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Hearing
before the
United States
Commission on Civil Rights

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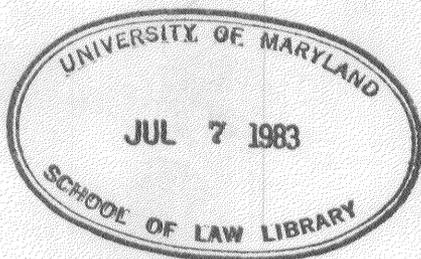
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Urban Minority Economic Development

Hearing Held in

**BALTIMORE,
MARYLAND**

NOVEMBER 17-18, 1981



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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 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 denials 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 the Congress.

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Mary Louise Smith, *Vice Chairman*

Mary F. Berry

Blandina Cardenas Ramirez

Jill S. Ruckelshaus

Murray Saltzman

John Hope III, *Acting Staff Director*

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(Exhibits are on microfiche. Microfiche copies may be obtained by writing to the U.S. Commission on Civil Rights, 1121 Vermont Avenue, N.W., Washington, D.C. 20425.)

1. Concept proposal from Baltimore Welfare Rights Organization, Inc.
2. Capitalization and Bonding Loss Ratio data
3. CDBG Capital and Non-Capital Expenditures
4. Statement of Michael Cardenas, Administrator, Small Business Administration
5. Final regulations on graduating 8(a) firms
6. Statement of Arthur E. Teele, Administrator, Urban Mass Transportation Administration
7. U.S. Department of Transportation, *12th Annual Report, Fiscal Year 1978*
8. U.S. Department of Transportation, *13th Annual Report, Fiscal Year 1979*
9. Participation by Minority Business Enterprise in Department of Transportation Programs (*Federal Register*, Mar. 31, 1980)
10. Office of Federal Procurement Policy, Proposed Changes in Regulations Implementing Subcontracting Provisions of P.L. 95-507, Oct. 23, 1979
11. Statement of Frank Carlucci, Deputy Secretary of Defense, Department of Defense
12. Small disadvantaged business success stories
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16. Letter from Paul Fenchak, president, Ukranian Education Association of Maryland, Inc., Nov. 18, 1981
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UNITED STATES COMMISSION ON CIVIL RIGHTS

Tuesday, November 17, 1981

The U.S. Commission on Civil Rights convened, pursuant to notice, at 8:30 a.m. in the Constellation Room, World Trade Center, 401 E. Pratt Street, 21st Floor, Baltimore, Maryland, Arthur S. Flemming, Chairman, presiding.

PRESENT: Arthur S. Flemming, Chairman; Mary F. Berry, Vice Chairman; Blandina Cardenas Ramirez, Commissioner; Murray Saltzman, Commissioner; John Hope III, Acting Staff Director; Paul Alexander, Acting General Counsel; Michael McGoings, Assistant General Counsel; Robert Owens, Staff Attorney; Stephen O'Rourke, Staff Attorney; Susan McDuffie, Staff Attorney; Karen Primack, Staff Attorney; James Karantonis, Staff; and R. Gregory Ford, Staff.

PROCEEDINGS

CHAIRMAN FLEMMING. I will ask the hearing to come to order, please. I will introduce myself as Arthur Flemming, Chairman of the U.S. Commission on Civil Rights. Our Commission, pursuant to its statutory authority, determined in April 1981 to make a study of urban minority economic development. In coming to the city of Baltimore we recognize that Baltimore has been a community where extensive and apparently creative efforts to promote the economic redevelopment of the core city as well as some of the distinct neighborhood communities have been underway for several decades.

Our purpose in undertaking this study is to examine the level of minority participation in the economic development and revitalization of the city of Baltimore, to examine the efficacy of Federal, State, and local efforts to promote minority entrepreneurship and resolve traditional barriers to meaningful minority participation in economic development and to define possible remedial approaches.

The testimony received at this hearing and other evidence obtained by the Commission will be used to prepare a report to the Congress and to the President containing findings and recommendations. Responsibility for action on these recommendations will rest with the Congress and the President. This Commission, however, has as one of its major mandates the responsibility to monitor, on a continuing basis, action or the reasons for inaction on these recommendations.

Beginning at 3:30 tomorrow afternoon, November 18, we will hear testimony from persons who have not been subpoenaed as witnesses. Those who wish to testify in this open session may sign up with the staff in the rear of the room. They will be permitted to speak for 5 minutes and must speak only about the subject matter of this hearing. They may not give any

testimony which may tend to defame, degrade, or incriminate any person. They will not be questioned either by the staff or by members of the Commission.

The Vice Chair of the Commission, Mary Berry, will now briefly explain the rules of the Commission pertaining to these hearings.

Commissioner Berry.

VICE CHAIRMAN BERRY. Thank you, Mr. Chairman. At the outset I should emphasize that the observations I'm about to make on the Commission's rules constitute nothing more than brief summaries of the significant provisions. The rules themselves should be consulted for a fuller understanding. Staff members will be available to answer questions which arise during the course of the hearing.

In outlining the procedures which will govern the hearing I think it is important to explain briefly the special Commission procedure for testimony or evidence which may tend to defame, degrade or incriminate any person.

Section 102(e) of our statute provides:

If the Commission determines that evidence or testimony at any hearing may tend to defame, degrade, or incriminate any person, it shall receive such evidence or testimony in executive session. The Commission shall afford any person defamed, degraded, or incriminated by such evidence or testimony an opportunity to appear and be heard in executive session with a reasonable number of additional witnesses requested by him before deciding to use that evidence or testimony.

When we use the term "executive session," we mean a session in which only the Commissioners are present in contrast with sessions such as this one in which the public is invited and present.

In providing for an executive or closed session where testimony may tend to defame, degrade or incriminate any person, Congress clearly intended to give the fullest protection to individuals by affording them an opportunity to show why any testimony which might be damaging to them should not be presented in public. Congress also wished to minimize damage to reputations as much as possible and provide the person an opportunity to rebut unfounded charges before they were well-publicized. Therefore, the Commission, when appropriate, convenes in executive session prior to the receipt of anticipated defamatory testimony.

Following the presentation of the testimony in executive session, and any statement in opposition to it, the Commissioners review the significance of the testimony and the merit of the opposition to it. In the event we find the testimony to be of insufficient credibility or the opposition to it to be of sufficient merit, we may refuse to hear certain witnesses even though the witnesses have been subpoenaed to testify in public session. Testimony which may tend to defame, degrade, or incriminate another

person is not permitted by witnesses in the open session. Executive session is the only portion of our hearing which is not open to the public.

The hearing, which begins now, is open to all, and the public is invited and urged to attend all the open sessions. All persons who are scheduled to appear have been subpoenaed by the Commission. All testimony at the public session will be under oath and will be transcribed verbatim by the official reporter.

Everyone who testifies or submits data or evidence is entitled to obtain a copy of the transcript on payment of costs. In addition, within 60 days after the close of a hearing, a person may ask to correct errors in the transcript of the hearing of his or her testimony. Such requests will be granted only to make the transcript conform to testimony as presented at the hearing.

All witnesses are entitled to be accompanied and advised by counsel. After the witness has been questioned by the Commission, counsel may subject his or her client to reasonable examination within the scope of the questions asked by the Commission. He or she also may make objections on the record and argue briefly the basis for such objections.

Should any witness fail or refuse to follow any order made by the Chairman, or the Commissioner presiding in his absence, his or her behavior will be considered disorderly and the matter will be referred to the U.S. Attorney for enforcement pursuant to the Commission's statutory powers.

If the Commission determines that any witness' testimony tends to defame, degrade, or incriminate any person, that person or his or her counsel may submit written questions which, in the discretion of the Commission, may be put to the witness. Such person also has a right to request that witnesses be subpoenaed on his or her behalf.

All witnesses have the right to submit statements prepared by themselves or others for inclusion in the record provided they are submitted within the time permitted by the rules. Any person who has not been subpoenaed may be permitted, at the discretion of the Commission, to submit a written statement in this public hearing. Such statement will be reviewed by members of the Commission and made a part of the record.

Witnesses, including those in the open session at Commission hearings, are protected by the provisions of Title XVIII, U.S. Code, section 1505, which makes it a crime to threaten, intimidate, or injure witnesses on account of their attendance at government proceedings. The Commission should be immediately informed of any allegations relating to possible intimidation of witnesses.

Let me emphasize that we consider this to be a very serious matter, and we will do all in our power to protect witnesses who appear at the hearing. Copies of the rules which govern this hearing may be secured from a

member of the Commission staff. Persons who have been subpoenaed have already been given their copy.

Finally, I should point out that these rules were drafted with the intent of ensuring that Commission hearings be conducted in a fair and impartial manner. In many cases the Commission has gone significantly beyond congressional requirements in providing safeguards for witnesses and other persons. We have done that in the belief that useful facts can be developed best in an atmosphere of calm and objectivity. We hope that such an atmosphere will prevail at this hearing.

With respect to conduct of persons in this hearing room, we want to make clear that all orders by the Chairman must be obeyed. Failure by any person to obey an order by Dr. Flemming or the Commissioner presiding in his absence will result in the exclusion of the individual from this hearing room and criminal prosecution by the U.S. Attorney when required. Federal marshals stationed in and around this hearing room have been thoroughly instructed by the Commission on hearing procedures, and their orders are also to be obeyed.

Each session of this hearing in the next 2 days will be open to the public. The session today at 8:30 will continue until 7:00, with 1 hour for lunch, and tomorrow we will start at 8:30 again. Thank you very much, Mr. Chairman.

CHAIRMAN FLEMMING. Thank you, Commissioner Berry. The U.S. Commission on Civil Rights receives outstanding assistance from its State Advisory Committees in all 50 of our States. One of our most effective State Advisory Committees has been the State Advisory Committee for the State of Maryland. A few weeks ago, the members of the Commission were delighted to learn that Dr. Martha Church, the president of Hood College, had agreed to serve as the chairperson of this committee. We are very appreciative of the fact that she is here at the opening of this hearing, and I would like to recognize her at this time for any comments that she would like to make. Dr. Church.

WELCOMING STATEMENT OF MARTHA E. CHURCH, CHAIRPERSON, MARYLAND ADVISORY COMMITTEE

DR. CHURCH. Thank you very much. Chairman Flemming, Commissioners, and members of the staff of the Commission, it is with great pleasure and anticipation that I welcome you to Baltimore on behalf of the Commission's Maryland Advisory Committee and on behalf of the citizens of Baltimore, and, I should add, outside of Baltimore since I come from Frederick County.

The Maryland Advisory Committee is pleased to have assisted the Commission in its present study of urban minority economic development. We are also pleased that you have experienced the full cooperation of Federal, State, and local agencies which impact upon and share responsi-

bility for promoting minority entrepreneurship. We would also like to welcome those members of the business community who have lent their time and effort to the success of this study.

It is our hope that the role which the city of Baltimore has played will be of assistance to the Commission in developing remedies for those problems which continue to prevent the full participation by minorities in America's economic development.

The work of the Commission is known and respected for its accuracy, thoroughness, and objectivity. This work is permanently rooted in the contacts it has established in the community through its State Advisory Committees. The 51 State Advisory Committees, including the District of Columbia, advise the Commission on local concerns and issues in the area of civil rights by providing information on national projects and writing recommendations for reform to the Commission, based on independent studies which they have conducted in their own regions.

Advisory Committee members appointed by the Commission are a diverse group of people in terms of sex, race, and ethnicity, religion, age, handicap, political affiliation, and occupation. While diverse in many respects, Committee members share a common sensitivity to civil rights issues and a commitment to the goal of equal opportunity.

The Maryland Advisory Committee was recently rechartered and it is particularly proud of its membership. Committee members come from nearly all parts of the State, and we think, and we hope you will agree, we are a highly talented, dedicated group and knowledgeable about the history of our communities.

Its 19 Committee members are residents of Baltimore City and eight counties including Alleghany, Frederick, and St. Marys Counties. The latter three jurisdictions are represented for the first time on this Committee.

Those members from the city of Baltimore include John B. Ferrin, Raymond V. Haysbert, Will D. Jackson, Rosetta F. Sands, and Marjorie K. Smith.

We are pleased to note that two new appointees to the Maryland Advisory Committee, Mr. Raymond Haysbert and Mr. Will Jackson, will provide testimony during hearings later today.

The Advisory Committee is supported through the Commission's Mid-Atlantic Regional Office headed by Regional Director Edward Rutledge.

The Maryland Advisory Committee has recently been involved in several major activities. The Committee has studied the complaint evaluation process of the Baltimore Police Department and issued a statement entitled *The Baltimore Police Complaint Evaluation Procedures*. The Committee presented testimony in the State capital in support of the U.S. constitutional amendment proposing voting representation for the District of Columbia.

We recently sponsored a statewide conference in Annapolis involving three Commissioners and attracting 275 participants who identified civil rights issues within each region of Maryland. The conference resulted in a published report entitled *A Civil Rights Agenda for the 1980s*.

The Advisory Committee has also been involved in the ongoing process of monitoring the activities of hate and extremist groups, while cooperating with a regional coalition of public and private organizations having a concern about these activities. The statewide conference held in Annapolis in June 1980 led to the launching of a series of forums. The first forum took place during the Advisory Committee's initial visit to the Eastern Shore in April 1981. Other activities included publicizing the 1980 census, being represented on the interregional steering committee, studying equal opportunity efforts in the northeast corridor (rail improvement project) and reviewing equal opportunities in the Maryland Cooperative Extension Service as well as in county development, schooling, and public service radio broadcasting on the Eastern Shore.

The Committee expects to continue the forums begun as a followup to the statewide conference. Frederick County, which was the site of five widely publicized Klan rallies and cross burnings in the past 18 months, and St. Marys County in Southern Maryland have been set apart and set aside now as sites for SAC forums in the next fiscal year, the one in Frederick to take place on December 1. All such forums will focus on selected local issues, identified at last year's conference, or on newly emerging issues.

The purpose of today's hearing is to assess the status of minority economic development in relation to the larger economic setting and to identify the continuing barriers to minority business enterprises. This will enable the Commission to evaluate Federal programs and civil rights enforcement efforts designed to encourage minority entrepreneurship and to suggest future strategies for the full participation of minorities in the urban economic mainstream.

During the next 2 days you will hear testimony from community representatives, members of the business community, and Federal, State, and local officials. Through their testimony you will become more familiar with the problems facing minority entrepreneurs as well as efforts undertaken to address these problems. You will hear testimony from the business community as well as from city, State, and Federal administrators concerning their efforts to solve some of these problems.

You will also hear testimony from the Honorable William D. Schaefer, Mayor of Baltimore, and others concerning future directions for minority business programs.

It is the hope of the Maryland Advisory Committee that the testimony which you will hear during the next 2 days will help you develop models for reform and to propose legislative and policy changes on a national level

which will remove the barriers to minority entrepreneurship and provide for the full participation by minority businesses in America's economic mainstream.

I thank you for the opportunity of having a chance to say a few words to you this morning.

CHAIRMAN FLEMMING. Thank you very, very much. Commissioner Berry.

VICE CHAIRMAN BERRY. Dr. Church, before you leave I just wanted to say publicly that I'm just so pleased to know that you are willing to serve as chairperson of this Committee. I know that you're one of the leaders in higher education today and you demonstrate, by your willingness to be visible and active in this role, to the students and the faculty and those who look to you for leadership in higher education that civil rights issues are important, and I just wanted to thank you publicly for that.

DR. CHURCH. Thank you very much. And I think they're going to become even more important.

CHAIRMAN FLEMMING. May I concur in the sentiments expressed by Commissioner Berry. We're just delighted—

DR. CHURCH. Thank you.

CHAIRMAN FLEMMING. —to have you a part of the whole operation. Thank you for being with us this morning. We appreciate it very much.

Before I ask counsel to call the first witnesses, I might say that two of our colleagues are not with us for this particular hearing. Commissioner Ruckelshaus from Seattle, Washington, has been on orders not to travel for the last 4 or 5 months and consequently she has not been able to attend our recent meetings.

Commissioner Horn had looked forward to the opportunity to participate in this hearing. The fact of the matter is he's kind of the architect of this particular hearing. But a special meeting of the Board of Trustees of the system of which California State University at Long Beach is a part—as you know he serves as president of that institution—was called and he had no alternative but to participate in that particular meeting because, like so many meetings of that kind these days, it involves budget and he's got to be there as an advocate for his institution. But he regrets very much his inability to be with us.

But I'm delighted that Commissioner Ramirez on my right is with us from Austin, Texas. Vice Chair Berry, as you know, is now at Howard University where she is performing very outstanding service as a member of the faculty there, and then Commissioner Murray Saltzman whom you will immediately recognize as a leader of the city of Baltimore and a leader in the field of civil rights. We're delighted to be in his home city. He spends a lot of time over in Washington, D.C., which is the home area for Commissioner Berry and myself, so we're very, very happy to have the opportunity of spending some time in his home city.

I will now ask counsel to call our first witnesses.

MR. ALEXANDER. Charles Obrecht, Walter Sondheim. Gentlemen, would you remain standing and be sworn.

[Charles Obrecht and Walter Sondheim were sworn.]

**TESTIMONY OF CHARLES OBRECHT, FORMER CHAIRMAN,
MINORITY BUSINESS DEVELOPMENT COMMITTEE FOR THE
GREATER BALTIMORE COMMITTEE, AND WALTER
SONDHEIM, JR., CHAIRMAN OF THE BOARD, CHARLES
CENTER-INNER HARBOR MANAGEMENT CORPORATION**

CHAIRMAN FLEMMING. Thank you. Delighted to have you with us.

MR. ALEXANDER. Please be seated.

Starting with Mr. Obrecht, could you each identify yourself for the record, your name and your position.

MR. OBRECHT. My name is Charles Obrecht and I was the chairman of a minority business development committee for the Greater Baltimore Committee.

MR. ALEXANDER. Mr. Sondheim.

MR. SONDHEIM. My name is Walter Sondheim, Jr., I'm chairman of the board of Charles Center-Inner Harbor Management Corporation.

MR. ALEXANDER. Mr. Sondheim, I gather that you have been involved in a number of capacities with the revitalization of Baltimore. Could you describe for us just briefly some of the conditions that existed in the 1950s that led to the actions that we see about us?

MR. SONDHEIM. Well, Mr. Alexander, I have to ask whether you mean particularly the physical aspects or the—

MR. ALEXANDER. The physical, the loss of jobs, the tax base of the city.

MR. SONDHEIM. Well, in the middle 1950s, Baltimore City was a very different city than it is today. It showed enormous signs of decay. As a matter of fact, a report was made by an organization in the early 1950s that said that Baltimore would be bankrupt in 10 years if it continued along its present path. So that over the period since the early 1950s an enormous change has taken place both physically and, more importantly, I think, in an emotional sense in the attitude of Baltimoreans and the way they feel about their city.

MR. ALEXANDER. How did people in Baltimore approach the problem of decay in Baltimore in the 1950s? What institutions were created? What were the initial responses to the perceived crisis, if you will?

MR. SONDHEIM. The earliest indication was the formation of—I think in the business community—the formation of the Greater Baltimore Committee which was one of the early forerunners, although not the original one,

of groups of that type that sprang up in large cities in America in response to problems.

MR. ALEXANDER. The Greater Baltimore Committee, for the record, is an organization of private business people?

MR. SONDEHEIM. It's an organization of private business people. It is much smaller than a Chamber of Commerce, not in competition, normally, with the Chamber of Commerce. I'm talking now about the way it was formed. It has since merged with the Chamber of Commerce, but that is a whole other story and is not really particularly pertinent. But it was formed by people who felt that the Chamber of Commerce, because of its size, was basically the lowest common denominator type of organization, per force, that it operated only on very broad issues of concern to the business community, and that there was a need for businessmen to participate more in specific projects in the city, ones that were not directly related sometimes to their own businesses. And this led to the formation of that committee.

A number of things happened at approximately the same time back in the middle 1950s. The deterioration, a very slow and gradual deterioration, a physical deterioration, in the downtown area was taking place, and it was highlighted by the closing of one of the large department stores here, which generated another series of actions which I'd be glad to describe but you may not want to hear them here.

MR. ALEXANDER. I would briefly like you to describe the types of initial actions that were taken by the GBC in attempting to promote redevelopment or to assess the problem.

MR. SONDEHEIM. The GBC [Greater Baltimore Committee] formed a subsidiary called a planning council, which assembled a small but very talented cadre of architects and planners and economists, and then both through money that the GBC itself had raised and money that was raised under the auspices of something called the Committee for Downtown, a plan was made completely privately and actually in a kind of secrecy that would be difficult to do under today's circumstances, the press having changed its attitude towards secrecy a good bit—presented a plan for the redevelopment of 33 acres in the center of the downtown area to the city of Baltimore in 1958. That plan required city action; it could not be implemented by the business community. It required municipal action because it involved urban renewal powers, condemnation, the assemblage of land, and an enormous amount of public work in addition to the private work, and it was turned over to the Urban Renewal and Housing Commission and its agency for execution by the city, after a study of its feasibility.

MR. ALEXANDER. What would you state the goals to be of that plan? What issues were you trying to reach with that plan?

MR. SONDEHEIM. Well, the basic goals of the plan, Mr. Alexander, were to stem the tide of deterioration, of economic deterioration in the center of the city and physical deterioration, and to attempt to use the techniques of

redevelopment to further the—to move the city on a different course. I think it's important for me to say that this was taken against the background of a long history of concern about residential development, about residential problems in the city. Baltimore is one of the early cities, even before World War II, that had shown a concern for that, and so that a good bit of the people who were involved in this kind of thing had a background of concern about humans as well as concerns about the physical and economic deterioration of the city—people like Jim Rouse and people of that kind.

MR. ALEXANDER. At the early stages of redevelopment was there ever a goal to involve the minority community in the process in the early stages?

MR. SONDEHEIM. I think the answer to that is yes, in a broader and less specific sense than we think of it today because a great deal has happened since the middle 1950s. But I remember, for example, that at the very onset of the Charles Center development, which was the first product of that group, that I happened to be in Annapolis myself testifying in a special session of the legislature that was called to authorize the city of Baltimore to put on its ballot a \$25 million bond issue, that I was called from that meeting by a representative of the Afro-American, a black-owned newspaper in Baltimore, and asked what the attitude of the city would be, as far as minority concerns were, in the development of Charles Center. And I explained as carefully as I could, in the few minutes, that I was certain, because of the types of people involved, that there would be that kind of concern.

History is a strange thing. That's not very many years ago, but we had much less structure for that kind of thing than we have now, although I personally had had some experience with minority participation in public life at that time.

MR. ALEXANDER. In the individuals who put together the Greater Baltimore Committee, who served on it in its early days, were any of those individuals black?

MR. SONDEHEIM. No.

MR. ALEXANDER. Were any of the minority businessmen in the Baltimore community involved in the early stages of the planning, when it was still a private entity?

MR. SONDEHEIM. I think, in those days, to the best of my recollection, the answer would be no. There were not many black businessmen in Baltimore at that time.

MR. ALEXANDER. For context, would it be accurate that Baltimore, in the fifties was a relatively racially segregated community in all components of community life, education, employment, housing, and so on? Would that be the appropriate backdrop?

MR. SONDEHEIM. Yes. At that very time it was in a transition stage, I think, Mr. Alexander, as a result of *Brown v. Board of Education*. Baltimore

in those days, by 1958—Baltimore desegregated its school system in 1954, immediately after *Brown v. Board of Education*. It had had a segregated school system by statute. And so that even at that time—and it is very hard for me to pin the date—there was concern about segregated public housing, for example. Baltimore had had segregated public housing, and there were a great many movements of that kind. So it was a period of enormous change and flux when the Charles Center project started. To put each of those in a precise date is very hard for me to do.

MR. ALEXANDER. Sure. You mentioned a moment ago that the structures that exist, and the understanding that exists today in relation to minority participation were not the same as it was in the fifties or perhaps early sixties. Could you expand on that? What was your understanding as to what to do then?

MR. SONDEHEIM. Well, I'd look at it not in terms so much of specifics as to what has happened in our society in that period of time. And I want to preface what I say by saying, when I say that a lot of progress has been made, this is not to say that I say this with self-satisfaction for the city or for our society, but with a fact that I think that what we do has to be seen against that, that a great deal has happened.

In the early days in Baltimore, for example, the desegregation of the schools brought on a kind of, almost an air of good feeling. People felt—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 that in the early days people felt that this would solve all our problems, just the removal of a segregated school system would solve our problems.

And I have to say that I was one of those who shared that belief and that hope, and I've learned a lot in the period of time—that a lot more has to be done than that. But we move from the removal of a statutory segregated system into, it seems to me, 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—I guess as human beings, we don't do what we have to do to achieve those goals unless we have a structure—

MR. ALEXANDER. And a plan.

MR. SONDEHEIM. —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's a shame that we have to do that, but I think that it is obvious that we do.

MR. ALEXANDER. But—

MR. SONDEHEIM. Excuse me, I'm sorry.

MR. ALEXANDER. Is it clear from your own involvement and experience that the lack of having goals and a plan, and an action plan for achieving

minority participation from early on has been a major factor in the lack of that achievement?

MR. SONDEHEIM. I think that—that's difficult to answer in just—I think what I would say, which is perhaps an answer to your question, Mr. Alexander, that certainly we have made more progress with rules and regulations and law than we would have without it. I don't think there's any doubt of that.

MR. ALEXANDER. To the extent that it is able to be traced, what would you say have been the achievements in the redevelopment for the city at large and for the minority community in particular? Two questions. You can take the city at large first.

MR. SONDEHEIM. Well, I'd like to talk about the city at large because I think that what Baltimore has done with its highly touted downtown redevelopment—and we see it outside the window here—is to create a kind of myth that I think it's extremely important to dissipate, and that is that that's all that's happened in Baltimore.

What's happened is this is the most visible and shiny, bright thing that has happened. I think, and I'm sure the city government, I'm sure the mayor himself, particularly, because I know of his point of view about this kind of thing, would think that what we have done in Charles Center and the Inner Harbor, which are quite dramatic, would be an enormous waste, both financially and a greater waste socially, if it were done, if this were a kind of oasis in a sea of blight.

But Baltimore has spent much more effort in its neighborhoods and its residential areas, and with concern with that it has spent more effort, and it has spent enormously greater amounts of money in those areas, but they don't show as easily. You don't see, when you drive down the street, the things that have happened.

As I said to one of the members of the staff, if you see—if someone's house has been saved—his ability to live in the house, because the city has loaned him money, enabled him to buy the house instead of being evicted from it—the house looks the same the next day when you drive down the street. But something has happened that is much more important, perhaps, than the erection of the Hyatt Regency in Baltimore.

So you asked me two questions, and I apologize, Mr. Alexander. I got off a little bit on it. I think that the things that have happened, that there has been a kind of a progression, that the involvement, for example, of minorities, the thing that this Commission is particularly interested in, has grown. Now, it hasn't grown as fast as many of us would have wanted. It has—and that growth and the fact that it is greater today than it was—and I hope that its rate is greater—doesn't mean that that isn't tremendously disappointing to people who are impoverished and who don't feel they are the beneficiaries of this. But I don't know the answer to the problem

except to progress as rapidly as we can. And this is a city that is dedicated to that kind of progress.

MR. ALEXANDER. In concrete terms, are there clear benefits that you can identify—that the downtown redevelopment and the relocation of jobs in this area for the minority community?

MR. SONDEHEIM. Oh, I think without any question, the most recent opening, the Hyatt Hotel, created a great many jobs. I don't have the figures, but I think over half of them went to minorities.

The city—in fairness it was not just the city because the Hyatt people themselves worked with the city and with the Mayor's Office of Manpower Resources to set up what was, in effect, an entry and training group for that hotel. And the hotel has worked hard, and by their own statement—and I can't speak for them of course—are working hard on a training program to try to upgrade people as rapidly as possible. But there is—that has added a large number of jobs for minorities, for people who were previously unemployed. In terms of total unemployment in Baltimore, it is not a significant figure, of course.

The Rouse development, Harborplace—and I think you're hearing from somebody from the Rouse Company later—has been a significant effort, and I think 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 Harborplace, in all of those things has shown a significant sensitivity to the need for doing something affirmative about minority participation.

MR. ALEXANDER. You mentioned the overall high unemployment rate. Do the types of jobs that are generated by the projects of this nature—Charles Center and the downtown redevelopment—generally provide the types of jobs that people who seem to be in the unemployed categories can easily access?

MR. SONDEHEIM. I think the answer to this is both yes and no. Some of the jobs created obviously are not. They are for people who have had more training than a great many of the unemployed have had the opportunity to gain. But there are also a great many entry level jobs that are created in this way and both in construction—both in construction and in the operation of these businesses. Certainly a hotel, which is a labor-intensive industry, has that type of thing. And I think that Harborplace has taken a lot of people at low level entry jobs to give them an opportunity to train and to learn. But it certainly is not a panacea. I can't say that it has been—any one of them is a panacea in itself.

MR. ALEXANDER. Would it be fair to characterize the types of jobs that have been generated as mostly white collar and professional, in addition to some that are entry level and blue collar in the Hyatt and so on—the majority of the redevelopment job generation?

MR. SONDEHEIM. I don't know how I can answer that on the basis of the majority, Mr. Alexander. It would be hard for me to quantify that.

MR. ALEXANDER. Mr. Obrecht, I understand that you have previously chaired a special Greater Baltimore Committee study on minority participation. Is that correct?

MR. OBRECHT. Yes, sir.

MR. ALEXANDER. Could you tell us what some of the impetus for that study was?

MR. OBRECHT. Well, I think that, back about 5 years ago there was a study that was completed by Johns Hopkins University Metro Center, which outlined some of the difficulties that minority businesses were facing, and had as its membership various people from the business community, particularly the banks. It was chaired by the executive director of CEBO, a business resource center in the city.

That study was, I think it's fair to say, largely ignored by both the business community and everyone concerned in this community. I think as a result of that, and as a result of a perception on a lot of people's parts, that there were difficulties in this area we were not achieving—the kind of progress that we wanted to achieve, that the Greater Baltimore Committee was challenged, so to speak, by the mayor to look at the situation and recommend where—if there were problems, where they were and what kind of solutions might be arrived at.

MR. ALEXANDER. Could you summarize for us the principal findings of your study?

MR. OBRECHT. Well, I think the first thing we wanted to find out was, was it a fact that Baltimore was not doing what we thought they should be doing in minority business development. So our first—I think the answer to that was that we came to the conclusion that we were not satisfied, nor was anyone else, with the progress for minority business development. There are some figures on that. For example, the Department of Commerce study from 1972 to 1977 showed a national increase in minority business of 25 percent. Talking just in terms of number of firms, in Baltimore that increase was a little less than 2 percent.

I think those figures have to be taken with a grain of salt, frankly—let me add that quickly. You have to recognize where you're starting from, and I think you have to look at the quality of the firms involved, and so on. But under any circumstances the figures did not bode well. So I think our first conclusion was that there are some problems that have to be addressed.

I think the second thing we wanted to look at was, is that unique in Baltimore or was it pretty much nationwide? And I think our conclusion was that probably it might be a little worse here. However, we weren't sure of that because figures were very difficult to come by. The evidence was overwhelming that there are problems everywhere in the country for

minority business development. But we were satisfied that there was enough of a problem here that we needn't look any further with regard to that.

MR. ALEXANDER. Those figures that were available, did they show Baltimore to be similar or in substantially worse shape?

MR. OBRECHT. Well, let me just give you an example. We had an increase, as I said, of 2 percent. The national increase was 25 percent.

I looked, for example, at the city of Charlotte, North Carolina. During that same period they had an increase of 31 percent in minority businesses. However, if you look at that a little bit more deeply, the number of minority-owned businesses had the same relationship to the black population as it did in Baltimore after—in other words, at the end of 1977. So while their increase was much greater, they weren't any better off in a statistical sense. Secondly, their increase was almost solely in service areas, which some would question the quality of that. So that the figures are difficult to pin down in that sense. If you want me to continue on with our findings—

MR. ALEXANDER. Yes, I do.

MR. OBRECHT. What we wanted to do then, recognizing that we had assumed—we had concluded that there were indeed problems that needed to be addressed: What in particular was happening that was causing this in the city of Baltimore and, by implication, in many other areas? We dealt with Baltimore only, and our conclusions were two.

First, we felt that the prime responsibility to date had laid in the hands of public or semipublic organizations and institutions and that they, through no malice or malfunction necessarily, were simply not doing the job. I think there were a lot of reasons for that, but their work was simply not adequate, and while argument can be made about that, the plain bottom line proves it. You need really look no further. The development was simply not adequate and they were in place so the—it's almost like two and two equals four.

The second thing that—conclusion that we came to was that if minority business development was ever to be a viable part of the American free enterprise system, if minorities were ever to participate in that system to the fullest extent, that it was not going to be by placing them in a separate track, but that they had to be part of the free enterprise system in the same manner that majority businesses were. That has wide implications of government policy and the involvement of private communities. So our second conclusion was that the private sector had a major responsibility and that they had not exercised that responsibility. It was not by any covert plan or action but merely one that they really had not been called to do, I think, with any degree of leadership, and that in every way we saw a willingness to do that and we felt that that was the second major problem. That summarizes them, I think.

MR. ALEXANDER. Thank you. In relation to the public agencies, are we talking about Federal, State, and local? Is that the full range of public agencies that were ineffective?

