694b, 41 U.S.C.A. §405a (Supp. 1981)).

[6] Pub. L. No. 83-163, Title II, 67 Stat. 232 (codified as amended at 15 U.S.C.A. (Supp. §§631–647 (1976 and Supp. 1981).

[7] Pub. L. No. 85-536, 72 Stat. 384 (codified as amended at 15 U.S.C.A. §§631–649d (1976 and Supp. 1981)).

[8] 15 U.S.C.A. §631(e) (Supp. 1981).

[9] *Id.,* §637(a).

[10] *Id.,* §636(i)(7)(j).

[11] *Id.,* §637(d).

[12] *Id.,* §644.

[13] *Id.,* §694b.

[14] *Id.,* §§681(d), 683(c).

[15] 15 U.S.C. §637(d)(1) (Supp. 1979).

[16] 15 U.S.C.A. §637(a) (Supp. 1981).

[17] U.S., Government Accounting Office, *Report to the Congress: The SBA 8(a) Procurement Program: A Promise Unfulfilled* (CED-81-55, Apr. 8, 1981), pp. 59–62 (hereafter cited as *A Promise Unfulfilled).*

[18] U.S., Commission on Civil Rights, *Minorities and Women as Government Contractors* (1975), pp. 35–62 (hereafter cited as *Minorities and Women as Government Contractors).*

[19] *See, A Promise Unfulfilled,* p. 61.

otherwise inaccessible market, thereby, permitting them to develop the management experience and track record required to qualify for competitive government and commercial work. As the GAO noted:

[The 8(a) program] spurred the formation of disadvantaged firms that would not have otherwise been established. Many firms continued in business because of 8(a) program support. SBA has helped some firms to increase sales and income, resolve bonding problems and improve credit capabilities. Participants also gained valuable experience in managing a business. Several firms believed that being certified as 8(a) helped in getting commercial work as well.[20]

Although SBA was granted the authority to enter into contracts with the various Federal agencies and to arrange for the performance of those contracts by small businesses in 1953,[21] it was not until the late 1960s that this authority was first invoked. The 1967 *Report of the Presidential Commission on Civil Disorders* highlighted the need for programs to foster economic and business development in minority communities.[22] Consequently, under President Johnson, SBA began to use its 8(a) authority on an experimental basis to provide Federal procurement contracts to disadvantaged businesses.[23] The program, thereafter, was transformed from a demonstration project and expanded to an ongoing program under three Executive orders promulgated by President Nixon in 1969, 1970, and 1971.[24] In 1973 the Fifth Circuit Court of Appeals upheld SBA's authority to restrict the 8(a) program to socially and economically disadvantaged firms.[25] In 1978 when Congress passed Public Law 95–507,[26] it statutorily prescribed and extended legislative control over the program. In so doing, it specifically endorsed the 8(a) program's stated purpose to:

(A) foster business ownership by individuals who are both socially and economically disadvantaged

(B) promote the competitive viability of such firms by providing such available contract, financial, technical and management assistance as may be necessary; and

(C) clarify and expand the program for the procurement by the United States of articles, equipment, supplies, services, materials, and construction work from small business concerns owned by socially and economically disadvantaged individuals.[27]

Congress premised the 8(a) program upon its finding that many persons are socially disadvantaged because of their identification as members of certain groups including, but not limited to, black Americans, Hispanic Americans, Native Americans, Asian and Pacific Americans, and other minorities that have suffered the effects of discriminating practices.[28]

The 8(a) program has grown rapidly since it was first instituted. In 1970, 69 firms were active 8(a) program participants and $9 million of Federal procurement contracts were negotiated through the program.[29] Ten years later, there were 2,138 active participants and $1.6 billion worth of Federal 8(a) contracts.[30] Public Law 95–507 was a major impetus in this expansion of the program. The value of 8(a) contracts placed annually increased by $245 million in the 3 years immediately preceeding the legislation; the 3 years following the passage of Public Law 95–507 witnessed a dramatic increase of over

[20] Ibid., p. 52.
[21] Pub. L. No. 83–163, Title II, §§207(c); (d) 67 Stat. 236.
[22] Presidential Commission on Civil Disorders, *Report* (Mar. 1, 1968), p. 236. (This report is commonly known as the Kerner Commission Report.)
[23] S. Rep. 95–1070, 95th Cong., 2d Sess. 14 (1978), reprinted in, 1971 U.S. Code Cong. & Ad. News 3835, 3849; *Minorities and Women as Government Contractors,* p. 35.
[24] Exec. Order No. 11,458, 3 C.F.R. 779 (1966–1970); Exec. Order No. 11,518, 3 C.F.R. 907 (1966–1970); Exec. Order No. 11,625, 3 C.F.R. 616 (1971–1975).
[25] Ray Baille Trash Hauling, Inc. v. Kleppe, 477 F. 2d 696 (5th Cir., 1973), *cert. denied,* 415 U.S. 914.
[26] Pub. L. No. 95–507, Title II, §202(a) 92 Stat. 1761, *codified at* 15 U.S.C.A. 637(a) (Supp. 1981).
[27] 15 U.S.C.A. §631(e)(2) (Supp. 1981). Under the 8(a) program a "socially and economically disadvantaged small business concern" is a small business concern "(A) which is at least 51 percentum owned by one or more socially and disadvantaged individuals. . .and (B) whose management and daily operations are controlled by one or more such individuals."
Socially disadvantaged individuals are those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities.
Economically disadvantaged individuals are those socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business area who are not socially disadvantaged. . . *Id.*§637(a)(4), (5), (6).
[28] *Id.* at 631(e)(1).
[29] *A Promise Unfulfilled,* pp. 7, 26. U.S., Department of Commerce, Minority Business Development Agency, *Federal Agency Performance for Minority Business Development FY 1980,* p. 2 (hereafter cited as *Federal Agency Performance FY 1980).*
[30] *A Promise Unfulfilled,* pp. 7, 26. MBDA reports that 5,035 8(a) contracts totaling $1.4 billion were awarded in 1980. *Federal Agency Performance FY 1980,* p. 1.

$1.1 billion in the value of 8(a) contracts awarded annually.[31] Another important factor in the volume and dollar value increase of contracts negotiated under the 8(a) program was the establishment by President Carter of a governmentwide goal for purchasing goods and services from disadvantaged businesses.[32]

Despite the growth of the program, problems of poor administration continue. Three of the major problems are inadequate staffing, an ineffective technical assistance delivery system, and a consequent inability to develop firms to the point where they are viable and able to compete successfully outside of the program.

The 8(a) program was intended to be more than merely a source of negotiated Federal Government contracts for socially and economically disadvantaged firms. In addition to providing access to the market of Federal contracts for firms that, as a result of discrimination, are at a competitive disadvantage, the 8(a) program was intended to provide those firms the technical, financial, and managerial assistance that would allow them to become competitive without the protected 8(a) market.[33] Congress, in passing Public Law 95-507, both strengthened SBA's role as a provider of technical and financial business assistance[34] and explicitly stated that 8(a) program participants were to be afforded such assistance.[35] Nevertheless, SBA has been seriously deficient in providing technical and other assistance to participating 8(a) firms. Numerous congressional reviews have found as much,[36] and owners of participating 8(a) firms in Baltimore have found that, while the program has allowed their businesses to grow, serious administrative problems undermine its effectiveness.

Will D. Jackson, president of Jackson Oil Company, the largest black-owned business in the State of Maryland, testified before the Commission that, while the program makes contracts accessible and by providing advance payments can address undercapitalization problems, it has a number of serious deficiencies.[37] He said that two of the major administrative problems of the 8(a) program are delay on SBA's part in certifying firms as eligible for participation[38] and an inability to provide contracts. Section 8(a) firms soon realize that if they are going to benefit from the program they themselves must identify for SBA those Federal contracts they wish to secure:

> [W]e recognized that at the onset. . .that the Small Business Administration was not capable and did not have the manpower to identify contracts for us. Consequently, we went out and identified them for ourselves, brought the contracts back and virtually laid it on the Small Business Administration's desk, and at that point it was just administrative work. I have a couple of friends who became certified in the program and for some odd 7 or 8 years, they have actually sat in their office waiting for the Small Business Administration to bring them a contract, and that's just what they did; they sat there.[39]

Those firms that do become certified as eligible and manage to obtain an 8(a) contract find SBA ill-equipped to provide the technical assistance that should be forthcoming. Henry Edwards, president of Superpride Markets, Inc., asked about the effectiveness of SBA's technical advice delivery system, responded:

> Very bad. I think that's probably been the weakness of most programs that are designed to create economic development for minorities. . . .I've found in my experience that a lot of times the money is not all that's necessary and that the skills and that the experience necessary to know what to do with that money are more important than the money itself.[40]

> If a small business that's really involved in the Small Business Administration program sees a counselor twice a year, he's lucky. There are some isolated instances where that occurs more so. . . .[C]oming in and sitting down with somebody for 15 minutes to talk about how things are going [is not sufficient]. . .[What is required is] getting in there and having a feel for that business and then

[31] *A Promise Unfulfilled,* pp. 26, 28.

[32] Ibid., p. 25. Although agency procurement goal-setting for small and small disadvantaged firms was also required by Pub. Law No. 95-507, implementation of that requirement was characterized by bureaucratic delay.

[33] H. Rep. 95-1714, 96th Cong., 2d Sess. pp. 22-23, reprinted in 1978, U.S. Code Cong. & Ad. News 3883; *see also* S. Rep. 96-974, 96th Cong., 2d Sess. pp. 3, 16, *reprinted in* 1980 U.S. Code Cong. & Ad. News 4954, 4968.

[34] Pub. Law No. 95-505, Title II, §204, 92 Stat. 1764-66 codified as amended at 15 U.S.C.A. §636(j) (Supp. 1981).

[35] Pub. Law No. 95-505, Title II, §204(j)(10), 92 Stat. 1765-6, codified as amended at 15 U.S.C.A. §636(j)(10) (Supp. 1981).

[36] *See, A Promise Unfulfilled,* p. 61.

[37] Will D. Jackson, testimony, *Baltimore Hearing,* p. 50.

[38] Ibid., pp. 51, 59. Mr. Jackson testified that it took close to a year for his firm to get certified.

[39] Ibid., p. 51. Under the statute, it is SBA's responsibility to match 8(a) program participants with contracts. 15 U.S.C.A. §637(a)(1) (Supp. 1981).

[40] Henry Edwards, testimony, *Baltimore Hearing,* p. 49.

providing technical assistance that's germane to a particular problem. . . .[41]

One of the reasons that SBA has not been able to provide the statutorily required technical assistance to 8(a) firms has been a serious shortage of resources. This problem of understaffing has been apparent to SBA administrators, program participants, and independent agencies that have reviewed the program. In 1975 the Commission found that the SBA did not have sufficient staff assigned to the 8(a) program and noted the resulting program deficiencies.[42] A followup review in 1977 revealed that the situation had not improved.[43] Michael Cardenas, former Administrator of the Small Business Administration, testified before the Commission that the agency has had no increase in personnel although it has had to cope with a "tremendous" growth in responsibilities.[44]

A 1981 GAO review of the 8(a) program found that, due to understaffing, SBA line staff have insufficient time to do all their required tasks and "assessing the progress of 8(a) firms and identifying their development needs receives a low priority."[45] The report noted that nationwide the ratio of business development specialists to active 8(a) firms is 1 to 17 and in Region III, which includes Baltimore, the ratio is 1 to 23. SBA has determined that 8 to 10 active firms per business development specialist is the ideal number.[46]

The failure of SBA to provide the needed resources to the program and the required technical assistance to program participants seriously undermines the 8(a) program's primary business development focus. One indicator of the program's success is the ability of participating firms to graduate from it and compete successfully without its protection. Measured against this standard, the program has been unsuccessful. Of the 4,598 firms who have participated in the program since its inception, only 166 have graduated, none since 1976.[47] Consequently, in 1980 Congress amended the 8(a) program and reemphasized its business development purpose.[48]

Participating firms are required to submit comprehensive business plans with specific business targets, objectives, and goals designed to overcome the economic disadvantage that made the firm eligible for participation in the program.[49] Congress also prohibited the awarding of an 8(a) contract if SBA finds itself unable to provide the needed management, technical, and financial assistance.[50] Nevertheless, the technical assistance offered by the SBA remains inadequate to meet the needs of participating disadvantaged businesses. Daniel Henson, former Director of the Minority Business Development Agency and former SBA Regional Director, in testimony before the Commission, discussed the inadequacies of the technical assistance provided minority business as:

> Unfortunately, the concept [of providing technical assistance] has always been perceived as being a social effort. That is, if you are able to provide a guy—to give 2 or 3 hours of technical assistance today and 2 or 3 hours of technical assistance 30 days from now and come back with some type of report, that would. . .help minority business.
>
> . . .[I]n fact. . .it hinders many minority businesses. First of all, they wouldn't take the assistance were it not tied to some form of loan. . . .[T]hey take it with the mind set too often that. . .the assistance is worth exactly what they are paying for it, which is zero. Unfortunately, it is a remarkably and very sensitively thought-out program but it is totally ineffective.[51]

In addition to requiring business plans and ensuring the delivery of technical assistance, the 1980 legislation directs SBA to negotiate with each firm a fixed period of time within which to attain the goals, objectives, and targets of its business plan. At the conclusion of that time and in the absence of an extension, the firm would no longer be eligible for 8(a) contracts or other assistance.[52] The fixed-term participation provision of the 1980 amendments was in response to SBA's failure to develop standards for determining the attainment of "competitive viability" which had been the prior statutory determinant of program completion.[53]

[41] Ibid., p. 55.
[42] *Minorities and Women as Government Contractors*, p. 38.
[43] U.S., Commission on Civil Rights, "Staff Update of Minorities and Women as Government Contractors," 1977, submitted to the House of Representatives Subcommittee on Minority Enterprise and General Oversight.
[44] Michael Cardenas, testimony, *Baltimore Hearing*, pp. 199–20.
[45] *A Promise Unfulfilled*, pp. 28–29.
[46] Ibid.
[47] Ibid., p. 7.
[48] Pub. L. No. 96–48, §104, 94 Stat. 2321 (1980) codified at 15 U.S.C.A. §636(j)(10) (Supp. 1981).
[49] Codified at 15 U.S.C.A. §636(j)(10)(A)(i).
[50] *Id.*, at §636(j)(10)(c)(ii).
[51] Henson Testimony, *Baltimore Hearing*, p. 222.
[52] 15 U.S.C.A. §636(j)(10)(A)(i).
[53] Pub. L. No. 95–507, Title II, §204(i)(10)(c), 92 Stat. 1766. *See*

On November 19, 1981, SBA promulgated its final rule implementing the fixed-term participation provision of the 1980 amendments.[54] Although the legislation did not require any particular fixed term, the new regulation limits program participation to a possible maximum of 7 years for all firms regardless of size, growth, or industry.[55]

A major reason that the program was changed to include a built-in termination mechanism for all participating firms was that program benefits were accruing to relatively few participating firms.[56] SBA reported that the top 50 firms in the 1981 8(a) portfolio had an average of 8.5 years of program participation and received 35 percent of all 8(a) contracts awarded between 1971 and 1980.[57] Although such statistics raise concern,[58] they are unlikely to be affected by the new regulations. Firms that are active contract recipients over a long period of time will always enjoy a larger percentage of all contracts awarded during that time frame than those whose participation has been recent.[59] The problem has been that there has been little or no incentive for firms to graduate from the program. While the new regulations will avoid this problem by mandating termination after a fixed period of time, they will not necessarily cure the problems of developing firms and graduating them as viable business concerns capable of competing successfully in either the private market or for Federal contracts without the protection of 8(a).[60]

Many minority-owned firms have voiced their concern that premature departure from the 8(a) program will have devastating consequences on their ability to survive.[61] Will Jackson, who testified before the Commission that the success of his company was due in large part to the 8(a) program, was asked about the effect of premature program termination for his firm:

> The probability is that we wouldn't be able to survive, even though we have had. . .an outstanding growth pattern. It takes time for a business to grow into a position where they can compete in the marketplace. . . .We have been in the program. . .about 4 or 5 years and although we have been able to obtain a lot of goals, and increase our lines of credit with the bank, there is still a certain amount of competitive edge that has to be drawn from the marketplace. . .to strengthen that firm.[62]

Additionally, concerns have been expressed that unduly restricting a firm's participation in the 8(a) program will limit its ability to obtain financing from private sources. To the extent that a negotiated fixed participation term creates doubts about a firm's potential to survive and prosper, lenders become reluctant to extend loans and credit. Mr. Jackson noted that he was not opposed to graduating firms from the 8(a) program but pointed out that the time required to become competitive varies from industry to industry:

> Vice Chairman Berry. Some people have suggested that firms like yours ought to be taken out of the 8(a) program—so that other black businesses could start to participate. . .we might expand the black businesses in this area and elsewhere. Do you agree with that?
>
> Mr. Jackson. Yes, I agree, once the firm is capable of competing. . . .[I]t's senseless to me for the Small Business Administration to put the time and the dollars that it has invested in my [kind of] firm and. . .release it from the program all too soon, and knowing very well that it's not able to compete in the industry, as vast as the oil industry is.[63]

also, A Promise Unfulfilled, pp. 30–32. Suggestions have been made that viability be determined by three criteria: (1) 2 years of recorded profit, (2) a demonstrated ability to acquire non-8(a) sales, and (3) the potential to acquire equity capital. John Hall, president, Mark Battle Associates, Inc., testimony, *Hearings Before the Subcommittee on Small Business Administration, Business Investment Corporations, Minority Enterprise, and General Small Business Problems of the Committee on Small Business,* U.S. House of Representatives, 98th Cong. 1st Sess., June 16, 1982 (hereafter cited as *Small Business Subcommittee Hearings).*

[54] 46 Fed. Reg. 57,266 (Nov. 19, 1981) (to be codified at 13 C.F.R. §124.1-1(f).