MR. OBRECHT. Yes, recognizing that the major supplier of funds has been the Federal Government—almost all of the agencies involved, with the exception of the Baltimore Economic Development Corporation, and some individual efforts on the mayor's part, received the bulk of their funding from the Federal Government.

MR. ALEXANDER. Did the study that you conducted also identify a series of barriers to economic development in the minority community?

MR. OBRECHT. Well, we looked in five areas which were common to all business development and we looked at market access and manager and technical assistance, education and financing and bonding and so on. Nothing unusual about that for any business, common to all. The barriers, I think it's fair to say, we concluded were greater in every one of those areas for minority businesses than they were for other businesses—for majority-owned businesses.

MR. ALEXANDER. What was the recommendation of your committee? How does one approach the problems that you have delineated?

MR. OBRECHT. Well, our main recommendations centered around our main findings. And that was that we felt that we needed to create a process in which we could create an improved environment among the public agencies involved and that we could increase the participation of the private business community in meeting this problem.

MR. ALEXANDER. Is it your view that the private business community views it in their self-interest to generate economic development that is beneficial to the black community?

MR. OBRECHT. Well, I think there are a variety of motives that are present in everyone, and I suppose they vary with everyone. But, clearly, I think there are a couple of items involved. One is that Baltimore City is now over 50 percent black. It would be foolish to assume that we can have a viable, healthy, and progressive economy, either in a social or economic sense, without the full participation of the black community, and I think everyone recognizes that. I think, also, there are people who look at it simply from a standpoint of simple justice, that in our system access to that system is a basic right. Where those things meet and cross over, I don't know. They vary from person to person.

MR. ALEXANDER. Mr. Sondheim, would you like to comment on that question?

MR. SONDHEIM. I think that there is a broad concern. I think that people find a weight on their consciences about the fact that this country has had as hard a job as it has had of bringing minorities into the mainstream of our economic life and I think—but I agree with Mr. Obrecht that there are a variety of motives because there are enormous differences among people.

But I think that there is now, that there is somewhat institutionalized in our society now, a recognition that something has to be done about that issue and that covers the broad—that is a blanket over people who think that's a good idea and people who may think it isn't a good idea, but I think people recognize that that is now something to which this country is dedicated. Our problem has been finding the way to do it, and I applaud efforts of the kind that Mr. Obrecht has outlined as steps in that direction. I don't believe that any single action is going to cure what is really a longstanding problem, when I see the efforts that have been made right here in Baltimore to do something about it and by the mayor himself. It's difficult.

MR. ALEXANDER. Thank you very much. Mr. Chairman?

CHAIRMAN FLEMMING. Vice Chair Berry.

VICE CHAIRMAN BERRY. Mr. Sondheim, I'd like to know just what kinds of things have happened in the Charles Center-Inner Harbor area to try to promote minority participation or business development? Could you, since you are involved with that, could you give us some examples of what activities have actually taken place to involve minorities in the Charles Center-Inner Harbor development area which is where we are, I think, if I'm not mistaken?

MR. SONDHEIM. Well, Commissioner Berry, in the construction area, there have been what are now standard provisions in the contracts and agreements with developers and in contracts with contractors, which I suppose are pretty general around the country, but there's been a determined effort, I think, in Baltimore in recent years to make those meaningful.

In actual development, Baltimore has, for example, the marina that you will see out the window here. The successful contestant for the operation of that marina was a black businessman in Baltimore. And I might say although I am not a sailor myself or a waterman in any way, that I understand that it is known around on the whole east coast as one of the best operated marinas in the country. And Mr. Wilson, who has operated that, has done an outstanding job.

A very large garage that was built here—the successful developer of that garage was a black businessman. There are, as I mentioned, in Harborplace—and you will hear more about that, I know, later—there are a large, a substantial number of black business owners that are operating in Harborplace, which is one of the—which has the biggest visibility of anything that's happened in Baltimore, except perhaps the aquarium, in recent years. From the very early days, there was an insistence that there be, what I will call from a business standpoint, open occupancy as far as rentals in office buildings were concerned. And my recollection is that in the very first building that was built in Charles Center, One Charles Center, one of the early tenants was a black law firm. I don't think that these things are necessarily very creditable. They are the things that

should have happened. But there has been that kind of concern. I don't think you can be any kind of an American today and not realize that this is a moral and a political concern of all of us who are involved in any kind of development in this country.

VICE CHAIRMAN BERRY. Do you think, Mr. Sondheim, based on your experience in this community, and your involvement, that the educational system, the public educational system, is turning out large numbers of well-qualified, well-educated, literate persons who can be absorbed immediately into some of these enterprises that are being developed and will be developed, or do you think there are some problems with the quality of the educational product that's been—

MR. SONDHEIM. Oh, my. I'm sure that wasn't a rhetorical question, Commissioner.

VICE CHAIRMAN BERRY. I'm interested in knowing whether—

MR. SONDHEIM. Certainly it is just loaded with problems. I just wish—if we could fulfill our ambitions in education, I think, once again, we would have found the philosopher's stone. We thought we had it when *Brown v. Board of Education* became the law of the land. But, once again, everything that we do seems to get back to the problem of our educational system, and hard as people try to do something about it, the progress is terribly slow. And I know this only by reading now. Obviously it's been a long time since I was on the school board of Baltimore City. But from what I read in the paper, that the school board is constantly talking about progress it has made, and I'm sure it's real progress, but it's—the time that it takes for that to have its effect on the problems that we have is, you know—it's a devastating kind of thing.

VICE CHAIRMAN BERRY. Mr. Obrecht, you said, if I recall correctly, that the recommendations of your committee went largely ignored. I think that was the expression you used. Is there some reason for that? Why were the recommendations largely ignored?

MR. OBRECHT. No indeed. I misled you. I said that a study was done by the Johns Hopkins Metro Center about 5 or 6 years ago and that that study was somewhat ignored.

VICE CHAIRMAN BERRY. Why was it ignored?

MR. OBRECHT. Well, I was not a part of it, and I suspect possibly it was ignored because the study was a little too narrow in its base, and secondly that it was not conducted by—it wasn't conducted by the GBC maybe.

VICE CHAIRMAN BERRY. Are you satisfied with the response to your own study?

MR. OBRECHT. Well, let me tell you what has happened, and you may make your own judgment.

When we completed our report, I presented the findings to the executive committee of the Greater Baltimore Committee, and at that time did not request any funding whatsoever. There were a number of reasons for that

which I won't go into. The executive committee heard that report and on the spur of the moment said this is an item of major concern to this city, we do not want to be a part of it without paying part of it, and we wish to finance half of the work that you have outlined. I think that gives you an idea of the kind of response that immediately was elicited from the Greater Baltimore Committee. We moved from that time to receiving a small grant from the Department of Commerce, hiring, as the executive director of this new effort to bring about change, the former director of the Minority Business Development Agency in Washington. And we have a committee which is majority black which has on it members from the majority community who represent the largest firms in this city. No one turned down membership on the committee. And it has been meeting, and I think will provide not miracles, but, I think, as effective a job as can be done.

VICE CHAIRMAN BERRY. And, finally, I think you said that Federal funds had been very important in some of the development that had taken place. I think you said that. Federal funding of various programs, and the like. Do you think there is enough capital available that would be devoted to improving minority business enterprise that if the various Federal programs are cut in the way that it is being proposed and some have already been cut, that the community can take up the slack and that we really shouldn't worry about those programs being cut?

MR. OBRECHT. The Federal funds in minority business development have obviously played a significant part in the services that have been offered. I think what I said was that I didn't think they had been effective.

With regard, if you're talking specifically to equity capital, I don't—it's obviously a vital part of any business development. I do not view that, nor do I think most of the people who testified before our committee, as the major problem. Any cutbacks in the Federal level would hurt in this field. In fact, I believe that, properly directed, the only way we're going to get really meaningful progress is a public-private partnership that involves a strong, firm commitment from the Federal Government for improvement in the minority business area. However, I think that should be limited in its duration. I do not think that minority business can forever go on a separate track of government.

CHAIRMAN FLEMMING. Commissioner Saltzman?

COMMISSIONER SALTZMAN. Mr. Sondheim, although I'm not a long-term resident of Baltimore, I am aware of the distinguished contributions you have made to the advancement of the city. Certainly your role has been fundamental in the revitalization program.

You may not have this information, but I wonder whether you can tell us, aside from what you've already told us, in any quantitative amount, are there additional jobs available as a result of the program? Have more jobs come into the Baltimore City downtown area?

MR. SONDEHEIM. Rabbi Saltzman, I'm not an economist, so that I'm somewhat hesitant. I've so long suffered with people making remarks that they're not certain that they know about. It frightens me sometimes, and I'm just about to make one.

I think there is no doubt that there has been a substantial increase—I can't quantify it—in the number of jobs that have been created by this. Now, on a somewhat more selfish basis, however, I think it's important that Baltimore has saved a lot of jobs that might have gone elsewhere. Now, the Commission may have a more global viewpoint about this sort of thing than we have in Baltimore, but we consider it extremely important, particularly with the fact, with the high unemployment rate in Baltimore, and the problems that Baltimore residents have. I think there is absolutely no doubt that a great many jobs have been saved for Baltimore and I think it is very important for urban areas, for cities in our country, to grow in this way so that I don't think there's any doubt the answer to your question is yes, that there has been a significant increase in the number of jobs.

COMMISSIONER SALTZMAN. Would you say that the availability of jobs is the crucial issue here with respect to minority participation in—

MR. SONDEHEIM. I think there is no doubt of it. And I think that when we talk about the economics—and I don't want to be misunderstood—I'm talking about the actual creation of jobs in an economic base for people. I have to say that, at the same time, the city cannot do that to the exclusion of relieving distress of its citizens, and that's the thing that I meant when I said that we create something of a myth by thinking that's all that's being done because—but I do think that's necessary. And the thing that Commissioner Berry has raised, that despite the great progress that has been made in education, it is still true that the biggest thing that we could do in the reasonably short run, if not the immediate run, is to improve the quality of people, of our education even though I know that a lot of kids who come out of public schools today are really very well-qualified and well able to take their places in society. The problem again is to be sure that we have jobs for them.

COMMISSIONER SALTZMAN. The Council for Equal Business Opportunity—what is it? Is it functioning at the present time?

MR. SONDEHEIM. Yes, it is. It's functioning actively and it is an organization—I was at one time on its board—that has worked very hard over the years to provide assistance for minority businesses to provide both financial and counseling assistance to minority businesses and to work—I guess of all the agencies, local agencies, it is a private agency and not a public one although it uses, I think—I'm not sure about its budget—a substantial amount of public funds, has worked extremely hard in trying to advance the cause of businesses. Now, it has, I think, been concerned more with small businesses than with large ones, but I can't speak for them except to say that I think they have tried awfully hard to do a good job and

I think they've had a hard time, I think they've met with a lot of success and a lot of failures.

COMMISSIONER SALTZMAN. Mr. Obrecht, would you like to comment on that?

MR. OBRECHT. Yes. Let me go back one step. There have been two questions about education, and let me just make a comment on that. I think one of the things that surprised me greatly, in a year of talking to a number of people that we brought in to testify on minority business problems, was the absolute uniformity, whether the person was black or white, whether they were in a—black businessmen or concerned with advancing the cause of that, was this constant emphasis on education. We heard it over and over again and I'm not talking about the specific education with regard to management and technical assistance, with running a business. With basic education, creating a management pool, creating the concept that for minorities free enterprise can be a viable course, or a viable career to follow. We heard that constantly.

With regard to CEBO, they of course have been—they were the oldest, they were originally funded by a Ford Foundation grant here in Baltimore, they are largely public now in their funding, about half of their funds come from the Department of Commerce, a little under half comes from urban services, which, of course is government funding again. A very small amount is raised locally through United Fund, and just recently they got a large grant from the city of Baltimore. 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. And I think that they are an area that really needs to be looked at. And I say that because I think it's—that it's—there has been too much emphasis on quantity, rather than the quality of their work, and I think the results have shown.

COMMISSIONER SALTZMAN. Could you be a little more specific? What do you mean, too much emphasis on quantity and not quality?

MR. OBRECHT. Well, let me answer that quite specifically. In hearing testimony from the director of that agency, we were told that during the course of a week there are counselors, numbering about 17 in number, actual counselors—there are about 40 or 45 that work there—made over 500 contacts a week. I would conclude from that that those contacts were of not much value.

COMMISSIONER SALTZMAN. What is your perception, Mr. Sondheim, of the function of Federal agencies such as SBA [Small Business Administration] in effecting remedies for advancing minority entrepreneurship?

MR. SONDHEIM. I think it is obvious, Rabbi Saltzman, that there is an enormous need for governmental help in order to get this job done and the sooner we get it done, the sooner we'll get rid of that kind of paternalism, I

think, that has—I cannot speak specifically for SBA because I've had no contact with them for—I'm sure for 7 or 8 years, but that type of operation is extremely important. I would hope sometime to see the government take a more aggressive role, for example, in the area of bonding, of making it possible for minority contractors and subcontractors to get the requisite bonding. Whether SBA is in that field or not, I really am not qualified to speak in that area.

COMMISSIONER SALTZMAN. Mr. Obrecht, would you care to comment?

MR. OBRECHT. I'm sorry, I didn't hear the question, Rabbi Saltzman.

COMMISSIONER SALTZMAN. How would you perceive the success or failure of Federal agencies such as the SBA in advancing minority entrepreneurship?

MR. OBRECHT. Well, you know, once again the—if you look at specific tasks that the SBA has—recognizing first the SBA does a great deal more than deal with just minorities and in fact the bulk of their business is not with minorities. They've obviously made possible a great number of businesses to exist that would not have existed. I think my difficulty is that I just simply believe that the SBA and others—efforts of the Federal Government can and have to be more effective than they've been in the past and that they can be. There is simply no coordination which exists between these agencies at all.

COMMISSIONER SALTZMAN. Was there black business entrepreneurship to any extent in Baltimore in the early fifties?

Do either of you—

MR. OBRECHT. I can't answer that.

COMMISSIONER SALTZMAN. Were there any successful black businesses in the city of Baltimore?

MR. SONDEHEIM. I think very few. I'm not sure when the Parks Sausage Company, for example, was founded, but I think Mr. Haysbert is one of your witnesses. But they were certainly not prominent. The most prominent one was the Afro-American, which had been a successful enterprise for a substantial period of time. But as far as businesses really being in the mainstream of economics, the answer to that is no, that they were very limited.

COMMISSIONER SALTZMAN. One final question for both of you. How would you proceed now, given the history of what has and has not happened, to advance the solutions, the remedies to the problems at this point? Where would you focus on?

MR. SONDEHEIM. I'll be glad to let my colleague answer that question. That's a very tough one, because I—I have to say that my own philosophy over a period of time and history does a dirty trick to you, it gives you a perspective which makes you think of things in terms of more years than people want to think about them. These are problems that we want to solve at once. But I think, Rabbi Saltzman, that we have to approach this

on every possible front. That if we begin to look at single issues as panaceas for this, that we're going to repeat the same mistakes that we made before, that we have got to do every single thing we can. And one of the reasons we have to do it—the thing that I pointed out before—is that we ought to be looking toward the abolition of civil rights commissions and the abolition of these voluminous things we have in construction contracts and things of this sort. It ought to be a part of our way of life, and people—I see people in the city of Baltimore working hard toward that kind of goal on a variety of fronts and I—each one of them can use some help and some bolstering and the—a thing like the CETA program was a tremendously important thing for training larger numbers of people than we had ever trained before. Nothing has been said here today about the CETA program. Now, I think—

COMMISSIONER SALTZMAN. Are you implying that it was successful here?

MR. SONDEHEIM. I think indeed it was. I think there is every evidence that it was, Rabbi, and I think that Baltimore was a victim of the fact that—or that the program was a victim of the fact that in some places it was not successful. It was used for political purposes, or was a badly run program. And so the—out went everything, you know, the baby went out with the dishwater and I think that this is a serious problem because that was something that showed real hope. Now that, again, was not a panacea, but it showed real hope. It trained a lot of young people who had no training at all and who came from the kind of backgrounds in which there had not been jobs, in which there was no job history, and a lot of those people moved from public jobs into private jobs. I don't want to get too evangelical, but that is the kind of thing—but that by itself isn't going to solve our problem. I just think we have got to use every single avenue we can find to try to solve this problem.

COMMISSIONER SALTZMAN. Mr. Obrecht, would you—

MR. OBRECHT. Well—

MR. SONDEHEIM. Disagree with me.

MR. OBRECHT. No, I don't disagree with you. In the area of minority business, the black population of this country is somewhere around 19 percent of the total, and they own about 4.4 percent of the businesses, down from 1960 of 4.6 percent of the businesses. So I think we have a problem. I think if we look for perfect solutions, we'd never do anything. And so I certainly agree with Walter that there are all kinds of approaches that have to be.

I think, specifically in the minority business development area, that the Federal Government's approach needs some refinement, and that the emphasis must be placed upon a public-private partnership. I simply do not believe that the Federal Government can ever, by itself, bring minorities into the mainstream of American business. And that unless that partnership

is created through incentives and other methods, that we will never have substantive progress. I submit to you that we have been working in this field now with fairly substantial government funding for 10 years at least, and we have had very little progress.

CHAIRMAN FLEMMING. Commissioner Ramirez.

COMMISSIONER RAMIREZ. Thank you, Mr. Chairman. I think Baltimore is lucky to have both of you. And any time you want to come to Texas, we'll welcome you.

I also think the things I see around me almost lead me to believe that the people who have worked to accomplish this can do an awful lot of the things that you aspire to do in the area of civil rights. I have to start out my questioning by focusing on education for just a little bit. I wonder whether the Greater Baltimore Committee, recognizing the role that education plays in terms of the participation of minorities in all of the levels of benefit that urban development and economic development provide, whether there is any interaction or any planned work between the business sector and the educational institutions for focusing on the development of young people with those skills at all those levels.

MR. SONDEHEIM. May I answer?

COMMISSIONER RAMIREZ. Sure.

MR. SONDEHEIM. Commissioner Ramirez, I can answer that with some feeling. I was—the Greater Baltimore Committee has a subcommittee, an educational subcommittee, and I have to say—I don't like to say this for the public record—I was chairman of that committee for 2 years and I think we accomplished very little, and since then it has done much better, since I am no longer chairman.

The Greater Baltimore Committee, in working with the council, for the voluntary Council on Equal Employment and with a group known as the Ramsey Conference Group, has really begun to interest itself in what it can do at the individual school level. And there has been a program called an adopt-a-school program, about which I can't tell you in great detail—I've read about it—in which individual businesses have, in effect, adopted schools.

Now, there is, again, this question of this note of kind of a paternalism kind of creeps in. I think it has been avoided in this instance. What it has brought to the schools is the interest of a business in a community school. And there have been some fairly remarkable reports of enormous improvement in attitude and in concerns. I'm not talking now just about in an industrial or a commercial way, but I mean in basic fundamental skills because of the participation of executives of these businesses in the schools. Now, they—that in itself doesn't do anything unless it is a pilot program that shows other schools how to do it. But I think it's in—that the Greater Baltimore Committee has to be given credit now for taking a really active

interest in the educational system of the city. And so I think it has been helpful.

COMMISSIONER RAMIREZ. In terms of old jobs, I understand that you may not be able to tell us exactly how many new jobs have been created and how many of those have gone to minorities, but in terms of old jobs, do you feel that there—or has the Greater Baltimore Committee in a planned way moved towards greater affirmative action in employment of minorities in the labor market in Baltimore that might have been—in terms of jobs that might have been retained or strengthened or created because of development in Baltimore?

MR. SONDEHEIM. Except on a broad basis of its support of various kinds of legislation, I would say that the Greater Baltimore Committee has not been a significant factor in individual business, that that has been left to the individual business. To the extent it, itself, is somewhat an educator of its own membership, I think perhaps something may be said.

But the average businessman today, I think, recognizes the pressure that he is under, and whether he likes it or not—and I think more and more of them get satisfaction out of it, but there's a wide variety in that, that the pressure to make business, private businesses, a—bring minorities in as full participants in employment in that business—is pretty well established, I think. I don't mean there's been—that's been wholly successful. Progress is slow, and still a great deal needs to be done, but I think the awareness is there and I don't know that there's any particular role for the Greater Baltimore Committee.

COMMISSIONER RAMIREZ. Do you see any resistance on the part of, particularly developers who are enjoying Federal or State or local benefits, shall we say, that augment the new development in Baltimore. Do you see any resistance to affirmative action in terms of employment?

MR. SONDEHEIM. Commissioner Ramirez, I don't mean to be frivolous about it, but you can't climb in someone's head. I would say that I don't see any evidence of it because they wouldn't permit us to see any evidence of it because they are committed by law and by agreement, by the agreements that they signed, to that type of participation. So that everything that we see is a willingness to do it. Now, how much pressure—how much personal push there is behind that is hard to see and the personal push is important as is demonstrated by Harborplace, as I mentioned before.

COMMISSIONER RAMIREZ. The reason that I asked the question is because our sense is that some of those legal requirements and obligations may be threatened in this era, and my question, I suppose, would more accurately be stated by saying, were those requirements absent, do you believe that affirmative action would proceed?

MR. SONDEHEIM. It might proceed, but it would not proceed at the same pace. I must say that even though a lot of these regulations have become institutionalized and people see them and they are so voluminous that they

overwhelm people sometimes, that the other side of the coin is that without them, a lot of progress would not have been made, and I for one would be very sorry to see those requirements relaxed.

CHAIRMAN FLEMMING. May I express our appreciation for the kind of testimony that has been presented. This hearing is really kind of a first of its kind as far as the Commission is concerned. Our previous hearings have focused on desegregation or other aspects of the civil rights area, and I can't imagine any testimony that could introduce us in a more effective way to some of the issues that we should look at. I personally appreciated very much the emphasis that Mr. Obrecht put on—you used the word coordination as you talked in terms of your observations relative to Federal intervention or the Federal participation in the programs. Mr. Sondheim noted the tendency on the part of people to focus on just one program, oftentimes, without considering all of the interrelationships that should exist between a great many programs.

Our Commission put out a report the last part of June trying to analyze the impact of budget proposals on the civil rights movement, and we looked not only at enforcement agencies, but we did try to look at the interrelationships of some of the programs that have come into your testimony today. For example, we looked at CETA, and I might say, Mr. Sondheim, I agree completely with you in terms of our kind of walking up the hill as far as CETA is concerned, and now walking back down that hill when the problem still confronts us and confronts us in a very serious way.

I have just one question, really. As you deal with all of these issues that are related to this basic problem that we're looking at, do you feel that those with whom you are associated, and on whom the community is dependent, are approaching the issue and the subissue with a genuine sense of urgency? Do you sense that they feel that these are issues that we have got to come to grips with now, and we just can't wait for another generation? It occurred to me that I might ask the question in this way: A sense of urgency developed in our cities, and I assumed it developed in Baltimore, in the sixties. Do you feel that there is a comparable sense of urgency in coming to grips with the overall issue and with the subissues at the present time?

MR. SONDHEIM. That's a very difficult question to answer, Mr. Chairman. I think that there is a sense of urgency. There is not obviously the same sense of emergency, but there is a sense of urgency. And I think that there are enough people of good will that keep prodding to make sure that that sense of urgency exists. I think that there is to some extent a feeling that it's harder to do than people thought it was going to be and that has an element of discouragement in it; it does for me, but if I didn't have hope I'd shoot myself. But I think that the sense of urgency is there, and I think it requires some prodding every now and then.

CHAIRMAN FLEMMING. Mr. Obrecht.

MR. OBRECHT. I wish I could agree with that, but I don't. I think that my experience in the minority business development area has shown, that given the facts, having people hear from persons who have experience in that field, that the business leaders that were part of that committee, uniformly without exception, accepted this with a matter of some urgency and commitment. But I think that that is not a widely held position in the community.

CHAIRMAN FLEMMING. Well, may I again—

MR. SONDEHEIM. Excuse me.

CHAIRMAN FLEMMING. Go ahead.

MR. SONDEHEIM. I just want to settle my friend, Mr. Obrecht. I think he's talking about a somewhat narrower area than I was. I was talking about the whole problem of the inconsistency between our behavior and our ideals in this country and I think that there is a sense of urgency about that because I think there are a lot of people who don't like to live in that kind of atmosphere, live with themselves in that kind of atmosphere. But I'm getting old, and it's the younger people I have to look to, sir.

CHAIRMAN FLEMMING. Well, again may I thank both of you for very, very helpful testimony. We appreciate it very, very much.

MR. SONDEHEIM. Thanks very much. It's the first time I've testified under the eyes of a United States marshal, I want to say.

CHAIRMAN FLEMMING. Counsel will call the next witnesses.

MR. ALEXANDER. Bobby Cheeks, Raymond Haysbert, Robert Quarles, Robert Hearn. Gentlemen, please come up here and remain standing until you are sworn.

[Bobby Cheeks, Raymond Haysbert, Robert Quarles, and Robert Hearn were sworn.]

TESTIMONY OF ROBERT QUARLES, EXECUTIVE DIRECTOR, URBAN ECONOMIC DEVELOPMENT CENTER, COPPIN STATE COLLEGE; ROBERT HEARN, ASSOCIATE DIRECTOR, CENTER FOR METROPOLITAN PLANNING AND RESEARCH, AND ASSOCIATE PROVOST, JOHNS HOPKINS UNIVERSITY; RAYMOND HAYSBERT, PRESIDENT, PARKS SAUSAGE COMPANY; AND BOB CHEEKS, EXECUTIVE DIRECTOR, BALTIMORE WELFARE RIGHTS ORGANIZATION

CHAIRMAN FLEMMING. Thank you. We appreciate your being with us.

MR. ALEXANDER. Starting with Mr. Quarles, could you each identify yourself for the record, your name and your current position.

MR. QUARLES. My name is Robert Quarles, I'm executive director of the Urban Economic Development Center at Coppin State College; it is a management and technical assistance service center in Baltimore.

MR. ALEXANDER. Thank you. Dr. Hearn?

DR. HEARN. I'm the associate provost at Johns Hopkins University as well as the associate director of the Center for Metropolitan Planning and Research.

MR. ALEXANDER. Mr. Haysbert?

MR. HAYSBERT. I am Raymond Haysbert, the president of the Parks Sausage Company.

MR. ALEXANDER. Mr. Cheeks?

MR. CHEEKS. Bob Cheeks, executive director, Baltimore Welfare Rights Organization.

MR. ALEXANDER. Dr. Hearn, during the staff research for this hearing, a number of people have used both the terms minority business ownership and minority economic development. Is there a difference between those two phrases? And if there is, could you lay it out for us?

DR. HEARN. I think there is, Mr. Alexander, and I would like to preface my statement in the discussion of these problems with a general comment in that area, if I may.

MR. ALEXANDER. Sure. Briefly.

DR. HEARN. Working at least indirectly from text, some of which I will make available because I do quote several studies in this area, I think the focus on minority business development is really a focus on minority access to business opportunities. On the other hand, minority economic development is certainly more encompassing, focusing both upon places and people. The business sector is, to simplify matters, if you will, one of the necessary components of the economic development process. Private firms assemble capital, take the risk, and earn profits when successful. And the existence of profitable businesses is a necessary but not sufficient condition for economic development. In my judgment, unless a program has a specific economic development mandate, it is not a matter of concern where specific firms locate in a metropolitan area. But on the other hand, the goal of economic development, again in my opinion, is to leverage sufficient private investment to an area such that a profitable, stable economic base is created and maintained.

I think that a focus on entrepreneurial activity, if you will, could be characterized as one which trickles down to employment opportunities. On the other hand, a focus on employment would trickle up to entrepreneurial activities as savings accumulated and demands created by increased income create business opportunities. So I think somewhere in that—in my opening remark here is the relationship between minority business development and minority economic development. Certainly the latter is more inclusive but includes the former.

MR. ALEXANDER. I understand that you have been involved in some recent statistical analysis of the condition of black business in the Baltimore area. Could you lay out for us as to exactly what it is in the Baltimore

community, what role black businesses play, where they are, what kind of size they occupy, what part of the market they have?

DR. HEARN. That's a tall order but—

MR. ALEXANDER. I know.

DR. HEARN. I will try. Let me say something about the data for assessing minority business development in Baltimore or any other metropolitan area. That is, there's always a lag between the collection and reporting of information, so that subsequent activities are obviously not contained in the available information. So while progress may or may not be made after a certain date, I would simply like to present, if I might, a profile, a brief profile of black-owned businesses in the city of Baltimore. I rely here primarily on available data from a most recent survey of minority business firms in the country, specifically focusing on black firms.

In 1977, in the city of Baltimore, there were approximately 3,093 black business firms. These firms had gross receipts of approximately \$122.9 million. Now, of these 3,093 firms, there were 553 with paid employees in 19—

COMMISSIONER SALTZMAN. I'm sorry, Dr. Hearn. What was that figure, gross figure?

DR. HEARN. \$122.9 million.

COMMISSIONER SALTZMAN. Million. Thank you.

MR. HEARN. The 553 business with paid employees in 1977 represented about 17.8 percent of all black businesses, while being the source of 76.3 percent of all black business gross receipts. In contrast, the firms without paid employees, those 2,540 firms, accounted for roughly 23.7 percent of all gross business receipts. In contrast, in the Nation at large, black-owned firms with paid employees in 1977 accounted for about 17.3 percent of the total number of black firms and about 74 percent of gross receipts.

So in a way, the Baltimore picture reflects, in general, some national trends with respect to minority or black business development.

Likewise, in the country in 1977, these firms were concentrated in both the service and retail trades, and in the city of Baltimore, selected services and retail trades comprised about 69 percent of all firms and about 61 percent of gross receipts.

I have other information on the distribution of these firms according to various economic sectors, but let me move to the area of employment in black-owned firms.

Mind you, I mentioned the 553 firms with paid employees which represented the 17.8 percent of all firms. These firms employed approximately 2,642 persons, an average of 4.7 employees per firm. Of these 553 firms with paid employees, 422 were in the retail, trades, and selected services. And together, they provided employment for approximately 1,636 employees, or, to put it another way, 62 percent of all employees hired by black-owned firms.

Now, for purposes of discussion, if we were to assume that all of these employees were black, these firms would have provided jobs in 1977 for less than 1.5 percent of all employed blacks in the city of Baltimore during that period of time. The mean annual wage of these firms was approximately \$6,895.

Now, we can see, I think, that it is quite important to move along with the issues involved in minority business development because the present trend data indicates that these firms are not growing and they certainly do not provide a large source of employment opportunities. I have other information but—

MR. ALEXANDER. Thank you, Dr. Hearn. Mr. Quarles, Dr. Hearn has clearly presented a picture of low growth, small employment, small volume part of the economic market. What are the barriers from the technical point that exist for economic development for black business in this city?

MR. QUARLES. Well, the barriers to economic growth are many. I think that to sort of mirror Dr. Hearn, I think that there are two processes involved. Economic development, I think, occurs before economic growth. Economic development is more of a qualitative type of happening and economic growth is more quantitative. The barriers to economic development are things such as managerial experience and capability. Things like the rehabilitation of existing structures within the inner-city locations, capacity building for businesses in minority-owned businesses and urban locations, as well as capital shortages and market inadequacies are barriers, clear barriers which inhibit economic development.

Economic growth, I think, are things like the output of minority businesses which clearly is small, things like income to minority employees, clearly is small, things like the assets or the capital accumulation of minority businesses, and I think we can concur in Baltimore that is clearly small.

MR. ALEXANDER. Is there a distinct difference between the small businessman who starts up who is a majority white, if you will, versus the small businessman who may be starting up who is black? Do we find a different person going into business? Different assets? Different job experience?

MR. QUARLES. Yes, indeed, I think you do. I think that—and I can't justify it, but my own speculation is that many of the white small business persons have either family background or some perspective on running a business that many minority business persons don't. Minority business persons in my experience who wish to start and who do start businesses are those who are experienced in one area, such as maybe sales or maybe an accountant, or maybe a technical engineer of a sort, but have not in their professional experience had a wide range of managerial hands-on practices, and thereby accumulated some general management or chief executive

officer management skills, instincts, and capabilities. I think as well, from a qualitative point of view, that there is the soft area of just zeal and perseverance in business that may be a differing point between those two categories.

MR. ALEXANDER. From the legal point of view, are we seeing perhaps the end result of years of employment discrimination within the private employment market in terms of corporate experience, managerial experience, contacts, having a distinct impact on a black who tries to then go into private business?

MR. QUARLES. I think we're seeing that. I think we have seen that through the fifties, sixties, and seventies. Mind you, in the fifties it was much easier to enter into a business from a cost of entering business, etc., the sophistication needed, etc. In the sixties and seventies, yes, discrimination from an employment point of view to lead toward managerial capability is prevalent. I think in the eighties and the nineties—I think that there is more of an entrepreneurial spirit among more qualified younger black business persons, and I hope and I think that that will show up in Baltimore as well as in other areas of the country. Whether that's enough to make an impact is left to be seen.

MR. ALEXANDER. From your professional experience, do you find that minority business persons tend to have sufficient access to capital?

MR. QUARLES. Not at all.

MR. ALEXANDER. What has been the general response of the banking industry to this problem?

MR. QUARLES. I think the general response of the banking industry is that they fail to recognize that most minority businesses are in a development capital standpoint, that takes a little creativity, it takes some risk-taking and it takes some response to nonstandardized lending situations. There has been an overt reluctance to take this posture. I think there needs to be a situation where one or two take the lead, where some successes can be shown and others can be followed. A prime example would be the South Shore Bank in Chicago, where they have completely turned around that South Shore area from one of decimation to a thriving area, both neighborhood and business.