[55] Prior to accepting a firm into the program, SBA will negotiate a fixed participation term of up to 5 years and this fixed term is then included in the firm's business plan. Each firm is entitled to request a one-time only extension for a period not to exceed the difference between the originally negotiated term and the 5-year maximum term plus 2 years. *Id.* at 57,271 (to be codified at 13 C.F.R. §124.1-1(f)(2)(3)). At the conclusion of its term plus extension a firm will no longer be eligible to remain in the program regardless of whether competitiveness has been achieved. *Id.* (to be codified at 13 C.F.R. §124.1-1(f)(4)).

[56] *Id.* at 57,270 (to be codified at 13 C.F.R. §124-1.1(f)(1)).

[57] *See, A Promise Unfulfilled,* p. 6.

[58] 46 Fed. Reg. 57,268 (1981).

[59] *Id.* at 57,266.

[60] Subsequent to the promulgation of the fixed-term participation rule, SBA entered into an interagency agreement with the Minority Business Development Administration (MBDA) of the Department of Commerce to identify cooperatively private sector opportunities for firms departing the 8(a) program at the conclusion of their term and provide them with technical, managerial, and financial assistance from MBDA. *Small Business Subcommittee Hearings* (statement of James C. Sanders, Administrator, Small Business Administration).

[61] SBA itself recognized as much in its response to the 1980 GAO report. *A Promise Unfulfilled,* p. 71.

[62] Jackson Testimony, *Baltimore Hearing,* p. 59.

[63] Ibid., p. 60.

Federal officials responsible for minority business development and Federal procurement also testified that the Federal investment in minority business development will be lost if successful 8(a) contractors are terminated before they are able to survive without the program.

Deputy Secretary of Defense Frank C. Carlucci testified before the Commission that the Department of Defense has been attempting to use the 8(a) program to foster the development of minority-owned firms capable of performing highly technological contracts of considerable value.[64] Under the 8(a) program a number of minority-owned firms have been receiving and successfully performing increasingly sophisticated Department of Defense contracts.[65] Secretary Carlucci stated that, despite their success in the program, these firms would have difficulty if they sought defense contracts on a competitive basis.[66]

Secretary Carlucci also highlighted some of the disadvantages of mandatory program termination: "[I]t does little good if they are graduated and fail, and then we have to train some new firm because we have a substantial investment now in a number of firms that are in the 8(a) program."[67]

Victor Rivera, Director of the Minority Business Development Agency of the Department of Commerce, testified that the appropriateness of the new fixed-term participation rule depends in large part upon how the program's purpose is understood:

> If. . .the 8(a) program [is to be used] as a tool for economic development [and] if. . .[the intent] is to use the 8(a) program to hire disadvantaged people to help stabilize communities. . .then obviously it doesn't make sense to graduate the most successful firms. The ones that should graduate, of course, are those who are not successful, that can't compete, or cannot find any market for their products.[68]

Non-8(a) Minority Procurement

Finding 5.3: All Federal agencies are required to establish numerical and percentage goals for minority participation in their procurement activities and report the results of their efforts to achieve those goals. Federal agency reporting demonstrates that Federal procurement activity represents significant and still unrealized business opportunities for minority entrepreneurs. The goal-setting requirements provide a necessary and effective management tool to increase minority business participation in Federal contracts and foster minority business development.

Although the 8(a) program is the single largest source of Federal contracts for minority-owned enterprises, minority-owned firms also seek and obtain Federal procurement contracts on a competitive basis outside of the 8(a) program.[69] Recognizing this, Congress included in Public Law 95-507 a provision requiring all Federal agencies to establish goals for the participation by small businesses and by small disadvantaged businesses in their procurement activities.[70] Such goals are to be established by each agency in conjunction with the Small Business Administration. If the agency and the Small Business Administration are unable to agree on established goals, the disagreement is submitted to the Administrator of the Office of Federal Procurement Policy (OFPP)[71] for a final determination.[72]

Implementation of this relatively simple legislative dictate has not been smooth. Jointly established goals were not set for fiscal year 1979,[73] and goals were not established for fiscal year 1980 until the beginning of the third quarter of that year.[74] Even then, the goals established were not based on any realistic appraisal of the actual potential for minority business participation in the procurement activities of the various agencies.[75] In seven cases, SBA and the agency were unable to agree on the goals, and

[64] Frank C. Carlucci, Deputy Secretary of Defense, U.S. Department of Defense, testimony, *Baltimore Hearing*, p. 172.
[65] Ibid., pp. 172–73.
[66] Ibid., p. 173.
[67] Ibid., p. 178.
[68] Victor Rivera, Director, Minority Business Development Agency, U.S. Department of Commerce, testimony, *Baltimore Hearing*, p. 204.
[69] U.S., Department of Commerce, Minority Business Development Agency, *Federal Agency Performance For Minority Business Development Fiscal Year 1980* (February 1981), p. 1.
[70] The law also addresses the participation of minority businesses as subcontracters in Federal procurement activity. 15 U.S.C. 627(d) (Supp. 1979).
[71] The Office of Federal Procurement Policy, in the Office of Management and Budget, is responsible for providing overall direction for Federal procurement policies, regulations, and procedures. 41 U.S.C.A. §§404, 405 (Supp. 1982).
[72] Pub. L. No. 95-507, Title II, §221, 92 Stat. 1770–1771, (codified as amended at 15 U.S.C.A. §644(g) (Supp. 1981)).
[73] *Small Business Preferential Procurement Programs, Hearing Before the Subcommittee on General Oversight of the Committee on Small Business,* House of Representatives, 96th Cong., 2d. Sess., Aug. 18 and Oct. 27, 1980, p. 72 (prepared statement of Bernard Kulik, Associate Administrator for Procurement Assistance, Small Business Administration).
[74] Ibid., p. 52 (testimony of Karen Hastie Williams, Administrator, Office of Federal Procurement Policy).
[75] Ibid., p. 51.

the impasse was submitted to OFPP for a final determination.[76]

Tables 5.1 through 5.4 show the proposed goals, the established goals, and the actual accomplishment for all Federal agencies with respect to 8(a) contracts, prime contracts for minority business enterprises, and total minority participation in Federal procurement contracts for FY 1980.[77] Minority participation in Federal contracting is represented in table 5.5 as a percentage of total procurement activity for each agency and for the entire Federal government. Based on a cumulative estimate that total Federal procurement for the year would be approximately $83.4 billion,[78] a minority business participation goal was established at approximately $3.5 billion[79] or slightly more than 4 percent. Although total Federal procurement exceeded the estimate by over $3.5 billion,[80] only 85 percent of the dollar goal for minority participation was achieved.[81] Of the 23 Federal agencies with substantial procurement activity, 13 fell short of their established minority participation goals for total procurement (see table 5.4).

For some agencies, the disparity between their established goals and actual performance was large enough to suggest that the goals were unrealistic. For example, the Department of Justice was able to exceed its overall MBE participation goal by over one-half, while the International Communications Agency (ICA) was unable to reach even 50 percent of its goal (see table 5.4). In 17 cases in 1980, actual agency performance differed from the established goal by more than 15 percent (see table 5.4). However, because those cases are split with eight agencies surpassing their goals by more than 15 percent and nine falling short by at least that amount, it does not appear that the goals were consistently set too high (see table 5.4). A more complete and accurate data base that will become available as the program is repeated in future years should measurably improve the computation of goals. Nevertheless, the process will always have to contend with the uncertainty of predicting government procurement activity. For example, despite having been calculated three-quarters of the way into the fiscal year, 13 of the 23 major procuring agencies in 1980 erred by greater than 15 percent in estimating their total procurement activity for the year (see table 5.1). In particular, HUD and ICA both underestimated the value of their total 1980 procurement activity by over 60 percent (see table 5.1). MBE participation goals are in large part based on these initial total procurement estimates. Difficulty in accurately calculating total procurement needs, a familiar and annually recurring administrative procedure, directly affects the establishment of realistic goals.

As table 5.1 shows, four agencies, the Departments of Defense and Energy, the National Aeronautics and Space Administration, and the General Services Administration are responsible for awarding over 87 percent of the dollar value of all Federal contracts. The Department of Defense is by far the largest source of Federal contracts, accounting for 70 percent of the value of all Federal procurement in FY 1980 and over 80 percent of the contracting activity of the four largest contracting agencies (see table 5.1). The inability of minority-owned businesses to secure a larger share of the procurement contracts of these four agencies, particularly the Department of Defense, is, in large part, responsible for the low level of minority business participation in Federal contracts overall. Moreover, despite having established FY 1980 minority participation goals that, for all but GSA, were on a percentage basis less than the overall goal for all Federal procurement, (see table 5.5), none of the four actually achieved their minority business participation goals (see table 5.4).[82]

[76] Those seven agencies were the Department of Defense, the Department of Energy, the Veterans Administration, the Department of Health and Human Services, the Department of Housing and Urban Development, the Department of State, and the Department of Education. *Small Business and the Federal Procurement System, Hearings Before the Subcommittee on General Oversight of the Committee on Small Business,* House of Representatives, 97th Cong., 1st Sess., June 18, 23, and 25, 1981, p. 321. (Hereafter cited as *Small Business and the Federal Procurement System.)*

[77] Table 5.3 represents all prime contracts awarded to minority businesses including both those awarded through the 8(a) program and those let through competitive bidding. Table 5.4 includes all prime contracts awarded to minority business enterprises and also represents minority participation in Federal contracts as subcontractors. Minority subcontracting goals and achievements are discussed separately later in this chapter.

[78] *Small Business and the Federal Procurement System,* p. 301.

[79] Ibid., p. 321.

[80] Ibid., p. 301.

[81] Ibid., p. 321.

[82] As table 5.5 indicates, the overall minority business participation goal for all Federal agencies totaled 4.25 percent of estimated procurement. In comparison, the goals for the Departments of Defense and Energy were 3.58 percent and 3.92 percent, respectively, and NASA's goal was 2.68 percent of its estimated

TABLE 5.1.
Total Procurement FY 1980 ($10,000 and over)

(in millions of dollars)

Agency	Estimated	Actual
Defense	$58,700	$60,922.61
Energy	7,400	8,602.37
NASA	4,359	4,393.891
GSA	1,989.514	2,157.674
TVA	1,920	980.6
VA	850	1,386.977
Interior	1,567.024	1,316.346
Agriculture	1,524.961	2,166.942
Transportation	1,500	1,336
HEW	1,414.161	1,483.632[a]
Commerce	357	226.291
Labor	375	332.804
EPA	300	362.407
Treasury	220	252
AID	272.107	236.270
HUD	206	169.967
Justice	155.3	235.093
State	50	57.787
NSF	163.606	155.273
FEMA	45.727	133.316
ICA	35	14.117
SBA	19	19.8
TOTAL	$83,423.400	$86,942.167

[a]*Consolidated figures from year-end reports by Departments of Health and Human Services (HHS) and Education; single FY 1980 goal was established with HEW before the split of that agency.*

Source: Small Business and the Federal Procurement System, Hearings Before the Subcommittee on General Oversight of the Committee on Small Business, *House of Representatives, 97th Cong., 1st sess., June 18, 23, and 25, 1981, p. 301.*

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TABLE 5.2
FY 1980 8(a) Goals ($10,000 and over)

(in million of dollars)

Agency	Agency's proposed goals	Established goal	Actual achievement	% of goal achievement
Defense	$ 680.0	$ 886.2	$ 713.6	80.52%
Energy	40.0	99.8	103.7	103.91
NASA	45.5	50.0	47.92	95.84
GSA	110.7	110.7	58.2572	52.63
TVA	2.1	2.1	1.1	52.38
VA	69.7	71.9	60.71[a]	84.44
Interior	45.4	60.0	66.172	110.29
Agriculture	20.0	28.2	39.972	141.74
DOT	80.0	80.0	89.1	111.38
HHS	46.032	49.716	57.755	116.17
Commerce	25.0	25.0	26.077	104.3
Labor	15.94	16.2	24.837	153.31
EPA	15.1	20.0	14.0	70.00
Treasury	7.2	7.2	9.0	125.00
AID	12.945	12.945	12.3	95.02
HUD	7.6	8.0	11.971	149.64
Justice	3.9	3.9	4.608	118.15
State	.8	.8	.311	38.88
NSF	.072	.072	0.	0.
FEMA	1.0	1.0	1.3322	132.22
ICA	.21	.21	.085	40.48
SBS	5.5	6.9	5.5	79.71
Education	9.491	13.3	14.2176	106.89
Others	9.3	9.3	7.4644	80.26
TOTAL	$1,253.490	$1,522.6	$1,369.9901	89.98%

[a]*U.S., Department of Commerce, Minority Business Development Agency,* Federal Agency Performance for Minority Business Development, *FY 1980, p.4.*

Source: Small Business and the Federal Procurement System, Hearings Before the Subcommittee on General Oversight of the Committee on Small Business, *House of Representatives, 97th Cong., 1st sess., June 18, 23, and 25, 1981, p. 322.*

TABLE 5.3
FY 1980 Total Minority Business Enterprise Prime Contracting Goals ($10,000 and over)

(in millions of dollars)

Agency	Agency's proposed goal	Established goal	Actual achievement	% of goal achievement
Defense	$480.0	$ 634.0	$492.7[a]	77.71%
Energy	20.0	46.4	15.6	33.62
NASA	12.0	20.0	24.53	122.65
GSA	40.4	40.4	43.1535	106.82
TVA	8.5	8.5	10.0	117.65
VA	49.6	51.2	41.014[a]	80.12
Interior	86.6	91.0	69.893	76.81
Agriculture	24.0	20.0	14.7	73.5
DOT	20.0	20.0	33.3	166.5
HHS	21.512	21.512	44.143	205.2
Commerce	16.0	16.0	34.127	213.29
Labor	20.62	21.0	18.397	87.6
EPA	3.5	2.5	4.275	171.0
Treasury	4.1	4.16	9.0	216.35
AID	7.691	7.691	4.514	58.69
HUD	15.2	19.0	32.5	171.05
Justice	3.5	3.4	7.126	209.59
State	1.0	1.0	.966	96.6
NSF	.07	.125	.210	168.0
FEMA	.3	1.365	.9393	68.81
ICA	.14	.14	.10	71.43
SBA	.2	.9	4.2	466.67
Education	12.008	18.573	29.11	156.73
Others	11.8	11.8	1.03	8.73
TOTAL	$858.741	$1,059.6	$935.5278	88.29%

[a] *U.S., Department of Commerce, Minority Business Development Agency,* Federal Agency Performance for Minority Business Development, *FY 1980, p. 4.*

Source: Small Business and the Federal Procurement System, Hearings Before the Subcommittee on General Oversight of the Committee on Small Business, *House of Representatives, 97th Cong., 1st sess., June 18, 23, and 25, 1981, p. 328.*

TABLE 5.4
Total Minority Business Enterprise Contracting, FY 1980

(in millions of dollars)