MR. ALEXANDER. Prior to your present position I believe that you were employed in a number of—several banking jobs. Are minorities generally found in any level of banking in the city of Baltimore?

MR. QUARLES. At the branch level, at entry level positions where they are mostly performing staff or credit analysis function, very few have lending authority of any substance in Baltimore City, to my knowledge.

MR. ALEXANDER. How does this impact on the discretionary component of bank loan policy?

MR. QUARLES. I think you could claim a one-to-one relationship between that situation.

MR. ALEXANDER. In the example that you mentioned in Chicago, and I understand there are a few other ones, has the difference been aggressive recruitment by the banks of minority persons who then possess a different attitude towards loans?

MR. QUARLES. Yes. And it relates back to the question of Chairman Berry about education. A lot of these centers are education centers for management and Masters in Business Administration and others where the local corporations take an interest in these schools and hire qualified entry level management persons and train, give them experience, give them opportunities as well as responsibilities, and they, thereby, create a self-fulfilling situation where blacks become capable, professional managers. That relationship, that marriage between the schools and corporations in this city is hard to put a substantial, comfortable reliance on.

MR. ALEXANDER. Education has been mentioned several times already today. Both Dr. Hearn and yourself are associated with higher educational institutions in this city. Does either of you gentlemen know what happens to black MBA graduates or black accountants, so on, that are generated in and about the Baltimore area? Are they brought into the larger corporations? Are they in the banks of this community?

MR. QUARLES. Well, my impression is that a lot of them have the desire and would like to come back home, so to speak, but the opportunities are quite few and quite limited. You could count the number of substantial corporations that actively recruit black MBA's. Most of the ones who live in Baltimore and go to the larger schools like the Columbias, the Stanfords, the Harvards, etc., of course learn of and seek better opportunities elsewhere. The ones who attend masters programs in Baltimore, such as the ones at Morgan or Loyola and University of Baltimore or others, are more or less frustrated, become frustrated graduates and have to accept positions much under their expectations as they went into the—as they entered into those graduate programs.

MR. ALEXANDER. Dr. Hearn, would you care to comment on that from the Hopkins perspective?

DR. HEARN. 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.

MR. ALEXANDER. Mr. Haysbert, you are one of the—the president of, I gather, one of the largest minority concerns in this city. How have you

found the financial institutions, particularly those associated with the Federal Government, like those working through the SBA, to be, in terms of advocacy, for your needs?

MR. HAYSBERT. My impression as a private businessman and in contact—I'm on the board of CEBO, the GBC, the HUB [Help Unite Baltimore] organization, and several other organizations involved in minority business enterprise, and I would say that the most noteworthy case, the SBA—if it were to go out of existence tomorrow, there would be very little impact on the black and minority business in the city. Any investigation of the statistics of that agency will show that there're very few loans made out of the total portfolio in spite of the complaints about not enough money. There are very few loans made to blacks in this area. They have a detached office on the outskirts of the city. They have very little relationship. They have several excellent black people on staff who are doing all that they can, but the SBA and, therefore, the Federal participation is little or nothing. Under the present administration, I think it will go from little to nothing, as far as its impact.

MR. ALEXANDER. Has it been your experience that minority business persons are treated any differently by Federal officials than white business persons?

MR. HAYSBERT. It is my impression that instead of an inclusive policy, there is an exclusive policy as such. What we're saying is that they follow the pattern of the culture, which is obviously middle-European, with the background in merchandising, in business, commercial aspects, and so their standards reflect that. The net effect of that is not to screen in the minority business person, but to screen out of it. I'm not implying any intent. I'm merely saying that their particular approach has had a net effect of excluding blacks.

For an example, in their program to provide educational seminars to blacks, to small businesses, you will find that they are scheduled at Essex Community College, outside of the beltway; they are scheduled in Towson, outside of the beltway; they are scheduled at UMBC [University of Maryland Baltimore Campus], outside the beltway; where it's very difficult for blacks to even—to reach. This is equal opportunity, if you will. If you happen to catch up with what's going on and you can go out to the hinterlands and leave the 60 percent black city, then you'll be able to go to those seminars to get the kind of education and the kind of management assistance that the SBA is offering. However, the affirmative action aspect, which would make the SBA liable for coming into the population center where the need is so great, just simply doesn't exist.

MR. ALEXANDER. Switching to the private sector for the moment, have you found the white business community at all responsive, in terms of assistance or financial packaging or what have you, to the black business community?

MR. HAYSBERT. I happen to be on Mr. Obrecht's committee.

MR. ALEXANDER. I know.

MR. HAYSBERT. And I have to take his position against Mr. Sondheim. There is a lack of urgency, a sense of urgency. Somehow or other it's conceived as a good will or charitable contribution to aid minority businesses and the budgets, etc., and the efforts reflect that. The insight that's necessary to realize the fact that the fate of Baltimore, which has made such progress in housing, in education, and certain other areas, covers up the widening gap on the economic front, and that the health of the area with a growing noose of disadvantaged, undereducated, and almost hopeless people is a threat pointed right at the heart of Baltimore, but the white business community in general does not see it. There is a lack of sense of urgency. It's more a question of troubled consciences rather than a realization that something simply has to be done about it.

MR. ALEXANDER. Can you point to any particular concrete things that have been done in the community by the white business community? Any programs of particular business assistance, bonding, and so on?

MR. HAYSBERT. I think that the primary example is that of the GBC's minority business development committee, which has geared up and finally begun to roll in that particular area. The various subcommittees of that group are meeting now, and it is beginning to roll. That is, to my knowledge, the single activity by the majority business community in this particular arena.

MR. ALEXANDER. Does the white business community do business with black businesses in this city?

MR. HAYSBERT. Some few do. For an example there is a minority purchasing council which has maybe 27 to 37 businesses which have a program. But there are over 1,000 or so businesses of size that are untouched by that. There is no plan. It's—again, there is no plan to do business with blacks in the city and I don't—I'm not saying that we don't hope that someone will come in, but there are special arrangements that must be made in order to qualify blacks that the majority business just simply hasn't found it in their best interests to do.

MR. ALEXANDER. How many persons does Parks Sausage employ?

MR. HAYSBERT. 234.

MR. ALEXANDER. What proportion of those are minority?

MR. HAYSBERT. I would rather phrase it that we have 19 percent who are nonblack.

MR. ALEXANDER. Fine. Education and preparation of employees has been mentioned several times already. Does Parks Sausage have the same apparent problem in finding employees and retaining them, or do you have a different experience?

MR. HAYSBERT. No. We have the same experience because we're dealing with the same population.

MR. ALEXANDER. How do you deal with the population, though?

MR. HAYSBERT. Well, obviously, the traditional things of having tuition grants, etc., paid tuition and so on is a factor. However, we have—based upon our cultural background, we're able to recognize talent, brains, even though the educational background isn't there. Under those circumstances, then, we arrange to have people go to seminars to get additional education. We ask them, and establish when they first came on board, that high school equivalences, things of that type, are very important. And by getting them involved in the operation of the company, the operation of the individual activities, we stimulate them to better themselves.

MR. ALEXANDER. Mr. Cheeks, we've heard a lot before about the Inner Harbor and downtown development. What is your view as to the benefits, if any, provided by the redevelopment to minority people and poor people in general?

MR. CHEEKS. I am not like the gentlemen here. They speak about the actual economics. I guess what I have to look at is the actual lack of impact or the negative impact of the Inner Harbor development.

The Inner Harbor, to us at Baltimore Welfare Rights and many other people I deal with, has not benefited the people here in Baltimore City, who are the most totally disenfranchised folk from the economic process. And by that I mean, to get very specific, there has not been, from the beginning, the inclusion of black entrepreneurial efforts in the Inner Harbor. There has not been the capitalization for businesses, for black businesses in the Inner Harbor. There has been the idea—the only thing I can think of that's analogous to it is the situation in South Africa—that as you look at Baltimore, in the context of what is happening to blacks, is that you have a minority white population controlling the economics of a majority population here in Baltimore City. I think the Inner Harbor is a prime example of this.

Things that are ancillary to the Inner Harbor development, such as displacement—poor people, who live very much contiguous to the Inner Harbor, have been displaced. If you tried to track where they are, people who lived in sharp Leadenhall—that's in view of this building—families have been disrupted and displaced throughout the city and out into the counties as a result of the Inner Harbor development.

I think the other thing that's very symbolic of what is happening as a result of Inner Harbor, for example, we have a school, Community College of Baltimore, the harbor campus. There were some thoughts about our mayor with his vision to move that campus, move that school because it blocked the view to the Inner Harbor.

When I look at who owns the businesses at the Inner Harbor and I'm told that there are supposed to be 17 black businesses—I have not found them because times that we come down we get arrested, but we don't see

the advantages of—as far as jobs are concerned or as far as businesses in the Inner Harbor.

I want to point out one other thing, too—that when we talk about economics in any community—I think Mr. Haysbert made reference to this or someone made reference to the history of family being in the businesses. As you relate this to education and our young blacks going into business, we're not talking about just jobs, we are talking about ownership of business.

Now, I would prefer—I know Dr. Hearn referred to the trickle up theory from having jobs and saving money, but I think the statistics would prove that blacks are hired in the lowest echelon of the jobs so there is not the ability to save that money for further investment, so the trickle up theory, I think, is wanting. But the idea of blacks getting more capital in order to go into businesses, and I think that this—that would provide the economic stability for—would be one of the factors to providing the economic stability for the black community.

What is not happening in Baltimore City—and I think it is hypocritical for anyone to sit up here and suggest that there is a nucleus of white business power brokers in this city that really want blacks, the majority population of this city, to move out of a role of ultimate consumer to actually a role of producer and ownership of business. I think you can see this in the way the city government operates, the way, especially, the lending institutions operate, as you look at the Banking Mortgage Act, how they do not make that available or implement that within the black community.

As I deal with the welfare population primarily, 55 percent of the M.A. [Medical Assistance] recipients from the whole State of Maryland happen to be in Baltimore City. There was mention of a CETA Program, Comprehensive Employment Training Act. Now, the Comprehensive Employment Training Act was a result of the MDTA [Manpower Development and Training Act] and all the other—several other employment legislations or manpower legislations years ago coming together with the purpose of providing an opportunity for the hardest to employ.

Now, there have been references that the CETA program was a tool, a positive tool in Baltimore City as far as economics for the black population. This is absolutely not true. The CETA program was used as a pork barrel type of factor to play off political favors of the mayor of this city and, therefore, the results of it was not what was initially intended by Congress. So as we take all of these factors—I know we started out with the Inner Harbor, but as we take all of these factors, you don't get the sense of urgency here in Baltimore City, you don't get the resources that are applied to business people and I refer to—I say business people very consciously because you have—even though you have black men locked

out of any type of opportunity for businesses, it's even more so with black women.

Now, the population of welfare recipients is primarily the heads of household—are primarily black women that I deal with, over 40 or between 30 and 45, who have had limited job experience, and who are the hardest to employ. There has not been, in Baltimore City, the effort to do that.

I want to cite one particular example, the Greater Baltimore Committee. The Greater Baltimore Committee initiated a call to me through their previous director, Mr. Bill Boucher, and asked me basically what was on my mind, what could GBC do in the area of employment to help this population. When I met with Mr. Bill Boucher, I indicated that one of the starting points could be to take 1,000 families off of welfare in Baltimore City. Thereby, the Greater Baltimore Committee—I think at that time was 100 members—would commit themselves to 10 jobs per business, and these 10 jobs would go to heads of household of welfare to forever get these folk off of welfare here in Baltimore City.

Now, that was a concept. It was followed up with, and I have—and I brought the paper because I know a lot of these—in the bureaucracy we like to deal with a lot of paper. I don't have the statistics compiled, but I do have the actual paper here, where we met with Mr. Bill Boucher and he was supposed to present it back to the Greater Baltimore Committee. I'm still waiting. That was about 2 years ago. I'm still waiting for the Greater Baltimore Committee to take on this commitment.

MR. ALEXANDER. Outside of that example, if you have the paper we would probably like it for the record. Mr. Chairman?

CHAIRMAN FLEMMING. Yes.

MR. ALEXANDER. Have there been—

CHAIRMAN FLEMMING. So, without objection we'll enter it into the record.

MR. ALEXANDER. Have there been any actions by the private sector in this city, any businesses, to approach you and your organization to provide jobs for your clientele?

MR. CHEEKS. I've had the support in this effort of the HUB organization and the Business League of Baltimore and, to a limited degree, the Greater Baltimore Committee did send out a letter to its membership to support a program of hiring people on a contract that we have funded by the State of Maryland. I do have also all of the job contacts or employer contacts that our people have made in the last 2 years on behalf of getting employment for welfare recipients here in Baltimore City.

MR. ALEXANDER. The jobs that have been locating in the downtown redevelopment sector, have they at all been providing jobs for your—

MR. CHEEKS. No.

MR. ALEXANDER. —constituency?

MR. CHEEKS. Not at all. We get, primarily, most of our jobs from small businesses who have taken advantage of the tax credit, the target jobs tax credit; they've taken advantage of that, but not from the major businesses.

MR. ALEXANDER. In addition to the commercial side of redevelopment, we notice that some regentrification, the conversion of the downtown sector to higher income condominiums and so on—

MR. CHEEKS. Yes.

MR. ALEXANDER. —is occurring. What is happening to the former welfare recipients and other poor persons who had lived in this area?

MR. CHEEKS. To a degree that I can track, the impression that I have is that we have people who are doubling and trebling up because there was a mention of the housing situation here in Baltimore City having improved, but the last I noted the housing situation in Baltimore City was 2 percent vacancy rate or 2 to 3 percent with a 61 percent of all the rental, available rental housing in Baltimore City being substandard according to HUD, the latest HUD study.

Now, what's happening to people who have been displaced by this Inner Harbor development is that they are doubling and trebling up with family, they are being pushed into, even more so, into the projects, the public housing. What is also happening is that we have an increase in crime, and I think much of this is a result of people being overcrowded, and I think the correlations—the correlated factors can be laid much to the trend or the character of development, of so-called economic development here in Baltimore City.

The justification with the premise that's laid out by this present administration is that you must enhance the tax base in order to provide for services. Now, we well understand that, but this plan of enhancing the tax base also carries with it the attraction of people from the counties, and if you attract people from the counties, you displace people from the city.

Now, the people from the city are basically either going into the counties or they are being even more concentrated in other particular areas and therefore exacerbating an overcrowded condition already.

MR. ALEXANDER. Thank you. Mr. Chairman?

CHAIRMAN FLEMMING. Mr. Saltzman.

COMMISSIONER SALTZMAN. Mr. Haysbert, I wonder whether, as a leading black businessman, you might comment on your own access to the white business community, whether you feel welcome in the larger, white-dominated business community, and as another aspect in terms of the political life of the city, whether outreach to you or other similar black businessmen has been instigated on the part of the city.

MR. HAYSBERT. Well, that was a wide ranging question, Rabbi Saltzman. I think that I sit here as one of the people who has luckily tiptoed his way through the minefields. Now I sit on the board of a bank, on the telephone company, and I sit on the executive committees of GBC,

and I'm alone. And I think that the mere fact that I have done it doesn't mean that there isn't a minefield there for everyone else that blows their legs off and that destroys them as such.

As such, I'm in a position to translate and, to some case, mediate between the two communities because there is basically two communities in Baltimore, the 40 percent and I'd say to the 60 percent. They are widely separated on the basis of economics.

Insofar as politics are concerned, again, we have very small representation for the majority black population in the city council. The same holds true as far as the State legislature. I think that that in itself is residuals of some of the attitudes that have existed since slavery, in that black people have been taught that they were powerless.

I visualize the economic impact of the consumer market in Baltimore which is roughly about—the black portion of it is roughly about \$2 billion, which is an immense power. But under the circumstances leading down from slavery, this awareness of power can be likened to that of an elephant who is trained at an early age that the chain on his leg renders him powerless and he's too small to pull away from the stake, and so that even when he is a 5,000, 6,000 pound pachyderm, you can still hold that big bull elephant in check by putting a small chain on his leg.

What I'm saying is that without help, without the Federal legislation towards affirmative action and more action from people of good will, that the power and the ability of the population, either in a political sense or an economic sense, will never be realized, and the entire community will continue to suffer.

COMMISSIONER SALTZMAN. Where is the stumbling block? Can you identify—or where are the stumbling blocks that make up the minefield of which you spoke?

MR. HAYSBERT. Some of the minefields are access to markets as such, the ability to get in to see the purchasing people, to qualify. Another stumbling block part of the minefield is the educational requirements, that residuals of years of discrimination, which makes a black business person be confronted by forms which are perfectly logical to the majority community but are totally bewildering.

And this simply blows legs off when they try to get loans or present their positions to banks. There is the lack of communication at any time other than 8:30 to 5 o'clock as such in which the real actions of the city are passed on. Those really literally castrate black efforts because they have no—they don't have access, bonding requirements, past record requirements, track records. Where do you get a track record if no one gives you an opportunity? They blow your leg off. Experience. Reading a book just doesn't help you put that bicycle together the first time. Reading the instruction sheet. You got to have some experience in putting the bicycle

together before you can accomplish that. That's the type of thing that literally puts black businessmen out of circulation.

COMMISSIONER SALTZMAN. And do you feel that the city has not made an effort to respond to those obstacles in a constructive and timely and immediate fashion?

MR. HAYSBERT. Exactly. They have not. They have not been effective.

COMMISSIONER SALTZMAN. You mentioned that you were able in your business, because of cultural factors, to recognize talented young black people. What leads you to be able to do that, that might be helpful to white business people who are of good will and would like to recognize that same potential or talent?

MR. HAYSBERT. In our culture there are certain body gestures—the certain way we carry our shoulders—that could be construed by the majority community as showing indolence or laziness or lack of attention. Lowering our head or lowering our eyes is often considered to be some sort of sign that the person is shifty, that they are not reliable, and yet to a black person analyzing that, he understands what's involved and what's going on. I would think that even the language—a resume—I've had two people who have excellent inventions who attempted to get some sort of financing, and they were asked to present a resume. Well, they didn't know what it was, or how to go about constructing it.

What I'm saying, then, is that if it has to be approached as if it were a third world nation and that circumstances—in going to Saudi Arabia, the American business person would adapt themselves to the cultural patterns and try to communicate, recognizing the fact that there was a difference.

It's very difficult to think that in America, in Baltimore, with the same tv's, the same textbooks, the same newspapers, and what not, that there would be that much difference, that out-of-phase type of thing that blocks communications and prevents it. I would think, then, that in Saudi Arabia, for an example, you would recognize that the education level or the literacy rate might be lower than it is, and you would advertise over the radio or tv because of the cultural difference. In black America, you might have to be more verbal, make more verbal presentations than written instructions, than forms, etc., in order to gain the understanding or to transmit the understanding.

That's the type of thing that—I call it the C factor, wherein—call it caste, call it color or whatever, but I would think that the white businessmen must in their formulations and in their formulas say $2 + 2 = C$ is equal to either 3, 4, or 5 depending upon the situation. I think that C factor has to be added in order to aid in black business development onto black economics.

COMMISSIONER SALTZMAN. I'd like to ask Drs. Quarles and Hearn—apparently Baltimore has not made the same kind of progress in terms of black economic development, business development as other major East

Coast cities. What can mobilize the city to catch up with other cities? What are the ingredients that other cities have that seem to be absent here?

MR. QUARLES. Well, I think it might be interesting to know, as well as the other statistics that Dr. Hearn brought up, that in that same study of the SMSA districts, Baltimore ranks 9th as a city out of the 10 largest black populated cities in the country as far as black businesses. I'm sorry, it ranks 8th within States with large SMSA's, with the 10 largest States with black population, 9th among the 10 largest cities with black population as far as businesses.

What can be done? I think what can be done is a few things. Hopefully, create some successes by whatever it takes. If it takes capital infusion, if it takes development capital, if it takes creative lending to create some successes with—and I'm not pointing to, and I don't mean with the conventional or traditional businesses like the examples brought up earlier—the marina owners or the parking lot owners or the Parks Sausages, but other new successes whereby some spilloff effect may begin to take shape. That spilloff effect being what does it take to be successful today, not what does it take to have been successful in the past and to continue to be successful today. But what does it take to be a successful business entrepreneur today? I don't know if you put it in an academic course, I don't know if you put it—however you train that to try to have some assimilation of that success.

The thought struck me a few days ago, thinking about this hearing, where it may prove interesting, Baltimore lacks a lot—although Johns Hopkins does quite a bit, most of it may deal in other areas besides minority businesses. There are a—there is not enough research going on about minority businesses in this city.

It struck me as interesting—there are many computer assimilation games that go on and it would be interesting to put a small white business person into a computer simulation game to ask him to make managerial decisions at different decision points to see what his score comes to. Do the same with the minority and try to detect what the differences between their knee-jerk, their just innate or their reactions, would be to certain, not easy, but rather difficult, managerial decisions. I think there has to be some training and some evolution of this local culture over time to identify itself to have a self-profile of having the ability to be successful business persons, to have insight into business and to know what it takes to recognize an opportunity and to succeed.

MR. HEARN. Let me respond to that in a, just in a general way. Most of the Federal studies, in terms of minority business success, identified two basic factors in study after study. One is education, entrepreneurial experience, and the other is capital. Mr. Haysbert talked about the need for education, in terms of entering the market, of employment opportunities. I think one can have as much education as one can obtain, but without the

capital to really finance a business enterprise, one is likely not to accomplish much.

I think what it takes—and this might be a bit naive—but those people who are willing to risk, if you will, investing in minority business development as a general part of minority economic development. Mr. Cheeks, I think made a telling point about the comment I made about sort of the trickle up theory. I agree that there are problems with the entry level in the private sector, but I think in the long run that kind of activity will not be without its effect.

On the other hand, I guess when you eliminate all the veneer, if you will, it gets down to the private sector incentive that is what the private sector hopes to gain. I think if you look at what we have created in Baltimore and other communities is what has been referred to as low-income public sector communities, and without making some efforts at minority business development, at private sector opportunities, I think in the long view, if not the short view, the price to pay may very well be increasing social instability. I think the linkage between minority business development and political development is also crucial, and I think that's been at least implied in some of the commentary this morning.

When I refer to low-income public sector communities, have we really created, in the minority community, a kind of an existence on what I would call some soft money? And each time there is a tremendous cut or elimination of programs we basically have sort of a politics of protest, which is effective, but my personal opinion is I don't think it is as effective as electoral politics if we had, if we had a base in the private economic well-being of this city or the Nation as a whole.

CHAIRMAN FLEMMING. Commissioner Berry.

VICE CHAIRMAN BERRY. Yes. I just have one question, I guess, after making a comment. Listening to the four of you talk, I heard a number of suggestions about things that could be done, including, with Mr. Quarles, the notion that there is an absence of a partnership between business and the colleges and universities here to provide the kind of training assistance, placement of people, mentoring, moving up through networks, that that's absent, so that if we could do something about that, that would be helpful.

From Mr. Hearn, among other things, I heard that even though blacks largely get their experience in the public sector, it would be nice if they could move into the private sector. If we could find some way to do that, especially, I guess that would be true since the public sector is being cut back everywhere and those opportunities are lessening. And also from Mr. Hearn that black businesses do indeed hire blacks. It's just that there are so few of them that the numbers of people that they can hire does not make a large impact on the employment situation, so that if you had more black businesses, maybe if they followed their previous pattern, they would hire more blacks still.

And from Mr. Haysbert—I was interested in your comment about the cultural and educational things that might be done and the example you gave about Saudi Arabia and how we respond to things there.

And from Mr. Cheeks, about the targeted jobs credit in the SBA programs, for example.

So I heard all of these things as possible solutions, but then I didn't hear any clear way about how to get any of them done. There was some talk about the stick, I guess, of social instability. That is sort of, if we don't do these things, there will be social instability. From Mr. Obrecht, who was on before you and who seemed genuinely sympathetic to these concerns and was responsible for that committee report—he talked about incentives for the private sector and that there had to be a partnership between the government and the private sector to get these things done. Most of the time when we talk about incentives for the private sector, we're talking about money, right?

MR. HAYSBERT. Right.

VICE CHAIRMAN BERRY. So, would it be your view, then, that the way to get any of these things done that you've talked about, or anything else, is to give more incentives in the form of money somehow to the private sector, a little bit more tax credits than they've got now, if they can use them, or whether some other kind of incentive, or in the case Mr. Quarles talked about, perhaps mandating that the colleges and universities would work with the businesses and the businesses got some kind of credit for working with them. Do you see that as the only hope, or are there any other reasons, aside from the threat of social instability that anybody who has—which includes mainly the white business sector—would want to implement any of these things that you're talking about? Anybody?

MR. CHEEKS. Let me—let's see if I understood what you were saying. All right.

VICE CHAIRMAN BERRY. I'll be happy to say it again. I'm just asking—just in the interest of time I'll just say quickly the question is: Would you support the idea of more incentives, financial incentives, to the private sector to get them to implement some of these ideas that you have, or do you think there's some other rationale that can be used to get them to implement—

MR. CHEEKS. I will treat that as two questions. Would I support financial incentives to the business community as a means of resolving this problem here. I'd have to say yes, because I think that the only language that the business community does understand is the financial incentives. And the inverse, or it seems like it may be the inverse, but I think it's almost the same thing, is that as you talk about social instability, I think that is also a financial consideration, that social instability does enter into this because we can, and I think many times we try to ignore, we try to come from a very nice premise, that this can continue and people will

continue to accept it. And maybe black businesses want to believe that, maybe white business folk want to believe that, and the general population want to believe that. I don't believe it. And I will not even be a hypocrite to sit here and say that I would say to people to continue to allow business as usual—that you get cut out of the decisionmaking process and, therefore, all of the negative things that have impacted continue to impact on you.

Now, I think this also needs to be considered by black business as well as white businesses and predominantly or basically more the white businesses, to understand that there is a direct correlation of a disincentive for this to continue and I think we need to look back at other societies and even in this society from different things.

I'm reminded of the situation, and I'm not promoting it, but I'm reminded of the situation in Miami, Florida, on 62nd Street, when in 1972 we tried to get the city and the county council of Dade County to make 62nd Street an economic development corridor for black businesses. We only needed \$10 million to do this. We lived right in Liberty City and we tried to make this happen. At that time we indicated not just to the white superstructure there and the elected officials, but also to black businesses, that if this did not happen, the probable result would be what actually happened.

Now, they have businesses or monies being pumped into Miami, Florida, after some of the kids that we worked with on 62nd Street are literally destroyed, and families are literally destroyed.

So what I'm saying to you is, while many of us may want to come from a very safe, nice premise, this is not a very safe, nice thing that we're talking about. We are talking about life and death, and if anybody thinks it's just going to be across a conference table that the solution is going to happen, I think they are being misled.

VICE CHAIRMAN BERRY. Okay. I'd like to know whether Mr. Haysbert has anything else.

MR. HAYSBERT. The point about social instability, regrettable as it is, we should learn from history. The riots of the sixties got a lot of action and a lot of attention. And in my going around I see the beginning of the hopelessness begin to permeate. The lowered self-esteem, of not having jobs, and when a person believes that they are violent, or at the end of their string, and that's the only resource that they have available, they're going to explode. And I sincerely believe that in Baltimore, Maryland, that there will be an explosion unless special arrangements are made to prevent it.

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.

And I think that people who say equal opportunity will do it are overlooking the fact that social stability or instability is going to be the result of such actions. I certainly wouldn't want to be the person who is not worth \$3.25 minimum wage, people who—burglars, I've talked with some of them, burglars and muggers who say "Well, it's time for me to go to work." I say, "What do you do?" He says, "I'm a thief. I'm going out now on my weekly job." And it's tragic because of the fact that, even there, they cloak what they are doing in terms of self-worth, at least having a regular assignment to which they are valuable, as a thief or a burglar, or what not. And I say, to back up my good friend and colleague, Bob Cheeks, that this social instability is a very real thing in terms of resentment and hostility. This strikes out against everyone. There is no other way to explain the types of crime going on in the cities today, unless its psychologized. And that's the great damage, in not having employment.

MR. QUARLES. May I address that question?

VICE CHAIRMAN BERRY. My question was really whether people supported tax incentives and I simply quoted from Dr. Hearn.

MR. HAYSBERT. I'm sorry. Yes, I think they would, Ms. Berry.

MR. QUARLES. I think tax incentives may be part of the solution, but I think along with incentives that the recognition that minority businesses are beginning to be judged by conventional business standards will create some of the solutions that we are looking for or some of the how-to's. For instance, black business, minority businesses, can return 15 percent on investment these days. It can repay a loan at a market rate. It can generate deposits for banks to look forward to. It can—it does have the credit capability to purchase goods. It does have the managerial staff to sell and to sell at a profit and to return a profit to—it does have the ability to return a profit to its investors. That criteria along with incentives is a part of an answer.

I think another part of the answer is that, along with incentives—I think a thing that's been missing lately is leadership. I think when you look back into the Kennedy era, there were not incentives there, but there were men who said that we can do, and they went into Bedford-Stuyvesant and they did substantial things. There were no incentives per se, but these men started equal opportunity employment, and you saw lawyers, you saw business persons, you saw black professionals at a level that you had not seen before. Absent—along with the incentives—the incentives have a way of not being self-renewing. In other words, when market conditions

change, social conditions change, economic conditions change. Incentives become obsolete. There must be some creativity, some ingenuity by leaders both locally, civically, regionally, and nationally to create the environment so that there are self-renewing neighborhoods, self-renewing businesses, self-renewing social populations that can adapt to change and can adopt new procedures and standards as our world and circumstances do change.

So I don't think that incentives are quite enough, but along with incentives, is the prospect that minority businesses be judged by the same standards that white businesses are judged and can meet those standards. I think that is—that notion should be understood, conveyed, and accepted today and tested, and I think some substantial changes may come about.

CHAIRMAN FLEMMING. Commissioner Ramirez.

COMMISSIONER RAMIREZ. Yes. I was interested in Mr. Haysbert's comments. I was impressed by Mr. Haysbert's comments and wish that I had half an hour after every time you make a statement to just think about what you've said. I was interested in your comments on market access and the opportunity for that access both to markets and to capital which social opportunities provide. And I was interested in knowing whether in your estimation, in Baltimore, the development, the economic development that has occurred has provided greater market access opportunities, if I understand the term correctly. And you have to understand I'm a school teacher, but are there increased markets either in the public sector or the private sector for black businessmen who may be good businessmen, able to provide a service or a product; are there growth opportunities for their businesses as a result of this economic development?

MR. HAYSBERT. There certainly are, but only under the aegis of affirmative action. For example, there's a growing resistance for contractors in the State of Maryland to affirmative actions and goals as such.

The building—very obviously, the opportunity has to be here. If you're in a town where no one is building anything, or no one is doing any business, that limits the opportunities. But there is a growing resistance to setting goals. The city of Baltimore has certain goals; the State of Maryland has goals; the Federal Government has goals; and coming out of the closet now are a number of businesses, majority businesses, who resent, who classify the goals as unrealistic, that they are failures, that they are not needed, etc. In fact, in one committee—I'm to testify next week—there's a concerted drive headed by the Maryland Chamber of Commerce to wipe out the set-aside provisions of Maryland. And to that extent it has two phases—one it says yes, when opportunity grows in a particular area, that should help. But we're saying that with the current attitudes in the areas in Maryland—and I'm on the Maryland Advisory Committee for the Commission also, so I have access to a lot of that type of testimony. I'm

saying that without affirmative action, equal opportunity is just junk. Thank you.

COMMISSIONER RAMIREZ. So that the notion of public-private partnerships you would define as one that proceeded from a strong set of legal requirements that provided impetus with perhaps a number of incentives both within the target community and within the business or private enterprise community that would support each other rather than a thrust which would say you eliminate the rules and you do it all by incentives?

MR. HAYSBERT. That's correct. I think the carrot and the stick is needed.

CHAIRMAN FLEMMING. Mr. Haysbert, I guess I don't need to say that I concur completely in what you had to say about affirmative action. I sense from your comments that you feel that there is a growing feeling on the part of persons with whom you come in contact that they can walk away from affirmative action requirements with impunity. Am I correct?

MR. HAYSBERT. That's correct.

CHAIRMAN FLEMMING. Do you have in your mind certain reasons for that feeling on the part of people that they can walk away from affirmative action requirements with impunity? Why do they feel that way?

MR. HAYSBERT. I think November 4, or was it the 5th, 1980, was seen as a signal that affirmative action was no longer the policy of the country, and whether it was intended that way or not, the net effect of it has been to signal everyone, body language or whatever you want to say. Everyone has gotten the message now, come out of the closet and pursue your best individual interest, whether it's to the interest of the country or the city or the State at all. The message is out. No more. Affirmative action is dead.

CHAIRMAN FLEMMING. I note that you serve on the board, I think you said, of a bank as well as the telephone company. Am I correct?

MR. HAYSBERT. That's correct.

CHAIRMAN FLEMMING. Do those two organizations have affirmative action plans?

MR. HAYSBERT. Yes, they have.

CHAIRMAN FLEMMING. What do you feel about the implementation of those two plans? Have they produced results and if so, why, and if not, why?

MR. HAYSBERT. Not nearly as much as they should have produced, but both of them are leading exponents of affirmative action. They have the best records. The fact that I'm on the board action as a monitor, I can't take credit for that. Possibly I'm on the board because they did have a strong sense of social responsibility. But whichever came first, the chicken or the egg, both the C&P Telephone Company and the Equitable Trust Company are leaders in minority business development, in the purchasing of products from minorities, and, except for the Social Security Administration here, has a large quantity of highly paid blacks on their staff.

CHAIRMAN FLEMMING. In both instances, is top management convinced of the fact that they need an affirmative action plan if they are really going to open up opportunities for minorities and women?

MR. HAYSBERT. Yes. Yes.

CHAIRMAN FLEMMING. And I assume that that's one of the reasons why the plans are producing some results.

MR. HAYSBERT. Yes, that's correct.

CHAIRMAN FLEMMING. We're very appreciative of the testimony that has been given by all of the members of the panel. I think you've made it very clear that the community confronts some very serious problems in this particular area. You have identified some of the reasons for the existence of these problems. I hope that, as the hearings proceed, we'll step by step identify some measures or methods that could be pursued that could be lifted up, and, if people were willing to implement them, would help to deal with the situation in a positive manner. But you have been frank with us; you have been very realistic in your presentation. It's been backed up by studies which we appreciate very, very much. But above all, it's been backed up by experience and that means a great deal to us. Thank you very, very much.

Counsel will call the next witnesses.

MR. MCGOINGS. Mr. Joseph Haskins, Mr. Henry Edwards, Mr. Will Jackson. Will you please remain standing until taking the oath.

[Joseph Haskins, Henry Edwards, and Will Jackson were sworn.]

TESTIMONY OF WILL JACKSON, PRESIDENT, JACKSON OIL COMPANY; HENRY EDWARDS, PRESIDENT, SUPER PRIDE MARKETS, INC.; AND JOSEPH HASKINS, JR., VICE PRESIDENT OF BUSINESS AND FINANCE, COPPIN STATE COLLEGE

MR. MCGOINGS. Will each of you please state your name, address, and occupation for the record?

MR. JACKSON. My name is Will Jackson. I'm the president and owner of the Jackson Oil Company. I reside at 1306 Pentwood Road, Baltimore, Maryland.

MR. EDWARDS. My name is Henry Edwards. I'm president and chief executive officer of Super Pride Markets, Inc. I reside at 6540 Quiet Hours in Columbia, Maryland.

MR. HASKINS. Joseph Haskins, Jr., vice president of business and finance at Coppin State College. Place of residence is 1047 Flagtree Lane, Baltimore, Maryland.

MR. MCGOINGS. Thank you. My first question is directed to Mr. Edwards. What, in your opinion, is the key business problem facing minority entrepreneurs in Baltimore?

MR. EDWARDS. I believe that there are two problems, but the key problem I think is lack of experience and lack of skills. And I think that

secondly, and probably equally as important, is the lack of access to particular markets or markets of opportunity for blacks. It appears to me that, either latently or subconsciously, blacks are usually confined to markets that, basically speaking, serve blacks. So I think that there's a lack of accessibility to marketable opportunities.

MR. MCGOINGS. How does the lack of management skills impact on the ability of minorities to do business?

MR. EDWARDS. Well, there are a number of ways. And I guess you could start with step A, which is the beginning of a business. It's very crucial that when one is starting a business that he has an indepth business plan, a marketing plan, a financing plan. One of the things that has occurred for blacks is that most of our jobs in the public sector or in the private sector really have never ever given us an opportunity to do things that are required, are the prerequisites of being a good businessman. People have a tendency to believe that there's a similarity between being a manager and a businessman, but there's a difference.

My experience in a large, private white corporation, as a manager of a \$60 million a year division, nowhere came near to giving me the kind of experience and exposure that I needed in making management decisions when it comes to cash flow, financing, acquisitions, and things of that nature. Because in the private sector, I was in fact just an implementer of strategy.

MR. MCGOINGS. What do you believe to be the major reasons why so few minority business persons have been able to expand their businesses in Baltimore?

MR. EDWARDS. Well, number one, the lack of opportunities. And, as I said earlier, there seems to be a confinement to those markets that are considered black markets. Number two, the lack of capital. Minority businesses do not have access to capital that the majority firms have. And then third, but definitely not the least important, is, a lot of time, a lack of experience, and the lack of skilled people to allow you to expand.

MR. MCGOINGS. How effective, in your opinion, is the Small Business Administration in providing technical assistance to small business persons?

MR. EDWARDS. Very bad. I think that's probably been the weakness of most programs that are designed to create economic development for minorities, and, generally speaking, it is always a thought that if you dole out sums of monies that that cures all ills. But I've found in my experience that a lot of times the money is not all that's necessary and that the skills and the experience necessary to know what to do with that money is more important than the money itself.

MR. MCGOINGS. Have you had personal dealings with the SBA in obtaining technical advice?

MR. EDWARDS. Yes, I have. My experience has come in three different ways. I've had experience as a business, as part owner of a business that's

now still operating and existing in Chicago, as a manager—management consultant in Washington D.C. I had a lot of dealings with the SBA in terms of small and minority businesses, and also here in Baltimore I've had some experiences with the SBA. There are a couple of problems. I've mentioned one, with regard to the lack of technical assistance that is supplied along with the capital infusion. The other two would be red tape—the bureaucratic red tape necessary—and the third, which ties directly in with the bureaucratic red tape, is the fact that my experience with SBA loans is the fact that it has taken at least 18 months to secure the financing that comes from an SBA loan. And what happens there is that if a business is existing, it has to continue to operate before it gets the money. If a business is just beginning to start, it needs the money to get started, and by the time the monies are actually appreciated, then inflation has pretty much raised or 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. And, generally speaking, the amount that's willing to be doled out is anywhere from one-half to two-thirds of the total financing requirements.

MR. MCGOINGS. Thank you very much. Mr. Jackson, what business skills do you believe are most necessary in order for minority business persons to become successful?

MR. JACKSON. I guess, first of all, the basic knowledge of the inner workings of the business itself, their particular business, and just the basic business principles that are absolutely essential in operating a business.

MR. MCGOINGS. Do you have an opinion as to which skills you often find most lacking among—

MR. JACKSON. I think usually we find the skill I guess most lacking is marketing. I think we tend to either have the inability to have that expertise in marketing, or to attract that individual that can add credence to our marketing effort.

MR. MCGOINGS. What factors made it possible for Jackson Oil Company to become the profitable business that it is today?

MR. JACKSON. I think we have to, I guess, give credit where credit is due. We were, in fact still is, an 8(a) firm with the Small Business Administration. We were able to capitalize on a lot of the advantages of the program. The program has a lot of disadvantages for those individuals that I guess—that does not make himself aware of the pitfalls of the programs. The program has advantages; one, it makes available to you contracts that automatically eliminate that marketing problem that most small firms have initially, and, as well, if done correctly, it can make available funds in the form of advanced payments, which is I guess the largest problem that small minority businesses in this area have, which is access to capital.

MR. MCGOINGS. Do you believe that the technical assistance provided by SBA is adequate for minority business people?

MR. JACKSON. That's a good question. I guess if one considers, you know, the help that he's getting presently, then I guess he would have to say yes, it's adequate. But if he looks in the long term of what he needs, then I'd say no, it's not adequate.

MR. MCGOINGS. Do you think that the SBA leads contractors to believe that the agency will assist them in obtaining contracts?

MR. JACKSON. All too often, I believe the agency does just that. That's, I guess, one of the largest pitfalls of the program. The Small Business Administration is understaffed. They are trying to service a need that it's virtually impossible for them to do with the staff that they have. In our particular instance we recognized that at the onset, and, recognizing that, we know that the Small Business Administration was not capable and did not have the manpower to identify contracts for us. Consequently, when 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.

MR. MCGOINGS. Then are you saying that minority businessmen might tend to expect too much from SBA?

MR. JACKSON. Exactly. 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. And on a couple of occasions when I found out that this situation was happening, I called them and urged them that, number one, they should identify probably the largest 8(a) firm in their industry, go out and visit with them, find out the problems that they have encountered with the program, and come back. And I think at that point they are ready to conduct business with the Small Business Administration. These instances that I've talked about, you know, these individuals—I guess in the onset they just thought that the Small Business Administration was going to bring them some work, and that just never developed.

MR. MCGOINGS. How would you improve the 8(a) program?

MR. JACKSON. That's, I guess, a mammoth job, improving the Administration. I would like to say that the 8(a) program is, I guess, the only tool that minority businesses have to inject their businesses somewhere near the mainstream of business in the community. There's a lot of things that need to be done in the program. First of all, the program needs to be relieved of all politics. I mean, it has a tendency to get in that arena, and with the job that it has to do and the possibilities that it can do, you know, there's just no way that I would have it anywhere near politics.

The other thing is the individuals that run the Administration, I think there has to be a very serious selection in those individuals. They can't be

individuals that take on that government attitude that I'll get to it when I get a change, or, you know, there's no sense of urgency there. I guess the other thing is that there has to be, I guess, one individual that would run the program and that would be sensitive enough to address the program or the Administration to that need.

MR. MCGOINGS. Do you believe that racism plays a part in minority businessmen not having a larger share of the majority market?

MR. JACKSON. Most definitely. It's unfortunate that it happens, but I guess greed has its forms in any way or any sector of the community that you go. All too often we see front companies coming in and taking advantage of programs that were designed to help small businessmen improve their business, but the long and short of it is that the profits are weeded off and that individual is right where he started.

MR. MCGOINGS. Mr. Haskins, please state your connection with the proposed Harbor Bank and explain the purpose of the bank and its current status.

MR. HASKINS. Currently I'm one of the organizing directors of the Harbor Bank of Maryland, and the current status is that the bank is in the process of raising the necessary capital to open its doors. The capitalization mark that we have before us is \$2 million, and at this point in time we are slightly under \$1 million in actual cash in the escrow account.

MR. MCGOINGS. Why is there a need for a minority-owned bank?

MR. HASKINS. The need for a minority-owned bank is multifaceted as I see it. And I might state at the outset that, by way of background, I think it will aid in terms of my response to this—my initial career started in the area of banking, and I was a loan officer in the banking community so I had an opportunity to deal with a number of the minority businessmen that we are hearing respond. In fact, I find that many of the problems—and I was in banking in New York and in New Jersey—I found that many of the banking problems that existed there are currently existing here. In fact, it is one of the reasons that I decided to become involved in the organization of the Harbor Bank of Maryland.

I say that now so that I can go on to talk about the need of the Harbor Bank of Maryland. The Harbor Bank of Maryland I see as necessary for this community because it will provide members of the minority community with access—and that's access to capital.

I think you have heard and will probably hear from many minority respondents during the course of this hearing the fact that there has been a lack of access to dollars and to money and one of the ways that we—we being the other organizing members of the board of the Harbor Bank of Maryland—see that we can address this problem is through providing access. We have been able to determine very clearly that there has been a void in the major banking community with reference to small businessmen and to specifically minority businessmen, and we are very concerned about

being able to fill that void. We're not talking about the Harbor Bank of Maryland being a panacea or an answer to all of the needs and the problems of the small or the minority businessmen, but we are talking about it addressing some of those problems and providing, if you will, a catalyst for other minority economic development throughout the community.

As you can all see very well, there is a great deal of economic development and redevelopment going on in the Baltimore metropolitan area and specifically in this downtown Inner Harbor area. If you did a survey and kind of assessed the number of minorities who will participate in this redevelopment, in this renaissance as one might assess it, you will find the black businessman, the minority businessman, is playing a very small role. Certainly we are enjoying some of the opportunities by way of having some employment, but the employment is very limited, and the employment is at the very beginning levels of the employment scale.

If we are going to take part in some of this economic development and share in a part of some of the profits that are being made and are to be made in this redevelopment period, we are going to have to have access to those dollars that carry on operations. Therefore, I say, that in terms of the Harbor Bank of Maryland—and it provides one vehicle by which blacks have access to some of the resources that they will need, the specific resources being that of dollars.

MR. MCGOINGS. Will the criteria that the Harbor Bank will use to evaluate loan applications by minority businessmen be the same criteria that the majority banks use now?

MR. HASKINS. Let me state at the outset that the Harbor Bank of Maryland would not be organizing simply to—as a social entity. The organizers, because they are investing their time and money, are investing in an effort that is designed to be a profit organization. And we will govern the operation employing all of the business techniques and managerial skills that we have before us.

Specifically to address your question, we will be assessing the loan applications of the requesting parties based on their merit. One might say, well, will that assessment be the same as those that are set forth or that are performed by the majority banking community. In some cases, the answer might be yes, but in other cases, I think not.

One of the reasons we believe that we can be effective is because we know that many times the minority businessman is not getting an opportunity to even have his loan heard or reviewed, and, from that standpoint, we can say that we will be available to go through that process and not to just send the person out the door. For the lucky ones who had an opportunity to present their case, but those who have gone through the process and have been denied, and they walk out the door not understanding why he or she have been denied the funds, one of the things that we

would do about it is inform them what they need to know and the types of things they need to do to qualify for a loan with the Harbor Bank.

MR. MCGOINGS. You stated that you are a former commercial loan officer with a bank. Do you have an opinion as to why there are so few black commercial loan officers in banks?

MR. HASKINS. That's a good question. The interesting part is that I recall in going through my management training program at the Chemical Bank of New York that we went through a phase where they determined who would qualify for going into commercial lending, and in the assessments that were made it always seemed as though there was some criteria that we didn't quite always understand that justified why one would be a commercial loan officer as opposed to an operating officer. One of the things that seems to come up very often in the selection of commercial loan officers is their backgrounds and how much access they have to potential clients or business for the bank.

And, again, it's hard for me to respond to that question simply because I don't know what criteria is used totally. I do know that it is an area that blacks or minorities are steered away from and it's one of the most important areas in the bank. In fact, in most commercial banks, the primary positions in the commercial banks are the commercial loan officers. It is the backbone or the real focal point of the commercial banking enterprise.

MR. MCGOINGS. Thank you very much. I have no further questions.

VICE CHAIRMAN BERRY. Thank you, counsel. Commissioner Ramirez.

COMMISSIONER RAMIREZ. Yes. I was interested in Mr. Edwards' first comment about businesses needing a marketing plan and a financial plan and what seemed to me to be fairly sophisticated planning mechanisms for business expansion. But in terms of the small businessman, let's look at 10 businessmen who are running fairly mom and pop operations and who are minority businessmen who provide a good service, who have developed some strength in a very small business operation. Is there the potential—would access to markets in a natural business development sense—are there opportunities for them to grow in the absence of very sophisticated marketing and financing plans?

MR. EDWARDS. There has been, you know, isolated instances where mom and pops and most businesses do start off fairly small. Our company started off small, with one store, had some setbacks early, and managed to bounce back. So there are instances where you know small ma and pop type stores can expand. In a lot of instances they don't want to. What I was talking about in terms of a business plan, a marketing plan, and a finance plan, not only do those things take skills but they take money, you know. In the start-up and putting together a business plan it usually takes the services of an attorney as well as the services of an accountant to really put those things together, and sometimes a start-up package takes as long as 5

to 6 months to develop and sometimes cost as much as \$30,000 in terms of fees and times and other such costs.

But what I was saying about those particular tools is that I think it's very important. I think it's needed, and I think that a lot of failures come as a result of the absence of those very same basic plans. I think a marketing plan, a business plan, a finance plan is probably more important for a small business doing \$2, \$3 million a year than it is for businesses doing \$100 million a year because the margin for error is less so you have to have a well-conceived plan. And a plan is one thing, you know. The next important thing is to have somebody who can implement that plan. And that's what I was talking about before, the difference between being a manager and being a businessman.

As a manager I signed time cards and time sheets. I put in requests for the purchase of equipment. But I never had to worry about whether or not there was money in the bank to cover the checks that were going to be written. It's different now. And I have to worry about whether or not there's money in the bank to cover those purchases and to cover that payroll.

COMMISSIONER RAMIREZ. Are the services that are financed by the Federal Government, in which small nonprofit groups are supposed to provide these business development services to small businessmen and minority businessmen in particular, do they have the capability generally to do the kind of thing that you're talking about?

MR. EDWARDS. There are some. For instance, the SBA—Mr. Jackson brought the point up earlier. I mean they have some good programs such as ACE [Active Corps of Executives] and the retired executives and so forth, but they are limited. I think the 8(a) program alone has some 1,200 businesses that are on the program, and the number of individuals that are involved in these technical assistance programs is very limited. 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. But yes, if it could be carried out to its fullest, it would be appreciated and it could be effective, but right now, as Mr. Jackson said, they're not capable of doing it. They just don't have the number of people that are necessary. And it's not a thing of coming in and sitting down with somebody for 15 minutes to talk about how things are going. You know, it's about getting in there and having a feel for that business and then providing technical assistance that's germane to your particular problem, because although I run a supermarket, and there are about 12 other independent chains in this city, my problems could be dramatically different than any one of those other 12 chains.

COMMISSIONER RAMIREZ. Mr. Jackson, has the development in Baltimore created additional markets for your company, the inner-city development?

MR. JACKSON. I guess I would have to say, no, not for the oil industry. There has been, I guess, signoffs for minority business itself because of the inner-city development, but I think as a whole, participation by the community, or the minority sector—it was never what it should have been.

VICE CHAIRMAN BERRY. Commissioner Saltzman?

COMMISSIONER SALTZMAN. Mr. Haskins, you and, I guess now, Mr. Edwards, say that the minority community has really played a very small role in the economic development that has been going on. Why? What's the reason for this exclusion to such a degree?

MR. HASKINS. That's a good question and it's kind of a difficult question, but I think that we have to say that, by design, I think that blacks have kind of been systematically excluded from the participation in the development of the "greater plan." And it's unfortunate, but we're not there. I simply just, again, cite the fact that if you go around and take a poll of those minorities who are part of this Inner Harbor development, you will find that there are very few—in fact you are far below 5 percent of the total economic activity that's going on.

COMMISSIONER SALTZMAN. Can you pinpoint where that comes from? You're suggesting that it was a conscious exclusion?

MR. HASKINS. I'm suggesting—yes, to some extent. To respond to the question directly, I think that there is a conscious decision in excluding minority participation in a number of the developments that are going on in the Baltimore metropolitan area.

I think that another problem is, going back to this access, this access specifically of capital, that blacks or minorities don't have the opportunity to put together the types of packages or programs that will qualify for having a role. For example, we all know that you have to meet certain costs in setting up a shop in, let's say if we take the Harborplace. Well, the types of resources that are necessary, specifically the financial resource that's necessary in order to qualify to have a spot or to gain access to one of those stalls or locations is not there with minority businessmen. They don't qualify. And I'm saying that that access, that lack of capital, the lack of resources, is acting in part to prohibit or limit their participation in some of the economic activities.

COMMISSIONER SALTZMAN. Can I ask, Mr. Edwards and Mr. Jackson, as representatives of the black business community, whether the black business community itself has organized to take any remedial steps?

MR. EDWARDS. I can't say that I'm—that our organization is a part of any such organization, but it might be worthwhile. I would say—you know, you asked a question of the earlier panels what elements in other cities had made a difference in terms of blacks having a greater participation level in the economic developments of the city. All programs that have come about conceptually have been good. They all have good theory, good ideas, but they lack enforcement. That's what they lack. I

mean, laws are laws, and pieces of legislation are the same, but without enforcement they are nothing.

My experience in Chicago is that enforcement came from two areas. One, it did come from the community and the community made certain that certain things did come about, or there would be economic boycotts or other such activities, such as rioting or so forth. And the other actually came from the city itself, in terms of enforcing the programs that were to be enacted. And I think that's the problem.

You know, you talked about a conscious effort to exclude. You know, the other side of that coin is there has not been a conscious effort to include. So it's very subtle but it's there.

MR. JACKSON. There is, I guess, a number of ongoing efforts to, I guess, bootstrap ourselves out of this hole that we find ourselves in, one of which is Minority Contractors Association. The Harbor Bank is another effort. And we identified—well, I guess we all agree that access to capital is our largest problem in this town. And basically if you look on the board, there's quite a bit of business, black business representation from the community, on that board, and usually it's those individuals that's been able to, I guess, make a profit, and now they want to see a bank address a need in the community that they have to address themselves, but, hopefully, the bank will be able to address that need so that maybe a few more will be able to get through the cracks.

COMMISSIONER SALTZMAN. But are there any vehicles that the black community, specifically, in creating at the present time or has created that you find will be in the cutting edge of moving the city toward conscious posture which Mr. Edwards pointed to, consciously including. Are there any such efforts within the black business community?

MR. EDWARDS. There's HUB, who Mr. Haysbert, who was on the last panel, is the president of, and though that's not the only effort that HUB is involved in, HUB is, I think, a very prominent organization, and I think some things will happen and could come out of HUB

COMMISSIONER SALTZMAN. My final question: Have you, Mr. Edwards, Mr. Jackson, Mr. Haskins, found that there are different criteria used, applied to the black businessman vis-a-vis the white businessman in securing the help, the funds, all of the other vehicles to promote business that a business ordinarily looks to? Am I clear in what I'm saying?

MR. EDWARDS. Yes, you are.

MR. JACKSON. I think it's a problem there. The one that I identify with more so than anything else is, I guess, the very basic communication gap, you know.

Some odd 6, 7 years ago I had the opportunity to go into the city, you know, to call on all the banks to try get a loan for a government contract that we had gotten and from the old banker, you know, who was very much set in his own ways and ideologies, to even the younger. I was able

to communicate much better with the younger banker, but I found that a banker from my community I was able to communicate with much better and ended up with a loan, which was the beginning of our firm.

MR. EDWARDS. I would say yes to your question, and I'll talk about three different kinds of things. First I'll talk about the financing and the availability and the criteria used for financing. One of the things that I have found to be somewhat ridiculous, in my estimation, is that a corporation, and our company is a corporation, when you go to a lending institution it appears that the corporation itself is not good enough, although it may have \$5 million in assets. It seems that the bank wants to attach the individual himself and we all know that business is a—corporations are formed pretty much to protect the individual himself and personal properties, you know, but we have had experience where the principal stockholder is required to put everything that he has up for a loan that, basically speaking, could be covered or collateralized by the equipment that's being purchased or the piece of property that's being purchased, and I don't think that's asked of other corporations of the majority persuasion. I don't think that's asked of them.

Secondly, when you talk about requirements, you know, for access to markets and things of that nature, another obstacle is the issue of bonds, and although you may have access to a market, you may very well not be able to get a bond. A lot of times people are mistaken when they think that bonds, generally speaking, come about only when you're talking about construction. But even in terms of selling to the State there are bond requirements for any sales over \$25,000. It becomes a problem sometimes, or it has become a problem, if you don't have a track record. How do you get a track record, as was stated earlier, if no one ever gives you an opportunity to do that? Therefore, you're left out in that respect.

There are other instances where you find yourself left out, not so much because the criterion is different, but, as Mr. Jackson pointed out, the communication is different. In purchasing from major corporations and from the State, there is a system that's called the old boy system, the good old boy. You know, for purchases that don't require bids to go out, for those purchases that are less than, I think, \$5,000, it merely requires that a purchaser picks up the phone and call two or three people and get a telephone quote and then make a decision based on that.

Well, it just happens that my organization is not part of the good old boy system for some reason. And so I think that there's some exclusion, you know, in that area.

VICE CHAIRMAN BERRY. I thank you. Mr. Hope has a question.

MR. HOPE. I just wanted to ask Mr. Jackson a question. You alluded to two apparent problems in doing business with SBA. One dealt with the apparent inadequacy of technical assistance as far as the long term is concerned and the other was the suggestion that SBA should be removed

totally from politics. Could you spin both of those out a little bit? Are you being locked out by the political system in some way, or just what did you have in mind?

MR. JACKSON. I guess it's a real broad question and to go into depth, you know, it will take a lot of time.

MR. HOPE. Just spin the top off it.

MR. JACKSON. When I talk about politics, I guess from my seat, okay, I see a lot of things that from a practical sense shouldn't take more than maybe a couple of days to administrate, but for some odd reason, you know, the politics are involved and it seems like it takes it forever. I know when we were in the process of getting certified to become an 8(a) firm, I think it took pretty close to a year, you know. And how do you justify a year certifying one firm? It's sort of hard to me. You know, you're bounced around. There's a routine that they call the basketball routine where you just sort of bounce around from one desk to the other until you become frustrated and just sort of go away. You know, don't bother, we'll deal with you next time.

MR. HOPE. Does this happen to all firms or just to certain firms?

MR. JACKSON. I think—

MR. HOPE. Minority firms, I mean.

MR. JACKSON. I would venture to say that its the majority. Okay? I don't know for a fact that there are firms that, you know, receive sort of certain preferential treatment, but I think the majority of the firms receive that sort of treatment.

VICE CHAIRMAN BERRY. Commissioner Ramirez.

COMMISSIONER RAMIREZ. I just wanted to ask you, Mr. Jackson, if State set-asides were to be eliminated, what impact would that have on your business? And then if Federal set-asides were to be eliminated, what impact would that have on your business? Do you think you could survive?

MR. JACKSON. The probability is that we wouldn't be able to survive, even though we have had, you know, an outstanding growth pattern. It takes time for a business to grow into a position where they can compete in the marketplace that's had 100 years start on them. We have been in the program I guess 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, such as certain individuals to strengthen that firm.

VICE CHAIRMAN BERRY. I just have one quick question for Mr. Haskins. Some economists, including black economists, say that the black community should spend its energies trying to leverage greater responsiveness from majority banks rather than setting up a lot of little black banks all over the landscape that have inadequate capitalization and resources and don't amount, really, to a hill of beans. I suppose you disagree with that for some reason.

MR. HASKINS. I suppose I do disagree with that, for obvious reasons, Dr. Berry. The interesting thing is I think we have to look at the record of the majority banks and simply assess whether or not they are doing the job. And I think that if you look very hard,—well, you don't have to look too hard—you'll find that they have not really lived up to the responsibilities or they have not really addressed in full the need of the small or minority businessman, especially in the Baltimore metropolitan community.

So if you have a major or majority bank existing and it's not providing you with the financial resources that you need, it's not so important, and it's better to have that small entity that's available to you, that is going to give you some of the services that you're looking for so that you can begin to get underway. And I think it's from that standpoint that I would disagree and promote the continuation of the development of those entities, and in this case a majority bank, whereby one can gain access to the capital.

Incidentally, a minority bank can also act as a catalyst. It can develop the correspondent bank relationships where it can lead those businessmen who need greater resources or larger dollar amounts; it can aid in directing them to larger banks that are more sympathetic and understanding to their needs.

VICE CHAIRMAN BERRY. Would you see the existence of a minority bank as one way to leverage greater responsiveness in itself by the mere existence of an alternative bank for the community?

MR. HASKINS. Of course. In fact, we believe that if we're doing our job well enough, that we are going to draw more business and we're going to draw the attention of the majority banks. One way we believe that we can impact on the community through that is that if we are doing a good job, and it's obvious that some of our programs are effective, that those majority banks might join in and provide opportunities.

Incidentally, the—if you look around in the Baltimore metropolitan area you will find that there are very few banks that are open in the inner city, but once you ride right beyond—and this is kind of a perimeter—I don't know if it's a demarcation line, but 695 super expressway—right beyond that area you would find a bank on every corner or in every shopping mall. I don't know if that suggests that people in the inner city don't have banking business to do on Saturday, but the fact is that there are very few banks in the inner city that are open on Saturday. So if we can provide those sort of services we believe that the major banks, the majority banks, will take note and maybe do accordingly.

VICE CHAIRMAN BERRY. One question for you, Mr. Jackson. Some people have suggested that firms like yours ought to be taken out of the 8(a) program, that you ought to graduate from that program—firms like yours—so that other black businesses could start to participate so that,

thereby, 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 think the firm—you know, it's senseless to me for the Small Business Administration to put the time and the dollars that it has invested in my firm and, you know, 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.

VICE CHAIRMAN BERRY. Would you accept a 10-year limitation?

MR. JACKSON. Sure.

VICE CHAIRMAN BERRY. For graduation?

MR. JACKSON. Sure.

VICE CHAIRMAN BERRY. All right. And finally, Mr. Edwards, you seem to me to be somewhat critical of the idea of dealing out money, I think you said, to solve problems. Would you like to close down SBA?

MR. EDWARDS. No, I guess not critical of doling out money, okay? Don't get me wrong, please. I repeat that one for you. But what I was saying was that I think that there is another element that's very important. A monkey will take money, but whether or not he will know how to invest it and spend it is a different issue, and I think that there has to be an accompanying technical assistance kind of program so that that money, you know, can be used to do the best. And as I said before, most of the time the monies that you get are not, you know, enough to fill all your financial requirements anyhow, so it truly takes someone with some expertise to stretch it and get the kind of effectiveness out of it that you need. That's what I was saying.

VICE CHAIRMAN BERRY. All right. I want to thank you one and all for participating and for providing us with information which will inform us more about this issue of black and minority economic development.

We will be in recess until 1:10.

Afternoon Session, November 17, 1981

CHAIRMAN FLEMMING. I ask the hearing to come to order. Counsel will call the next witnesses.

MR. MCGOINGS. Mr. Leslie Lewis, Mr. Hanford Jones, Mr. Charles Brown, Mr. Stanley Tucker. Please remain standing until you take the oath.

[Leslie Lewis, Hanford Jones, Charles Brown, and Stanley Tucker were sworn.]

TESTIMONY OF LESLIE LEWIS, PRESIDENT, LEWIS FINANCIAL; HANFORD JONES, EXECUTIVE DIRECTOR, MARYLAND MINORITY CONTRACTORS ASSOCIATION; CHARLES BROWN, PRESIDENT, CHARLES L. BROWN, JR., AND ASSOCIATES, INC.; AND STANLEY TUCKER, DEPUTY DIRECTOR, MARYLAND SMALL BUSINESS DEVELOPMENT FINANCING AUTHORITY

CHAIRMAN FLEMMING. Thank you. Nice to have you with us.

MR. OWENS. For the record, gentlemen, would you please state your name, address, and occupation.

MR. LEWIS. My name is Les Lewis. I run a financial consulting firm named Lewis Financial.

MR. OWENS. Address please, Mr. Lewis.

MR. LEWIS. 3715 Cordon [phonetic] Road in Baltimore, Maryland, 21207. Been in business for about 4 months.

MR. JONES. My name is Hanford Jones. I'm executive director of the Maryland Minority Contractors Association, a privately run trade organization.

MR. OWENS. Your address, Mr. Hanford?

MR. JONES. MMCA, acronym for Maryland Minority Contractors Association, located at 2900 Hampden Avenue, zone 11 here in the city, 21211.

MR. BROWN. My name is Charles Brown. I'm president of Charles L. Brown, Jr., and Associates, Incorporated. It's an insurance agency. My office address is 107 East 25th Street, Baltimore, Maryland, 21218.

MR. TUCKER. Stanley Tucker, Deputy Director of Maryland Small Business Development Financing Authority. My address is World Trade Center, Suite 2223, Baltimore, Maryland, 21202.

MR. OWENS. Thank you, gentlemen. Mr. Tucker, during the course of our investigation and consistent with testimony presented earlier today, we have been informed that undercapitalization has been and continues to be a problem for minority entrepreneurs.

In your opinion, Mr. Tucker, what percentage of minority businesses are undercapitalized?

MR. TUCKER. I would say, based on my experience and what we do in terms of making loans, I would say as high as 95 percent or maybe even higher, minority businesses that are undercapitalized.

MR. OWENS. Mr. Lewis, in your capacity would you share that view?

MR. LEWIS. Yes, I do.

Mr. Tucker, let me ask, what do you consider to be the greatest needs among minority businesses with regard to capitalization?

MR. TUCKER. Well, I think one of the primary needs is to really have access to the capital markets and to the financial resources that are available out here in both the private and the public sector. I don't think there is any lack of opportunities or lack of contracts, etc. that minority

businesses can get involved in. I think the problem that remains is really having access to the finances to take advantage of the opportunities that are available.

MR. OWENS. What are some of the ramifications of undercapitalization for beginning or new business?

MR. TUCKER. Well, if you get into a business, or get into anything, if you don't have enough monies to carry through a particular project, ultimately what it leads to, it leads to failure because you don't have basically, from the beginning, what it takes to follow a particular project or an opportunity through. If, in fact, minority businesses had enough funds or were capitalized to the level of what it actually takes to take advantage of the opportunities, I think we would see a lot more of serious black economic development in all of the communities around the country.

MR. OWENS. Mr. Lewis, let me ask you to follow that up and let me ask for a bit more specificity with regard to the impact of undercapitalization on such things as bonding, the ability of a business to make its services or product more cost-effective—would you share your views with us on those areas?

MR. LEWIS. Certainly. Many businesses need, I would say, three forms of capitalization, and if you study the balance sheets of most businesses you will find an absence in one of these forms, and those forms are some form of short-term credit, either through support by companies or clients' suppliers, or short-term bank credit to finance current assets. Also, most new and young businesses need some form of permanent capital in the form of debt or in the form of equity to give it a chance to grow and develop and produce sales until such time as it can repay that debt. And that's pretty much senior debt or what I like to call permanent debt capital. Then the third form of capitalization, which is really needed by many businesses is that form of capital which doesn't have a current carrying charge, meaning the payment of interest, or the payment of principal, and that's equity. And in almost every case for a small and/or new business equity is absent, and, in most cases, the form of permanent debt capital is absent, and, therefore, most small businesses are topheavy with short-term credit.