Agency	Agency's proposed goal	Established goal	Actual achievement	% of goal achievement
Defense	$1,600.0	$2,100.0	$1,659.4	79 %
Energy	156.0	290.0	280.5	96.7
NASA	110.0	117.0	115.375	98.6
GSA	204.8	206.0	113.0447	54.88
TVA	15.1	15.1	22.0	145.7
VA	91.4	146.0	68.0	46.6
Interior	163.0	190.0	180.981	95.25
Agriculture	50.8	55.0	60.072	109.22
DOT	140.0	140.0	148.0	105.71
HHS	92.573	92.573	108.774	117.5
Commerce	43.2	43.2	34.127	79.0
Labor	40.0	40.0	46.046	115.12
EPA	23.0	23.0	19.325	84.02
Treasury	12.0	12.0	18.73	156.08
AID	22.1	22.1	16.829	76.15
HUD	27.5	27.5	44.7877	162.86
Justice	7.5	7.4	11.8	159.46
State	1.84	1.84	1.277	69.4
NSF	.8163	.8163	.5219	63.93
FEMA	2.7	2.7	2.3825	88.24
ICA	.39	.39	.1908	48.92
SBA	5.7	7.8	9.7	124.36
Education	17.475	17.475	47.1697	269.93
Others	12.8	12.8	5.4957	42.94
TOTAL	$2,840.6943	$3,544.6	$3,014.529	85.04%

Source: Small Business and the Federal Procurement System, Hearings Before the Subcommittee on General Oversight of the Committee on Small Business, *House of Representatives, 97th Cong., 1st sess., June 18, 23, and 25, 1981, p. 321.*

TABLE 5.5
Minority Business Enterprise Participation in Federal Procurement, FY 1980

Agency	Total MBE contracting goal as a percentage of estimated procurement	Total MBE procurement as a percentage of total actual procurement
Defense	3.58	2.72
Energy	3.92	3.26
NHSA	2.68	2.62
GSA	10.35	5.24
TVA	.79	2.24
VA	17.18	4.90
Interior	12.12	13.75
Agriculture	3.61	2.77
Transportation	9.33	11.08
HHS	7.78[a]	10.51[b]
Commerce	12.1	15.08
Labor	10.66	13.84
EPA	7.66	5.33
Treasury	5.45	7.43
AID	8.12	7.12
HUD	13.35	26.35
Justice	4.76	5.02
State	3.68	2.21
NSF	.5	.34
FEMA	5.9	1.79
ICA	1.11	1.35
SBA	41.05	48.99
Education	7.78[a]	10.51[b]
TOTAL	4.25	3.47

[a] *Combined goals of HHS and Education as a percentage of the estimated total procurement for HEW.*

[b] *Combined MBE contracting activity of HHS and Education as a percentage of the total actual procurement for HEW.*

Source: Tabulations based on data from Small Business and the Federal Procurement System, Hearings Before the Subcommittee on General Oversight of the Committee on Small Business, *House of Representatives, 97th Cong., 1st sess., June 18, 23, and 25, 1981, pp. 301, 321.*

In fact, it was the achievement by some of the smaller contracting agencies which surpassed their targets that prevented the overall Federal effort from being less successful than it was. Ten agencies, with combined procurement activity only 10 percent the value of the four large procurement agencies, exceeded their goals even though, in most cases, they had percentage goals higher than those of the four larger contracting agencies and higher than the overall Federal goal (see tables 5.4 and 5.5). While DOD, DOE, NASA, and GSA were unable to reach their respective goals of 3.58, 3.92, 2.68, and 10.35 percent minority business participation, the Departments of Transportation, Labor, Treasury, Housing and Urban Development, and SBA were all able to exceed their established goals of 9.33, 10.66, 5.45, 13.35, and 41.05 percent respectively (see tables 5.4 and 5.5).

In an attempt to alleviate some of the problems that delayed the establishment of goals for 1980, the Office of Federal Procurement Policy issued guidelines clarifying reporting requirements and goal-setting procedures for FY 1981.[83] OFPP required each agency to submit to SBA by August 15, 1980, along with other data, estimates, and goals[84] the following information:

—An estimate of the total dollar value of all prime contracts to be awarded.

—An estimate of the total dollar value of all prime contracts of $10,000 or more to be awarded.

—A dollar and percentage goal for prime contracts valued at $10,000 or more to be awarded to disadvantaged small business firms.

—A dollar and percentage goal for prime contracts to be awarded under the 8(a) program.

—An estimate of prime contracts to be made to large business concerns owned and controlled by socially and economically disadvantaged individuals.[85]

Tables 5.6 and 5.7 disclose the minority participation goals and actual achievements for all Federal agencies with respect to 8(a) and other prime contracts valued at $10,000 and over for FY 1981 as reported by SBA. Those tables show that actual achievement for all agencies combined exceeded the established goal for both 8(a) and non-8(a) prime contracts. As in other years, the actual achievements of those large agencies that are responsible for a substantial portion of all Federal contracting dictated, in large part, the overall result.

In contrast to FY 1980, the figures reveal that DOD and NASA exceeded their 8(a) goals in FY 1981. SBA also reports that DOD, DOE, and GSA also exceeded their non-8(a) prime contracting goals but that GSA fell short of its 8(a) goal and NASA fell short of its non-8(a) prime contracting goal in FY 1981 (see tables 5.6 and 5.7).

Interestingly, however, the data reported by SBA are, in some significant ways, inconsistent with similar data reported by OFPP's Federal Procurement Data System (FPDS) (see tables 5.8 and 5.9). For example, table 5.9 shows the dollar value of non-8(a) contracts valued over $10,000 to minority and small disadvantaged businesses for all Federal agencies for FY 1981 as reported by FPDS. According to FPDS, the overall value of such contracts was $1,134 million, more than $300 million, or 28 percent less than reported by SBA and also less than the established goal (compare tables 5.7 and 5.9). The disparity is most striking with regard to the contracting activities of DOD. Whereas SBA reports that DOD awarded $791.2 in non-8(a) contracts to small disadvantaged businesses, FPDS reports that such contracts totaled only $679.1 million, significantly below the established goal of $750.1 million (see tables 5.7 and 5.9). Clearly, at the very least, improved reporting is required to reconcile disparities of such magnitude and provide a reliable data

procurement. On the other hand, GSA established a minority participation goal that was over 10 percent of the value of its anticipated procurements, but, as table 5.4 indicates, was only able to achieve 55 percent of this goal. DOD, DOE, and NASA also fell short of their targets but not by as wide a margin. NASA's actual minority procurement contract in FY 1980 totaled 115.4 million, or 98 percent of its established goal of $117 million; DOE awarded $280.5 million in contracts to minority-owned firms, or 97 percent of its established goal, while DOD only achieved 79 percent of its minority contracting goal of $2.1 billion. Ibid.

[83] *Small Business and the Federal Procurement System,* p. 190 (prepared testimony of Michael Cardenas, Administrator, Small Business Administration).

[84] OFPP's guidance on goal setting in addition to those required by Pub. L. 95-507 also concerned preferential procurement programs under Executive Order 12138 (May 18, 1979), which established a National Women's Enterprise Policy; Executive Order 11625, which authorized the Secretary of Commerce to develop specific program goals for the minority business enterprise program; Executive Order 12073, which directs the Administrator of General Services to establish goals for concerns in Department of Labor determined labor surplus areas; and Pub. L. 96-302, which authorizes partial and total labor surplus area set-asides. Office of Federal Procurement Policy Guidance on Goal Setting Under Procurement Preference Programs (July 16, 1980) reprinted in *Small Business Preferential Procurement Programs,* pp. 17-19.

[85] Ibid.

TABLE 5.6

SBA Summary/Analysis on FY 1981 Total 8(a) Contracting Goals Established by Federal Procuring Agencies

1981 Projected Goals Versus Actual Achievements

(in millions)

Federal agency	Federal agency's initially proposed dollar goal	Final dollar goal established between Federal agency/SBA	Federal agency's actual achievement
DOD	$ 765.0	$ 886.2	$1,083.0
DOE	75.0	75.0	91.7
NASA	51.0	56.0	64.6
GSA	78.2	81.5	75.4
TVA	2.5	2.5	5.8
VA	116.0	116.0	56.1
DOI	75.0	75.0	86.1
DOA	51.6	51.6	23.1
DOT	94.0	94.0	86.0
HHS	57.8	57.8	46.2
DOC	14.1	14.1	22.9
DOL	18.5	18.5	20.5
EPA	24.1	24.1	14.9
Treasury	10.0	10.0	5.8
AID	14.0	14.0	11.0
HUD	9.4	9.4	5.3
DOJ	2.7	2.7	8.3
State	2.0	2.0	.9
NSF	.1	.1	.1
FEMA	1.7	1.7	1.3
ICA	.4	.4	.1
SBA	3.0	3.0	4.6
Education	13.3	15.0	21.7
ACTION	2.0	2.0	2.0
PADC	1.0	1.0	*
All others	12.1	12.1	*
TOTAL	$1,494.5	$1,625.7	$1,737.4

*Final FY 1981 achievement figures not yet received

Source: R. F. McDermott, Associate Administrator for Procurement and Technology Assistance, Small Business Administration, letter to Paul Alexander, Acting General Counsel, U.S. Commission on Civil Rights, Mar. 12, 1982.

TABLE 5.7
SBA Summary/Analysis on FY 1981 Total Prime Minority Business Enterprise Contracting Goals ($10,000 and over) Established by Federal Procuring Agencies (excluding 8(a))

1981 Projected Goals Versus Actual Achievements

(in millions)

Federal agency	Federal agency's initially proposed dollar goal	Final dollar goal established between Federal agency/SBA	Federal agency's actual achievement
DOD	$530.0	$ 750.1	$ 791.2
DOE	15.0	15.0	109.9
NASA	21.0	28.0	22.7
GSA	52.1	62.2	81.4
TVA	10.0	10.0	7.4
VA	66.03	66.0	57.2
DOI	45.0	45.0	75.3
DOA	17.4	17.3	32.8
DOT	26.0	26.0	20.0
HHS	19.6	24.5	87.8
DOC	8.8	8.8	24.4
DOL	30.3	30.3	35.8
EPA	3.0	3.0	1.7
Treasury	3.6	3.6	7.6
AID	8.0	8.0	2.8
HUD	18.2	23.5	18.4
DOJ	1.4	2.7	3.8
State	1.2	1.2	.3
NSF	.3	.25	.35
FEMA	1.1	1.1	.2
ICA	*	*	.0
SBA	3.8	3.8	5.5
Education	13.3	17.7	55.6
ACTION	.3	.25	.1
PADC	2.5	2.0	*
All others	5.0	5.0	**
TOTAL	$910.9	$1,155.3	$1,442.3

*No FY 1981 goal established
**Final FY 1981 achievement figures not yet received

Source: R. F. McDermott, Associate Administrator for Procurement and Technology Assistance, Small Business Administration, letter to Paul Alexander, Acting General Counsel, U.S. Commission on Civil Rights, Mar. 12, 1982.

TABLE 5.8
8(a) Contract Actions Over $10,000, Fiscal Year 1981

Agency	Dollar Amount (in millions)
DOD	$1057.4
Energy	79.6
NASA	63.8
GSA	127.5
TVA	5.5
VA	58.8
Interior	81.8
Agriculture	17.9
Transportation	86.4
HHS	29.1
Commerce	25.7
Labor	20.1
EPA	13.8
Treasury	3.9
AID	10.1
HUD	3.7
Justice	8.2
State	.3
NSF	(.04)
FEMA	1.3
ICA	.1
SBA	4.7
Education	4.8
ACTION	1.9
PADC	.8
All others	6.1
TOTAL	$1713.3

Source: Office of Management and Budget, Office of Federal Procurement Policy, Federal Procurement Data Center, Special Analysis 3, Federal Contract Actions to Minority and Small Disadvantaged Businesses, *Mar. 15, 1982, table 3.1B, pp. 6 and 7.*

TABLE 5.9
Federal Contract Actions Over $10,000 (Excluding 8(a)) to Minority and Small Disadvantaged Businesses, Fiscal Year 1981

Agency	Dollar Amount (in millions)
DOD	$ 679.1
Energy	27.5
NASA	19.3
GSA	93.2
TVA	2.7
VA	17.3
Interior	148.0
Agriculture	16.7
Transportation	17.7
HHS	65.8
Commerce	2.5
Labor	16.9
EPA	2.8
Treasury	1.4
AID	5.1
HUD	.9
Justice	3.1
State	8.8
NSF	.2
FEMA	.2
ICA	1.6
SBA	.4
Education	1.1
ACTION	.1
PADC	.8
All others	.8
TOTAL	$1,134.0

Source: Tabulations based on data from Office of Management and Budget, Office of Federal Procurement Policy, Federal Procurement Data Center, Special Analysis 3, Federal Contract Actions to Minority and Small Disadvantaged Businesses, *Mar. 15, 1982, table 3.1B, pp. 6 and 7.*

base upon which to establish goals and evaluate achievement.

The goal-setting and reporting requirements of Public Law 95–507 have, nevertheless, had two positive consequences for minority business participation in government contracts. First, they have highlighted the limited extent of minority business participation (see table 5.5). They also have compelled Federal agencies to identify and take steps to remove barriers and increase minority business participation. The Small Business Administration has found that goal setting is a particularly effective tool that encourages the Federal agencies to concentrate their efforts in a manner likely to produce results.[86]

Deputy Secretary of Defense Frank Carlucci described some of the obstacles to greater MBE participation in defense contracts:

> Some of the traditionalists in the contracting area. . .view anything that is a diversion from the straight-by-the-book contracting practice as an obstruction, and we have to continue to bring them along. . .
>
> [Additionally] some of the firms are intimidated by the very complexity of our process. We are making intensive efforts to simplify that process.[87]
>
> [Another reason for the limited number of minority firms participating in defense contracts is that] a large volume of those dollars must necessarily go to large weapons systems, nuclear aircraft carriers, F-16 aircraft, and there are no minority firms. . .in that area.[88]

Nevertheless, the Defense Department has found that Public Law 95–507 has had a noticeable positive impact in making defense contracts available to minority-owned businesses in large part because the goal-setting requirements have given the Department's minority business participation program greater visibility and importance.[89] The percentage of defense contracts going to minority business remains small. Since the enactment of Public Law 95–507, however, minority business participation in procurement activity has been increasing faster at DOD than at other agencies.[90] Deputy Secretary Carlucci testified that there is a growing enthusiasm in DOD for the program because it is cost effective and has produced benefits for the Department.[91] In particular, the data collection and goal-setting requirements of the law have proven to be a meaningful and effective tool of management:

> I think one of the most valuable things we can do in this area is [develop] good data so that we know how effective our programs are, and try to look at those gaps that have been identified. . . .
>
> I view the goals in this area as simply part of good management practice. Whatever we do in the Defense Department ought to be goal oriented, whether it is small business or minority business, or reforming the contracting process, or developing a rapid deployment force. We need to set goals so that our people will have some target to shoot for, and we need to measure progress against those goals.[92]

Subcontracting

Finding 5.4: The subcontracting provisions of Public Law 95–507 provide a strong tool with which to ensure the maximum practicable participation of small and small disadvantaged businesses in Federal procurement contracts. Implementation of these subcontracting requirements, however, has been dilatory and half-hearted and, despite some progress in agency performance since 1979, the full potential of the law is still not being realized.

Public Law 95–507 also requires that every large[93] Federal solicitation of a bid or solicitation for a negotiated contract contain a subcontracting plan. The plan is required to include percentage goals for the utilization of small and small disadvantaged subcontractors, a description of the efforts the contractor will make to assure such participation, an assurance that the contractor will require all subcontractors to adopt a similar subcontracting plan, and assurances that the contractor will submit periodic reports.[94] Thus, even if minority-owned firms cannot obtain certain large high technology con-

[86] Michael Cardenas, former Administrator, Small Business Administration, testimony, *Small Business and the Federal Procurement System*, p. 190.

[87] Carlucci Testimony, *Baltimore Hearing*, p. 177.

[88] Ibid., p. 175.

[89] Norma Leftwich, Director, Small and Disadvantaged Business Utilization, U.S. Department of Defense, testimony, *Baltimore Hearing*, p. 180.

[90] Carlucci Testimony, *Baltimore Hearing*, p. 171. Secretary Carlucci testified that despite the proposed large increases in the Department's budget over the next few years, the rate of growth of minority participation is expected to slow down because much of the increase is for large weapons systems and high technology contracts for which Secretary Carlucci said there are few available minority firms. Ibid., pp. 171, 175.

[91] Ibid., p. 172.

[92] Ibid., p. 180.

[93] A large contract is one that may exceed $1 million in the case of a contract for the construction of a public facility, or $500,000 for all other contracts. 15 U.S.C. §637(d) (Supp 1979).

[94] 15 U.S.C. §637(d)(4)–(6) (Supp. III 1979). In addition, all contracts exceeding $10,000, except those for personal services or

tracts, such as those for Department of Defense weapons systems, the legislation seeks to ensure that they, nevertheless, participate in and benefit from such projects as subcontractors.