MR. OWENS. Thank you, Mr. Lewis. Mr. Tucker, you indicated that one of the problems confronting minority business people is the access to capital. What, in your opinion, is the accessibility among minority businesses to conventional financing?

MR. TUCKER. Well, I think the access is very limited. For example, the type of businesses that we get involved with are minority businesses just really starting up. Now, they—if you look at their financial statements, they are not what you will call bankable kinds of deals. So because if they were to take their particular request to a bank, then they automatically

would get turned down because they don't have the net worth, they don't have the access, they don't have the collateral, etc.

In addition to that, I think if you look around the country as a whole, we would find that more and more assets are becoming more centralized. Yes, they say that we have something in excess of 14,000 banks in the country but really, when you look at it, there's only about 14 or 15 of them that really make any sense, make a difference, because the assets are being concentrated in basically major money centers, and the big banks are saying: Well, look, you know, it's costing me the same amount of money to make a \$500,000 or \$1 million loan, versus a \$50,000 loan and the \$50,000 loan—the margin I'm going to make off of that really isn't that high. So that sort of hinders small and/or minority business because the major banks are saying they're just not worth it for us to get involved in this particular deal, so that leaves a major gap in the finance community for small and minority businesses. So you have this imperfection in the capital market which—really, something needs to be done about that. The larger banks aren't doing it, so, you know, who's going to do it? So without that access you come right back to the same problem. Without it, they can't take advantage of the opportunities.

MR. OWENS. Thank you, Mr. Tucker. Mr. Lewis, as I understand it, you have been involved in the banking business for approximately 10 years, is that correct?

MR. LEWIS. That's correct. I'll give you some background.

MR. OWENS. Please.

MR. LEWIS. I started my banking career in 1971 at the Chemical Bank in New York. I left that bank in late 1973 and joined the Equitable Trust Company located here in Baltimore, where I worked in three or four different loan divisions—the corporate finance division, the metropolitan accounts division, the commercial loan division, and the real estate finance division.

MR. OWENS. Mr. Lewis, based upon your experience in the banking industry—and it appears that it has been rather extensive—what factors are taken into consideration by commercial lenders in deciding upon whether or not to grant a loan?

MR. LEWIS. Those factors are basically widespread in the banking industry and they are all fairly straightforward in terms of the underlying decision. You normally look at the client, be it a corporate entity or sole proprietorship or partnership, then make a determination based on three or four factors. One, and most important, is the ability to repay; two is how the money is to be used; three is what secondary source of repayment is there, meaning collateral; and four is the general decision that the people you are dealing with have the intelligence and the managerial capability to do what has to be done in order to repay your loan.

MR. OWENS. All right. Mr. Tucker, let me ask you to respond to this. The criteria which Mr. Lewis has just laid out appear to be very objective. You also have had experience in the banking industry. Do you find that there is any degree of subjectivity involved in the decision to make loans?

MR. TUCKER. Yes, definitely. Banking is a very personal kind of relationship. A business person has a business; he relies on his banker, which brings to question that the banking officer—hopefully the banking officer would have sensitivity to the business person whether that business person be minority or nonminority.

I think you will find, though, that in the banking community here in Baltimore, as well as around the country, that you won't find an abundance of minority or black lending officers. So that in itself presents a serious problem from where I sit, because I think there is a—I know there is a lot of subjectivity in regards to making a loan. Sure, you could have a business person come in with—as a matter of fact, I've seen it—come in with certain kind of financial statements, etc., and if that particular lending officer is sensitive or aware or has confidence in that particular business person, then even though all of the details may not be there, he or she still may consider or take that loan to the committee because he or she believed that particular business person can repay the loan. So sure, definitely, there is subjectivity there, and I think the minority business persons would make out much better if we had lending officers.

MR. OWENS. Mr. Tucker, may I ask you to follow up just a bit. As deputy director of the Maryland Small Business Financing Authority, you've obviously been involved in the process of packaging business loans, etc. Based upon your experience, which of the criteria presents the biggest problem for minority business people with regard to obtaining a loan from commercial lenders?

MR. TUCKER. Well, there are several of them, really, but to be specific to answer your question, I think a lot of times presentation makes a big difference, even though all of the objective aspects of the loan may or may not be in place as Mr. Lewis referred to. But I've seen where presentation and the way you present the loan, the form in which it is in, because you have to remember that banking officer—they're used to looking at certain forms, they are looking at certain financial statements, they are looking to see that the application is stated in a certain way. So I think presentation is a very important part of it, but also just the basic financial aspects of the particular deal itself, the strength, the financial strength of the particular company in terms of how are they going to repay the loan. I think the presentation and financial strength of the company really presents the major problems.

MR. OWENS. Thank you, Mr. Tucker. Mr. Lewis, would you respond to that question, please?

MR. LEWIS. Well, I'll answer that question this way. In terms of subjectivity in loan decisions, I was once told, when I first started my career in the banking business, never make a loan unless you felt good about it. And to feel good about a loan or a request is not so much to feel good about all the hard white paper documentation that is presented before you, but based on, rather, your rapport with the client and the understanding or feeling you get about that over time. In addition to that, you do have to substantiate that loan on a basis of normal credit criteria, meaning cash flows, financial projections, financial statements, and everything else. And if all those elements come together with the objective information, then the sum of the two parts should result in a positive decision.

One of the things I'd like to make clear here is—the first rule of banking is to know your client, know your customer. And if you're sitting on a loan platform and a client comes in and makes a presentation to you, and it's a good presentation and all the right material is before you, then the first thing you should do is to do some research about the client, and so you pick up the telephone. And if you are a white business person and you're talking to a white banker, the chances for that white banker to find out something about you in the community from whence you come should be pretty good. If you're a black banker and a black client comes in to see you, the chances for you to pick up the telephone and find out something about that client should be pretty good. But if there is a mismatch, then I think the chances are probably fairly difficult for you to find out the information unless you have been in the community from whence the client comes.

MR. OWENS. Am I correct then, Mr. Lewis, in understanding that as you see it, the social stratification that exists in society works to the disadvantage of minority business people with regard to procuring loans from commercial institutions?

MR. LEWIS. To be specific, if we had more black bankers in the commercial banks who were in positions with authority to make loans or work within the departments which provide a commercial credit to businesses in general, inclusive of minority businesses, then I think we might see some improvement in that area.

MR. OWENS. All right. Mr. Tucker, let me ask you, aside from the monies available through commercial lending institutions, are there other sources of funds available for use by minority business people?

MR. TUCKER. Yes, there are other funds available. For example, the organization which I work with, the Maryland Small Business Development Financing Authority, is one where we provide working capital loans to minority businesses who have been able to obtain a Federal, State, or local government contract. In addition to that, there are other really small parts of monies—it's all relative, but there is what we call a revolving loan

fund of about \$½ million located in one of the communities here in Baltimore called the Park Heights Community. There are other small parts of monies around; there is the SBA; there is CEBO, which has some funds.

But let me say this: What I mentioned earlier, that there is definitely an imperfection in the capital markets and with this imperfection in the capital markets then there needs to be—there is a gap in there where there is a definite need of financing for small and especially minority business because of the difficulty in getting access to the monies. Our particular program—I think we have done a pretty good job; we have a good track record thus far. However, we were only initially capitalized at \$2 million, and \$2 million really doesn't go very far when you're talking about really making significant gains and, really, we're talking about business development. Really, if a business person comes in and makes a loan from us to involve in a contract, then more than likely right after that contract has ended that particular business person really is right where they started. So, really, what is needed in the community is more long-term and equity kind of financing. And, really, that isn't available. So to specifically answer your question, yes, there is a few agencies but none of them together really make a lot of impact.

MR. LEWIS. May I touch on that?

MR. OWENS. Please.

MR. LEWIS. Since Mr. Tucker dovetailed in areas I'm fairly familiar with—I'm lucky enough to chair the loan committee at the Park Heights development revolving loan fund, which is a \$500,000 fund. I also chair the CEBO program for the Minority Contractors Technical Assistance Program, which has a revolving loan fund of about \$250,000. I also chair the Greater Baltimore Committee subcommittee on equity and debt financing, which oversees all of these areas in terms of what should happen in the future to provide more dollars.

But if you do some simple arithmetic, inclusive of Mr. Tucker's program and the other two programs I mentioned which are funded, there's \$2,750,000 in this community outside of conventional sources to help small and minority businesses. We have no minority bank located in this community, we have no small business investment corporation, we have no minority enterprise small business investment corporation and we have no commercial bank that has established such as they have in Philadelphia or New York, a minority urban affairs division that specializes only in minority lending. We are absent of access to capital in this area in a grave way, compared to other major cities, and I think the record as far as minority businesses here speak to that.

I do want to make it clear that it should be known from my experience inside the banking community here locally—I know most of the banks very well, and I understand what is happening in most of the banks more so than others involved in the minority business sector—that there are

minority businesses who have received significant funding from the local banks, some banks more so than others. These are situations that occur based on a client relationship, based on what I mentioned earlier wherein a banker, and in most of these cases a white banker, felt good about a client, a minority client, and that client has been nursed along in terms of growing. We have had examples of that sitting at this table earlier today. But it has not been a widespread approach, an approach to help minority business in general, but rather an approach to help a client as the banking business normally is, to help a client.

MR. OWENS. All right, Mr. Lewis and Mr. Tucker, you have both painted a rather dismal picture of the availability of financing. What is the inclination, Mr. Tucker, in your view of the capital market to take up the slack with regard to availability of funds.

MR. TUCKER. Well, my inclination isn't very good because personally I don't see them doing it. However, I think there are excellent models around the country. I think if the bankers here in the Baltimore community would use just a little bit of imagination and really look around at various models around the country—I think Mr. Lewis mentioned two.

Another one that I'm very familiar with is the South Shore Bank in Chicago, where they have specifically sat down and earmarked certain amount of funds to make loans within the urban area. So, I think my feeling isn't good, but, again, I think if, in fact, a little bit of imagination is used, they could look around and see that there is money to be made in making loans to small or minority businesses and also that there are—for example, the State of Massachusetts, specifically one thing they did—I think they seem to be the leaders of the country with regard to filling financial gaps. They have nine development banks there. In addition, more specifically, what insurance companies there did—they capitalized the Massachusetts Resource Capital Corporation to the tune of about \$80 million. They didn't do it because they wanted to; they were kind of dragged into the process, but once they got into it and they realized that hey, you know, their margins are just as good in making the loans that through that particular source as in others—

MR. OWENS. Mr. Tucker, I don't mean to cut you off, but in the interest of time and expediency we have to move along with the rest of the questions. I'd like to move now into the area of bonding. Mr. Lewis, what as you understand it is the purpose of bonding in the construction industry?

MR. LEWIS. Basically in the construction industry you have projects which are financed by local banks and bounded by insurance companies and the basic risks that those two insurance companies are concerned with is the risk of completion. And the purpose of bonding is to assure basically the risk of completion, which in turn insures, of course, performance of the contract. Most general contractors who do substantial projects have to acquire a completion bond, a performance bond.

There are also debt bonds as well, to insure that you are getting a valid price on the bond, that you stand behind the price—I mean a valid price on a contract and that you stand behind the price on the contract. There are bonds for subcontractors on contracts as well to insure again that they complete the work that they have estimated they will do.

MR. OWENS. Thank you. Mr. Brown, what circumstances require bonding?

MR. BROWN. Whenever the obligee—

MR. OWENS. Will you speak into the microphone, please.

MR. BROWN. Actually, whenever the obligee requests a bond the circumstance arises where you need a bond.

MR. OWENS. With regard to Federal, State, local contracts, are there bonding requirements that are mandatory in performing those jobs?

MR. BROWN. Yes, generally they use \$25,000 as the point at which the contractor needs a bond.

MR. OWENS. All right. Mr. Jones, minority contractors have long maintained that bonding has been a particular problem for them. I'm wondering now about the effect of the SBA's bond surety program. With implementation of this program—Mr. Jones, as the executive director of the Maryland Minority Contractors Association, I understand you represent approximately 150 contractors. Have you noticed any improvement with regard to their ability to obtain bonding?

MR. JONES. Well, the SBA surety bond program in the construction aspect primarily is limited to 8(a) contractors. Those are particular kinds of clients that the SBA handles. 8(a) contractors, according to a September 1981 GAO study, still are not receiving the benefits from the Public Law 95-507, which allowed SBA to make these kinds of bond waivers on certain governmental funded projects. There is a slow time in which the applicant, the 8(a) applicant, can go and secure his bond and paperwork for a particular job.

For example, there is a \$100 million hospital in Baltimore City which was not approved for construction in the Veterans Administration because of a lot of down time and getting paperwork sent to the next particular jurisdictions. It involved an 8(a) contractor during the first phase of the groundwork, excavation, demolition for this particular project. Consequently, when the new administration came in, because of the down time and delay of paperwork, procedures, and processes the entire project was scratched under the guise that it was going to be a savings in order to get the budget aligned by '84. If that entire project, phase one, was handled by a white contractor, that project would be under construction today.

So the down time, the delay in which the SBA personnel and the 8(a) client getting together to produce a workable project start is or has in that particular instance caused the loss of possibly 250 jobs, not to mention the profits that particular 8(a) contractor could have had. There is great room

for improvement needed in the surety bonding program as it relates to the SBA's 8(a) policies.

MR. OWENS. Mr. Jones, again, in your opinion how many minority contractors on a percentage basis are even now unable to obtain bonding?

MR. JONES. Well, in our membership I'd say over three-fourths of our members are not able to get bonding, basically because they don't have the necessary collateral assets that are needed in order to get a bond for a job. That is not to say that they don't have the capability to perform or have not performed in the past. If the bonding in the insurance agencies altered their entrance requirements, not lowered, but altered their entrance requirements, to take into other kinds of considerations the level of embryonicness that many black businesses are in as far as construction, then we would see a higher utilization of black businesses getting bonds. But right now three-fourths of our members are unable to get bonds as a general contractor on jobs or even as a subcontractor on certain jobs.

MR. OWENS. Let me ask Mr. Brown. Mr. Brown, you've been in the insurance field for quite a while. In your opinion, what factors are considered by surety companies in determining whether or not to write a bond?

MR. BROWN. They consider the financial ability or inability of the applicant; they consider his past experience, and the general operation of his business.

MR. OWENS. Which of these factors presents the biggest problem, as you see it, for minority contractors?

MR. BROWN. Well, I think it's very difficult to say which presents the largest problem. I think all of the problems are interrelated. The first problem of course is money, finances. When a bond underwriter attempts to underwrite a bond, the first thing that he looks at is the financial ability of the applicant. In many cases, they are looking for—let's use a 3-year financial statement, a statement for the past 3 years.

MR. OWENS. All right.

MR. BROWN. In many cases, for the small contractor this is very difficult to get because if you'll take a look at most small contractors, they've been in business for 5 years or less. Really, it's only been in the past 5 years when any major contracts were available to black contractors. Prior to that they did small home improvement business. As a result of that, it's almost impossible for them to give you any type of a satisfactory financial statement for the past 3 years.

The second reason for many of the contractors not being able to give you much of a financial statement is that prior to the last 3 to 5 years, the contractors operated as sole proprietors, and as a result of that they were generally operating out of one pocket. And, if I might add, they did a fantastic job out of that one pocket. But the point is that at that time there was no need for a financial statement by CPA, which, by the way, costs a

substantial amount of money. No one ever asked for it. And of course as a sole proprietor, when you're working out of one pocket, you really only make an income tax statement at the end of the year. And when you make the income tax statement at the end of the year, you try to reduce the amount of money you have that is subjected to taxes. As a result, when you take that statement to a bonding company, it looks absolutely ridiculous. It looks like you did absolutely nothing over the past 5 years that you say you've been in business. And as a result, bringing forth a decent financial statement is very difficult for the small contractor.

The second problem is experience. When a contractor is asked for experience, remember, he ran a small business and, in many cases, he simply did home improvement business. And I presume he put some of the money in his pocket without ever paying any taxes on it. However, that's completely a presumption. No basis in fact.

MR. OWENS. We understand.

MR. BROWN. Okay. So the point is that he was doing small contracts and as a result of the small contracts, of course, he never needed a bond. So he has no history of bonding. And of course the first experience that many of the contractors have had with bonding is when, I believe the law was passed in 1978 or '79, where they needed a license surety bond. And when they came to get a license surety bond, of course many of them had very little information, and, as a result of not having very much in the way of information, their bond applications were rejected.

MR. OWENS. Mr. Brown, let me ask, as a culmination of all of these factors, how do they affect the ability of minority contractors to obtain bonding at standard rates?

MR. BROWN. The problem is that with many of the small minority contractors it is extremely difficult to get a bond at a standard rate. And let me qualify that statement. You have two types of markets. You have what we call the primary market, which would be to go to a company like, here in Baltimore, the U.S.F. & G. or the Fidelity Deposit Insurance Company, where the rate would generally be—on a performance contract the premium might be \$1.25 per thousand. In many cases, indeed in most cases, the contractor's lack of financial depth makes it necessary for that contractor to go to a secondary bonding market, in which case the premium rate may be 4 or 5 percent. Of course, that puts him in a very difficult position when it comes to making a bid because his price may be out of line.

MR. OWENS. All right. Let me ask: What are some of the advantages, then, of utilizing the secondary bond market, as you describe it, for minority contractors?

MR. BROWN. The first thing is I personally believe that the secondary bonding market has done a fantastic job for the minority contractors. The reason is that when they are rejected by the primary bonding market, they

must have some place to go, and, of course, primary in their mind is getting a bond. So we take them to their secondary bonding market, where the rate, of course, is higher. And in many cases, the people get the bond and they perform the jobs also. I personally know—as a matter of fact, I don't know of any defaults with the substandard markets. And, in relation to that, I did a little research before coming over. If you don't mind, I'd like to go over this with you.

MR. OWENS. Are you able to paraphrase that, because in the interest of time we would ask otherwise that you simply submit it and have it made part of the record.

MR. BROWN. Okay, then I'll submit it and make it part of the record, except, I'll simply state that I went over the loss ratios of the various companies, U.S.F. & G. and Fidelity and Deposit were the primary companies, and I looked at the loss ratios of the Western Surety, which is one of the secondary bond markets, and the Eastern Indemnity, which is also one of the secondary bond markets. The interesting factor here was the loss ratios, and the Fidelity and Deposit and the U.S.F. & G.'s loss ratio over the last 2 years—I'll only use '79 and '80—were higher than the secondary bond market's loss ratios. And so when I took a look at that, I asked myself why, and since the secondary bonding market is dealing almost exclusively—not almost, but completely exclusively—of people who have been rejected by the primary markets. And since the primary market has been using their own underwriting rules, and I suggest that their underwriting are either invalid or at least they are not doing the job that I am sure the insurance companies wish it would do.

MR. OWENS. All right, Mr. Brown, briefly, when people have gone to the secondary bond market and have obtained bonding through those specialty companies, have they, thereafter, been able to go back to the standard bond market and obtain a bond at the standard and lower rate?

MR. BROWN. I have no statistics on that at this point. Actually, my use of the secondary bonding market has been very, very limited and it's only been in the past year that I've used it. However, it is my belief and my feeling that the secondary bonding market is certainly a first step in the right direction. And if you're assuming that the primary bonding market is simply being a bit conservative in trying to issue a bond and not being discriminatory, or there is no conspiracy against minorities, then my presumption is that once the contractors have established a record with a minority—I mean, with the secondary bonding market, they will be able to change over to a primary market.

COMMISSIONER SALTZMAN. You don't know that that's so?

MR. BROWN. No, I certainly do not.

MR. OWENS. Thank you. Mr. Jones, very briefly, could you describe for us some of the results of the inability of contractors to obtain bonding?

MR. JONES. The inability of black contractors and other minorities to obtain bonding will inevitably continue a rate of white monopolization at the general contractor bidding table of city projects, State projects, and Federal projects in the State of Maryland. Right now, if you cannot get a bond as a general contractor, you don't even bid the job. So consequently, what we see here in the city, and have in the past 5 or 6 years of our observation, is a continual racial monopolization of the contract bidding process, because since we can't get the bonds, we don't submit bids as a general contractor. So the segregation, the racial segregation at the general contractor table will persist. The demoralization of black contractors and their aspirations to fulfill the American dream will be dismayed because they will continually be forced in a subcontractor or secondary or lower standard of the construction industry, a less profitable standard of the construction industry. So those consequences, in general, do not paint a positive picture, and unless something is done immediately we will see pretty close to the same kind of situation we saw in New York this summer, and that is hand-to-hand combat on job sites.

MR. OWENS. Thank you, Mr. Jones.

CHAIRMAN FLEMMING. Vice Chair Berry?

VICE CHAIRMAN BERRY. Mr. Jones or Mr. Brown, one or the other, given what Mr. Brown said about contractors who use—I guess you said the substandard or secondary bond market, and then that the default rate is lower—why don't blacks in Baltimore use the political power they do have by virtue of numbers to get some kind of minority set-aside in the general contracting business? I'm aware there's a program already, but that would give them a commensurate amount of the support, the contracts there, since apparently what you're saying, Mr. Brown, is that people can perform. They just can't get the bonds. And what you're saying, Mr. Jones, is that there is still racial segregation in the general contracting. Why not use political power to get some kind of a set-aside for contracts? Maybe, Mr. Jones or Brown, either one of you, could answer that.

MR. BROWN. My only answer to you is that it's a fantastic idea and we certainly will try to entertain it.

VICE CHAIRMAN BERRY. Because it's perfectly legal, as Parren Mitchell found out when he got a set-aside in the public works bill. The other question—did you want to say anything?

MR. JONES. I was going to say there are numerical goal programs in place now.

VICE CHAIRMAN BERRY. I know that.

MR. JONES. However, they are as you would want to call it, a set-aside process, whereby we black contractors and other minorities bid on jobs as generals. It is possible to do that whether the majority community, yet, is ready to accept that. I would say no, they're not. Right now we in the general assembly—a push by the Maryland Chamber of Commerce and the

Maryland Highway Contractors Association to take away the numerical goal programs. They're testifying again on the 25th of this month.

VICE CHAIRMAN BERRY. I was talking about in the city of Baltimore, where blacks are a majority.

MR. JONES. Essentially the city of Baltimore—it's all the same, but I agree it is feasible. It can be done and it should be done, but I do not think the majority community is ready to accept it. The political power that we, as contractors, have upon the city of Baltimore officials is minimal because we haven't taken direct physical violent action, and it seems like when you talked before—

VICE CHAIRMAN BERRY. I wasn't talking about violence, I was talking about—

MR. JONES. Well, that's political power, the only way people understand what we mean. That's the only thing people understand. If we do things legitimately and through the proper protocol procedures, i.e., ties and at a table or conference, no one listens to us. But until we began picketing job sites, then they wanted to talk about a numerical goal program. If you talk about set-aside, we're going to have to do something direct again. I'm not advocating violence at all, believe me.

VICE CHAIRMAN BERRY. Well, I certainly wasn't.

MR. JONES. Well, people don't put up stoplights until somebody gets killed on the corner, you know.

VICE CHAIRMAN BERRY. There was a Marylander named Frederick Douglass who said "power concedes nothing without a demand, it never has, it never will." But I was not talking about violence, I was talking about using the political process. I want to make that clear.

Mr. Lewis, just one question. Why don't the black consumers in Baltimore use the dollars they have, which must be in somebody's bank somewhere in the city, to leverage getting more sensitive loan officers, treatment of blacks who come to get loans at these banks so that these criteria that you outlined for us would be used in a more sensitive manner? There must be some black depositors somewhere in some of these banks in Baltimore.

MR. LEWIS. Since there are no black banks, I think there are quite a few black depositors in the bank. I can't take credit for that—what has happened in Baltimore, in terms of achieving a consumer coalition, but we have an organization called BUILD [Baltimoreans United in Leadership Development], which is an organization of churches, which confronted the Provident Savings and Loan Association for mortgages in their community and was very successful in obtaining a dollar commitment from that bank solely on the basis of the withdrawal of deposits. I think that's a tough step to take, but it's one that's recognized because it's an economic approach.

The Community Reinvestment Act, which was passed last year and, hopefully, will have some teeth in it in the next year and a half, once the examiners are trained and all that, is supposed to look at how the commercial banks are reinvesting deposits from whence they come, and I think that consumers should form coalitions to make demands on those areas that they feel are being neglected by the commercial banking community. I will say that I don't know if that can happen in this town because I don't know if the consumers will get together, but it's an idea and one that needs to be looked at.

VICE CHAIRMAN BERRY. Thank you, very much.

CHAIRMAN FLEMMING. Commissioner Saltzman.

COMMISSIONER SALTZMAN. Mr. Brown, with respect to what you said about the recent formation of black business 5 years or less—and that's one of the obstacles—will the passing of a few years change anything under the present conditions?

MR. BROWN. That's a very difficult question. We certainly hope that our being here will help to change conditions over the next few years. There are a lot of changes that have to be made. Let's take some interim steps. Because one of the interim steps that I have observed—and I'm speaking strictly of bonding—is that secondary bonding market. And as it turned out, when I did a little research, I find that Mr. Francis Burch, who was at one time the insurance commissioner, was on the board of directors of that company. The way that I would take a look at changes being made are this: Number one, you can ask the companies like the Fidelity and Deposit and the U.S.F. & G. to change their underwriting rules. And I think that's extremely difficult, because they—I think that in all honesty, they feel that their underwriting rules are valid and, certainly, with all the years of success they have, certainly, we can't argue with them. Now, since they are making that assumption, then the only alternative we have is to have a market for the bonds where the premium relates to the presumed risk, and I say the presumed risk. The reason is that with the secondary bonding market they use what I consider an insurance approach, and that is where when they write a bond, instead of the bond being at a smaller premium, they charge a larger premium which presumably relates to the risk. Now—

COMMISSIONER SALTZMAN. But you said there was less loss in the secondary market than in the primary market. So isn't there less of a risk?

MR. BROWN. I do not know. I'm saying that based upon the information I received from best reports, the loss ratio was less. It is very difficult when you are simply reading a book, and you are looking at raw figures, to establish why the risk was less. I personally believe that the risk with the black contractors was certainly no greater than that with the white contractors. However, in the insurance business, and certainly in the bonding business, they are always looking at experience. And just as with the finance market, since they're looking for experience, we have to do the

best that we can to give them whatever experience we can. And when it comes to bonded jobs today, we have to have the jobs. And if the major insurance companies feel that the risk is too great then we're going to have to go to the secondary market.

I do believe—and I brought this out at a Greater Baltimore Committee meeting a few weeks ago—that through organizations like the Greater Baltimore Committee, the premiums for the bonds, for the higher cost bonds for black contractors, can be subsidized. And in that way the minority contractor can secure a bond, and by the premium being subsidized, the bond will be at a price commensurate with the primary market, and over a period of years you'll find out exactly what the experience is. And I believe, in that case, in the next 3 to 4 years or maybe even 5 years you'll find that most of the minority contractors will have been in a position to do bonded jobs and, of course, do larger jobs and, as a result of that, establish a credibility that will be acceptable to the other market, or indeed the substandard market may reduce their premiums. But that seems to me to be the only way that we can realistically believe that we can get black contractors bonded today and see exactly what the experience is going to be.

COMMISSIONER SALTZMAN. Mr. Tucker, you mentioned several structures that you thought could be responsive to the present situation. A minority banking, investment corporation, a minority urban affairs corporation. Where would the impetus come for the creation of those structures?

MR. TUCKER. Let me answer that question this way. I think Mr. Lewis already mentioned that, but I'd like to address that question. As a matter of fact, this morning Mr. Lewis and I were talking about a particular way where the banks can become more favorable toward minority businesses and small businesses. Again, this is what I said in terms of using, you know, a little bit of imagination. Banks make their loans, and loans consist of their specific portfolio, and they set up a loan loss reserve for their portfolio. If, in fact, a loan loss reserve can be set up, possibly with some monies coming from both a combination of the private and the public sector to be set aside to set up a loan loss reserve, then maybe the banks can take more risk and do more deals that they consider would not be bankable. So I think that's just one example of a loan loss reserve being set up to make—to have the smaller minority business have more access to the financing community.

In addition to that, I think there could also be such situations, for example, like with the business, the agency which I'm involved in, where we are set up to take more risk. Earlier I mentioned that we were capitalized at \$2 million. Well, \$2 million does not make a lot of impact, so I think there should be steps, and there are steps currently afoot, to expand our agency's financial base so that we can make more impact and get more involved into the—into really business development.

Also, I'd like to add that, you know, statistics indicate that both small, specifically small and minority businesses, basically generate the majority of the jobs in this economy, and we're talking about economic development, especially the situation in which the economy is in now, high unemployment, especially if you look at Baltimore with the high unemployment rate here. If, in fact, certain kinds of processes can be developed, and certain kinds of programs can be put in place, then it will go a long way toward really impacting on the unemployment rate here, specifically here in the Baltimore area, impacting also the crime rate and have the whole positive impact of economic rippling effect right here in the community.

So, I think if we could just sit down and deal with these kind of avenues, then I think a lot really can be done toward the businesses gaining access and gaining money to take advantage of the opportunities.

COMMISSIONER SALTZMAN. Let me ask one final question. In general terms, relative to the recommendations that this panel has made for remedial action, do you feel that the political community, the private sector, have been or are favorably inclined at the present time to undertaking such efforts?

MR. TUCKER. Well, I'm basically an optimist. So I would like to think that the private community would be inclined to take some steps when these proposals would be presented to them because the proposals will definitely be presented to them. So I'm optimistic. As a matter of fact, right now we are interceding; we are working with the Greater Baltimore Committee developing; some positive steps toward providing more financing to the small and minority business community here. So I'm cautiously—put it like this, I'm cautiously optimistic, but I think in the proposals, sound proposals, where we're not talking about giveaways, we understand that the banks, etc.—they're in the business to make a profit. We understand that, so we don't want them to give anything away. But we would like for them to just open their minds up a little bit and not be so restrictive in their thinking. Again, I'm kind of repeating myself, but there are excellent, excellent models around the country that have been very successful when they have allowed themselves to use a little bit of imagination.

COMMISSIONER SALTZMAN. Mr. Lewis, Mr. Jones, Mr. Brown, could you briefly respond to that?

MR. LEWIS. Well, I'd just like to say, on your question of where the impetus should come from, I think we should use the Harbor Bank as an example. The impetus initially must come from the black community, just as the Harbor Bank has raised nearly a \$1 million from the black community before their marketing plan proceeds to the private and public sector. I think we really need to support those ideas that we think will

benefit us in an economic way, and that's where the initial impetus should come from.

On the question of whether we have private and political support, I just feel rather good that at this point, 1981, we have 10 organizations in this town which are pursuing the question of how to improve the economic climate for blacks and minorities. And for the first time we have the Greater Baltimore Committee in a position, formally chartered position, to pursue that question on five different bases. We also have the private sector involved from the support of the Minority Purchasing Council and other groups. So I feel good that, with this activity today, and other activities, that the question of supporting minority business is apparently in the limelight.

Now, whether that's going to create any solutions or whether we're going to form any organizations to further this beyond today's date and beyond the exercise of these other committees who are pursuing it, that's a question we must wait to see. But I hope that with the involvement of the minority community, particularly the black community, that some efforts will develop from all of these look-sees, if you will.

MR. JONES. I'm in agreeance [sic] that it will take in a triumphant type of working relationship between the black community and the white private sector and the public sector. However, it's got to be a consistent approach. In other words, it can't involve us in a project like Harborplace and at the same time deny us an opportunity on the Federal Reserve Bank of Richmond, two blocks away—equally dollar amount a project. I see in the formation of this new industrial development authority that Mayor Schaefer put together the exclusion, once again, of black people on a powerful group that is futuristically going to be continually developing the city. So it's an inconsistent approach right now. There is an approach—it's positive, but it's inconsistent. And we can't, again, on one hand, let us know about a small project and, on the other hand, exclude us from another project. And that's what I see right now happening. It's an inconsistent level of help that we're getting from the majority private sector and from the public sector, which is again run by white male Europeans here in this particular city. And until we have a more consistent approach, an equal approach, you're going to be back here in another 5 years. And that's a shame because we are in 1981 and we are dealing with intellectual people and it is—as a young person, it makes my future look rather dismal because I've got to run around and argue all the time, making enemies, trying to see economic reform reach some type of parity. It is dismal, but I'm going to survive, as elder black people have survived even before all of the positive efforts that we see now going on.

MR. BROWN. Would you mind restating your question?

COMMISSIONER SALTZMAN. Given the situation at present, do you find in the political and private communities relative to the recommendations

you have all made for change and advancement, is there an environment, a positive environment you find that is receptive to the recommendations?

MR. BROWN. Yes, there is. That really is the only way that I can answer that. I have been to only the Greater Baltimore Committee meetings and I've talked to Mr. Mitchell, Parren Mitchell, that is, and he certainly is positive, and the Greater Baltimore Committee—all of their indications are positive. I certainly feel that within a relatively short period of time we should be able to work out many of the basic details that are necessary to get the bonding program rolling in the proper direction.

CHAIRMAN FLEMMING. Commissioner Ramirez.

COMMISSIONER RAMIREZ. I would like to understand, Mr. Brown, and I'm not very well informed in this area so I look to you to help me understand. We have looked at banking and the acquisition of a loan and we have been told that it is both an objective process and a subjective process. And that leads us to believe that if there were more minorities represented among the people who make those subjective and objective decisions it might go better for minority business persons. In the bonding situation, does subjectivity play a role in that primary bonding market decisionmaking process? And is it a situation in which, all things being equal, a minority person might be treated differently from a white person? Or is it strictly an objective process? I don't understand.