The Small Business Administration is authorized to assist agencies and businesses in complying with these requirements and to review solicitations for any large contract to determine the maximum practicable opportunity for participation by small and small disadvantaged businesses. SBA is also authorized to evaluate compliance with subcontracting plans.[95] At the conclusion of each fiscal year, the Small Business Administration is required to submit to Congress a report on subcontracting plans that have been found acceptable by Federal agencies, but that the SBA determines do not contain the maximum practicable opportunities that the law seeks to foster.[96]

To ensure compliance, Congress provided that an otherwise successful bidder who fails to negotiate a subcontracting plan becomes ineligible to be awarded the contract; similarly, an apparent low bidder selected to receive a contract who fails to submit a subcontracting plan is ineligible to be awarded the contract.[97] Congress also provided that the failure of any contractor or subcontractor to undertake its best efforts to comply with the subcontracting plan constitutes a material breach of the contract or subcontract.[98]

At the Commission's hearing in November 1981, Deputy Secretary of Defense Frank Carlucci strongly endorsed these minority subcontracting requirements:

> I think one of the areas that might be fruitful. . .[for increasing minority business participation in DOD contracts]. . .might be in the subcontracting area. The subcontracts going to minority businesses have increased rather dramatically, and that enables them to build a skill base gradually. . . .[The statutory mandate] has been helpful by obliging us to have goals set by the prime contractor for subcontracts going to minority business.[99]

James Rouse, the private developer responsible for Baltimore's Harborplace, also stressed the value of these subcontracting requirements:

> The vigorous advance[ment] and expansion of. . .[Federal minority subcontracting requirements has been]. . .very important. I believe that. . .these kinds of contractual relationships that put pressure on business to do better are important steps, even though at times they may be encumbering to a process that one wishes he didn't have to bother with, but it takes pressures; it takes endless, endless, endless pressure.
>
> I think business may be willing to [make such a commitment without the pressure of requirements], but I think it won't.[100]

In December 1979 the House of Representatives, Subcommittee on General Oversight and Minority Enterprise of the Committee on Small Business, held hearings reviewing the implementation of Public Law 95-507 and found serious deficiencies in the implementation of the subcontracting requirements.[101] As of that date, 14 government agencies had issued almost 1,000 solicitations without the required subcontracting notices and over 1,200 contracts valued at approximately $4.6 billion had been awarded without the requisite subcontracting plans. As of October 24, 1979, 12 months after enactment of Public Law 95-507, only 441 contract solicitations from 18 agencies contained the requisite subcontracting notice; 10 agencies reported no contracts awarded with subcontracting plans, and 4 agencies reported a total of 80 contracts awarded with plans, of which 68 came from a single agency (DOE).[102] Although the Office of Federal Procurement Policy had issued regulations governing the implementation of the subcontracting program 5 months earlier, in April 1979, some agencies had yet to implement it.[103]

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those performed outside the United States, must contain a clause obligating the contractor "to the fullest extent consistent with the efficient performance" of the contract to carry out the policy of ensuring that small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals participate in Federal contracting to the maximum extent practicable. *Id.* §637(d)(2), (3).

95 15 U.S.C. §637(d)(10) (Supp. III 1979).

96 15 U.S.C. §637(d)(11) (Supp. III 1979).

97 15 U.S.C. §637(d)(4)(D) and (5)(B) (Supp. III 1979).

98 15 U.S.C. §637(d)(8).

99 Carlucci Testimony, *Baltimore Hearing*, p. 175.

100 James C. Rouse, testimony, *Baltimore Hearing*, pp. 256–57.

101 U.S., Congress, House of Representatives, Subcommittee on General Oversight and Minority Enterprise of the Committee on Small Business, *Implementation of Subcontracting Provisions of Public Law 95-507 (Part 1): Hearing*, 96th Cong., 1st sess., Dec. 4, 1979.

102 Ibid., p. 3

103 Ibid. At the same hearing, Congressman Joseph P. Addabbo listed deficiencies of several departments as of May 22, 1979. The most flagrant were as follows: The Department of Health, Education, and Welfare issued 85 deficient solicitations and awarded 99 contracts totaling $133,968,780 without minority subcontracting plans even though the law and regulations clearly required them. The Department of Transportation has identified 19 solicitations originally published without the notice and

John J. LaFalce, chairman of the House subcommittee, summed up his findings: "I want to make the observation that it appears to me that at best we have gross dereliction of duty on the part of the Federal agencies with respect to the implementation of the [subcontracting requirements]."[104]

In February 1980 the subcommittee held a followup hearing. Even though considerable activity had taken place following the December 1979 hearing, further implementation difficulties were reported. In the interim, then SBA Administrator A. Vernon Weaver had sent a memorandum to all SBA regional administrators reminding them to implement forcefully Public Law 95-507 and to the heads of all Federal departments and agencies asking that its implementation be given their personal attention. In addition, President Carter had sent a memorandum to the heads of all departments and agencies, strongly endorsing the new law, exhorting total compliance, and stating that subcontracting goal achievements should be critical elements in evaluating the performance of procurement officials.[105]

Despite these actions, the Office of Federal Procurement Policy reported that 1,680 contracts for $8.8 billion were awarded without the required minority subcontracting provisions. Of these, 822, worth $1.9 billion, were modified or were being modified to conform to the requirement. Table 5.10 illustrates the extent of noncompliance by agency.

At this followup subcommittee hearing, William A. Clement, Jr., Associate Administrator of the SBA, testified that agency performance with regard to the subcontracting requirements of Public Law 95-507 had been so unsatisfactory that "[w]e have rejected each and every goal submitted by each agency with regard to goals for small and disadvantaged businesses."[106]

The OFPP's Acting Administrator reported that part of the performance problem resulted from difficulties attempting to determine adequate minority subcontracting goals:

> The wide variety of factors that must be considered in negotiating a contract goal have led to considerable disagreement and confusion between Government personnel and contractors in attempting to develop plans, which in turn has led to delays in contract awards.[107]

Yet another oversight hearing was held in August 1980, at which time Congressman LaFalce noted that contracting officers in many agencies still had not received information on Public Law 95-507 from their agency heads, and there was "widespread confusion" among contracting officers on the priority of programs.[108] Although some progress had been made in correcting the deficiencies revealed at the earlier subcommittee hearings,[109] serious problems remained with the implementation of the subcontracting requirements of Public Law 95-507. For example, the Department of Defense submitted the information shown in table 5.11, indicating that it had met its small business subcontracting goals only slightly over half the time.

In addition, a comparison of small business participation as subcontractors in Federal contracts by agency revealed that in some cases the value of subcontracts awarded to small and small disadvantaged businesses decreased between FY 1979 and FY 1980. Table 5.12 discloses the dollar value of subcontracts awarded by agency for those years and the amounts received by small and small disadvantaged business.

Another subcommittee hearing was held in June 1981, at which Chairman LaFalce found particular fault with the Department of Defense's efforts to implement the subcontracting provisions:

> In my opinion the small business subcontracting levels achieved by DOD represent nothing more than business as usual. With two-thirds of all Federal procurements, DOD continues to ignore the express demands of Congress that

awarded 18 contracts worth $155 million without plans. The General Services Administration—which instructed other agencies to implement the law—advertised 437 solicitations without the requisite notice and awarded 246 contracts for $306,351,761 that did not have minority subcontracting plans. The Department of Defense advertised 350 solicitations without the requisite notice and awarded 773 contracts for $3.85 billion without plans. Ibid., pp. 5-6.

[104] Ibid., p. 98.

[105] U.S., Congress, House of Representatives, Subcommittee on General Oversight and Minority Enterprise of the Committee on Small Business, *Implementation of Subcontracting Provisions of Public Law 95-507 (Part 2): Hearing*, 96th Cong., 2d sess., Feb. 10, 1980, pp. 26-27.

[106] Ibid., p. 11.

[107] Ibid., p. 7.

[108] U.S., Congress, House of Representatives, Subcommittee on General Oversight and Minority Enterprise of the Committee on Small Business, *Small Business Preferential Procurement Programs: Hearings*, 96th Cong., 2d sess., Aug. 18 and Oct. 17, 1980, p. 3.

[109] Of more than 500 contracts that were deficient at the time of the February hearing, 281 valued at $1.335 billion had acceptable subcontracting plans; 173 valued at $297 million had expired; 3 valued at $3 million had been terminated; and 54 valued at $229 million were in various stages of negotiations to receive acceptable subcontracting plans. Ibid., p. 44.

TABLE 5.10
Contract Modification Status

[Dollar amounts in thousands]

Agency	Contracts: Without (required clause) Number	Amount	Contracts: Modified (or being modified) Number	Amount
1. Labor	9	$ 7,000	7	$ 5,000
2. Agriculture	11	29,000	8	19,000
3. State	2	3,000	2	3,000
4. AID	7	8,000	7	8,000
5. Treasury	16	110,000	—	—
6. Interior	4	8,000	3	5,000
7. HUD	3	9,000	3	9,000
8. Commerce	6	4,000	4	3,000
9. TVA	4	6,000	4	6,000
10. Transportation	18	155,000	15	126,000
11. NASA	3	68,000	3	68,000
12. Justice	8	8,000	8	8,000
13. Energy	4	25,000	4	25,000
14. HEW	91	89,000	80	88,000
15. Defense	1,158	7,200,000*	463	1,000,000
16. GSA	322	995,000	197	141,000
17. VA	1	850	1	850
18. National Science Foundation	10	27,000	10	27,000
19. Federal Emergency Management Agency	2	1,000	2	1,000
20. Federal Home Loan Bank Board	1	2,000	1	2,000
TOTAL	1,680	$8,800,000	822	$1,900,000

**The Department of Defense was still reviewing 671 contracts totaling $5.1 billion to determine whether they could or should be modified.*

Source: U.S., Congress, House of Representatives, Subcommittee on General Oversight and Minority Enterprise of the Committee on Small Business, Implementation of Subcontracting Provisions of Public Law 95-507 (Part 2): Hearing, *96th Cong., 2d sess., Feb. 10, 1980, p. 8.*

TABLE 5.11
Department of Defense Comparative Small Business Subcontract Performance
[1st half fiscal year 1979 versus same period 1980]

[Dollars in millions]

				Fiscal year 1980	
Fiscal year	**Total awards**	**SB awards**	**Percent**	**Goal**	**Percent**
USA:					
1979	$ 324.2	$ 156.2	48.2		
1980	573.7	267.1	46.6	$ 425	62.8%
USN:					
1979	1,036.9	454.9	43.9		
1980	1,507.0	585.8	38.9	1,122	52.2
USAF:					
1979	3,312.6	1,046.7	31.6		
1980	4,365.8	1,396.6	32.0	2,471	56.5
DLA:					
1979	4,805.3	2,376.6	49.5		
1980	6,339.1	3,201.0	52.1	6,320	50.6
DOD:					
1979	9,479.0	4,034.4	42.6		
1980	12,785.6	5,550.6	43.4	10,338	53.7

Source: U.S., Congress, House of Representatives, Subcommittee on General Oversight and Minority Enterprise of the Committee on Small Business, Small Business Preferential Procurement Programs: Hearings, *96th Cong., 2d sess., Aug. 18 and Oct. 17, 1980, p. 86.*

TABLE 5.12

Comparative Analysis of Total Dollar Awards by Government Agencies, First 6 Months Fiscal Years 1979 and 1980

[In thousands of dollars]

	Prime contract awards										Subcontracting awards					
	Total dollars awarded		To small business		Total awards[1]		8(a) awards[1]		Direct awards[1]		Total dollars subcontracted		To small business		To small disadvantaged business	
	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980	1979	1980
Departments:																
Agriculture	762.354	1.106.838	403.874	689.534	11.519	10.552	8.007	7.761	3.512	2.791	(2)	11.508	(2)	(2)	(2)	922
Commerce	119.586	113.960	64.044	47.107	10.628	9.973	5.936	8.517	4.692	1.456	5.682	6.612	1.528	2.825	858	70
Defense	30.371.900	29.483.500	5.556.300	5.624.300	444.900	540.000	288.600	337.800	156.300	202.200	9.924.500	12.785.600	4.278.600	5.550.600	153.800	202.900
Energy	5.458.755	4.522.028	237.990	100.956	14.893	13.219	7.053	9.008	7.840	4.211	748.266	980.338	353.686	479.259	22.350	33.970
HHS	300.268	337.073	64.316	80.987	25.110	32.718	6.223	5.821	18.887	26.897	22.108	15.649	11.403	11.803	3.241	2.653
HUD	129.785	83.332	60.879	58.996	14.622	14.730	(2)	(2)	(2)	(2)	(2)	(2)	3.143	243	62	30
Interior	861.643	828.145	214.326	230.689	45.956	39.525	7.224	13.218	38.732	26.307	210.515	157.258	56.597	35.515	24.060	24.157
Justice	142.944	172.396	56.998	64.660	2.381	3.755	878	1.234	1.503	2.521	(2)	(2)	(2)	(2)	(2)	(2)
Labor	183.000	179.300	36.600	36.500	14.600	21.800	5.300	5.600	9.400	16.200	13.500	18.800	(2)	11.800	800	800
State	17.216	46.802	8.108	26.476	1.530	2.258	118	105	1.412	2.153	(2)	(2)	(2)	(2)	(2)	(2)
Transportation	333.171	431.108	141.932	212.141	32.883	29.212	14.265	22.488	18.618	6.724	17.951	84.000	7.132	39.009	1.492	17.882
Treasury	96.586	172.660	4.205	8.727	3.145	5.323	1.564	3.396	1.581	1.927	(2)	(2)	(2)	(2)	(2)	(2)
Administration:																
GSA	919.625	986.010	355.237	390.167	38.117	51.120	17.771	18.138	20.346	32.982	20.435	(2)	1.874	120.009	1.078	6.724
NASA	1.805.100	2.047.800	146.800	158.400	27.400	32.200	18.700	21.900	8.700	10.300	377.900	529.500	131.800	163.400	18.400	22.000
VA	631.411	924.375	280.729	357.287	19.753	21.600	13.402	13.102	6.351	8.498	468	80.185	468	16.278	0	458
Agencies:																
ACTION	13.785	13.053	3.709	4.459	319	1.762	196	1.667	123	95	0	0	0	0	0	0
AID	38.600	61.699	5.441	9.323	624	3.013	587	2.735	137	278	(2)	(2)	(2)	(2)	(2)	(2)
EPA	126.162	151.351	40.753	62.052	9.569	8.609	6.178	6.238	3.391	1.563	1.833	2.189	1.068	1.563	125	367
ICA	25.406	9.789	4.829	4.301	47	4	0	0	47	4	0	0	0	0	0	0
Other independent establishments:																
NSF	88.687	92.303	2.337	1.782	0	0	0	0	0	0	[3]12.038	6.562	[3]11.471	2.958	[3]568	176
TVA	904.762	396.868	151.740	33.468	1.728	2.372	0	0	1.728	2.372	(2)	363	(2)	275	(2)	2
Total	43.331.746	42.160.390	7.841.147	8.202.312	719.724	843.745	402.002	478.728	303.300	349.749	11.355.196	14.678.564	4.858.770	6.435.537	226.834	313.111

[1]To small disadvantaged business.
[2]Data not available.
[3]Data not available for 6 mo. only. Figures represent subcontracting award data for entire fiscal year 1979.

Source: U.S., Congress, House of Representatives, Subcommittee on General Oversight and Minority Enterprise of the Committee on Small Business. Small Business Preferential Procurement Programs: Hearings. *96th Cong., 2d sess., Aug. 18 and Oct. 17, 1980, p. 93.*

small business be provided with an opportunity to compete for an equitable share of Federal procurements.[110]

At the June hearing, Administrator Michael Cardenas explained that SBA had determined that it was required to review proposed subcontracting plans before they were finalized and advise agency contracting officials of any inadequacies it found. To achieve this, SBA placed procurement center representatives (PCRs)[111] in 52 acquisition centers, or Federal purchasing offices, around the country to review proposed subcontracting plans.[112] The PCRs reviewed over 5,000 proposed subcontracting plans during FY 1980 and made specific recommendations for improvement in 2,423 instances. Further negotiations between the contracting agency and the proposed prime contractor usually resulted in sufficient improvement. Mr. Cardenas reported: "In only 212 instances during fiscal year 1980 did we determine that the plan finally accepted by the contracting. . .[agency]. . .did not provide maximum practicable opportunity for subcontracting to small and small disadvantaged businesses."[113]

However, he also noted that in FY 1981 the PCRs reviewed over 400 proposed subcontracting plans per month and returned about 35 percent of the plans to contracting officers with specific recommendations. He concluded: "Although we have noticed a trend toward improvement of subcontracting plan quality, we are not satisfied that maximum practicable subcontracting opportunities are routinely being provided."[114] Final FY 1981 figures bear out this observation. According to the FY 1981 report that it submitted to Congress, SBA reviewed 5,837 proposed subcontracting plans and returned 2,007 of these, over 34 percent, to the contracting agencies with specific recommendations for improvement. Of the 2,007 plans found unacceptable by SBA, the agencies failed to negotiate improvement in 402 of the contracts and awarded them with subcontracting plans that the SBA had found inadequate.[115]

Finding 5.5: The Minority Business Development Agency of the Department of Commerce lacks the capability to provide the technical assistance that minority entrepreneurs require and has, in Baltimore, consistently failed to coordinate the various Federal and federally funded business development programs.