MR. BROWN. No, it is completely subjective, as a matter of fact. And one of the gentlemen in his statements—oh, this gentleman, Mr. Lewis—was dealing with the subjectivity of the loan officer in making a loan. That same subjectivity is always present when they are evaluating a bond application. You see, the finances are all relative to the ability of the individual and the ability of the individual is—sometimes the apparent ability is not as important as the desire, and if you've got a few minutes I'd like to relate this to the way that I look at it. Many of the black contractors, when you take a look at what they have gone through in the past, are fantastic businessmen. There's just no other way of putting it. Let me tell you some of the situations.

Let's take a man, and let's take just a home improvement job, and let's take maintaining a home improvement business. The first thing is that I find that they are buying their material in cash in front, not buying it on an account. And as far as the cash flow is concerned, this kills the man's cash flow in front. He is also making his payroll and if he doesn't make his payroll, believe me, the consequences are a lot rougher when you're dealing with individuals out there with a small business than they are if you have a multimillion dollar business because they virtually punch you in the nose. It's just that simple.

The next thing is, you take the same individual, he's been, as I said, he's buying his material, paying cash, he has no line of credit anywhere, the banks will not lend him money to run his business, they will not lend him

money to buy his materials, they will not lend him money to pay his men, so he's working completely out of his pocket. Believe me, that takes financial strength, whether you're talking about a \$25,000 job or a \$1 million job.

COMMISSIONER RAMIREZ. What I was trying to understand was, as an institution, is the bonding business one in which minorities are represented?

MR. BROWN. No, they are not.

COMMISSIONER RAMIREZ. In Baltimore, are there any minorities, or how many minorities are in positions to make those decisions about extending a bond to a contractor?

MR. BROWN. To the best of my knowledge, none.

COMMISSIONER RAMIREZ. Do those companies—my assumption is that they also would have a responsibility in affirmative action in terms of their own employment.

MR. BROWN. Yes, I should presume so. And—

COMMISSIONER RAMIREZ. And the situation is negative?

MR. BROWN. I have not seen any black bonding officers, not one, in the city of Baltimore.

COMMISSIONER RAMIREZ. Do you believe that if there were black bonding officers, that the situation might be different?

MR. BROWN. Yes, I do.

COMMISSIONER RAMIREZ. For minority—

MR. BROWN. Yes, I do.

COMMISSIONER RAMIREZ. Thank you.

CHAIRMAN FLEMMING. If I can just follow on that particular question, Mr. Brown, and ask you how that objective, in your judgment, could be achieved. How do we go about creating a situation where there are bonding officers from the black community? Where is the point of contact? What has to happen in order to achieve that objective?

MR. BROWN. I feel that there has to be discussion with the insurance companies. In other words, the affirmative action of the insurance companies simply has to be implemented.

CHAIRMAN FLEMMING. In other words, as far as the insurance companies are concerned that are represented in the pictures here, if they've got an affirmative action plan it hasn't extended to bonding officers.

MR. BROWN. That's right.

CHAIRMAN FLEMMING. Do you know, or do any members of the panel know, of any insurance company that has included bonding officers in an affirmative action plan, set some goals and some timetables, actually gone out in an effort to obtain members of the black community to serve in this capacity?

MR. BROWN. I do not know of any insurance that has.

CHAIRMAN FLEMMING. Well, how do we get at that?

MR. BROWN. The only way that I know to get at it is to simply approach the insurance companies and ask them to appoint some qualified black people as bond officers.

CHAIRMAN FLEMMING. Is there a possibility of legal action here?

MR. BROWN. I have never entertained the idea.

MR. LEWIS. Let me make a statement.

CHAIRMAN FLEMMING. Yes, any member of the panel may jump in on that because—

MR. LEWIS. It's not so much a question of in terms of affirmative action. I'm sure the insurance companies as well as the banks, if you look at those two institutions in general, have hired many minority people. It is not a question of hiring minority people; it's a question of where that minority person sits within the organization.

CHAIRMAN FLEMMING. Affirmative action plans include not only hiring, but policies relative to promotion and so on.

MR. LEWIS. Certainly. Certainly. In the commercial field there are very few if any—as a matter of fact, I don't know of any—black commercial lenders in any of the banks in Maryland, in the major banks in Maryland. There are many blacks in banking who have some degree of loan authority, but they are not in the areas of banking, such as Mr. Brown indicated. They are not in areas of bonding wherein you get the experience to work on the major loan decisions and on the major types of activities in the commercial field. So it's not just a question of some degree of authority or some degree of experience, but any areas that made the big decisions. I think that's a key point. Having a black bond officer or having a black commercial banker is not going to solve all the problems of minority business people.

But it does create two elements that I think are important. One, it does offer some degree of access because that black banker or bondsman would be more willing to listen to a black client who has some potential and, number two, being inside the organization you can hope to create some degree of education upstream, meaning helping to foster ideas with the corporate manager and management of the bank and insurance company to show them how black businesses are doing and to let them know how black business is making out.

CHAIRMAN FLEMMING. Well, as you point out, in the banks, in the insurance companies, there are members of the black community. In the case of the banks, they are being passed over when opportunities are presented for appointing lending officers. In the case of the insurance companies, they are being passed over when opportunities open up in the bonding area. In your judgment, are they being passed over on the basis of race? I mean, are they being discriminated against on the basis of race in connection with the implementation of the affirmative action plan?

MR. LEWIS. My experience is—and I did a lot of recruiting for the bank I worked for—is not so much that they are being passed over but because there is virtually—there are very few examples—that many blacks don't pursue that field or pursue that bank because it's a worthless try. I mean, they are not there in most cases to be passed over. So I don't think it's more of an element of being passed over but an avenue which might offer some opportunity.

CHAIRMAN FLEMMING. Well now, wait a minute. You indicate that members of the black community are hired by banks and that they do have affirmative action plans and that in connection with those affirmative action plans, the members of the black community are hired. But as far as this particular area is concerned, that is, the lending officer area, that they are not represented. Now, normally are those positions filled by promotion from within, people recruited and then have training and experience and then move into these positions as a result of the training and experience that they have in the bank?

MR. LEWIS. Mr. Chairman, what typically happens is the person who is hired has to have some relative degree of experience in that area to move up. Usually the people who are hired do not have any relative degree of experience in that particular area. So there is—I mean, it's very difficult to be placed into that area and moved up.

CHAIRMAN FLEMMING. Can't the bank give them some degree of experience, the bank that hires them, and can't they develop an inside training program with rotating assignments and so on that will give them that kind of experience?

MR. LEWIS. Certainly.

CHAIRMAN FLEMMING. Okay. That is lacking. In other words, the affirmative action programs are deficient at that particular point. And the same thing is happening, I gather, from your point of view at least, in connection with the insurance company. Am I correct?

MR. BROWN. That's exactly correct.

CHAIRMAN FLEMMING. Well, it seems to me that someone ought to be pursuing that rather vigorously and that the—you know, if the people are not willing to get it incorporated into affirmative action plans and if, in fact, members of the black community within these organizations are being denied these opportunities by virtue of race, that there is a basis for action to be taken. In other words, there has got to be a breakthrough of some kind. I think all of you have made that particular point. Somehow or other you've got to break through this vicious circle if you're going to get a correction of the situation.

MR. JONES. Well, you know, traditionally class action suits have been for the black race handled by NAACP legal counsel, and their financial condition nationally is not one where they can expend certain funds on class action discrimination suits just sporadically, because if we just take

the bonding of insurance industries, that's just two. There are 15 other different kinds of employment discriminatory private organizations and institutions that also could be put inside a class action suit and finances, there are—what is keeping the black race from recouping all that which we have lost and are losing, and, according to the unemployment stats of our young people under 25, will continue to lose. We just don't have the kinds of financial resources to fight all the discrimination that exists in the private sector.

CHAIRMAN FLEMMING. I appreciate the relevancy of that comment. You're absolutely right, and that's a part of our problem. There's no doubt about it at all. We do appreciate your coming here, we appreciate your providing us with the insights that you have growing out of your respective experiences. It's been very, very helpful.

MR. JONES. For the association we would like to thank the Commission for choosing Baltimore City for whatever particular criteria they selected it. We hope very much that something positive will continue to happen out of these hearings, and that, again, that you don't have to come back because there will be some change as a result—we would hope so anyway.

Again, we are sorry to read about, in today's paper of course, that you're no longer going to be to be with the Commission. I've been keeping track of your reports, and you've been making very succinct and true observations of America as it is, and it's unfortunate that your reports each annual period keep saying the same thing.

And I don't know where it begins, you know. You're putting out the truth, but yet the Federal Government and Congress isn't creating laws or taking out administrative actions where these truths are to be seen. I don't know where we begin because there's enough facts right now about racial discrimination, not only Baltimore City, but in the country. What happens after all the facts are collected? It just sits on the shelf and the white guys sit back and say: Hey, we have got another 30 years to relax.

We would hope that some real significant changes take place after these particular hearings in Baltimore City.

CHAIRMAN FLEMMING. Thank you very much. And oftentimes we have got to begin right at the grass roots in terms of developing the pressures that some people will respond to, and it's only pressures that they will respond to at times. Thank you very, very much.

MR. MCGOINGS. Mr. Willard Holley, Mr. Robert Irving, Mr. Alan Hoblitzell. Please remain standing until you take the oath.

[Willard Holley, Robert Irving, and Alan Hoblitzell were sworn.]

TESTIMONY OF ALAN HOBLITZELL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MARYLAND NATIONAL BANK; WILLARD HOLLEY, ASSISTANT VICE PRESIDENT, CONTRACT SURETY DEPARTMENT, UNITED STATES FIDELITY AND GUARANTY COMPANY; AND ROBERT W. IRVING, EXECUTIVE VICE PRESIDENT, EQUITABLE TRUST COMPANY

CHAIRMAN FLEMMING. Thank you, we appreciate your being here.

MR. MCGOINGS. Would each of you please state your full name, address, and organization for the record.

MR. HOBLITZELL. My name is Alan Teneman [phonetic] Hoblitzell, Jr. My address is 8 Jack Frost Lane, Towson, Maryland, and I am with the Maryland National Bank, holding the office of chief executive officer and president.

MR. HOLLEY. My name is Willard R. Holley. I live at 8409 Kellogg Court in Lutherville, Maryland, and I am an assistant vice president in charge of the contract surety department for the U.S.F. & G. Company [United States Fidelity and Guaranty Company].

MR. IRVING. I'm Robert W. Irving, executive vice president, Equitable Trust Company. I live at 3301 North Charles Street here in Baltimore.

MR. MCGOINGS. Thank you. Mr. Irving, there has been testimony here today to the effect that minority business people do not have access to conventional financing. How would you react to that statement?

MR. IRVING. Well, I assume by your term conventional financing you're including the SBA type of financing.

MR. MCGOINGS. Yes.

MR. IRVING. Is that correct?

MR. MCGOINGS. Yes.

MR. IRVING. I can only speak for one institution, but we do make that type of loan and have made it for a number of years. So I would say to those qualified using the criteria explained in detail by the last panel, that there are funds available for small business lending.

MR. MCGOINGS. Can you tell us something about the extent to which your bank has made loans available to minority business people?

MR. IRVING. We do not keep records of minority or majority. We do have an extensive small business portfolio, including SBA loans. After speaking with you last week, we tried to check some of these things very quickly and because we don't keep our records in that fashion, we find that our best estimate is that about 30 percent of our commercial loan volume is to small businesses and, interestingly enough, it looks like that accounts for 80 percent of the number of loans involved in that category.

MR. MCGOINGS. Do you consider the participation in the SBA loan program to be effective?

MR. IRVING. We use it and have used it for a number of years and, yes, I'd have to say we consider it effective.

MR. MCGOINGS. What problems have you encountered?

MR. IRVING. The problems, as our staff reports, are not so much in working with the staff at the SBA per se. They describe the working relationships as very good. The problems are described as mutual in nature in terms of time delays, a lot of bureaucracy, red tape, detailed forms that everybody has to live with, and I heard someone this morning mention that it takes 18 months to get a loan through. I don't think our experience has been quite that bad. But still the delays are extensive.

MR. MCGOINGS. Do minority business persons present any particular problems when applying for commercial loans and if so, what problems? Mr. Hoblitzell?

MR. HOBLITZELL. I don't think that minority people suffer any particular kinds of problems. I think that people who come and are representative of a small business, and a business particularly that is trying to start up, experience a problem of understanding the role of a bank and what their specific needs are. I find that frustration often comes about as a result of the perception that since a bank lends money, or has money, therefore, its role is to provide equity financing or equity type, and, therefore, there are difficulties with anyone who is in a small business area or category understanding the role that a bank can provide and what other sources may exist.

MR. MCGOINGS. In considering a business application for a loan, what areas of subjectivity are there?

MR. HOBLITZELL. Well, they are the ones of knowing your customer. You should know your borrower, you should have an understanding of his ability and capacity, and of his character because, obviously, you are dependent upon him and his integrity to run his business in order to be paid back.

MR. MCGOINGS. Can you describe to us the participation by your bank in the SBA loan program?

MR. HOBLITZELL. There are currently outstanding approximately \$13 million worth of SBA loans to 155 borrowers. And during the year 1981, there have been booked \$1,897,000 in loans to 21 different customers.

MR. MCGOINGS. Have you experienced any difficulties in the SBA loan program also?

MR. HOBLITZELL. Simply those that Mr. Irving refers to. Whenever you're dealing with another agency or somebody that exists with—outside of your own institution you're subject to the normal delays. But I'm aware that the SBA, over the years, has tried to take steps to lessen the red tape, to simplify the forms, to speed up the process, and it is successful in some areas and undoubtedly not so successful in others.

MR. MCGOINGS. Has the Maryland National Bank made any special efforts to enhance the ability of small and minority businesses to obtain commercial financing?

MR. HOBLITZELL. I would only—I'd have to—when you say a special effort, at varying times we have participated in specific programs, these dating back over 10 or 12 or 15 years. We are a branch organization, as Mr. Irving's institution is, and our base business that we deal with is small business, or the smaller businesses, and through our branch activities and our branch organization we actively deal with and support local small business because that's where our branches exist.

MR. MCGOINGS. The same question to you, Mr. Irving. To what extent has your bank taken any special efforts to enhance the ability of minority business people to obtain loans?

MR. IRVING. The specific answer is no special efforts. We do have a special loan unit which handles the small business loans and handles all of our SBA lending. But that's not minority related. It's all small loans.

MR. MCGOINGS. Mr. Irving, what role do you believe the banking industry should play in promoting the growth and development of small and minority businesses?

MR. IRVING. Well, like Mr. Hoblitzell, this is a State with statewide branch banking, and that's our bread and butter, and we are very definitely interested in small business lending. As far as a role goes, I think back to some of the problems that were mentioned this morning, and one of them that Dr. Hearn from Johns Hopkins mentioned—the education aspect of things—and I think that lending institutions working with community groups, nonprofit corporations, can assist in the learning or the counseling process, which is an area with a lot of deficiencies.

MR. MCGOINGS. Thank you. Mr. Holley, what is the role of U.S.F. & G. in the contracting industry?

MR. HOLLEY. We provide surety bonding for contractors, which essentially amounts to giving bonds, bid bonds, guaranteeing to an owner that a contractor will provide final bonds on a contract if he is the low bidder on a project and also in the event that he is low, that those final bonds then become a performance bond guaranteeing the performance of the contract and a labor and material payment bond that guarantees to labor, the people working on the job and the tradesmen, suppliers, that they will be paid their bills.

MR. MCGOINGS. How do you determine the amount of a bond?

MR. HOLLEY. The amount of the bond is determined for the most part by statute and it generally runs 100 percent of the contract price. Performance bond is 100 percent and generally the payment bond is 100 percent on many Federal projects; however, the payment bond may be 50 percent. The bonds are set by statute.

MR. MCGOINGS. What factors do you consider in deciding whether or not you will write a bond?

MR. HOLLEY. Well, like my fellow panel members here, in the surety business, we're also in the credit business, and we follow pretty much the

same criteria that a bank follows in making their loans. We are housed in the insurance industry, but the principles we use in deciding whether we will make a bond are essentially credit principles, not insurance principles.

The fee that we charge, or the premium that we charge is essentially a fee for prequalifying the contractor to do the work or to perform the contract, and there is no law of large numbers such as you have in insurance rating. If we think there's going to be a loss, anticipate a possible loss, then we won't provide a bond.

MR. MCGOINGS. Would you look at such things as the experience of the applicant?

MR. HOLLEY. We look at his financial position, we look at his experience, we look at his organization, we look at his plant and equipment, and we make very extensive checks of their relationships, the applicant's relationships with suppliers and other business people, and ultimately make a judgment as to whether we are going to write the bond based on those factors.

MR. MCGOINGS. Would any of these factors have more weight than others?

MR. HOLLEY. Well, again, you're getting into the area of subjectivity. I think that—and, you know, we argue, credit people argue in the business, you know, as to what the most important factors are and it does get to be a subjective decision, but I think certainly you have to have cash, you certainly have to have the money and the financial capacity to accomplish what you want to accomplish. On the other hand, you have to be the kind of person that honors their commitments and does what they say they're going to do and has established a certain reputation for that.

MR. MCGOINGS. Are there any circumstances under which you would write a bond for an applicant who does not meet all of your general criteria?

MR. HOLLEY. There are circumstances, but it's the kind of thing you would almost have to have a for-instance to make a judgment. There are situations where, because of contractors on whom we have made a claim, it may be in our claim department in the sense that we have either established a reserve or paid bills where we may need a bond—may need to write bonds even though they normally wouldn't qualify. That is the only thing that I can think of just off hand where the normal criteria might not apply.

MR. MCGOINGS. Have you found any particular problems with minority contractors who have applied for bonds?

MR. HOLLEY. Well, you know, I'm—I guess it begins to sound a little repetitious, but I really think the problem is essentially one of the merging contract, of any new contractor in trying to make a start in the construction business today. It is a tough business. It's probably one of the toughest in terms of defaults and the rate of defaults in the country today,

and has been over a period of time. It's not a highly profitable industry. So that when you're in a situation where the prime rates are 20 percent and your after-tax profits are 1½, you know, it's really difficult to be successful. The gross profits on projects are not that great.

So it's a tough business to get started in. It is—and I think the minority contractor essentially is facing that kind of a problem as a new business.

MR. MCGOINGS. Are you able to tell us how many bonds you have written in the Baltimore area for minority contractors?

MR. HOLLEY. That's almost impossible for me to do. You asked me to look for that, and it's very difficult to try to do that because we don't—we don't keep any record as to whether a contractor is a minority or not. So it's—

MR. MCGOINGS. You do participate in the SBA bond surety program; is that right?

MR. HOLLEY. Yes, very definitely, we do.

MR. MCGOINGS. Do you have any statistics on your participation in that program?

MR. HOLLEY. The company—since the program started, the total premiums in the program have been approximately \$9 billion—the industry SBA contracts that have been written. The SBA keeps their records on the basis of the size of the contract—we're talking about total contracts that have been written. The U.S.F. & G has written about \$200 million worth of contracts in that 10-year period.

MR. MCGOINGS. Do you think the SBA surety loan bond program is effective?

MR. HOLLEY. Yes. Whether it's effective enough, whether it could be better utilized, that's another question. Yes, I think it's effective. We talked about the differences earlier between the so-called standard market to which the U.S.F. & G. belongs and the specialty market, and the difference is essentially a matter of philosophy, and the SBA surety bond guarantee program which, by the way, is not necessarily a minority program and it really shouldn't be confused with the 8(a) program. It's essentially geared to the small businessman, and essentially the SBA small business requirements are all that are necessary in order to qualify for the program.

But the SBA—our estimate of the SBA program is essentially to take the emerging contractor who essentially qualifies for bonds and attempt to get him into the mainstream of the construction industry. It's not our intent to leave him in the program where he tends to be limited by the size of bonds that he can qualify for in the program. The largest bond in the program that can be guaranteed is \$1 million. It was initially \$500,000, it's now gone to \$1 million. The specialty market tends to keep the contractor in that program. Our idea is to get him out of the program and into the mainstream where he can get bonds on his own, and that has worked.

MR. MCGOINGS. Thank you. How would you compare the bond premium and services offered by U.S.F. & G. with those of a specialty company?

MR. HOLLEY. I'm not an expert on the specialty companies. So I really can't—it's pretty difficult for me to compare. I think that we spend more time and effort in attempting to qualify an applicant for the program rather than relying essentially on volume or a higher rate. The insurance commissioner fixes our rate. Our rate is established. It's the standard rate for everyone that applies to us for a bond, and that is the rate we use. So we have no way of adjusting that for specific types of applicants.

MR. MCGOINGS. Thank you very much. Mr. Chairman?

CHAIRMAN FLEMMING. Commissioner Saltzman.

COMMISSIONER SALTZMAN. I assume, gentlemen, that you are long-term residents of Baltimore and I'd like to ask whether 25 years ago, was Baltimore generally a town that did not really provide opportunities for the black community, the minority community, because of a generally discriminatory attitude, segregated city 30 years ago?

MR. HOBLITZELL. In deference to the Commission, I was not in the banking business, or I was still in the service 25 years ago. I haven't been in the business that long.

COMMISSIONER SALTZMAN. No, I'm not talking about banking. In general, the Baltimore—were you from Baltimore?

MR. HOBLITZELL. Yes, I am, but again as I say, I finished college; I was in Korea at that time and I was not in the business community 25 years ago.

COMMISSIONER SALTZMAN. You have no knowledge of whether Baltimore presented any problems for blacks?

MR. HOBLITZELL. It's impossible for me to comment on that. I can comment on it 10 years ago or 15 years ago and I can comment on it today, but I'm just sorry, at the age of 20 or 22 I was not familiar with the business climate.

COMMISSIONER SALTZMAN. Mr. Holley?

MR. HOLLEY. I was—I've been here, I guess, perhaps 25 years, I'm not a native of Baltimore.

COMMISSIONER SALTZMAN. Twenty years ago.

MR. HOLLEY. 20 years ago is closer to my experience. I would say this: I think there has been an obvious, over the period of time there's been an obvious change in the approach to the minority bond applicant, let's say. So I think, yes, there's been a change.

COMMISSIONER SALTZMAN. A change from what? Why did there have to be a change?

MR. HOLLEY. Why? I don't think we—that we saw that many black applicants 20 years ago for bonds. And I don't think that people were thinking in terms of encouraging that, or that the young underwriter

working for a large company was thinking in terms of that. It wasn't on our minds, and—

COMMISSIONER SALTZMAN. Were public places available to members of the black community? Do you know?

MR. HOLLEY. I'm pretty sure. I never thought about it. It's an interesting question. I don't know when—in other words, you're talking about the old Jim Crow type laws.

COMMISSIONER SALTZMAN. Yes, was there—

MR. HOLLEY. I'm not a native, a native Baltimorean, I really can't speak to that very well, but I'm pretty sure that at that time those laws had long since gone.

COMMISSIONER SALTZMAN. Mr. Irving? Do you have any experience?

MR. IRVING. Your first benchmark had me in college, in spite of the gray hair, and I'm not from Baltimore. I've only been here about 13 years, so I've had no experience on that subject.

COMMISSIONER SALTZMAN. I'm really amazed. I didn't even live—I was commuting to Hopkins some 20 years ago. I really didn't know that it was such a secret that there were real significant discriminatory patterns 20 years ago in Baltimore—the schools and business. I'm amazed. I have no further questions.

VICE CHAIRMAN BERRY. Let me try, Commissioner Saltzman. Mr. Hoblitzell, would I be correct in assuming that you, like Mr. Holley who doesn't know how many minority firms he bonds, don't know how many minority depositors your bank has? Would that be correct?

MR. HOBLITZELL. That's absolutely correct.

VICE CHAIRMAN BERRY. Would it also be the case that you would not even know in what neighborhoods your depositors come from, geographically that is, would that be the case also? You wouldn't know, in specific neighborhoods in Baltimore where you have branches, for example, how many depositors you have?

MR. HOBLITZELL. Yes, you would know that.

VICE CHAIRMAN BERRY. You would know that?

MR. HOBLITZELL. Yes, you would know how many depositors in a branch.

VICE CHAIRMAN BERRY. To the extent that neighborhoods have substantial black populations one might draw an inference—

MR. HOBLITZELL. That's correct.

VICE CHAIRMAN BERRY. —which may or may not be correct.

MR. HOBLITZELL. Sure, because people continue to move and the records are maintained at the branch of origination so they could have moved, but by and large, that bank should represent that community, that's correct.

VICE CHAIRMAN BERRY. Right. Does your bank make any attempt to make mortgage loans or commercial loans in neighborhoods commensu-

rate with the percentage of deposits that you have in your portfolio with those neighborhoods? Has anyone ever embarked on that as a practice or suggested that as anything you might do?

MR. HOBLITZELL. Not specifically. We have looked at particularly, say, single family residential mortgages. I personally have met with the representatives from BUILD and other organizations. We have looked at the lending pattern of our institution. We at no time have stopped making mortgages. We have discussed the amount that we're making, the number. We have never put quotas in any particular areas and received any application—and we have been responsive to those needs and have continued to make mortgages over the last 3 or 4 years during periods of high interest rates when other institutions may have slowed down.

VICE CHAIRMAN BERRY. What would you think would be the general response by your bank—I know you can't answer definitively—if depositors from a certain segment of the community, say the black community, turned out to be in high percentages in your portfolio and insisted that certain changes were made in your banking practices, including the kind of loan officers you hire and the criteria you use and sensitivity. Would you consider that somehow an interference with good business practice and dismiss it out of hand?

MR. HOBLITZELL. No, I would not dismiss it out of hand. Having listened to the previous panel and some of the questions that were asked, the obvious employment practices of an institution are such that we are responsive to hiring needs. We have a wide number, or a substantial number of our branch managers, junior officers, as time has gone along, who represent minorities. We do have minority loan officers. We make as many of our loans at the branch level as we can. And we feel that we are responsive. I would have personally no concern about our institution being able to represent the fact that we are responsive to the needs of that community where we are receiving those deposits.

VICE CHAIRMAN BERRY. Lastly, is there any amount of money that as an origination fee, a service fee, or however it's characterized, that could be given to your bank by some program, if we were able to do that, as an incentive to get you to give more loans to high risk commercial ventures like blacks who want to start businesses, finance businesses, and it's simply a matter of you're not getting enough money to make it worthwhile and if you got more, and you feel that you were doing fair justice to your shareholders, and that you might be willing to do it—

MR. HOBLITZELL. I understand the inference of your question. What you have to think about is that if you lose \$10,000 on a loan, that \$10,000 loss has to be made up through a contribution into your bad debt reserve or a direct charge against your earning. And there is nothing between that loss and what we call the bottom line that changes it from \$10,000. When you think that you are earning maybe currently 15 percent, but in normal

times 10 percent, let's say, on that loan, out of which you pay all your operating overhead expenses, etc., the margin that you bring down to the bottom line to the banking business is very thin, very narrow, and, therefore, we really make loans to get the principal back, and a fee isn't significant enough to change your willingness to take a risk.

Yes, you're right, we are protecting or trying to make earnings for our shareholders. We're also protecting our depositors. And those programs that we have participated in before have normally been on the side of not protecting the income or the interest but the principal where there have been some form of guarantee fund. Obviously, the SBA—I can remember a number of years ago—I believe it was—HEW was putting on some programs which we participated in, and that we were looking more from the guarantee of the principal rather than the protection of interest. On those loans which went into difficulty we got principal back but not interest.

VICE CHAIRMAN BERRY. So if you were able to somehow get enough protection for principal that you felt sufficiently insulated even though it turned out to be a bad risk, that would decide whether you would make the loan and not whether you had some kind of notion of trying to help out this community, that community, or other just as a straight business practice; am I correct about that?

MR. HOBLITZELL. That's correct.

VICE CHAIRMAN BERRY. Finally, Mr. Holley, is there some amount of money that could be paid to your firm to get you to insure or change the criteria that you use for bonding? That's one part of the question. And the other part is, we had a witness on the last panel who stated that in the substandard market, I think that's what he called it, or secondary market for bonding, when people are not bonded in the primary market, that there were fewer defaults percentagewise than in the primary market; wouldn't that lead one to believe that there ought to be some question about the criteria that are being used, or would you give some other reason for that?

MR. HOLLEY. Well, yes. To answer the second question, I really would give another reason. Again, I'm not an expert on their—we call it the specialty market—their operations. But they—and I'm not all that familiar with the numbers, but I wouldn't disagree with what was said. I would have to say that it would be on the basis of the volume of accounts that they write and on the basis that they are charging a premium that very often is considerably more than what we are permitted to charge. That's about the only answer that I can intelligently give you at this point.

VICE CHAIRMAN BERRY. So the higher rate in itself insures fewer defaults. There may be a presumption that that is the case?

MR. HOLLEY. Well, if you're going to look at surety credit on an insurance basis, but—you really can't do that and sustain it and be a company like ourselves and make a market for the Nation and be—and set

yourself up as taking all types of businesses and risks. They specialize and sometimes they may be able to do it on the basis of a cash flow kind of a situation.

VICE CHAIRMAN BERRY. Thank you.

MR. IRVING. May I add something to that, to Mr. Hoblitzell's answer? And I'd like to draw on my experience as head of a large, nonprofit inner-city housing corporation in Baltimore. Your question implies that the answer to getting the private sector involved in high-risk situations is to pay them. I don't think that is correct. The answer to me is to find the right structure and prove to the private sector that they aren't high risk, if they truly aren't. The analogy isn't a perfect one, but we have proven that with residential high risk mortgage loans. Maybe the answer is to look for a similar approach to the so-called high-risk business loans and develop a structure that takes some of that high risk out of them right from the beginning.

CHAIRMAN FLEMMING. Commissioner Ramirez.

COMMISSIONER RAMIREZ. Well, I was—can you tell us, in your work with that nonprofit corporation, what are some of the myths that you have dispelled that you think may be transferrable in being dispelled to the commercial loan area?

MR. IRVING. Well, what we found—and I'll try and be very brief with it—is that when you went into a neighborhood you needed two types of loans. You needed the conventional mortgage loans for the people who qualified, and then you needed what we then called high-risk loan funds for the people who were in no way bankable. And you needed those at subsidized interest rates, and they might have been first mortgages, but most of them were seconds or thirds or they were notes, they were to elderly people with bad credit records, but the important thing is that they were underwritten. They were originated and underwritten by a partnership, a word that has also been used several times today, of local government, the financial community, and the community residents themselves.

And we found that the community residents are very often harder than the lenders in this, which is a relief, and foundations, the banks, and now insurance companies on a national basis are participating in these high-risk loan funds. We have proven over a 5-year period that the loss record is the same or less than conventional portfolios. So we're now able to attract more of these funds because the people contributing them aren't assuming that there will be an automatic charge-off.

That's why I say the analogy is a little different with a small business because there you're dealing with a neighborhood and you can focus much more easily. But perhaps there's a structure that could attack this problem the same way.

COMMISSIONER RAMIREZ. I just have one more question, Mr. Irving. Every time I go into a bank, it seems, particularly to get a loan, I fill out some forms that indicate my Hispanic heritage and the fact that I'm a woman, and I wondered why the—and this is in Texas which I assume is not any more liberal in its requirement for that data than Maryland—why is that information not available from banks?

MR. IRVING. I don't know the legal requirements on this. I am told that on SBA loans that information is there, and, of course, the SBA would have it. We just do not put it on our computers for any type of lending, mortgage lending or commercial lending.

MR. HOBLITZELL. At one time it may have been done and then became a very specific issue that one should not put that kind of data on any kind of form because the person then reviewing it should not be influenced by the fact that somebody might represent a minority.

MR. IRVING. I think the history in residential lending is just that.

MR. HOBLITZELL. Absolutely.

MR. IRVING. It was required for a while.

MR. HOBLITZELL. We kept being reviewed by the government to make sure, by the comptroller of the currency, that we were not doing it.

MR. IRVING. We had to take it off.

MR. HOLLEY. Same way with surety bond applications.

CHAIRMAN FLEMMING. Mr. Hoblitzell, you anticipated a question relative to your affirmative action program. I appreciated the testimony you gave along that line. Could you tell me just a little bit more about your affirmative action program. I don't mean statistics, but I mean just what impact you feel it's had on your organization, not in terms—at all levels.

MR. HOBLITZELL. I understand that. We have been actively involved in this for at least 5 years and more. The impact that it has had is that our officer ranks have a larger percentage of minorities—that our branches, particularly in areas within the city where the major population is minorities, have loan officers, branch managers who represent that group. Then we participate in some college programs where they are an apprentice, and we have people that come from Coppin State are doing apprentice programs, two particularly I know of who are in our credit department now learning so when they get through college, hopefully, they'll come back with us. We have developed loan officers who have developed within our institution, have become vice presidents.

I think you do have to recognize this, and it has become less of a problem, but particularly in the early period, when we promoted two individuals to become vice presidents and loan officers. It was a very competitive world 5 to 10 years ago when there were not very many minorities, and they got hired away by New York banks. Several ended up working for the government in various programs. So we have run through that kind of a problem. But I think that has slowed down as more and more

minorities have been able to gain access within institutions. So we—and as far as our business, it originates out of the city of Baltimore. This is where we're headquartered. Although we are statewide, we look and actively try and promote people within our institution at all levels.