The Minority Business Development Agency (MBDA) in the Department of Commerce is the Federal agency responsible for fostering minority business development. The Office of Minority Business Enterprise (OMBE), predecessor to MBDA, was created in 1969 under Executive Order 11458. OMBE was to serve as the focal point in the effort to assist in the establishment of new minority enterprises and the expansion of existing ones.[116] The Secretary of Commerce was directed to coordinate the plans, programs, and operations of the Federal Government in order to preserve and strengthen minority business enterprise.[117] In 1971 Executive Order 11625 was promulgated, expanding further the Department of Commerce's role as the Federal agency responsible for minority business development.[118] In FY 1980 OMBE underwent a major reorganization,[119] and MBDA was created. MBDA has four functions: (1) to fund public and private organizations to provide management and technical assistance to minority businesses; (2) to be responsible for coordinating all Federal programs related to minority enterprise; (3) to stimulate other public and private initiatives on behalf of minority enterprise, primarily by funding State and local governments and minority trade associations; and (4) to establish a clearinghouse in Washington to collect and disseminate information concerning minority business development.[120]

Management and Technical Assistance

The Minority Business Development Agency offers management and technical assistance through

[110] *Small Business and the Federal Procurement System,* p. 366.

[111] Procurement center representatives are SBA representatives stationed in the field to assist small businesses.

[112] *Small Business and the Federal Procurement System,* p. 189.

[113] Ibid., p. 187.

[114] Ibid.

[115] U.S., Small Business Administration, *Annual Report—FY 1981* (to Congress), p. 2.

[116] Exec. Order No. 11,458, 3 C.F.R. 779 (1966–1970). *See also, Establishment of A Minority Business Development Agency in the Department of Commerce,* Hearings before the Subcommittee on General Oversight and Minority Enterprise, Committee on Small Business, House of Representatives, 96th Cong., 2d Sess., June 9 and 16, 1980, p. 7 (prepared statement of Daniel P. Henson III, Director, Minority Business Development Agency, Department of Commerce).

[117] Exec. Order No. 11,458, 3 C.F.R. 779 (1966–1970).

[118] Exec. Order No. 11,625, 3 C.F.R. 616 (1971–1975).

[119] U.S., Department of Commerce, Minority Business Development Agency, *General Business Services Program* (March 1981), p. 1 *(hereafter cited as General Business Services Program).*

[120] Victor Rivera, Director, Minority Business Development Agency, testimony, *Baltimore Hearing,* pp. 184–85.

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its general business services program (GBS), the largest assistance program that it funds.[121] Its main function is to provide business assistance to minority entrepreneurs in the areas of financial analysis, marketing, sales, business operations, procurement assistance, and accounting,[122] by funding business development organizations (BDOs) throughout the country that offer services directly to eligible clients.[123]

Business development organizations assist MBDA clients by helping them to develop and implement business plans that identify the strengths of the business and how those strengths are to be exploited. They also identify the business' problems, map strategies for resolving those problems, and provide the direct managerial and technical assistance the plan discloses is needed.[124] Unfortunately, few BDOs have the ability to provide the managerial assistance that their client firms require.

In March 1981 MBDA released a report that reviewed its general business services program, conceding that "the present capabilities of BDO relative to client needs is significantly inadequate."[125] For instance, a nationwide research and assessment study undertaken for MBDA revealed that over 50 percent of BDO client firms have a critical need for marketing assistance and almost 40 percent of BDO client firms have a critical need for operations assistance, yet almost 80 percent of all BDOs had inadequate or no capability to provide management assistance and over 90 percent had inadequate or no capability to provide operations assistance.[126] Victor Rivera, Director of MBDA, described the situation as "the blind leading the blind."[127]

Charles Obrecht, chairman of the Greater Baltimore Committee's minority business development subcommittee that reviewed the status of minority business development in Baltimore, testified before the Commission concerning the inadequacies of the Baltimore area MBDA-funded BDO:

> They are the main player in town with regard to minority business and they are typical of many such organizations throughout the country that are funded by the Department of Commerce. . . .[T]here has been too much emphasis on quantity, rather than the quality of their work, and I think the results have shown [as much].[128]

For example, the Baltimore BDO, with 17 business counselors, averaged over 500 weekly business client contacts.[129]

In 1981 MBDA revised its general business services program in an attempt to alleviate some of the major service delivery problems. Previously, business development organizations were being refunded regularly despite, in most cases, having established a record of inadequacy. In addition, funding levels were low and inequitably distributed among BDOs, competitive announcements were not distributed, the application period too short, and award criteria subjective. Consequently, many potential applicants with greater capabilities than the funded BDOs, believed the grants were neither competitive nor profitable and declined to compete for them.[130] MBDA took steps to make its business grants more competitive in an attempt to solicit interest from better qualified business consulting firms. In FY 81 competitive announcements were published in the *Federal Register* and the *Commerce Business Daily,* and uniform national selection criteria were used to rank and score all applicants.[131] At least in part, as a result of this new selection system, the BDO grant in Baltimore was awarded to a new firm. It is hoped that the new Baltimore BDO, the Commercial Credit Services Corporation, will be able to provide improved technical and managerial assistance to MBDA clients.

Coordinating Federal Activities

MBDA fulfills its coordinating responsibilities on the national level through the Interagency Council for Minority Enterprise (IAC) and on the local level through minority business opportunity committees (MBOCs). The IAC consists of 26 Federal agencies that have programs which can be of assistance to minority businesses. The IAC is chaired by the Secretary of Commerce and its executive director is

[121] *General Business Services Program,* p. 1.
[122] Ibid.
[123] U.S., Department of Commerce, Minority Business Development Agency, *Guide to Federal Assistance Programs For Minority Business Development* (August 1980), p. 5. MBDA also supplies management and technical assistance through special contracted services to large businesses with complex problems that cannot be effectively resolved by its business development organizations. Ibid.
[124] *General Business Services Program,* pp. 27–28.
[125] Ibid., p. 23.
[126] Ibid., p. 3.
[127] Rivera Testimony, *Baltimore Hearing,* p. 196.
[128] Obrecht Testimony, *Baltimore Hearing,* p. 21.
[129] Ibid.
[130] *General Business Services Program,* pp. 23–26.
[131] Ibid., pp. 31–34.

the Director of the MBDA. The minority business opportunity committees are councils of Federal and, in many cases, State and local officials.[132]

In Baltimore the MBOC is chaired by the Area Manager of the U.S. Department of Housing and Urban Development; its executive director is the district officer for the Baltimore district office of MBDA. The Baltimore MBOC is organized into four subcommittees that are responsible for (1) publications, (2) education and technical assistance, (3) grants and indirect procurement, and (4) procurement. In addition to urging the various Federal agencies in the Baltimore area to expand the types and dollar values of Federal contracts to minority business, the MBOC also attempts to inform minority entrepreneurs of the possibilities of and ways to be awarded contracts with the Federal Government. Typical of their efforts have been public sector procurement fairs, annual conferences at which the MBOC, the city of Baltimore, and the State of Maryland provide minority-owned, small, and women-owned business representatives with information and advice concerning government contracts.[133]

Despite some success in getting the Federal agencies in Baltimore to increase minority business participation in their procurement activities, the various Federal and federally funded business development programs tended to operate independently and without coordination.

The Greater Baltimore Committee report that reviewed minority business development in Baltimore found that local minority business development efforts were disorganized and disjointed:

> Among public agencies charged with promoting MBD, the Subcommittee feels that there exists a significant degree of: (1) lack of cooperation; (2) overlapping responsibility; (3) duplication of efforts; and (4) lack of any successful movement to date among the agencies and governmental units involved in MBD to cooperatively set priorities for the expenditure of the limited funding and manpower that is available.[134]

Daniel Henson, former Director of the MBDA testified before the Commission and was asked about the degree of coordination among Federal minority business enterprise programs:

> [That's the] $64 question. It is totally nonexistent. You know, I would have liked to believe that in the administration which I served that we probably had the best coordination, at the Washington level, of agencies involved in minority business development.
>
> Washington is not the real world. Washington is some kind of fantasy land where bureaucrats think that all you have to do is file a memo and say it should be done and it is done. That is not the fact.
>
> I was appalled to come back to Baltimore and find out, [that] in fact, there was no coordination among people who were receiving. . .funds from various institutions or. . .agencies here in Baltimore, and sitting down and determining what is the best way to utilize these [limited] resources.[135]

Small Business Administration Business Loan Assistance Programs

Finding 5.6: SBA has two loan programs, guaranteed loans and direct loans, that provide financial assistance to small and minority-owned businesses. SBA guaranteed loans require the participation of commercial lending institutions, and the reluctance of commercial lenders to provide financing to small minority-owned businesses has forced minority business to rely upon direct loans. Direct loan applications often require extended periods of time to be processed because funds are frequently not immediately available. These delays often exacerbate the financial needs of minority businesses.

In addition to providing management and technical assistance, the Small Business Administration makes direct loans and guarantees loans made by banks and other financial institutions to small business concerns.[136] SBA's specific lending objectives are to (1) stimulate small business in deprived areas, (2) promote small business' contribution to economic growth, and (3) promote minority enterprise opportunity.[137] Small contractors, manufacturers, wholesalers, retailers, service concerns, and other businesses may use SBA loans to construct, expand, or

[132] Rivera Testimony, *Baltimore Hearing*, p. 184.

[133] Minority Business Opportunity Committee, Baltimore, *FY 1981 Mid Year Report* (maintained in Commission files).

[134] Greater Baltimore Committee, *Report of the Minority Business Development Subcommittee* (March 1981) p. 4 (maintained in Commission files).

[135] Daniel Henson, testimony, *Baltimore Hearing*, p. 222. *See also*, U.S., Government Accounting Office, *Duplicate Programs to Identify Minority Businesses*, PLRD-82-58 (Mar. 23, 1982). During a survey of Federal agency activities that are designed to promote government contracting with socially and economically disadvantaged firms, GAO found duplication of efforts among SBA, MBDA, and DOD in the development of programs to identify minority-owned businesses for the purpose of providing contracting opportunities.

[136] 15 U.S.C.A §636(a) (Supp. 1981).

[137] U.S. House of Representatives, Committee on Small Business, *Summary of SBA Programs*, 97th Cong., 1st Sess., February 1981, p. 2 (hereafter cited as *Summary of SBA Programs)*.

convert facilities, purchase buildings, equipment, or materials, or obtain working capital.[138] SBA loans and guarantees are available only if the financial assistance sought cannot be obtained on reasonable terms from non-Federal sources.[139] Under the guarantee program, up to 90 percent of a commercial loan or $500,000, whichever is less, can be guaranteed by SBA.[140] The maximum interest rate on guaranteed loans is 2¾ percent above the prime interest rate for loans with maturities of 7 years or more and 2¼ percent above the prime for loans with maturation of less than 7 years.[141] SBA will consider making direct loans up to $350,000 only when other forms of financing, including SBA-guaranteed commercial loans, are unavailable.[142] In general, direct SBA loans carry interest rates lower than those available in the private financial markets.[143] SBA, under its economic opportunity loan program (EOL), also makes or guarantees loans to small business concerns located in areas with high proportions of unemployed or low-income persons.[144] In all cases, applicants for SBA assistance must demonstrate the ability to operate their business successfully and provide reasonable assurances that the loan will be repaid.[145]

SBA loan programs are the most visible Federal programs assisting minority businesses in Baltimore. As of September 30, 1981, SBA had 1,625 loans outstanding totaling $120.6 million from its Baltimore district loan portfolio; 25 percent, or 425, of those loans for $22.9 million, or 19 percent of the total, were to minority businesses.[146] SBA data show that between July 1, 1975, and May 31, 1981, the Baltimore district office made 701 loans, worth $60.7 million, to firms in Baltimore; 287, or 40.9 percent, of those loans were made to black-owned firms. The total amount of loans to black businesses, however, was only $17.8 million, or 30 percent of the total for all loans to Baltimore firms.[147]

Despite these efforts, the minority business community in Baltimore tends to view the SBA loan programs critically. Raymond Haysbert, president of the Parks Sausage Company, the largest black-owned business in Baltimore, and a member of numerous organizations designed to foster minority business development, told the Commission: "[I]f it [the SBA] were to go out of existence tomorrow, there would be very little impact on the black and minority businesses in the city."[148]

The black business community's dismay with SBA is based on a number of factors. Too little money is available from SBA, and too few loans are made to black-owned businesses. Loans made are frequently insufficient, delayed by red tape, and dispensed in increments that frustrate their effectiveness. Henry Edwards, president of Superpride Markets, discussed in testimony before the Commission the frustrations encountered in attempting to receive SBA loan assistance:

> [M]y experience with SBA loans is. . .that it has taken at least 18 months to secure the financing. . .[I]f a business is existing, it has to continue to operate before it gets the money. If a business is just beginning. . .it needs the money to get started and by the time the monies are actually [received]. . .then inflation has. . .decreased the value of the monies that you are getting. And in most instances SBA does not or is not willing to dole out the full requirements of a business in terms of its financing needs. . . .[G]enerally speaking, the amount that it's willing to be doled out is anywhere from one-half to two-thirds of the total financing requirements.[149]

Michael Cardenas, former SBA Administrator, and Victor Rivera, Director of the MBDA, both agreed that SBA loans are frequently too small to ensure the survival of the business recipient.[150] Mr. Rivera testified: "Very often we facilitate entry of a minority into the business mainstream . . . but we don't provide enough support . . . financially . . . [which is] very necessary for him or her to survive."[151]

An analysis of data from SBA's Baltimore district office reveals that minority businesses receiving financial assistance from SBA are most likely to be receiving direct rather than guaranteed loans; whereas black-owned firms received 66.5 percent of

[138] 13 C.F.R. §122.13 (1981).
[139] 15 U.S.C.A. §636(a)(1); 13 C.F.R. §120.2(a) (1981).
[140] 15 U.S.C.A. §636(a)(3); 13 C.F.R. §6122.5, 122.10 (1981).
[141] 13 C.F.R. §120.3(b)(2)(iii)(B) (1981).
[142] *Id.*, §§122.5, 122.8. Direct loans in excess of $150,000 require the authorization of the SBA Regional Administrator.
[143] *Cf.* 15 U.S.C.A. §636(a)(4); *Summary of SBA Programs*, p. 5.
[144] 15 U.S.C.A. §636(i); 13 C.F.R., Part 119.
[145] 15 U.S.C.A. §636(a)(7); 13 C.F.R. 122.16.
[146] Data supplied to the Commission by SBA Baltimore district office (maintained in Commission files). The Baltimore district includes not only Baltimore, but all of Maryland except for Prince Georges County in southern Maryland.
[147] Ibid.
[148] Raymond Haysbert, testimony, *Baltimore Hearing*, p. 33.
[149] Edwards Testimony, *Baltimore Hearing*, p. 50.
[150] Cardenas Testimony, *Baltimore Hearing*, p. 192; Rivera Testimony, *Baltimore Hearing*, p. 192.
[151] Rivera Testimony, *Baltimore Hearing*, p. 192.

all direct SBA loans made to Baltimore firms from July 1, 1975, to May 31, 1981, they received only 17.2 percent of all guaranteed loans.[152] Guaranteed loans require the participation of commercial lenders. In large part, therefore, the reliance of minority businesses upon the direct loan program reflects an unwillingness by private lenders to do business with minority entrepreneurs.[153]

One consequence of being relegated to the direct loan pool is that minority entrepreneurs must grapple with the delays and bureaucratic requirements that attend any attempt to access those limited funds. Guaranteed loans constitute the bulk of SBA financing, and in recent years the ratio of guaranteed to direct loans has increased.[154] Moreover, SBA officials, in testimony before the Commission reported that the processing of guaranteed loans has been expedited.[155] Direct loan applications, however, must often languish until direct loan money becomes available.[156] Victor Rivera, Director of the Minority Business Development Agency, in testimony before the Commission discussed the effect of such delays on minority entrepreneurs and their businesses:

> [A]ll you are doing there is building expectation or hopes for an individual. . . .and the frustration level will be very high later on when those funds are received. . . .[T]he person may have applied for, say a $50,000 loan, but if he receives the loan 6 months or 9 months later, that money already goes in meeting. . .past expenses, so, in effect, you are not really helping a person. All you are doing is increasing his debt-to-equity ratio.[157]

Even when available, SBA direct loans are often paid out in increments over time. In some instances incremental payments are responsive to the business needs of the recipient, but in other instances incremental payments merely compound cash flow problems, particularly when the capital is required to obtain inventory or fixed assets.[158] Moreover, changes in the economy or an unanticipated business emergency can render a well-planned schedule of incremental loan disbursements useless. The key to any loan disbursement schedule is, as Federal officials acknowledged, communication and flexibility.[159] Unfortunately, however, many minority businesspersons in Baltimore told the Commission that they found communication with SBA a difficult, confusing, and time-consuming process.[160] In addition, the limited funding that has been available to SBA for direct loans severely restricts that agency's flexibility with regard to incremental payments.[161]

Insufficient funds and personnel prevent SBA from more effectively aiding the growth of minority and other small businesses.[162] Partly because of funding restrictions, the number of loans that the SBA Baltimore district office was able to make decreased from 1977 to 1980. In FY 1977, SBA made 408 loans and in FY 1980, 292; direct loans decreased from 151 to 60, and their value decreased from $8.8 million in FY 77 to $4.1 million in FY 1980.[163] More important, the dollar value of loans made by the SBA's Baltimore district office has not kept pace with inflation and the needs of small or minority businesses. The value of all loans made by the Baltimore district office decreased between FY 1978 and FY 1980 and increased by less than 4 percent between FY 1980 and FY 1981.[164] As a result of inadequate funding, SBA simply has been unable to provide assistance to the minority business community in Baltimore to the extent it is required.[165]

152 Data supplied to the Commission by SBA Baltimore district office (maintained in Commission files).

153 Raymond Handy, Assistant Director, Baltimore district office, SBA, testimony, *Baltimore Hearing*, p. 188.

154 Since 1975 guaranteed loans have accounted for over 80 percent of the dollar value of all loans extended by the Baltimore district office. Over that same period the rate of guaranteed to direct loans has grown; whereas 28.9 percent of the dollar value of all loans in 1977, 20.1 percent in 1978, and 25.3 percent in 1979 were direct loans, in 1980 only 12.3 percent and in 1981 only 14.7 percent of the dollar value of all SBA loans from the Baltimore district office were direct loans. Data supplied by SBA Baltimore district office (maintained in Commission files).

155 Handy Testimony, *Baltimore Hearing*, p. 189; Cardenas Testimony, *Baltimore Hearing*, pp. 191–92.

156 Handy Testimony, *Baltimore Hearing*, p. 193; Arnold Feldman, Director, Baltimore district office, SBA, testimony, *Baltimore Hearing*, p. 193. *See also, Summary of SBA Programs*, p. 3.

157 Rivera Testimony, *Baltimore Hearing*, p. 193.

158 Cardenas Testimony, *Baltimore Hearing*, p. 194.

159 Handy Testimony, *Baltimore Hearing*, p. 194; Rivera Testimony, *Baltimore Hearing*, pp. 194–95.

160 *See*, Charles Burns, interview in Baltimore, Oct. 2, 1981; Dorothy Brunison, interview in Baltimore, Oct. 9, 1981; Samuel Daniels, interview in Baltimore, Aug. 19, 1981; Robert Douglas, interview in Baltimore, Oct. 29, 1981; Homer Favor, interview in Baltimore, Oct. 1, 1981; William Lashley, interview in Baltimore, Sept. 28, 1981; William C. March, interview in Baltimore, Oct. 27, 1981; Robert Quarles, interview in Baltimore, Aug. 31, 1981; Roland Smith, interview in Baltimore, Sept. 25, 1981.

161 Handy Testimony, *Baltimore Hearing*, p. 193; Feldman Testimony, *Baltimore Hearing*, p. 193. *See also,Summary of SBA Programs*, p. 3.

162 Cardenas Testimony, *Baltimore Hearing*, p. 199.

163 Data supplied by SBA Baltimore district office (maintained in Commission files).

164 Ibid.

165 SBA also licenses Minority Enterprise Small Business

Investment Companies, (MESBICS). MESBICS are privately owned and operated investment companies that provide equity capital and long-term loans to minority businesses. 15 U.S.C.A. §681(d). SBA views MESBICS as a particularly good source of venture capital for minority enterprises entering growth industries such as the high technology field. Cardenas Testimony, *Baltimore Hearing*, pp. 189–90. One of the first MESBICS in the country was established in Baltimore. It has, however, ceased to operate, and no other MESBIC has been formed to replace it in Baltimore. Charles F. Obrecht, interview in Baltimore, Md., Oct. 7, 1981; M.J. Brodie, testimony, *Baltimore Hearing*, p. 148.

Chapter 6

Recommendations

Municipal Leadership and Corporate Responsibility

Recommendation 1: A working partnership involving Baltimore's municipal leadership, the corporate community, and the minority business community should be created to develop a comprehensive plan supported by a long-term commitment to foster minority businesses in the city.

Baltimore has demonstrated that it is a "can do" city. The numerous innovative approaches that it has devised to revitalize a once deteriorating downtown are commendable and can serve as models for other communities. The city has also shown a willingness to pursue many equally innovative efforts to foster minority business development.

Interlocking historical and contemporary factors, however, still operate to obstruct the growth of minority business. These barriers, combined with a sluggish economy, present formidable obstacles to minority business and economic development. Although Baltimore City cannot control but must operate within the national economy, it can direct its energies toward economic problems distinct to its community. For example, both the city and the private sector have demonstrated that deliberately race-conscious initiatives to include minorities in the economic life of the city can be successful and can overcome the continuing force of a historical pattern of exclusion. These efforts, however, have not yet been on a scale large enough to address the magnitude of the problem.

Although government has an important role, economic and business development is essentially a private sector undertaking. This is as true for minority economic and business development as it is for the majority community. Baltimore has a history of civic involvement and the city's private sector leadership has recently begun to address the problem of business development in Baltimore's black community. What is needed is a sustained commitment by responsible leaders in both the public and private sectors to provide and focus increasingly scant resources in an effort to bring the city's black community into the economic mainstream. Moreover, while the business community shoulders a major responsibility for the development of minority enterprise, municipal leadership is essential to the success of that effort. In fact, the redevelopment of Baltimore's downtown clearly demonstrates the critical importance of municipal leadership. Only a working public-private partnership can effectively target and coordinate the effort to implement a commitment to further urban minority economic development.

This commitment should be made clear by the development of a comprehensive plan designed to foster economic growth in the city's minority community. It is important that the plan include specific strategies to overcome the principal institutionalized barriers to minority economic development, managerial and technical assistance, access to capital, access to markets, and education. The specifics of any particular plan and the mechanisms needed to implement it will have to be developed by the responsible public and private sector leaders in Baltimore. Nevertheless, if such a plan is to be successful, representatives from the black community must be closely involved in its development and implementation. In addition, it will also almost certainly be necessary that some oversight or coordinating body be created to ensure effective implementation as well as respond to unanticipated problems when they arise. Membership on this coordinating or oversight body should include top level corporate officers and municipal officials as well as representatives from the minority community.

Finally, it is important that any comprehensive plan to foster minority economic development contain both long-range and short-term components. Historically embedded barriers to black economic aspirations will not be overcome overnight, and lasting, long-term results must be the eventual goal. Nevertheless, a need exists for immediate steps that will have visible positive benefits for black entrepreneurs in the foreseeable future.

Recommendation 2: The city of Baltimore and the Greater Baltimore Committee should actively encourage banks and surety houses to review their commercial lending practices and policies to ensure that minority-owned businesses have equal access to capital. In addition, these financial institutions should take affirmative steps to hire and train more minority bond and loan officers.

Undercapitalization and an inability to obtain financing are a primary impediment to minority businesspersons. Legitimate financial constraints must govern the lending practices of financial institutions and such institutions cannot be expected to extend credit to either unworthy or unduly risky endeavors whether minority or nonminority. Nevertheless, subjective considerations are an inherent aspect of the decision to extend credit. Financial institutions should evaluate their lending practices to identify and take affirmative steps to eliminate considerations which may limit the availability of credit to minority businesspersons.

Banks, surety companies, and other financial institutions should also take steps to hire and train more minority loan and bond officers. Minorities are significantly underrepresented in those positions in Baltimore. Affirmative action in employment not only remedies discrimination, it also often has the salutary effect of eradicating institutional barriers in other components of an industry. Thus, the effective implementation of affirmative action plans would help create a business environment responsive to potential minority customers in a manner consistent with the legitimate business requirements and practices of Baltimore's financial institutions.

In addition to taking steps necessary to remove barriers that impede the access of minority entrepreneurs to conventional commercial lenders, the comprehensive plan discussed in recommendation 1 will have to identify additional sources of capital for existing and potential minority entrepreneurs. Venture capital and long-term, low-rate fixed asset financing are essential if minority business and economic growth are to occur. Present financial and economic realities limit the extent to which traditional financing sources can respond to this need; high interest rates limit all business growth. The particular source or sources of such financing will have to be identified, obtained, and made available by the public and private leadership in Baltimore after a careful evaluation of the alternatives. Nevertheless, a two-pronged approach involving the creation of new funding sources and the removal of barriers to existing sources should be a part of the overall effort.

Recommendation 3: Both the city and the Greater Baltimore Committee should encourage the private sector to purchase a greater proportion of goods and services from minority businesses.

Public Law 95–507 and the Baltimore minority business enterprise program are designed to help minority firms obtain public sector business contracts. The private sector, however, is the locus of most business activity. The future growth of minority enterprise in Baltimore is, in large part, dependent upon its ability to do business with majority-owned firms, and the inability to expand into the majority marketplace is a major problem confronting minority enterprises.

For historical and other reasons white businesses tend to do business with other white businesses. Business contacts and networks are intimately related to social contacts and networks. Unless deliberate race-conscious efforts are made to establish firm and enduring business linkages and relationships between minority and nonminority firms, traditionally segregated business practices will continue, regardless of any intent to maintain such practices, and black economic development will never become a reality. A firm commitment by the private sector leadership to use the resources at its disposal to open markets for minority businesses beyond the confines of the black community and the public sector must be forthcoming. In fact, the Greater Baltimore Committee subcommittee report on minority business enterprise pinpointed market contacts as a logical area for fruitful private sector involvement in minority business development.

The potential exists for significantly greater and mutually profitable commerce between minority and nonminority business. However, unless deliberate efforts are made to develop business relationships between minority and majority firms that potential will go unrealized.

Recommendation 4: Public and private sector leadership in Baltimore should take steps to upgrade and coordinate technical and management assistance programs.

Although the black community has a long and proud history of business endeavors and accomplishments, black enterprise has been comparatively restricted. Consequently many potential, fledgling and even successful minority businesspersons lack technical, financial, and managerial experience and training. On the Federal level, the Minority Business Development Agency is responsible for coordinating the delivery and controlling the quality of technical, financial, and management assistance programs. In Baltimore, the city government has also established and supported such programs.

These publicly supported technical assistance programs have helped numerous minority-owned firms. Nevertheless, they too often suffer from problems of inadequate resources and a lack of coordination. Although these problems must be rectified by the responsible public officials, the particular expertise of successful private sector businesses, if effectively mobilized and brought to bear on this problem, could well have significant positive results.

Every business venture is unique. The skills and lessons learned by dint of hard work, training, and experience in any particular business venture are not necessarily transferable to all others. Yet, the reservoir of talent and knowledge existing within the white business community is an excellent and largely untapped source of technical, financial, and business assistance for the black business community. The effective transfer of such expertise would foster the development of successful minority enterprises. Corporate leaders should encourage efforts to make the particular business expertise that their firms possess available to minority business in a manner that is mutually advantageous. Not only would such efforts necessarily involve the creation of new and needed business contacts between black and white businesses, but the resulting development of minority enterprises would have positive repercussions for commercial activity generally that would be enjoyed by the entire community.

Recommendation 5: The city and the Greater Baltimore Committee should encourage the private sector, as part of individual comprehensive affirmative action plans, to commit itself to hiring, training, and promoting minorities into management positions at all levels of the corporate structure.

Successful businesspersons often learn their businesses working for others before they attempt to strike out on their own. Potential minority entrepreneurs must have equal opportunity to develop and employ managerial skills within nonminority business firms. Currently, too few blacks hold positions in white businesses that offer the potential to acquire managerial and financial experience. Such experience is of inestimable value in the further development of a black entrepreneurial class. Institutional barriers, even if unintentional, can operate to deny or restrict employment opportunity for minorities. This is particularly true with regard to higher level positions, which provide the most managerial experience. Subjectivity, which can permit the operation of discriminatory attitudes, is more frequently a factor in hiring and advancement decisions for higher level positions than entry level positions and is thus too often a barrier to minorities seeking such positions. A properly developed affirmative action plan will provide the mechanism for identifying and eliminating structural barriers that restrict minority advancement within corporate structures.

Recommendation 6: Private and public sector employers, union representatives, and school system leaders should coordinate the identification and provision of relevant job skills to the unemployed.

Baltimore City has established linkages between its job training programs and its economic development projects. Similar linkage needs to be established between the city's educational system and its economic development program. Such a linkage would ameliorate the current problem of newly generated jobs going to noncity residents while similarly job-ready city residents remain unemployed. In addition, the creation of such programs would expose students to the possibilities of free enterprise and the option of business ownership that they might not otherwise receive. The school system should be made a full partner in planning and implementing effective job-training programs with unions and public and private sector planners and employers. The job placement activities of the city and the school system should be fully integrated for maximum benefit to high school graduates. The city and the school system should work with the unions to ensure that blacks have equal access to apprenticeship programs.

Finally, the school system should ensure that a component of this program exposes its students to the risks and advantages of both a career in business and business ownership.

Recommendation 7: Job training programs geared to the job market should be instituted and/or expanded by Federal, State, and local governments working closely with the private sector to train and place unemployed minorities.

Despite a declining manufacturing base, employment opportunities exist in Baltimore's expanding services sector. However, those jobs have not generally been available to local high school graduates who possess entry level job skills. In addition, cutbacks in job training programs such as CETA have had a disproportionate impact upon minority groups. Unless job training, retraining, and placement programs are effectively targeted to provide useful training for existing and developing employment opportunities, unemployment figures will remain staggeringly high in Baltimore.

Recommendation 8: An immediate and concerted effort is needed to address the critical problem of minority unemployment in Baltimore.

In these times of high unemployment, there is a greater need than ever to offer job training and placement assistance to minority residents, and especially to minority youth. Vocational training programs should be better coordinated on a citywide basis and must respond more effectively to the needs of both trainees and employers. Both the public and private sectors should mount an all-out effort to employ local high school graduates who, despite the fact that they possess entry level jobs skills, remain unemployed in disproportionate numbers in Baltimore.

The Federal Role

Recommendation 9: The Federal Government must provide leadership and assistance that support local public-private efforts to foster minority business and economic development.

Local efforts to foster minority economic and business development occur within the constraints and opportunities of the national economy. High interest rates, high unemployment and sluggish economic growth nationally undermine not only those local efforts specifically designed to foster minority business development but all local economic development efforts.

In addition to pursuing efforts to revive the national economy, Federal leadership supportive of efforts specifically to foster minority economic development is also necessary. Economic conditions in minority communities vary across the Nation, and local private and public leaders are best situated to develop specific strategies responsive to those conditions. Nevertheless, racial economic disparity is not a problem unique to Baltimore. Nationally, business and economic activity in white communities is far more developed than in black communities. In some instances Federal leadership is necessary to spur responsible local level action designed to eliminate barriers to minority economic development. In others, local initiatives require technical, resource, and programmatic support from the Federal Government. The success of efforts to expand minority enterprise is much more assured when such efforts are publicly supported from the top levels of the Federal Government. The obstacles minority businesspersons confront, though not insurmountable, are formidable. Federal support for programs that seek to foster minority business development elicits the active involvement of local officials and civic leaders. Moreover, Federal leadership that makes clear that minority business and economic development is an important national priority sustains that involvement when disenchantment follows the failure to find instant solutions.

The development of minority enterprise has been an announced Federal priority since the late 1960s. This policy is based on the Federal Government's constitutional responsibility to eliminate the vestiges of discrimination and provide social, economic, and political opportunities previously denied on the basis of race.