CHAIRMAN FLEMMING. Do you feel that having an affirmative action plan has proved to be a helpful management tool for achieving some of your objectives in the area of employment opportunity?

MR. HOBLITZELL. Yes, it has.

CHAIRMAN FLEMMING. Mr. Holley, how about your organization?

MR. HOLLEY. We have an affirmative action program. I do not administer it. I can say this—that we do have minorities in the underwriting ranks of the company, both at the branch office level and home office level. Of course, this is the home office of the U.S.F. & G. We have 60 branch offices around the country, so we do encourage minority hiring and use them effectively in our surety departments.

CHAIRMAN FLEMMING. Here in Baltimore, do you have minorities who are bonding officers?

MR. HOLLEY. Yes. We don't refer to them as officers. We have minorities making underwriting—

CHAIRMAN FLEMMING. Okay.

MR. HOLLEY. —bonding, underwriting decisions, yes.

CHAIRMAN FLEMMING. Now, your national headquarters are here—

MR. HOLLEY. Yes.

CHAIRMAN FLEMMING. —and then you have a local operation here also?

MR. HOLLEY. Yes, we do.

CHAIRMAN FLEMMING. Right. And do you have minority underwriters in connection with your local operation here?

MR. HOLLEY. No, we don't.

CHAIRMAN FLEMMING. You don't have any in connection with—

MR. HOLLEY. None in Baltimore.

CHAIRMAN FLEMMING. Do you have any feel as to why that is the case?

MR. HOLLEY. No, except that surety bonding tends to be rather obscure and I'm not—I don't really think that we find a lot of people who are that interested in pursuing it, and perhaps that may be one reason. I don't know.

CHAIRMAN FLEMMING. Maybe there hasn't been enough affirmative action in calling the opportunities to the attention of minorities.

MR. HOLLEY. Well, that's possible. We, just last week, had a group of Howard University students to see our company and we spoke to each one of our disciplines in the company. We are doing some things.

CHAIRMAN FLEMMING. Was that your national headquarters or the local?

MR. HOLLEY. This was national.

CHAIRMAN FLEMMING. The reason I'm focusing on the local is because some of the testimony we've had has the feeling on the part of local people

to the desirability of having some representative of minorities occupying these particular positions. What's the situation on your—

MR. IRVING. Very much the same as Mr. Hoblitzell's, and we have some of the same problems. The fact that two members of the previous panel were former associates of mine, I think indicates that problem. We have lost some people, we have hired some. The thought I had on affirmative action is that I think, some years ago, we perhaps got over the obsession with statistics. And now the people who are doing the hiring at various levels, I don't think, consider that that much any more, and we find that just in the natural course of events we're getting a good mix of minorities of all types.

CHAIRMAN FLEMMING. Does management measure progress or lack of progress in various areas in terms of utilization of minorities?

MR. IRVING. Yes, we do.

CHAIRMAN FLEMMING. Right. We appreciate very much the fact that all three members of the panel were willing to spend some time with us and we are grateful to you for your testimony. Thank you very much.

MS. MCDUFFIE. Melvin Levin, Joseph Jones, Calvert McCabe, Lloyd Alston. Please come forward and remain standing until you are sworn in.

[Melvin Levin, Joseph Jones, Calvert McCabe, and Lloyd Alston were sworn.]

TESTIMONY OF MELVIN LEVIN, DIRECTOR, COMMUNITY PLANNING PROGRAM, UNIVERSITY OF MARYLAND, BALTIMORE; LLOYD ALSTON, ASSISTANT SUPERINTENDENT, VOCATIONAL EDUCATION, BALTIMORE CITY PUBLIC SCHOOLS; JOSEPH JONES, AREA MANPOWER REPRESENTATIVE, HUMAN RESOURCES DEVELOPMENT INSTITUTE, AFL-CIO; AND CALVERT C. MCCABE II, DIRECTOR, BALTIMORE METROPOLITAN PRIVATE INDUSTRY COUNCIL

CHAIRMAN FLEMMING. Thank you very much.

MS. MCDUFFIE. Starting with Dr. Levin, will you each please state your name, address, and occupation for the record?

DR. LEVIN. Melvin Levin. I'm the director of the Community Planning Program at the University of Maryland in Baltimore. I live at 516 Constitution Avenue, Northeast, in Washington, and I'm a professor and director of the Institute of the Community Planning Program.

MS. MCDUFFIE. Mr. Alston?

MR. ALSTON. Lloyd Alston, assistant superintendent for vocational education, Baltimore City Public Schools. My home address is 314 Kerneway in Baltimore.

MR. JONES. My name is Joseph Jones. I'm the area manpower representative for the AFL-CIO Human Resources Development Institute, and I live at 5029 West Hills Road in Baltimore.

MR. MCCABE. Calvert C. McCabe II, and I'm the director of the Baltimore Metropolitan Private Industry Council and my address is 114 West Montgomery Street.

MS. MCDUFFIE. Thank you. Dr. Levin, will you first describe the composition of the black work force in Baltimore and, second, outline the employment-related problems facing each category.

DR. LEVIN. Well, by employment I assume what you're talking about is the tripartite division by family income which prevailed about in the late 1970s, and that was—the rough estimates are that you had a one-third, one-third, one-third division, one-third being in the middle to upper income group, roughly the \$25,000 or over, the second third being the precarious working class group and the third group being what has been called the under class, primarily the welfare population or relying primarily on casual jobs. As far as the outlook for these groups are concerned what has happened in the last couple of years is it darkened the situation considerably.

The rule of thumb in the black community is, when there's a national recession for the Nation as a whole, there's a roaring depression in the black community. And I would surmise that if a careful count were taken, an analysis were taken today, what you would find is that upper third has shrunk possibly to 20 or 25 percent, partly because many of the people in this category were there because you had two wage earners, and, with one of them losing a job, the family immediately sinks down to the second third.

In the second-third level you had again, in many cases, two wage earners, and all it takes is a layoff in places like General Motors to push that family out of the working class category onto the welfare group.

And when looking for a growth area in Baltimore, as in the rest of the country, you have to look to the unemployed, semi-unemployed, casually employed welfare category at the bottom, which has been the major growth segment in the last several years, certainly. As far as the outlook for them is concerned, we're part of a larger whole and what happens to the national economy is pretty well reflected in Baltimore. Tends to be right in the middle in terms of wages, pretty much in terms of its economic pattern and also tends to be part of the northeast. So that when you're talking about what happens in Baltimore, in a way what you're talking about is what happens in the rest of the United States. If conditions improve there, they'll improve considerably for the community as a whole. Considerably for that group that is or was in that upper third, considerably for the working class group and the welfare population, and the ones at the bottom will shrink.

MS. MCDUFFIE. Thank you. Have the economic development projects in the city provided significant numbers of jobs for blacks thus far and if not, why not?

DR. LEVIN. It's hard to say what you mean by significant. Some of the projects, like Harborplace, have had a fair impact on the black population, but there are two problems in catching hold of the moving escalator, one of which is that many of the blacks in town were renters, and, as a result, if one's housing increases in value, if you're an owner you share in the general welfare; you share in the general betterment.

If you are a renter you tend to get pushed out; you find your rents rising with no commensurate benefit at all. And the majority of the blacks in Baltimore were renters and, as a result, when Baltimore, very much to a lot of people's surprise, suddenly found its housing values going up beginning in the late 1960s, many of the blacks in town not only didn't benefit but were hurt by the big increase, which affected some blacks and a lot of the white community. In addition to which much of the employment gain as a result of the improvement in part of the Baltimore economy was highly credentialized.

And what happened at the same time were two events, one of which was a decline in manufacturing opportunities, for which many black—in which many blacks had been employed, and a decline which, if anything, gathered momentum in the last 2 or 3 years, with the troubles at General Motors and other plants in and around the area, and the increases have been in the white collar professional, insurance, real estate areas. As these have generally been areas in which credentials have been required, falsely or otherwise, but what one had, in short, was a situation in which many blacks were not homeowners and were poorly educated and poorly situated to share in the improvement in the city economy over the last 10 or 15 years.

MS. MCDUFFIE. You mentioned the loss of manufacturing jobs. Has the city, in your opinion, made any attempt to attract large manufacturing concerns to the city to replace some of these jobs?

DR. LEVIN. Well, the city has made major efforts to replace them, but the problem is that manufacturing in the whole United States is no longer a growth industry. There are growth sectors, but it is not an area in which large amounts of new jobs are coming. The areas which are growing tend to be much more in the South and Southwest, that is in total number of manufacturing jobs, and what Baltimore has found itself in the position of doing—is having to run like the devil to catch up with the losses—the Alice in Wonderland situation in which there have been constant losses each year. The city programs have been successful in replacing part of those losses but by no means all of them.

MS. MCDUFFIE. Thank you, Dr. Levin. Mr. Jones, what, in your opinion, are the major problems facing minorities in Baltimore who are unemployed but who are seeking employment?

MR. JONES. I think one of the major problems is that approximately 4 years ago you developed a plan; that plan was CETA, and what you were

saying to a lot of economically deprived young people that here's an opportunity for you to get your feet on the ground, possibly get an education, get some training in a particular skill that a lot of them did not have training in, and to become a meaningful taxpayer. There was a lot of emphasis put on that kind of development of people to the point that you got a lot of young blacks to really feel that here's an opportunity for me to really get into something; there is a lot of programs available, the programs will even allow me to further my education. They took advantage of these situations, just to have the rugs pulled out from under them through the elimination of the public service employment programs and a lot of other training programs under CETA

You have people who really need, who really want to, regardless of what you hear other people say about minorities don't want to work, they just want to be out here doing their own thing—that's not true. All that I come in contact through my office want a job, want a meaningful job, want to work and want to make a living for their family. But I find that a lot of them, through the elimination of various people programs, have become withdrawn again.

You know, this is another scheme of the system, to get me out there and get me involved in something, and then when they really find out that I really want to make it and they see that I'm making it, to pull the rug out from under me. I think that's been one of the real big problems.

MS. MCDUFFIE. All right. In addition to those cutbacks in the CETA program, do the youth that you come in contact with have basic entry level job skills?

MR. JONES. Most of them do. Most of them have basic entry level job skills, but there's a problem. The problem is something that I've recognized within the last few months. I used to sit and see jobs coming across my desk, entry level at minimum wage, and then second and promotional jobs at better than minimum wage. The entry level jobs was asking for young people with attitudinal training, and those other jobs were asking for high school diplomas and some college degrees. That trend has changed now. I see those same jobs coming across my desk, but I see the criteria has changed. Entry level jobs employers are asking for high school diplomas and some college degrees. Those jobs that were promotional, second step jobs, instead of being at that rate of possibly \$4 and \$4.50 an hour, that job is now a minimum wage job, and because of the economy being the way it is, you have young people, college students, and what have you, that's applying for whatever they can get because that's what's available.

MS. MCDUFFIE. In your view, are the local job training and job placement programs being realistic in terms of goals to place minorities in terms of the jobs that are actually available?

MR. JONES. I can only speak at this point for the Baltimore area and the experience that I have had working with the various CETA programs. I find that they are realistic in some areas, and that particular area is that they are attempting to train, attempting to find jobs for young blacks. I find that where the problem comes in is that there has to be more emphasis put on, along with pride in one's work, be proud to—and do the job that you have to do to the best of your ability. But I find that a lot more emphasis must be placed on a decent day's work, a contracting kind of situation. When you apply for a job, you sign a contract. That job application with your signature is a contract. You've agreed to give 8 hours' work for X amount of dollars per week. We have programs that have instigated young people into feeling that the work-a-day world is something different from what it is.

For instance, let's take some of your summer job programs. I feel that there is a lot to be desired because, number one, when you look at the funding of street sweeping programs, it's a means of developing a program to give a job. I feel that built into that particular program there should be—that if we're going to sweep the streets, then we should be able to do the best job that we can possibly do.

MS. MCDUFFIE. Mr. Jones, to be a little bit more specific, in terms of the training and placement efforts by local programs in Baltimore, in terms of their efforts to actually train and place people, do you feel that they are training and placing unemployed workers in terms of the actual job market, in terms of the actual jobs that are out there?

MR. JONES. Not to their best ability.

MS. MCDUFFIE. I see.

MR. JONES. I find that to their best ability, you have an assembly line kind of approach that really does not find out what the person can really do and to put him in the job that's available.

MS. MCDUFFIE. All right. In your view, Mr. Jones, does racial discrimination play any part in the inability of blacks in Baltimore to get jobs?

MR. JONES. Yes, it does.

MS. MCDUFFIE. To what extent?

MR. JONES. I find that regardless of what some people might say, you have to look at what jobs minorities hold, and regardless of whether it's in a federally funded program, the private sector, or the public sector, it's always at the bottom rung of the ladder. And I know that there are some—there are lots of young blacks, and older blacks, who are capable of holding other jobs. Then I look at the ratio of jobs that the other races get and I find that it has to be, because I interview a lot of people who have gone through that particular system and who are qualified to hold some of those jobs.

Ms. McDUFFIE. All right. Thank you, Mr. Jones. Do union and other apprenticeship programs operate as a barrier to minority employment, in your view?

Mr. JONES. Yes.

Ms. McDUFFIE. All right. Do you have a specific on that?

Mr. JONES. I find that guidelines—I find that guidelines really affect minorities in a lot of the various trades. And when I speak of this, I speak of both the union and nonunion trades. We have guidelines that have not been changed in 25 to 30 years.

Ms. McDUFFIE. Could you give us just one example?

Mr. JONES. Okay. To say that it takes 4 years to become a journeyman electrician, without giving any kind of consideration to that young man or that young woman who works around the house in a family with a journeyman electrician, who have learned the fundamentals, who have gone to school, and who have the background knowledge, but once they go to get into an apprenticeship training program, these kind of knowledges isn't considered.

Ms. McDUFFIE. All right. That's very helpful, Mr. Jones. Thank you very much.

Mr. McCabe, what percentage of Private Industry Council trainees are black?

Mr. MCCABE. I would say approximately 80 percent. And could I correct you? Trainees—I don't like to call it trainees because some of the people we deal with have not been trained, but the predominate percentage are trained. I call them clients, if you will.

Ms. McDUFFIE. All right. To what degree is your ability to place your clients dependent upon the race of the client?

Mr. MCCABE. I'm not sure if I can say there is a dependency on race. When I talk about a client, I talk about someone who has come to us through CETA. As you know, my organization cooperates with the local CETA office. And there are a number of characteristics that these people have—anywhere from being poor, from being unemployed, from being undereducated—those sorts of characteristics that are considered to be negative by the employer. I think those are the things that really give us the problem and we need to somehow overcome that. One way is to downplay the weaknesses and bring up the strengths, and that's what our organization tries to do when we make referrals to job openings.

Ms. McDUFFIE. What is the private sector's perception of your clients, in your opinion? How do they view your clients?

Mr. MCCABE. I think if, let's say, I met someone, a private businessman, for the first time and was trying to introduce my product, my organization, my service to he or she. I think the first response might be that, well, that sounds like another one of those programs that's trying to get disadvantaged people into jobs. And then all of a sudden, psychologically, the

barriers start flowing in the person's mind, so I guess, to answer that briefly, that's the way the dynamics would work.

Ms. McDUFFIE. Do you anticipate that you will be able to place clients in jobs as a result of the development that is ongoing in Baltimore?

MCCABE. Well, yes, we have and we will.

Ms. McDUFFIE. All right. Thank you, Mr. McCabe.

Mr. Alston, previous witnesses have testified that many unemployed youth in Baltimore lack the proper work attitude, the entry level job skills, and are not trained to meet the needs of a changing job market. Would you please address each of these matters in turn, starting first with whether or not the local school system, in your view, produces graduates who possess entry level job skills?

MR. ALSTON. Ms. McDuffie, to look at the graduating classes of the Baltimore City schools, we have to break up the group so that we can see the kinds of training that the young people have been prepared for. In addition to job preparation skills, of course, we have those to prepare for college entry. And then we have those who are perhaps in the netherlands, neither here nor there. The ones who are prepared for job entry in the vocational programs—I'm going to give you some systemwide statistics—that basically we have 14,000 young people out of 125,000 who are in vocational programs. There are an additional 12,000 young people who are in allied programs—we call them industrial arts programs. These are simply programs that have a small amount of vocational—it's not training, but vocational experiences. It's enrichment, more or less. The youngsters out and out determined that they are not going into the job market, they're going to be doing something else. And then we have another group, another 14,000 that would be on the lower level, that would be exploring vocational opportunity.

When you look at those percentages you will see that a great number of these young people, then, are not really preparing for job entry as such.

Another point of clarification, however: Though some of them are in the college preparatory courses, some of the course work that they take will equip them to go into some jobs. Some youngsters may find a job, however, doing some clerical work, for example, and the person would not have been in the business education preparatory course, but, will have out of his own skills bank, been able to utilize his mathematics, reading skills, and so forth and thereby go into a job, if that particular job is open to him.

The school system is earnestly trying to get more young people to opt for vocational training, simply because there's a need and, secondly, because our own environment has for many, many years played down vocational education as a—it had a stigma in days gone by. But we can now appreciate the value of vocational education.

What is the second area?

MS. MCDUFFIE. In terms of keeping up with changes in the job market, especially for those students who are enrolled in the vocational education facet of the system, would you say that the system is keeping up with changes in the job market?

MR. ALSTON. We're doing a far better job. For many, many years—and we can go back to pre-1960, or some of 1960,—for many, many years vocational education was rather stagnant. We did what we needed to do to exist, but in came MDTA, in came VEA [Vocational Education Act], and that impetus from the Federal Government stimulated those of us in Baltimore City and across the country to do a little bit more in terms of vocational preparation of youth. Money provided by the Federal Government enabled us to improve equipment, supplies, materials, buy additional teaching staff, buy additional services in order to better equip young people for jobs, and in fact we have begun to improve on what was a poor situation.

I must say we're still emerging. And to better refine then, we are still offering youngsters basic training in different skills areas. We are not to the point of being specific as such. If we will take metals training, for an example, we teach youngsters information about machine shop and we give them entry level skills—that those skills will have to be refined on the particular job that they are welcomed into. And carpentry, cabinetmaking, some of the same basic titles you've heard over the years, they still exist, but we are able to refine some of the skills simply because of the advanced equipment we're able to get. Now, I'm not saying that we're satisfied with conditions, we're still working toward that. We're building on it.

MS. MCDUFFIE. Does money play any part in it?

MR. ALSTON. Money plays a big part in it. If it were not for Federal monies coming in through the State we would still be at ground zero. Baltimore City would not have been able to afford what we're able to do in vocational education right now.

MS. MCDUFFIE. Okay. With regard to guidance and job counseling, are there any methods on the part of the school system in those two areas?

MR. ALSTON. In terms of guidance, we've had, unfortunately, a cutback in placement staff. A cutback when times are as bad as they are right now. We need to have many more people out there developing jobs and trying to get our young people placed. The guidance part of it—we are heightening the effort; we are looking at different aspects of guidance that we had not looked at before. We were letting young people know that there are jobs available, different skills areas, and so forth. We have theoretically given young people information about their own attitudes to work, how they should behave on the job, what they carry to a job, what is expected of them. We have done that theoretically and we have gotten to the point of reality now where we have to make youngsters understand that their attitudes in terms of seeking a job, in terms of finding that job and

holding it, is paramount. That if a youngster has the best skills that can possibly be gotten, and he has not the proper attitude toward the person for whom he works or the persons with whom he works, then that person will soon be released from the job. So we are concentrating more on the attitudinal development of our youngsters as they go through their learning processes.

Ms. MCDUFFIE. Are local employers hiring your graduates?

MR. ALSTON. Local employers are—well, we have had graduates of approximately 6,000 in 1981, June 1981. The statistics that I have in my hand say that we have placed 278 of them in permanent employment, a very, very poor statistic in terms of employment.

Ms. MCDUFFIE. To what do you—

MR. ALSTON. The youngsters were going on to the college—approximately 1,500. I'm just trying to give you a capsule of that. Approximately 1,500 and we don't know about the remaining number in between, which are some 4,000 youngsters. And that's dismal.

Ms. MCDUFFIE. Yes. You mentioned that that was a dismal showing. To what do you attribute the low numbers of students who are actually being hired in terms of permanent positions which you cited?

MR. ALSTON. I'm not going to—well, I said that there is a great number of youngsters—that number is not college prepared, basically, nor job prepared. Now, so that there is no mistake, many young people in that category can go on to college. But I am saying the finer parts of college preparation are missing from their backgrounds. These same young people are the ones who have not had vocational skill training. So it's a job that they would have to find, that someone would have to build for them in order to employ them. And that kind of job isn't available in Baltimore.

Ms. MCDUFFIE. Has the school system benefited at all from the revitalization of the city? In terms of the increased tax base, for example, has the school seen an increase in funding?

MR. ALSTON. The school would have to see an increase in budget simply on an inflationary basis. Now, it's very difficult for me to sort out how much more of that is real money in terms of what comes from the city's increased tax base.

Ms. MCDUFFIE. I see. Can you tell me finally, Mr. Alston, whether or not the local business community assists the school system in terms of funding, in terms of providing equipment, or in any similar manner?

MR. ALSTON. The private sector, business sector, does not give us significant amounts of money. There are numerous businesses which aid us by taking our young people on work study, letting them have experience as they are in their vocational preparatory programs. This of course enables the youngster when he or she gets out of school to simply go to that permanent prospective employer to say that I've had experiences with this person, here is a reference. Some of the businesses and industries come

into the schools on special programs—"Adopt a School" is a good one, "Project Go" is a good one, where the role models are there for young people to see and go visit and interact with. Those are some of the ways that business helps us.

There is another group which helps us on an advisory basis, the voluntary council, the Ramsey Conference Group; these are business people who come together to lend their expertise to areas of functioning that the system must do.

MS. MCDUFFIE. Thank you very much. I have no further questions.

VICE CHAIRMAN BERRY. Commissioner Ramirez, do you have any questions?

COMMISSIONER RAMIREZ. Just one question for Mr. Alston. In terms of—you said you were trying to upgrade the status, if you would, of vocational education. What are the chances that if I were in your vocational education program that I would learn something about taking that skill and turning it into a business?

MR. ALSTON. If you were in a vocational program?

COMMISSIONER RAMIREZ. Right.

MR. ALSTON. Unfortunately, we have not done much, Commissioner Ramirez, 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 programs ready to give youngsters those skills. In addition, we work very, very closely with Junior Achievement, and I'm sure you know of the work of Junior Achievement.

COMMISSIONER RAMIREZ. That was my next question.

MR. ALSTON. There will be a special program that we'll be operating with Junior Achievement that will tend to highlight even more, and much more extensively, the business of entrepreneurship with young people.

COMMISSIONER RAMIREZ. Is there a disproportionate representation of black students in your vocational education program?

MR. ALSTON. I would say no, because our city is comprised of 70 percent nonwhite population, and it would probably be that number that's reflected in our overall statistics of students.

COMMISSIONER RAMIREZ. Is that the student population?

MR. ALSTON. The student population, yes.

COMMISSIONER RAMIREZ. Seventy percent student population. Thank you.

VICE CHAIRMAN BERRY. Commissioner Saltzman.

COMMISSIONER SALTZMAN. We have heard conflicting testimony today on the value of CETA programs to the city of Baltimore. Mr. Jones, I believe you were implying that you found merit in those programs as far as they went. Would the panel care to comment on their appraisal of CETA and its value to the city?

MR. ALSTON. That CETA worked with the school system is a surety, and it did some good things for us, and I can go another way and jump on the other side of the fence. One of the good things was—we had a special program called vocational careers where, with that program, CETA-eligible young people within the school system were permitted to go out on work assignments, number one. Number two, one of the most outstanding jobs in terms of entrepreneurship development and knowledge was through this vehicle, that we set up a manufacturing program in the trades areas, manufactured products, and sold them right here in the newly structured and open Harborplace. The youngsters learned how to go from the conception of manufacturing through the process, to the distribution, sales and accounting process, profit determination, and whatever else. That was golden in terms of the training that the few youngsters who were privileged to exist in that environment did.

COMMISSIONER SALTZMAN. Any other?

MR. MCCABE. I think one of the most significant things about CETA, in this area, is the fact that it is beginning to win the confidence of the business community, and I use that term very loosely because there is a long way to go. I think it's very important to point out that CETA is operating at a disadvantage just basically due to its name.

Part of the objectives of the Private Industry Council in its starter effort is to try to work around or work with that image, however you would like to look at it, and create one that is very positive. We have worked with the Hyatt Hotel, we have worked with the Harborplace pavilions below us and are very proud of the efforts and the results of our efforts in terms of the number of unemployed people that have gotten jobs there that probably would not have if we hadn't been there pushing, the number of minorities that have gotten jobs there and of course to make the mayor happy, the number of city residents. But I think it's important to point out the fact that we are making progress and I hope that I'd be here this time next year to continue to say that CETA is making progress, or whatever it's called at that time.

DR. LEVIN. Let me say that CETA, like urban renewal—community planning has received the kind of shorthand insults that urban renewal received in much of its period. All both programs represent is a kind of a tool kit which can be used well or badly, and in most cases the record has been mixed. Certainly Baltimore, as far as most people who are familiar with the effort know, is considered one of the better CETA communities. And what you can have, in short, with a program that relies very heavily on local talent and the quality of that local talent, are programs that can vary from abysmal to corrupt to programs that are first rate, and in that category I would say that Baltimore ranks as one of the better programs that I've run into.

COMMISSIONER SALTZMAN. Any other? Mr. Jones? Any further comment on your part?

MR. JONES. No.

COMMISSIONER SALTZMAN. Dr. Levin, if you were at this point to project some remedial programs for Baltimore minority participation, movement into the mainstream economic life of the community, where would your first priority be?

DR. LEVIN. You would have to start with the schools and you would have to start with the family. One of the problems we run into in the economic development field is picking up kids at 16 or 17 who have been due for problems almost at birth. When you're dealing with—I think it was a William Raspberry column called "Babies Having Babies"—when you're dealing with the offspring of a mother of 14 or 15 who is a high school dropout herself, that kid is not going to get anything like a head start in his career. When you reach them at even 8 or 10 they are beginning to fall behind very badly, and trying to motivate an 8- or 10-year-old to tell him, if he doesn't learn arithmetic or spelling, he's going to be in bad shape when he goes into the job market 8 or 10 years hence is extremely difficult to do.

What I'm suggesting here in effect is that you have to start very, very young if you're going to deal with the problems of the next generation, and to try to pick up the pieces when someone is 17 or 18 or 19 is an extremely difficult uphill operation.

COMMISSIONER SALTZMAN. Who is supposed to do that and how?

DR. LEVIN. You're dealing with, of course—one of the most difficult problems we face in the United States right now is how do you reach in, in a sense, a disintegrating marital situation, one in which your number of fatherless children has increased enormously, and try to both motivate the mother and motivate a father to support the children and motivate the children themselves as they come along. We have had some success. I think the figures show that Head Start has been something of a help. What we need is, my feeling is, a lot more intensive work at the early childhood and childhood program level, with less attention being paid to what happens at a later date when—my feeling is, in short, what you would be doing if you were talking about an employment program moving into the mainstream is concentrating very heavily at the elementary school and junior high school level rather than concentrating as much as we have been talking here about what do you do with changing credentials when you finally reach age 18 or 20.

COMMISSIONER SALTZMAN. But isn't our present public policy to decrease this effort?

DR. LEVIN. It is.

COMMISSIONER SALTZMAN. What do we do?

DR. LEVIN. Well, we have—I won't get into politics, but obviously there are changes there that might be useful. What we have at the moment is a recession, which seems to be deepening in the United States. The public mood tends to be extremely mean, and what we have is both a combination of specious reasoning and some clearly sophisticated reasoning, which suggests that kindness is longrun harshness and that harshness is longrun kindness, and under those circumstances using that kind of reasoning in that kind of environment, not much is going to be done. What we'll have is a sink-or-swim operation or mentality over the next 2 or 3 years at a minimum.

VICE CHAIRMAN BERRY. Mr. McCabe, with almost any placement that you might utilize with your PIC's, would you say that black clientele, not trainees, a black client would get the same kind of reaction from a person to whom you sent them for placement, by and large, as a white client in the same situation?

MR. MCCABE. It's hard for me to respond to that definitely because most of our clients are black, and, as a matter of fact, it's very seldom that we would find many white clients to refer. I would say that there is a minority of our employers, a small number of our employers we may have trouble with for that reason, but I don't think it's anything, and I don't think we have been around long enough to be able to make any final conclusions on that. So I really would have to say probably not. Those employers that we're dealing with right in the beginning know what we're all about.

As I said earlier, there is a mind set when they're dealing with a program like ours going right in, and I don't think there are any surprises there, and there is a number, perhaps 5 or 6 of the 400 or 300 employers that we've dealt with so far this year, that I could say perhaps are racist. But I—

VICE CHAIRMAN BERRY. When they are, do you refer them to some agency for enforcement action or—

MR. MCCABE. No, our problem is that we, like everyone else here, are suffering from being in danger of losing funds, etc. I don't think that's my role. I may be wrong. I don't know if I can act as both promoter and enforcer in the same breath, especially since I have to live with these businesses. I don't consider myself an employer; however, I am an employment agency, if you will, and I don't think that that is a compatible role for our organization.

VICE CHAIRMAN BERRY. Dr. Levin, do you think that any of the business enterprise development strategies that are being discussed and have been discussed here to promote minority businesses might be a way in which to increase the employment possibilities for minorities in the city?

DR. LEVIN. It might be helpful but we're moving into a very serious recession. In a sense, we're all trying to swim upstream and the failure rate of small- and medium-size businesses is bad enough in good times, and I think it's 50 percent, for example, for restaurants and God knows you

could use a good number of black-owned restaurants around town. If you're dealing with moving into a period of deep recession, your failure rate is going to be absolutely stupendous. It's okay to talk about launching one into a small business, but this was the last desperate attempt of people all during the depression who were laid off in factories, to get something going, some kind of job operating, and there was a whole series of blighted hopes and disasters on their part. I would be extremely cautious about placing too much reliance in getting a business launched in the middle of a recession, the deep one that we seem to be headed into.

VICE CHAIRMAN BERRY. The comment you made earlier about teenage pregnancy, which has increased substantially in this century, and some people have said that it has increased substantially since the aid for dependent children [AFDC] program was started. Do you share that view, and if so, do you think we should abolish the aid for dependent children program?

DR. LEVIN. It's a chicken and egg business. It's easy to talk about what did it. You had a big increase before the big increase occurred in AFDC; you have an increase worldwide where you don't have the equivalent of what we're supposed to have here; a unique situation, you have it in Sweden, you have it in other countries. And to suggest that one particular program is your culprit, as some people have suggested, seems to be overstating the mark. What you get out of AFDC is a kind of minimal or marginal existence, and to suggest that that is the big substitute that is unmanning and castrating the male and so forth, seems to be very much of an overstatement.

VICE CHAIRMAN BERRY. Mr. Alston, as I listened to you talk about the school system, it sounded like you thought the school system was doing a fairly good job of producing educated people with the kinds of skills that they ought to have in society. Maybe I drew an incorrect inference. But we have had testimony from other people about the lack of skills, not only in vocational skills but basic skills among graduates, and we also are aware that this school system, like many others, has a very high dropout rate of students who, therefore, don't graduate. I wonder what the school system, which has a virtual monopoly on educating black children in this city, is in fact doing about solving these problems. Am I drawing correct or incorrect inferences from your statements?

MR. ALSTON. No, you're not drawing incorrect inferences. I was speaking of the program that I'm concerned with and looking at perhaps some of the things that would stand out to me as significant and key. But we are concerned with the basic skills level of our youngsters and we are working very diligently to do something about it. I must compliment the superintendent—and this is just no credit to me—on his foresight in trying to really fathom the cause of the difficulty and then set about to try to do something about that.

VICE CHAIRMAN BERRY. Is he your boss?

MR. ALSTON. He is my boss.

VICE CHAIRMAN BERRY. So you're complimenting him. I understand.

MR. ALSTON. We are working with the youngsters even in the lower grades to develop their basic skills, and we are doing something about that. That recognizes that there is a problem. The fact that we have high dropout rates—and we have been in the media for the past so many weeks about the high dropout rate of Baltimore City like every other of the major urban centers. We have a dropout rate that is embarrassing to us and we are trying to put our finger on the cause and we are organizing better to try to do something about that, too. So, no, everything is not rosy.

Some of the statements that our youngsters are not prepared—part of it is true. Some of our youngsters are really prepared, some of the better ones. And we know the business of percentages—that there is a top group, there is a medium group, there is a bottom group, and it depends on the condition that the person is in that's making the statement, whether he wants to get involved with employing some of the youngsters, can employ some of the youngsters, and don't want to as to what kind of statement would be made.

I have had to get to my staff to not fall into a lure. The lure would be simply this: Don't train those youngsters in the skills, the trade skills, we can do that. You just teach them to read and write. And I said hogwash. It's our job to train that youngster to be a full individual as much as we are able to. To give him skills, basic skills and then to give him trade skills. So that nobody can come back on us and jump back and forth by simply saying he doesn't have basic skills at this time, and then he doesn't have trade skills the next time. We have heard that and we don't want to go around that way any more. So we do have a job to do.