The Minority Business Development Agency is responsible for coordinating Federal programs that foster minority business development. It is the responsibility of MBDA to ensure that Federal resources earmarked for minority business development are effectively targeted. Federal programs designed to assist minority entrepreneurs too often have been abused while intended beneficiaries who would profit from assistance remain unaided. These Federal programs need to be strengthened. More precise targeting of resources and improved coordination of assistance delivery systems is required. Additionally, Federal programs specifically directed towards developing minority-owned business must be provided the resources necessary to accomplish their goals.

The Federal Effort

Recommendation 10: The Small Business Administration should greatly expand the resources provided to administer the 8(a) program.

The 8(a) program, by providing Federal contracts for minority-owned businesses, has the potential to serve as a major catalyst for the development of minority-owned businesses. Some firms have developed because of the program. However, SBA's inability to identify Federal procurement contracts for participating firms and its failure to provide adequate technical and managerial assistance have undermined the program's effectiveness. In addition, the adoption of a fixed term for program participation threatens the continued existence of some firms that have been developing within the program. SBA resources should be increased so that it can better match the services offered by participating firms with available Federal contracts and provide participating firms the technical and managerial assistance they require. In addition, the fixed term participation rate should be modified to ensure that firms that have participated in the program and demonstrated continued growth and viability are not prematurely terminated without reasonable belief that they will compete and prosper without the program's protections.

Recommendation 11: The Small Business Administration should undertake a comprehensive evaluation of its guaranteed loan program as it relates to the quality and quantity of minority participation and develop policies that would encourage and promote the participation of private lending institutions in the program, particularly with regard to loans to minority-owned business.

Mechanisms for monitoring the participation of lending institutions in the guaranteed loan program need to be developed and implemented. This should include a systematic method by which SBA can evaluate those minority loan applicants rejected by the private lending institutions.

Recommendation 12: Small Business Administration direct loans should be retained and expanded as a source of financing for minority businesses. SBA should develop policies to minimize delays in the processing of SBA direct loans and ensure that incremental loan payments are made only in appropriate circumstances.

SBA has two loan programs that provide financing for minority-owned businesses, guaranteed loans and direct loans. Under the preferred guaranteed loan program, SBA guarantees up to 90 percent of a loan made by a commercial lender. Commercial lenders, however, have been reluctant to make loans to minority enterprises and, consequently, minority businesses have had to rely on the underfunded direct loan program as a source of financial assistance. Because direct loan monies are frequently not immediately available, direct loan applications must often wait an unduly long time before being processed, and such a delay can render the loan amount insufficient. Minority businesspersons and others have also claimed that the loan amounts approved by SBA are too often inadequate to satisfy the business needs of minority firms. SBA must adopt policies that encourage commercial leaders to provide more guaranteed loans to minority-owned enterprises. At the same time an expanded SBA direct loan program must be maintained as a last resort source of financial assistance for minority entrepreneurs.

Recommendation 13: Increased utilization of minority business enterprises should be made a priority within all Federal agencies. Realistic annual goals for minority participation as contractors, subcontractors and 8(a) contractors should be maintained.

Federal procurement activities offer significant business opportunities for minority-owned enterprises. Public Law 95–507 requires each Federal agency to establish goals in conjunction with the Small Business Administration for minority participation as contractors, subcontractors, and 8(a) program participants in their procurement activities. Implementation of this legislative mandate was unduly delayed, and goals have been established with an insufficient data base. In addition, the reports of actual Federal agency achievements under the program are of questionable reliability. These goal-setting and reporting requirements are, nevertheless, an essential component of any Federal program designed to foster minority business development and have had positive benefits for minority-owned businesses. While the administration of this program must be improved, it is the best management tool available for evaluating the efffectiveness of each Federal agency's efforts to ensure that minority businesses participate fully in their procurement activities.

Recommendation 14: The Minority Business Development Agency (MBDA) of the Department of Commerce should significantly upgrade the quality of managerial and technical assistance its contractors provide to minority-owned businesses. MBDA must also significantly upgrade its efforts to coordinate Federal programs that are designed to foster minority business development and, in particular, must take steps to ensure that agency directives emanating from Washington are followed in regional offices.

MBDA is responsible for providing managerial, financial, and technical assistance to minority businesses. The bulk of MBDA's assistance efforts is undertaken by business development organizations that operate under contract from MBDA. MBDA concedes that many of its contractors do not have the capabilities to provide the assistance most needed by minority businesses and has taken steps to improve the delivery of these services. MBDA must continue to evaluate the business assistance provided by its contractors to ensure that it is responsive to the needs of their minority business clients.

MBDA is responsible for coordinating Federal efforts to foster minority business development. Public, particularly Federal, programs designed to foster minority business development lack coordination. In addition, MBDA efforts to improve coordination among Federal agencies that are promulgated in Washington are often not implemented in the field. Significant efforts need to be undertaken to ensure that Federal resources towards minority business development are effectively targeted.

Recommendation 15: The Minority Business Development Agency should undertake efforts to inform other cities of those innovative programs to foster minority business and economic growth that have been developed by the city of Baltimore.

Baltimore City has developed a number of innovative programs to foster minority business and economic development. In addition, on many occasions the city has made specific race-conscious efforts to ensure the participation of minority workers and businesses in particular projects and programs. The principal lesson to be learned from the city's experience is that, without such specific race-conscious efforts, the participation of minority workers and businesses in those projects and programs would be negligible.

MBDA should identify those programs that have been developed or implemented in Baltimore. Programs such as the commercial revitalization program, the MBE program, and the Rouse Company's affirmative action plan, which was employed in the development of Harborplace, are examples of effective tools for fostering minority business and economic development. MBDA should take steps to inform other municipalities and States of such programs in an effort to foster successful minority economic development in other areas.

Statement of Chairman Clarence M. Pendleton, Jr., on *Greater Baltimore Commitment*

I do not concur with the summary and recommendation made in *Greater Baltimore Commitment.* I base this statement on two factors: first, from my reading of the hearing record; finally, as one who worked in Baltimore in the model cities program and is familiar with the "actors" both in the private and public sectors. I would be remiss, based on personal and professional knowledge and expertise, not to make the following observations from the record.

The city of Baltimore and the private sector have together made a race-conscious effort to remove barriers and allow access to the free enterprise system. This access has been provided equally to minority and majority persons. That there has not been an overwhelming increase in the number of minority-owned businesses or minority employment figures is not the fault of public policy and programs. Some consideration must be given to the responsibility of minority individuals for taking individual initiative and risks. It is my firm belief that, if the unique private-public policies developed in Baltimore are to have the positive effects intended and achieve permanence, individual initiative and risk taking by minorities must be demonstrated.

This report implies that this race-conscious effort is not enough. I do not agree. I do believe that it must be continued, but the responsibility for participation in the system is on the minority community. Economic conditions dictate that minority firms must be competitive and that employees or those seeking entrance into the job market must be equally prepared.

The recommendations in this report as to the Federal Government's role are misleading. A reduction of the Federal Government role and the revision of its policies would do more to promote local business and employment opportunities for minorities. Recommending strengthening of programs offered by the Small Business Administration and the Minority Business Development Agency, as indicated in this report, will only build up false hopes and have the net effect of hindering overall development.

Baltimore's public and private sectors must be commended for the truly unique partnership that they have formed. No other city in the United States has made such an effort to remove the barriers to employment and economic development for anyone with determination to participate in the system. This is a model that is transferable and must be replicated in other localities. Race-conscious efforts can be made, as demonstrated in Baltimore, and these efforts do allow access to the system to all Americans.

Appendix A

Agency Review Procedures

Under the Commission's agency review procedures, agencies whose programs are discussed in the report were provided an opportunity to review and comment upon sections of the draft report pertinent to them. Agencies did not receive portions of the draft report containing historical and background material, findings, recommendations, or sections that did not discuss their activities. The agencies included the municipal offices of the city of Baltimore, the Department of Defense, the Department of Housing and Urban Development, the Small Business Administration, the Economic Development Administration, and the Minority Business Development Agency. Because of the extent to which the Greater Baltimore Committee is included in the report and its past and present role in the economic development of Baltimore City, sections of the draft report also were sent to it for review and comment.

The Agency review comments received by the Commission were carefully considered and, where appropriate, resulted in revisions and/or the inclusion of updated information and statistics to the report. Instances where the reviewing agency took exception to the interpretation of facts and/or conclusions in the report are noted and addressed in the footnotes.

Appendix B

Defame/Degrade Responses

GREATER BALTIMORE COMMITTEE, INC.
SUITE 900, TWO HOPKINS PLAZA · CHARLES CENTER
BALTIMORE, MARYLAND 21201
PHONE 727-2820

Richard P. Sullivan, Chairman
Alan P. Hoblitzell, Jr., Vice Chairman
Charles E. Herget, Jr., Secretary
Archibald T. Fort, Treasurer
Robert Keller, Executive Director

October 18, 1982

Mr. Paul Alexander
Acting General Counsel
U.S. Commission on Civil Rights
Washington, D.C. 20425

Dear Mr. Alexander:

Thank you for forwarding the section of your draft report which deals with the Greater Baltimore Committee. Thus far, the report appears to represent accurately the statements and perceptions made by the GBC spokesmen during the September, 1981 hearing.

Obviously, an activity like the one the GBC is embarked upon requires a high intensity of activity during a relatively short period of time. I will attempt to summarize our activities thus far. I should point out that the GBC recently determined that its minority business activity should be extended. It was originally slated to be an eighteen month effort ending in January, 1983. The extension is for at least an additional two years. I left the GBC on September 17, 1982 and Robert Quarles became Executive Director of the Minority Business Development Committee on September 20, 1982. Mr. Quarles was formerly Director of the Urban Economic Development Center at Coppin State College. The GBC is most fortunate to attract Mr. Quarles to run this program. I will continue as a member of the MBDC.

Highlights of First Year's Activities

- adopted as our goal: "developing plans to increase the absolute number, average size and profitability of minority businesses in Baltimore."

- caused the Governor of Maryland to support legislation which establishes a special fund within the existing Maryland Small Business Development Financing Authority. The legislation passed the state legislature and was signed into law in June. It allows MSBDFA to guarantee up to 80% of loans made to businesses owned by socially and economically disadvantaged individuals. It also allows for interest

Mr. Paul Alexander
U.S. Commission on Civil Rights
October 18, 1982
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subsidies of up to four percentage points. Loans can be for periods of up to 10 years and for amounts of up to $500,000. The Governor appropriated $2.5 million to back the loan guarantees.

- The six major banks in the state committed $7.5 million, initially, to be loaned under this program. As the state appropriates more money to the guarantee and subsidy fund, the banks will continue to leverage it on a 3 to 1 basis. The GBC intends to draw down the banks' funds and to utilize a development credit fund to make the loans. The DCF would have special lending and servicing criteria. The establishment of the DCF will provide for better future treatment of applicants since they will not have to go through the banks' lending process.

- developed a marketing plan to attract successful minority business persons from outside Baltimore to consider the city for expansion or relocation purposes.

- designed and are now in the process of implementing a program to transfer ownership of viable, profitable non-minority owned businesses in Baltimore to minority-ownership. We are seeking to implement this program for businesses with a minimum net worth of $1 million and average sales of at least $3 million.

- implemented an executive assistance program whereby GBC member firms provide technical and management assistance directly to MBE's. There are currently 29 GBC member firms participating in this program.

- published, monthly, an activity calendar for minority business owners.

- assisted the MD/D.C. Minority Supplier Development Council in increasing its membership, thereby creating more possible purchasers of goods and services from MBE's.

- assisted the Council for Equal Business Opportunity (CEBO) in developing resources for an inner-city Junior Achievement Program. The purpose of the program is to encourage more minority youths to consider business as a viable career alternative.

- developed, with the Surety Association of Maryland and CEBO, a bonding assistance program.

- developed a report and recommendations on the city of Baltimore 's minority business program. Implementation of our recommendations by the Mayor and City Council will change the direction

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U.S. Commission on Civil Rights
October 18, 1982
Page 3

of this effort from its present status as an affirmative action program to an economic development project. The report has not been released as of this writing.

We should emphasize that our goal all along was to develop private sector complements to what the public sector was already doing. Our effort is not complete yet and I expect that we will have to continue to adjust as we go along. We do think that we are developing a model which other private sector organizations will be able to adapt to their own areas.

One final note. This effort was originally budgeted at $100,000 per year. During the first year, the Minority Business Development Agency paid 50% of the costs. MBDA has decided not to continue its support in the future. This decision was made in spite of MBDA's stated goal of involving the private sector in its programs. I would venture to say that this program far outstrips any effort of this type in the past. I would think that MBDA would, at least, want to review the results and to try to replicate our efforts in other places. Instead they have decided not to work with us. If we failed in any area, it has been our inability to get the federal sector to work with us, not just for the money but because we really needed their help and advice and thought that they might just want to see what "private sector involvement" could really mean.

I appreciate your invitation to comment and, if we can be of any further assistance, please do not hesitate to call on Bob Quarles or me.

Sincerely,

Daniel P. Henson III/jck

Daniel P. Henson, III

DPH:jck

404-189 O - 83 - 8 : QL 3

OFFICE OF THE SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

20 OCT 1982

Mr. Paul Alexander
Acting General Counsel
United States Commission on Civil Rights
Washington, D. C. 20425

Dear Mr. Alexander:

This is in response to your recent letter to Deputy Secretary Carlucci, with regard to the Commission's study on minority economic development. The several sections of material you enclosed, that deal with the Department of Defense (DoD), have been reviewed and found to accurately reflect Mr. Carlucci's statements and the DoD position on the subject matter covered.

Thank you for the opportunity to review the material.

Sincerely,

Norma B. Leftwich

NORMA B. LEFTWICH
Director, Office of Small and
Disadvantaged Business Utilization

UNITED STATES DEPARTMENT OF COMMERCE
Minority Business Development Agency
Washington, D.C. 20230

OCT 22 1982

Mr. Paul Alexander
Acting General Counsel
U.S. Commission on Civil Rights
Washington, D.C. 20425

Dear Mr. Alexander:

Thank you for the opportunity to review and comment on sections of the draft report of the Commission's study on urban economic development. Appropriate divisions of the Minority Business Development Agency have reviewed your submission.

We do not suggest or recommend any changes in your text. Our only comment is directed to the statements about the Baltimore Minority Business Opportunity Committee (MBOC) that points to the lack of coordination of Federal agencies.

Presently, the Federal agencies in Baltimore that are members of the MBOC have developed an extremely high degree of cooperation. Their minority enterprise support activities are well coordinated through the efforts and guidance of a reinvigorated MBOC. The strengthen MBOC should eliminate the "negatives" cited in the greater Baltimore Committee's report.

I appreciate and thank you for your continued interest and support of minority business development in the public sector.

Sincerely,

Nelson Rodriguez
Acting Associate Director
Policy and Market Development

WILLIAM DONALD SCHAEFER, Mayor
OFFICE OF THE MAYOR • CITY OF BALTIMORE
250 City Hall, Baltimore, Maryland 21202, (301) 396-3100

In reply refer to: MO-19

October 26, 1982

Mr. Paul Alexander
Acting General Counsel
United States Commission on Civil Rights
1121 Vermont Avenue
Washington, DC 20425

Dear Mr. Alexander:

This will acknowledge your recent letter to Mayor Schaefer concerning the study being conducted by the U. S. Commission on Civil Rights on urban minority economic development. You offered the opportunity to review and comment only on selected sections of a draft report now under preparation by your staff. I have been asked by Mayor Schaefer to assemble the comments and observations of appropriate City officials who have had the opportunity to review this draft material.

It appears that a useful way to organize our review is to present specific comments followed by some overall observations. What follows, then, is a series of comments related to specific references in the text of your report.

1. Page 14 - White unemployment rates appear to be too low. We recommend that these be corroborated with the Mayor's Office of Manpower Resources (MOMR) or some other accepted source. Is it possible that this is a metropolitan rate?

2. No pages 15, 16, 17 or 18 were received for review.

3. Page 19 last paragraph - The description of the evolution of the Park Circle Industrial Park reveals a serious failure to understand the origins of the impetus for this major minority economic development thrust. Our suggestion would be that you consider substituting the following language:

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"In an effort to target jobs on the predominantly black distressed Park Heights neighborhood, Mayor Schaefer initiated the Park Circle Industrial Park as a high priority economic development project based on strong community interest and support. The Baltimore Economic Development Corporation has primary responsibility for carrying out this project which involves capital funding of over $6 million from federal, state and local sources. With a goal of 4,750 new jobs at Park Circle and another 750 elsewhere in Park Heights, the CETA-funded Private Industry Council provided funding for the City to employ the City Venture Corporation to assist in implementing this project. A special job matching system has been designed to link new jobs to applicants from the Park Heights area through the use of the Private Industry Council's "Starters" Program and the use of manpower centers serving Park Heights. A Control Data Business and Technology Center costing $3-4 million will be completed in November, 1982 and will provide space and services for small and minority businesses. An existing building was acquired by the City and leased to the Park Heights Development Corporation (PHDC) for economic development purposes. A bindery employing 50 persons and operated by the Commercial Credit Company and a black-owned electronics firm financed by the City through BEDCO and employing 75 persons are now housed in the PHDC operated building."

4. Page 21 - Substitute language commencing with first full sentence on the page. "A referral service was established for this purpose, operated by the Mayor's Office of Manpower Resources (MOMR). The Hyatt, through this service, hired approximately 320 people. (In addition, a training program was established by MOMR for more than 150 CETA-eligible City residents in a variety of hotel service operations. The Hyatt assisted in the screening process and honored their commitment by hiring 154 graduates of this training program.) Of the total number of 474 Hyatt hires, 64 percent were minority, 92 percent were City residents and 88 percent were unemployed. This innovative service is being offered for use in all major downtown developments. Howard Johnson's, which recently broke ground for a major hotel in the Inner Harbor, has agreed to avail itself of similar services from MOMR. Merchants in the newly opened Lexington Market Arcade are also making use of this unique service.

5. Page 23 - Enterprise Zones. The Mayor does not advocate reductions in taxes and relief from regulation "in exchange for the provision of jobs." Rather, the sole motivation is to stimulate jobs and investment. He has consistently rejected proposals to weaken basic health and safety regulations in any way.

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6. Page 24 - Enterprise Zones. No mention is made of the fact that it was Mayor Schaefer who personally supplied the initiative for and assembled a statewide coalition in support of strong Maryland enterprise zone legislation. Decisions on the first round of zone designations are expected by December 15, 1982. Naturally, we are hopeful that Park Circle will be among them.

   Nowhere is Mayor Schaefer's vocal and often lonely opposition to cuts in key federal economic development programs mentioned. His position has been to consistently emphasize that enterprise zones are likely to be only a modest addition to the array of tools required to be successful in promoting urban economic development. The UDAG and EDA programs owe their survival, at least to some degree, to the outspoken advocacy of the Mayor in the most difficult of political circumstances.

7. The correct spelling of the Mayor's name seems an obvious courtesy which merits your attention throughout this document.

8. Page 25 (Second paragraph) Suggest re-wording to read. . . "Mayor Schaefer provided the impetus for a private industry effort. Leaders from the Greater Baltimore Committee are running a 'Blue Chip In' campaign that established an initial goal of raising 500,000 dollars from local firms to create 200 full and part-time jobs to address. . . ." We would also add a sentence to the end of this paragraph reading, "This Blue Chip In effort expanded into a major campaign to supplement the reduced summer jobs program. At $700 per summer job, an initial goal of creating 1000 jobs was set. The final tally reached 1741 additional privately funded jobs with support coming from every section and sector of the Baltimore community. Overall, Blue Chip In raised $2.2 million in its first year."

9. Page 26 (1st paragraph) - Use of 40 percent as the City's minority unemployment rate is unsubstantiated and fails to even correspond with the table on page 14. MOMR estimates this figure to more accurately be 22%.

   Recommend changing the last sentence of this paragraph to read, "Presently, the rate of minority youth unemployment in Baltimore approaches 50 percent, attributable, in part, to the fact that many lack entry level job skills."

10. Page 26 (2nd paragraph) - This is unsubstantiated conjecture and should be acknowledged as such.

11. Page 28 - The decline in blue collar employment opportunities is an important factor in explaining a portion of the difficulty black high school graduates encounter in finding employment. Education and skill attainment, as well as race, are critical factors in this complex economic puzzle.

12. Page 31 (1st paragraph) - The statistics cited here merit considerable investigation as to source and accuracy. The existence of a program of systematic followup of graduate achievement is unknown to this Office.

13. Page 32 (1st full paragraph) - This paragraph presents a gross distortion of the true situation by failing to acknowledge Baltimore's participation as a pilot city in an experimental "Youth Incentive Entitlement Program." This program brought huge, but temporary infusions of funding. Nowhere is the reader made aware of this fact.

14. Page 34 - Recommend adding a sentence to the paragraph which ends at the top of the page. "Recognition of this situation sparked the enthusiastic summer Blue Chip In campaign which brought responses from over 4,000 members of the community at large."

    (1st full paragraph) Again, this is unsubstantiated conjecture and does not square with the Hyatt experience.

15. Page 37 (1st paragraph) - The following should be added at the end of this paragraph: "An alternative school/work program for dropouts, known as the Harbor City Learning Center, is funded with federal CETA funds and enrolls about 500 students per year. An Eastside Skills Center, which will focus on the careers of the 1990's, is in the advanced stages of planning and has been identified as the City's highest priority for funding and development."

16. Page 37 (last paragraph) Page 38 (1st paragraph) - Simply put, this paragraph offers a misleading and unfortunate impression that the Department of Education is unconnected to City economic development policy and objectives. In fact, Dr. Crew is a member of Mayor Schaefer's cabinet which meets weekly and is regularly informed of economic development activity. Dr. Alston is a member of both the Overall Economic Development Program Committee (an advisory body to BEDCO) and the Park circle Advisory Board. Finally, there is an assertion that there is no individual serving as liaison between the Department of Education and the Mayor's Office. This would undoubtedly come as a surprise to Dr. Hilbert Stanley, the Mayor's Human Resources Coordinator and former principal of Lake Clifton High School.

Mr. Paul Alexander
October 26, 1982
Page 5

17. Page 38 (2nd paragraph) - This paragraph is categorically rejected as unquantified conjecture representing the views of a single individual. The text fails to mention that all CETA-funded training programs and curricula are validated by appropriate private sector Labor Market Advisory Committees before any trainees are enrolled.

18. Page 39 (2nd paragraph) - Two factors are not taken into account by Dr. Crew's comments which must be acknowledged if the picture is to be presented fairly. Both are in regard to the sources of employment for future public school system graduates. The first of these relates to the potential for blue collar employment. There appears to be an acceptance that basic industry and the employment which accompanies it will practically vanish. This is not so and recent decisions by major manufacturers like General Motors, Armco Steel and Lever Brothers to make massive investments in new technology and plant renovations and expansions cast doubt on any such assertions. Although the local economy is unquestionably experiencing contraction in this sector, blue collar employment will still remain a fertile area for the employment of our young people. The second factor relates to the nature of service sector employment requirements. Care should be taken not to assume that all service sector employment opportunities are "easy entry" in nature. Large numbers of employment opportunities will be found in the fields of business and professional services.

19. Page 39 (last paragraph) - Another instance of pure, unsubstantiated opinion which almost seems to reach for predestined conclusion. There is no acknowledgment of:

    A. school system - MOMR structure overseeing Harbor City Learning

    B. computer literacy camps conducted in 6 elementary schools

    C. peer home tutoring program

    D. handicapped work-study program

    E. the 32 special training/school liaison positions which were funded by MOMR to expedite referrals to jobs and training programs. Recent funding cutbacks have forced the elimination of this program.

F. 8 positions funded by MOMR and located in the school system which are to expedite school to training referrals year round.

G. the elaborate coordinated effort to recruit and refer young people for the summer jobs program.

H. dozens of other similar examples of cooperation.

20. Page 2 (2nd paragraph) - This report fails to recognize that Baltimore's Urban Services Agency is the direct successor to its earlier Model Cities and CAP programs. Although federal categorical assistance was eliminated long ago, this agency continued its mission uninterrupted through funding provided from other sources. Urban Services plays an important role in fostering minority economic development.

21. Page 4 (quote at bottom of page) - Obviously, issue is taken with regard to the very nature of this quote. Certainly, this individual has the right to an opinion. It is regrettable, however, that any inference might be made on the part of the reader that his is the voice of the business community. A fairer treatment would have been to include comments from the current GBC president, executive director and representative business leaders.

22. Page 5 (1st paragraph) - You might have pointed out that Mr. Haysbert's firm was the beneficiary of industrial revenue bond financing which enabled its re-acquisition from a conglomerate.

23. Page 6 (1st paragraph) - The last sentence is attributed to me and I most certainly reject the manner in which my point has been characterized. My point was that there are practical limits to the extent to which local government can allocate funding for any special purpose or group.

24. Page 10 (1st paragraph) - There is an implication that somehow Mayor Schaefer has not lent the full weight of his leadership to minority economic development. The inference is that the Inner Harbor receives that and minority economic development does not. This, of course, is mere conjecture. Nowhere is the foundation for this provided. It ignores the Mayor's pivotal role in elevating the development of Park Circle Industrial Park to BEDCO's highest priority. It ignores the resources devoted to its development. It ignores the Mayor's tireless lobbying in search of enterprise zone designation for Park Circle. It ignores his strong support for Waterview Industrial Park because of its potential for benefitting the Cherry Hill and Wesport Communities. It ignores the Mayor's personal efforts which led to the development of the Blue Chip In Program. It

is a conclusion borne of misinformation.

25. Page 15 - This page contains several factual errors concerning the Raleigh Building. The Building contains more than 300,000 square feet. It was acquired with $2.3 million in local funds and renovated with $4.7 million in EDA funds.

26. Page 16 (1st paragraph) - The first complete sentence is an unfortunate distortion of the facts which reaches a specious conclusion. It ignores the enormous commitments to developing industrial parks with special linkage to hiring from adjacent minority communities. This refers specifically to Park Circle and Waterview Industrial Parks. It fails to mention the extensive effort made to attract minority enterprises to BEDCO-developed industrial parks and elsewhere. It makes no mention of the extraordinary efforts made to piece financing together to foster minority business. Parker Cement, Ainsworth Paint, United Sounds of America, R and R Optical and Shake and Bake are prime examples. Furthermore, it is a fair assertion that at least one third of the jobs created in other City-developed industrial parks have gone to minorities.

27. Page 25 - On the subject of Shake and Bake. Since Mr. Brodie's testimony was taken, the City's extraordinary commitment to Shake and Bake has been increased. The UDAG was withdrawn and the City's exposure has been increased to $4.75 million. In addition, this report never places the commitment to Shake and Bake into the overall context of longstanding City commitment to the redevelopment of the Upton community. This includes in recent months, the opening of a community-owned (city-funded) supermarket, the renovation of Lafayette Market and the upgrading of public right of way in the shopping area.

28. Page 28 - General Motors has renewed its commitment to modernizing and expanding its Broening Highway Plant. This involves a private investment of more $200 million. Although this may be BEDCO's most visible effort, it is not its principal effort.

29. Page 29 (2nd paragraph) - This is a matter of how one interprets the facts. An accurate measure of BEDCO's level of effort is the percentage of those minority firms which receive assistance in relation to those which come through its doors and are reasonable candidates for assistance. In fact, the success rate likely equals or exceeds that achieved for majority firms.

30. Page 34 (3rd paragraph) - Your commentary fails to mention that the mortgage revenue bond program has a special set aside feature for low, moderate and first time homebuyers. Also, a second $50 million installment has recently been sold. Baltimore is one of the few cities actively engaged this extensively in a mortgage revenue bond program.

31. Page 37 (2nd paragraph) - The commercial revitalization program was also created for several other important reasons. It is an essential means of generating new small business creation which is acknowledged to be the best source of providing new employment opportunities for Baltimoreans. This is particularly valuable to Baltimore's minority population. Community stability is another vital objective of this program.

32. Page 39 - In your description of our economic development efforts, the addition of a whole new function for city government, loan packaging, is never once mentioned. These skilled individuals are paid staff at both BEDCO and the commercial revitalization program. Their mission is to assist the businessman or woman, particularly minorities, in securing financing from any of a variety of public and private sources.

33. Page 44 (2nd paragraph) - The City's MBE requirements are more stringent than those used by EPA. As a result, the City has not hesitated to clash in court with EPA in an effort to assert it policy.

34. Page 51 - It would be helpful if it were acknowledged that more than 80% of CDBG funds received have been invested in Baltimore's neighborhoods.

35. Page 59 (2nd paragraph) - In the struggle to finance small business, particularly minority small business, the City has never hesitated to accept a subordinate position when it provides funding in combination with private or other public funds.

In summary, the material submitted for review is found to be unacceptable in its present form. As purported research, it suffers from some rather serious shortcomings. Statistics, when used, were found to be of questionable origin which were not cross-checked and, in at least a few instances, were in conflict with others cited elsewhere in the text. There was also a disappointing tendency to lapse from narrative into completely unsubstantiated opinion. The reader is left to his or her own devices to separate fact from hearsay. This is not the function of research. The effect of this technique brings further distortion through the unmistakable use of the opinions of patently antagonistic individuals who are offered up as being the sole representatives of important groups (labor, business, etc.) in the area of urban minority minority economic development. No attempt is made to provide balance. Finally, the very weakest portion of this already quite thin work is in the area of coordination between the education function and its economic development and manpower counterparts. Basic facts seemed to have been dismissed or simply avoided in building conclusions which seem suspiciously predetermined.

You have, of course, not allowed us the opportunity to review the entire draft document. Thus, we are not at liberty to understand the full scope of this investigation. The responsibility for fostering minority economic development lies equally with federal, state and other metropolitan local governments and the private sector, including successful minority entrepreneurs. Only a proper analysis of the efforts of each of these can produce the kind of comprehensive picture all of us require to understand and evaluate this complex subject.

To be sure, an urban government like that of the City of Baltimore has a major role to play in this area, both in tone and substance. However, a grievous error will have been made if there is an assumption that a government like ours bears sole responsibility for producing results in this vitally important area.

Sincerely,

Mark Wasserman

Mark Wasserman
Physical Development Coordinator

cc: The Honorable William Donald Schaefer

SBA

U.S. Small Business Administration Washington, DC 20416

OCT 13 1982

Mr. Paul Alexander
Acting General Counsel
United States Commission on Civil Rights
Washington, D.C. 20425

Dear Mr. Alexander:

Thank you for your letter of September 29, 1982, concerning your Commission's study on urban minority economic development.

We have reviewed the draft report, as requested, and do not have any suggestions, additions or deletions to contribute. To the best of our belief, the data are basically accurate.

Enclosed please find the statistical information you requested on actual Federal procurement MBE achievements for FY 1981 compared with projected 1981 goals.

Sincerely,

Donald P. Clark

f Robert L. Wright, Jr.
Associate Administrator
for Minority Small Business

Enclosure

UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20230

29 OCT 1982

Mr. Paul Alexander
Acting General Counsel
U.S. Commission on Civil Rights
1121 Vermont Avenue, N. W.
Washington, D. C. 20425

Dear Mr. Alexander:

I have reviewed the section from the draft report of the United States Commission on Civil Rights dealing with urban minority economic development. This section as it pertains to the Economic Development Administration is both misleading and inaccurate.

The Commission ignores the fact that the Administration's position is that the Economic Development Administration must be phased out because its functions are duplicative of other agencies, its grant program failed to create the net new jobs claimed and its loan program had a delinquency rate of over 40%.

The specific example given in the report of EDA's refusal to guarantee a loan because of budget reductions is completely inaccurate. The loan referred to was thoroughly reviewed by both regional and headquarters staff and the unanimous opinion of all the analysts was that the request should be denied because there was no assurance of repayment.

Further, as the report states, Baltimore has received 33 separate grants from EDA totalling $27 million. This represents a disproportionate share of the EDA budget far in excess of EDA funds awarded to most other cities. Therefore, I believe Baltimore is not a representative example to use in discussing the EDA program.

Finally, the report, as it refers to the Economic Development Administration, needs to be substantially rewritten in order to properly reflect the content and context of EDA's program activity in Baltimore.

If I can assist in clarifying any of the points raised in this letter, please contact me.

Sincerely,

Carlos C. Campbell
Assistant Secretary
for Economic Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

OFFICE OF THE ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

DEC 17 1982

Mr. John Hope III
Acting Staff Director
United States Commission
on Civil Rights
Washington, D.C. 20425

Dear Mr. Hope:

This is in response to your letter dated September 30, 1982, to Secretary Pierce requesting comments on sections of your study on urban minority economic development.

Several Urban Development Action Grants listed for the City of Baltimore have been terminated due to various problems such as financing. Currently the City of Baltimore has twenty (20) active UDAG projects with commitments of $30,726,441. Enclosed is a current list of approved projects as of September 30, 1981.

If we can be of further assistance, please contact Jessie Powell of my staff at 755-6234

Sincerely

Donald G. Dodge
Deputy Assistant Secretary
for Program Management, CC

Enclosure

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