One more thing and then maybe you'll let me go. I had an idea that I wanted to offer to this group, not such a new idea. It's something that certainly bears looking into. I am really concerned as an educator that we have not done the job that we should do, that society has not done the job that it should do with that percent of black youngsters who are as gifted as the percent of any other ethnic group. That, in far too many cases, because of what has gone on before, the societal influence again—these young people are not able to get themselves up out of what is the problem, and the problem is their own poverty. That they have gifts, nobody is able to afford them the college preparation that's now called for, and these young people are lost.

In fact, I believe that many black young males who are in jail now are young black males who to some degree have mental gifts, and they are frustrated because they can't use them, because in some way they've been turned off, they've been turned aside, and nobody has seen fit to invest in them on the good side of the ledger. They would let these youngsters be

lost because they are ambitious, because they are venturesome, because they're bold, and if somebody had given them proper direction that goodness would have been turned the right way. But in our neglecting them, they followed what is out there for them to follow and hence are lost.

The idea is simply somebody—and maybe President Reagan's cabinet needs to look at it again—somebody needs to begin targeting in on these young people and letting the country know that we are missing out on a very, very valuable resource and that resource is the heart of economic development, and that's developing these gifted minds so that they can use their genius to produce other things that will make the economy swell. It's a vicious circle; we're in it the wrong way. We need to turn it around.

VICE CHAIRMAN BERRY. Counsel, do you have one more question?

MR. ALEXANDER. Just one. Mr. McCabe, you mentioned the PIC experience in helping staff the new hotel down in this area. Why is it necessary to have a PIC to provide jobs for blacks in an industry in which blacks have traditionally been employed? I don't understand that.

MR. MCCABE. Well, that's an interesting question. We felt that it's necessary to have an operation such as ours link into anything that has anything to do with jobs, especially in a—to a large degree as that. In my interview we discussed just such an idea, and, I don't know, we may not have come up with more blacks than normally would have gotten jobs there if they had gone in on their own. I don't think anyone has come up with those final figures yet, but I really would dispute anything like that because I am convinced that dealing with the 475 people—that we and the mayor's office were responsible for getting jobs there, about 64 percent of them were blacks, and not just in your basic entry level positions. There were some very important positions that were filled there, and that is an entree—perhaps the industry itself might be considered an easy industry for blacks to get jobs on on their own, but not just at the Hyatt Hotel; the Hyatt Hotel has a certain air about it that can get anyone who gets into that hotel into another job in another industry or higher up into that organization. It's a very promote-from-within kind of organization.

MR. ALEXANDER. Leaving aside the Hyatt, I guess, the other side of the question is, is it necessary in Baltimore to have an intervention system to provide jobs because the race of the applicants generally excludes them from the job market?

MR. MCCABE. You mean *should* it be necessary?

MR. ALEXANDER. *Is* it necessary? It's a different question.

MR. MCCABE. No, I'd like to answer that with the statement that we're not here just to do that for minorities. I am charged to do it for CETA-eligible people regardless of whatever characteristic they have. Is it necessary? I don't see that it's necessary. It is necessary for CETA-eligible people because of those barriers that I listed earlier.

VICE CHAIRMAN BERRY. I want to thank the panel very much for coming and being willing to share your experiences and ideas with us. Thank you very much.

MR. MCGOINGS. Mr. Bernard Berkowitz, Mr. W. Scott Ditch, Mr. C. William Pacy. Please remain standing until taking the oath.

[Bernard L. Berkowitz, W. Scott Ditch, C. William Pacy, and Richard Brothers were sworn.]

TESTIMONY OF BERNARD L. BERKOWITZ, PRESIDENT, BALTIMORE ECONOMIC DEVELOPMENT CORPORATION; C. WILLIAM PACY, PRESIDENT, MARKET CENTER DEVELOPMENT CORPORATION; W. SCOTT DITCH, VICE PRESIDENT, ROUSE COMPANY; AND RICHARD BROTHERS, VICE PRESIDENT, MURDOCK DEVELOPMENT COMPANY

MR. MCGOINGS. Mr. Richard Brothers.

For the record will you each please state your name and address and occupation?

MR. BERKOWITZ. My name is Bernard L. Berkowitz. My occupation is that of president of the Baltimore Economic Development Corporation, which is located at 36 South Charles Street in Baltimore. My home address is 2208 Sulgrave Avenue in Baltimore City.

MR. PACY. My name is C. William Pacy. I'm president of Market Center Development Corporation in Baltimore City. My home address is 1712 Circle Road, 21204.

MR. DITCH. My name is W. Scott Ditch. I'm a vice president of the Rouse Company of Columbia, Maryland. My home address is 121 West Lee Street in Baltimore City.

MR. BROTHERS. My name is Richard Brothers. I'm a vice president of the Murdock Development Company. We're located in the World Trade Tower. I live at 15 Charles Plaza North in Baltimore City.

MR. MCGOINGS. Thank you. Mr. Ditch, would you please describe for us the affirmative action plan that was developed by the Rouse Company and implemented in Harborplace?

MR. DITCH. The plan that we developed had three parts. One was we set a quota and agreed with the city on this, to a quota of—I've forgotten just what the percent was, but on minority contracts during the construction—I should say agreed with our general contractor. The second part was in construction employment, setting a quota there, and through each of the contractors and subcontractors. The third was our own goal of bringing into business minority-owned businesses, not—and of course a fourth, a part of that that we later implemented, was to take steps to assure minority employment in the other businesses that became part of Harborplace.

MR. MCGOINGS. Were you able to achieve the goals that you set?

MR. DITCH. Yes, we were. We exceeded each of the set goals in minority contracts and in construction employees during the construction phase. The others we were able to bring into business. Originally, of the roughly 128 original businesses in Harborplace, 22 of the original ones were minority owned; that number now is, I believe, 18 of which 15 are black-owned businesses.

MR. MCGOINGS. Why did you believe it inappropriate to establish numerical goals with regard to minority participation as retailers and vendors?

MR. DITCH. Well, the—we have made efforts over the years to—we of course operate 54 major retail projects around the country and we have made efforts over the years to bring minority-owned retailers into business. We found that this is—this is a very difficult thing to do. I'll maybe get back to that later. But to be more specific in answering your question, when 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 in something that we may, that we would have perhaps significant difficulty, if not impossibility, of meeting that quota, 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 people, by having the place only partially leased against a quota that might not be possible.

MR. MCGOINGS. Thank you. How did you determine minority participation goals for those aspects of the project where you deemed them to be appropriate?

MR. DITCH. We're not a general contractor, that is, we're not a construction company as such, but in working we have had the good fortune to have a local general contractor here and there who could survey the availabilities of various trades people among minority-owned subcontractors. In other words, to set a quota you need to know whether or not there could be, whether it's sheet metal work or electrical work or some other kind of work, whether there was in fact in the community or in the region enough minority-owned trades to make a quota that had a reasonable chance of being met. In other words, there are times when you need significant numbers of certain types of trades. Making a survey of what is available in the market can yield at least the opportunity. It also, of course, is a good exercise to make anyway because your general contractor and others become aware of just what is in the market as far as—that is in the awarding of subcontracts, you also, of course, can discuss with him the possibility of setting labor quotas among the various trades so that a percent of the employment, which I think was about 40 percent during

construction was minority employment, that you can say that these skills are available in the community in these percentages or these numbers and therefore this is a reasonable quota and let's go after it. That's the process more or less.

MR. MCGOINGS. Were there any other specific affirmative steps that you took to insure participation of minority contractors?

MR. DITCH. We had a weekly meeting on the subject with the general contractor to review—of course, the work is an ever changing kind of a 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, or things like that where new people need to be brought in or hired, and by keeping at it week after week it was a help, I believe.

MR. MCGOINGS. What particular steps did you take to insure minority businesses in Harborplace?

MR. DITCH. Well, this is a very difficult thing to do. As I say, we have tried it before in other places. We set up a team, a special leasing team headed by an experienced officer of the company who is now the manager of Harborplace, who is black, Tony Hawkins, and the team under his direction made a concerted effort throughout—through, and with assistance from others on our leasing staff, to find every possibility of a minority-owned business.

We ran ads in the black newspaper in Baltimore. Tony had a lot of contacts. We had letters that came to us, a lot of inquiries, and tried to expand on those inquiries. We met with black business leaders in Baltimore to get referrals or thoughts about who might be in there. A great difficulty—where this becomes difficult, is that there are not that many black-owned businesses in being anywhere. Whether it's in Baltimore—even in the black community, a lot of the businesses are not black-owned.

Another difficulty with a lot of people who are otherwise interested in going into retail business and maybe have some experience in it is a deep amount of undercapitalization, just the money, it costs a lot of money to get into the retail business. But perhaps I'm drifting from your question.

MR. MCGOINGS. Does the Rouse Company continue to monitor the employment practices of businesses in Harborplace?

MR. DITCH. Well, we—the employment practices of all businesses in the project are our business. Yes, we manage it on a day-in-and-day-out basis. We have a full-time staff there all the time. The business practices, however, of the individual businesses—we monitor their sales results. Their specific businesses, however, are their business. So we may monitor them, we might be aware of them, but as far as having much control over whether an individual business—what it does beyond keeping its premises neat and its hours proper and its place in good shape and pays its rent, is a little beyond us.

MR. MCGOINGS. To what extent do you believe that the efforts that the Rouse Company made in Harborplace to insure minority participation are duplicable in the larger business market?

MR. DITCH. Well, as I say, we have made the effort in other places. I think we were more successful here largely because of a strong assistance from the city and specifically in the business of coming up with the money to open the businesses. The city and we together worked out a program with one of the local banks whereby the city made available block grant funds which the bank matched in order to bring the average interest rates down, and low interest rate loans were offered to a number of the minority-owned businesses. And I think those were instrumental in bringing them into business and letting them do it. These were, incidently, in a number of cases, guaranteed by the Small Business Administration. So each of these pieces was a part of that effort. And when you go to other places around the country, whether you would have that kind of support, A from the city, B from the local banks, or C from the SBA, if it had the ability to make those guarantees, it would be a question mark.

MR. MCGOINGS. Thank you. Mr. Berkowitz, would you please describe the purpose of and services offered by the Baltimore Economic Development Corporation?

MR. BERKOWITZ. Baltimore Economic Development Corporation is a nonprofit development corporation established by Baltimore City at the beginning of 1976. It is under contract to the city of Baltimore through the Department of Housing and Community Development and it is the city's economic development arm. Its primary purpose is to improve the employment opportunities for residents of the city and to enhance the city's tax base. There are a number of other development corporations, such as Mr. Pacy's and Charles Center-Inner Harbor, and they have specific areas of development responsibility. Our primary focus is on industrial retention and attraction.

MR. MCGOINGS. Have you been able to assist minority businesses?

MR. BERKOWITZ. Yes. We have assisted many minority businesses over the years that we have been in existence, and one of our important priorities in the Baltimore Economic Development Corporation, as in the Baltimore City administration generally, is the furtherance of not only minority employment opportunities but also minority business development opportunities.

MR. MCGOINGS. To what extent have BEDCO's activities led to the creation or the retention of jobs in Baltimore?

MR. BERKOWITZ. Well, if I just cite last year as an example, through our development activities—and I might add that one of the things we do is acquire property for the city, in the city's name, install streets and utilities, and then market the property as industrial or business parks. And we have also acquired and renovated a former vacant clothing manufacturing

building as a vertical industrial park. So we have a development side as well as a financing assistance and technical assistance and ombudsman side to our operation. But looking only at our development activities and our financing activities in combination, those were responsible for the retention or creation of approximately 6,500 jobs in 1980. Of that number, about 1,800 represented new jobs and the remainder represented retention of firms. That does not include firms that we provided advice or other kinds of assistance to.

MR. MCGOINGS. Thank you. How has BEDCO's ability to offer financial assistance been enhanced as a consequence of having received certification from the SBA as a 502 local development corporation and as a 503 certified development corporation?

MR. BERKOWITZ. Those two programs have been very important to us, particularly during the last 2 to 3 years. They've made available two of the important programs of the Small Business Administration. Both of those programs at various times have had direct lending funds available and we have, through the use of the SBA 502 and 503 programs, provided assistance, financing assistance to companies with a total employment impact of about 1,050 jobs.

MR. MCGOINGS. Thank you. Could you describe the plans for the Park Circle industrial project?

MR. BERKOWITZ. 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. The Park Circle area is about 40 acres of vacant land and underutilized land at the southern end of the Park Heights area of the city.

The Park Heights area is a predominantly low-income black community. It's an area that became a predominantly black community in the 1960s. Not only is there low income there but the unemployment rate is very high. It's estimated at about 18 percent generally and much higher among the youth population.

It's an area that is the city's largest urban renewal plan area and one in which the city has invested millions of dollars in new public facilities, new housing, and rehabilitated housing as well as social and other services. But despite all of those significant investments the unemployment problem has remained intractable and related social and economic problems have also remained intractable. Because of that the project has always included the concept of an employment center or an industrial park at the southern end on these approximately 40 acres of land.

Now, that became a real possibility a couple of years ago when the land, which had been owned by the Mass Transit Administration and used for a construction storage area in conjunction with the subway construction and had been planned for future mass transit use as a bus facility, when a decision was made by the State, under pressure from both the community

and the city, to make that land available for industrial development and to sell it for the city. So we had a unique resource in vacant land and underutilized land, also a vacant school site of about 6 acres at that location.

The community, through the Park Heights Development Corporation, was very interested in economic development there. We also have involved the Control Data Corporation and its local subsidiary, Commercial Credit, and, through contract, an affiliate of Control Data, City Venture Corporation, to be responsible for the marketing implementation of the project. The goal for the project is to create 1,750 jobs in the Park Circle Industrial Park, and another 750 jobs in the remainder of the Park Heights corridor. The Private Industry Council is providing funding for the City Venture Corporation's contract and we intend to target the jobs on the community, the Park Heights community itself. Before we will dispose of any land in the Park Circle Industrial Park, the firms that will be coming into the industrial park must be committed to a recruitment and training plan through the city's manpower training program, and in particular the intention is to hire people from within the Park Heights community.

We have an advisory committee chaired by Congressman Mitchell's chief aide, Jerry Lymas, with general private sector representation, minority business and community representation, and city agency representation. We're well underway in this project. Control Data has broken ground on a business and technology center which will help to generate new minority and other small business development by providing an array of important services, and small areas of space for firms on a lease basis. Commercial Credit has established a bindery and hired initially 20 people from the Park Heights area. That's expected to grow to about 200 jobs in about 3 years, and we're working with a number of other companies to locate them in Park Circle.

MR. MCGOINGS. Thank you. What has been the impact, Mr. Berkowitz, of Federal budget cuts on the economic development plans of BEDCO?

MR. BERKOWITZ. The Federal programs that support economic development have not suffered as much as the programs that support social services and housing. Nevertheless, we have felt the impact of the cuts. President Reagan had proposed a reduction in the appropriation in fiscal year 1981 for the Economic Development Administration. The Economic Development Administration [EDA] has provided, since 1975, approximately \$25 million through its ongoing programs and another \$25 million through the two rounds of local public works funding. And those funds have been the backbone for providing the money for infrastructure in our industrial parks, like the Holabird Industrial Park, the Park Circle Industrial Park, the Raleigh Building, which is an incubator of small new firms. And if President Reagan's rescission proposal had been carried out

by Congress—and he was proposing that roughly \$600 million appropriation be sliced in half—Baltimore would not have received any EDA grants during fiscal year 1981.

Fortunately, Congress approved only half of the rescission that the President had requested, and, as a consequence, Baltimore was able to get several projects that were in the pipeline approved by EDA. One of those was a \$1.2 million grant for our Park Circle Industrial Park, which will help to fund the streets and utilities, and another is a \$1.2 million grant which will assist in Mr. Pacy's project with the improvements to the Lexington Market. A third is a \$700,000 grant to the Park Heights Development Corporation so that they can renovate two vacant industrial buildings in the Park Heights area and put those buildings to productive use.

The UDAG [Urban Development Action Grants] program, which has been of tremendous importance to Baltimore, not only in downtown economic development, but in community housing projects and in community economic development, has suffered a reduction in funding from the previous level of \$675 million to a level of \$500 million this year, and the President is proposing a further reduction of 12 percent in those funds.

I might only point out that this year we have received, in the industrial field, two UDAG's totaling about \$575,000 which will be the basis for loans to two companies that will result in 200 jobs and about \$6 million of private investment. So we're very concerned about the proposed reductions in funding for EDA, which the President has proposed to wipe out in fiscal year 1983 completely. And that would have a very, very drastic effect on our economic development program.

Just as cuts in UDAG would—we're also concerned about the funding for the SBA programs and we're concerned about the possible limitations that may be imposed on industrial revenue bond financing.

MR. MCGOINGS. Thank you. Mr. Berkowitz, there is now before the Congress a proposed Urban Enterprise Zone Act. Do you believe that legislation of this kind provides useful incentives for the development of areas like the Park Circle Industrial Park?

MR. BERKOWITZ. There is no question but that there are real and perceived higher costs of doing business for firms that invest in areas like Park Circle and Park Heights, and that if we're serious about trying to foster investment, to foster minority and other small business activity and employment opportunities, we do have to provide incentives.

Now, in the past those incentives have taken the form of infrastructure grants from EDA, favorable financing from UDAG, favorable financing through the SBA, and so forth. And Baltimore's position on the enterprise zone program has been that those existing programs are very important to be maintained. We have supported as a city—the mayor has testified in

favor of the enterprise zone concept, and we feel that the tax incentives that are proposed, for example, in the Kemp-Garcia Bill, such as the 50 percent reduction in business income taxes within enterprise zone areas would provide additional incentives, not—we don't view those as replacements for the existing tools that we have; we see them as necessary additional incentives to help create jobs in areas like Park Circle. And I must add that the supportive programs are equally important. And I am referring to the manpower training and recruitment programs. Our efforts to target the jobs on the residents of the Park Heights community depend on the availability of an ongoing manpower training program such as that operated by the Private Industry Council. Also important are various other supportive services, employee counseling services. Many of the people that will be employed for the first time in an area like Park Circle will need supportive services and counseling. Some of the people may be on drugs or may be alcoholics. They will need special kind of counseling.

MR. MCGOINGS. Thank you. Mr. Pacy, what are the responsibilities of the Market Center Development Corporation?

MR. PACY. The Market Center Development Corporation is a nonprofit, quasi-public corporation answering to the city of Baltimore, basically charged with carrying out the grant which was given to the city in 1979 by the Urban Mass Transportation Administration, UMTA. Our corporation is specifically charged with three value capture sites, which in layman's language are areas of property next to subway stations. There are three such stations or such sites which our corporation is basically responsible for.

MR. MCGOINGS. What arrangements have been made for the development of the retail district?

MR. PACY. The arrangements, is one way to put it, that have been made basically involve the development of a plan, the development of a way in which it could be financed, and the implementation of it by virtue of our being able to have a developer become interested in the site around the subway stop and around, in our particular case, the Lexington Market. The kind of making way for that to occur in a—or on a basis which hopefully will prove successful we implemented property rehabilitation standards for the urban renewal area which composes about 82 acres. That was put into effect by the city council and signed by the mayor in July of 1980, and has several phases to go through, basically dependent upon which street the buildings are located on, but we're in hopes that the entire area will be uplifted by general improvement to the properties.

MR. MCGOINGS. You signed a disposition agreement with the developer. Is that right?

MR. PACY. That is correct. The David H. Murdock Company in September of 1981.

MR. MCGOINGS. And generally what did that provide?

MR. PACY. This provides for the disposition of property surrounding the Lexington Market, approximately 5 acres. The disposition will take place based on a—probably a 200-page document, over a period of years that could cover 10 to 12 years. It basically indicates that the David H. Murdock Company will be either rehabbing or, in the major cases, building new office structures totaling a million square feet minimum and a maximum of 2½ million square feet.

MR. MCGOINGS. Will the developer be required under the disposition agreement to take steps to insure minority participation in the various projects included in this program?

MR. PACY. Yes. There are several sections, and I brought one excerpt from page 3 indicating requirements to comply with the UMTA regulations, the nondiscrimination Federal Labor Standard provisions, equal opportunity employment, Civil Rights Act of 1964, and then on into environmental and historic preservation standards.

MR. MCGOINGS. Now, how will you monitor compliance with these provisions?

MR. PACY. Similarly to Mr. Berkowitz' company—Market Center Development Corporation is an arm, if you will, of the Housing Community Development under Mr. J. Brodie. Commissioner Brodie and our corporation will monitor the David H. Murdock disposition agreement through either our own general work at Market Center Development Corporation or through HCD [Housing and Community Development].

MR. MCGOINGS. To what extent are minority-owned business now operating in the retail district?

MR. PACY. Very few. I would say no more than half a dozen at the present time.

MR. MCGOINGS. How do you suppose they will be affected by this revitalization?

MR. PACY. I don't think they're going to be affected any more or any less than any of the white retail businesses in that area. One of the challenges, rather than problems, that I think we have down there is: What will the people who in the next few years entering the offices which will be built by the Murdock Company demand of retail. And I think a supply and demand situation will prevail. We are in hopes that many of the present retail situations and businesses down in that area will remain and will be able to adjust themselves to the people coming in. At the present time, in this 82 acres, there are less than 1,000 residents, so you can imagine that the retail is not what it would be if it were next to a large residential area.

MR. MCGOINGS. Do you believe that the renovation and redevelopment will provide opportunities for minority entrepreneurs?

MR. PACY. Yes, I think they're providing for that now. There are businesses, as I'm sure there are everywhere, for sale. There are areas for rent. I don't think that the climate today presently would indicate that the

market is ready for the influx of new businesses at this time. There just aren't enough people in that area to support them.

MR. MCGOINGS. Mr. Brothers, will the Murdock Corporation comply with the various antidiscrimination, affirmative action, and minority participation provisions that are contained in the disposition agreement?

MR. BROTHERS. We most certainly will. We not only will comply with those requirements, we are obviously very cognizant of them. We are, I think, more importantly reaching out to attempt to understand the nature of minority businesses in this particular area. As you know, we're new to the area. We're making an effort to meet the various people who represent minority businesses that we will be involved with, specifically construction business enterprises. We are also, in terms of our own staff, which will be quite modest, seeking minorities, blacks, who are, we feel, qualified to fill the very minimal number of slots that we will have available. We are not turning back anyone for any reason other than not being qualified.

MR. MCGOINGS. Have you yet developed a management plan that assigns responsibility and authority to insure Murdock and his contractors' and subcontractors' compliance with those civil rights obligations included in the disposition agreement?

MR. BROTHERS. We have developed a management plan, and I may not answer your question directly, but what we are doing is hiring a very high caliber, what I would call second-tier team of professionals. Those professionals are national organizations who have dealt with problems of this type before, who have specific individuals on their staff to deal with the areas in the disposition agreement that address requirements for minority hiring. We will, of course, with our staff overseeing our consultants, make them aware of the requirements in the disposition agreement.

MR. MCGOINGS. Do you believe that you can duplicate the efforts that were cited by Mr. Ditch that the Rouse Company made in Harborplace with respect to minority participation?

MR. BROTHERS. I believe that our projects are quite dissimilar. And in that regard, I don't believe that we can duplicate exactly the efforts that Mr. Ditch described. I would suggest that we will make a very strong attempt to duplicate the construction efforts that the Rouse Company made. But I think that as far as hiring or seeking out minority retailing businesses, that's going to be very difficult for us to do in that the balance of our project—in fact, the majority of space that we're developing is office space.

MR. MCGOINGS. Thank you. Mr. Chairman, I have no further questions.

CHAIRMAN FLEMMING. There is one observation, Mr. Ditch, that you made, and I think it's been subscribed to by some other members of the panel, that interests me. You indicated that in connection with your efforts to attract minority business to your development that you were very much

aware of the fact that there were comparatively few minority businesses in the area. In fact, you called attention to the fact that even in parts of the city where a good many minorities live, the retail businesses in those areas are not necessarily handled or owned by those minorities. What do you think can be done in this area to bring about a change in that situation? It seems to me that does identify a very basic, very fundamental problem, looking down the road as far as the future of the community is concerned. What do you think can and should be done to try to improve that?

MR. DITCH. Well, I think that, you know, to reduce the problem to its kind of lowest common denominators, there are—I think there is a lot of desire among a lot of black people that we have encountered to get into retailing. There are two big barriers. One big barrier is money. The second big barrier is retail proprietorship experience. It's one thing to simply work in a store. It's quite another to be a retail proprietor and owner. It takes a long time.

We once, in discussion of this, were saying if there were some means of training beyond the formal vocational school, perhaps in the retail sector, that people could get some experience at really running and operating a business; it's a long process to open a retail business. All the—it's not just standing at the cash register and ringing it and selling goods or services. It's all the buying and the merchandising and display and accounting and pricing and knowing competition and knowing when and timing and advertising and all those different arts, skills, and sciences that go into the retail. And I think you find, looking at history, that so many of our great retailers, the huge store chains and all, that it was a matter of generations of building up a retail knowledge and to try to get around that time factor is going to take some sort of a massive effort to expose minority people to the real inside of retailing. I don't know any school where you can get it directly in school.

As far as the money goes, it's critical that there be the means for people to be financed. I don't know how anybody can go into any business and finance that business entirely from the ground up at 20 percent or something close to that and make enough money in that business to pay the help and pay the rent and pay for the materials and services and make enough to pay the debt back and make enough to live on. It's a very difficult thing.

CHAIRMAN FLEMMING. Well, the two barriers that you have identified—you feel the most serious is the, what I'd call the training barrier. Is there any planning in the community, any thinking going on in the community designed to address that particular barrier in a positive way?

MR. DITCH. I think there's a lot of thinking going on, and in our own company, with the minority-owned businesses that we do have, we make a very special effort to assist in a lot of those areas that I named—in merchandising and display and training personnel and accounting and

advertising and things like that, where we have a whole range of people within our company that know those particular professions. They've lent a lot of assistance and are happy to do it. Our business is to bring into business successful merchants. It takes a real effort, though, and it of course has—it takes an extra effort.

CHAIRMAN FLEMMING. How many minority-owned businesses are you dealing with in connection with your project?

MR. DITCH. Well, in connection with Harborplace now, all minorities—there are about 20 businesses owned there, but over—we have of course tenants elsewhere and projects elsewhere that we're also pursuing this same sort of thing. Not to this extent.

To give you an example, though, of how this can work, for example, how something can work, there are a couple of businesses in Harborplace that were brought into being maybe somewhere else by somebody who then have expanded all around the country and not just—these are not just franchises, but where they did want to bring their business or their product into Harborplace. By working with those entrepreneurs who had been successful elsewhere, we brought them together with blacks who were qualified and wanted to go into business, and then through other means were able to get it financed, and, thus, turn over either a managership or a partial ownership to that new proprietor, and bringing people into business that way seems to be an avenue that might bear fruit. There's nothing new in the world. I think that some of the franchises—that maybe we were trying to get locally owned businesses here. We thought it was very important in the city, and so 90 percent of the businesses there are not chains, they are local. But some of the larger corporations that wanted to be in there by getting the spinoff and training and bring somebody in business where they could be maybe the supplier or the advisor has been fruitful, too, or at least in a small way.

CHAIRMAN FLEMMING. Well, what's running through my mind is that when the large percentage—with minorities constituting a large percentage of the population here in the area, I've been trying to visualize what the situation would be, let's say, 10 years down the road. And if an organization at that time started out to do what you have done, whether they would be running up against the same situation that you ran up against or whether or not there are things that are being done or could be done that would mean that, at that particular time, the picture would have changed, that there would be more, considerably more, minority-owned organizations in the area that would be attracted to a development such as the one you were working on. In other words, what I'm feeling for here is that—is what can be done to get some kind of a breakthrough in improving this particular aspect of the total picture?

MR. DITCH. Well, I'm sure you're well aware of the thousands of problems that all come together in this.

CHAIRMAN FLEMMING. That's right. That's—

MR. DITCH. But one of the big ones—it seems to me that a lot of people—let us take people who are in retailing and are black now. Most of those black retailers are dealing in almost an all black community; their customers are all black. The experience that they have is dealing in that community. Now, to then cross the line, so to speak, to go out and go after a business to get a larger business or a more ambitious business that's going to deal with the whole market, the whole potential out there, is a big step. It's not like a white business that starts out in a small way somewhere and builds its business up and maybe moves to a bigger, better location downtown and so on—that stop from dealing from one market to another market in effect is a very, very tough barrier for a lot of people, and a lot of black merchants are disinclined to cross it, frankly. They're happy if they're successful in their community and they're used to it and they know their market, and you go to them and say: How about going into this, taking on the bigger league. They may be disinclined to. The risks and the money involved and the borrowing that they have to go through and so forth and a lot of times, too, those that may want to simply can't finance that. So that easy channel—it's not an easy channel for any retailer, but the channel isn't there. I don't know how to change that.

I think, as I say, that the encouragement along the lines of training—I think gradual integration of neighborhoods is very important in this whole process because I know we have the example on the other hand of the new city of Columbia, which my company is also building, and there we have been able to bring into being minority businesses that were able to thus deal with a totally integrated situation, and it works well. And it's been easier, I think, for them to come up in the market and establish businesses there than it has been in other places, and I think out of that we have some availabilities, even out of Harborplace where we have three minority-owned businesses now that are looking at locations in other projects to open branches or new businesses. So once they can make that breakthrough there are possibilities. But I think the housing integration and general melding of everything is important to this process.

CHAIRMAN FLEMMING. Would any of the other members of the panel like to comment on this?

MR. BERKOWITZ. Yes, I would like to express some thoughts and also point to some successes. I think one of the ways in which the number of minority-owned businesses can be increased is through acquisition of existing plants or businesses, and there are several good examples of that in Baltimore. Several years ago, my organization became aware of a vacant concrete manufacturing plant, and we investigated the market for the product of that plant, and, with the use of city bond funds, acquired the concrete manufacturing plant and then advertised it for proposals from minority entrepreneurs. There was a person experienced in that field that

came forth with an interest in buying the property and we provided, again through a city bond fund source, a loan for the entrepreneur to acquire the concrete manufacturing plant, and that became a minority-owned business.

Just about a year ago, we were criticized for proposing and approving a revenue bond issue for the acquisition of the Parks Sausages 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 of the Parks Sausages firm and we did provide revenue bond financing so that that acquisition could take place.

We have done the same thing in a number of other fields, nursing homes just being one example. And I think that is one of the areas of opportunity, but it depends on having availability of governmental funds, Federal, State, local, to assist with the acquisition, to assist with favorable financing of one sort or another.

I think one of the very important things in furthering minority business development is having a pool of people with skills that lend themselves to becoming entrepreneurs. And I think it's extremely important that more black people, particularly, enter the fields of higher education and the physical sciences, engineering, and the math-related fields, computer sciences, and so forth because those are the fields that are the growing fields in the future and, for that matter, even now. If you look at who the new entrepreneurs are in the high tech fields, they are people with backgrounds of that sort. Fortunately our own Baltimore City Public School System is placing an increasing emphasis on computer science exposure and training for people at the high school level, and our Community College of Baltimore is placing increasing emphasis on the same thing at the community college level.

CHAIRMAN FLEMMING. If I can interrupt just a moment. Mr. Ditch, I understand you have a plane to catch and if you are pressed for time, why, I hope you'll feel perfectly free to leave any time you think it is necessary to leave, and we appreciate very, very much your being here with us.

MR. DITCH. Well, thank you for your understanding. If we can be of any further help to the Commission, please call.

CHAIRMAN FLEMMING. Thank you very much. Mr. Pacy, did you have—

MR. PACY. Mr. Flemming, I just wanted to add that if I heard the problem here this afternoon—and I haven't been here all afternoon—I came in about an hour ago. When we're talking about having people start their own businesses, I think that area is a very small tip of the iceberg, if you would, on the problem, which is to gain employment for a large mass

of people who are underemployed and unemployed. The catalyst which has been, I think, successful in seeing that Baltimore at least is coming along with its urban renewal is the Federal funds coming to town and being able to be utilized or planned in a way which attracts private development, and then this private development tied in with the public investment hopefully, at least in the area in which I am responsible, will create jobs. In creating jobs, it would, I hope, improve the status of people. So that it's like getting up on top a little bit and then seeing if they would like to start out running their own business, which is a very, as Mr. Ditch said, is a very, very difficult thing.

CHAIRMAN FLEMMING. I note your reference to Federal funds. I noticed Mr. Berkowitz in his comments and in his earlier response to questions from counsel put a great deal of emphasis on a whole series of Federal programs and indicated very clearly their relationship to the issue that we're taking a look at here. So I gather that you have the feeling that if some of the proposals that have been made relative to those programs and those funds are actually implemented, it would at least slow down some of the plans that you have here, if not in some instances make it impossible to move forward with some of the plans. Am I correct in that? That's a generalization, but—

MR. BERKOWITZ. Mr. Chairman, you are all too correct.

CHAIRMAN FLEMMING. I thought I got that message.

MR. BERKOWITZ. If the President's proposal to eliminate the Economic Development Administration alone is carried out, that will reduce my organization's operations in half. It will have that drastic an effect. I've already had to lay some people off as a result of reductions in funding.

CHAIRMAN FLEMMING. Commissioner Ramirez?

COMMISSIONER RAMIREZ. I don't have any questions.

CHAIRMAN FLEMMING. Okay. Commissioner Berry?

VICE CHAIRMAN BERRY. I have no questions.

CHAIRMAN FLEMMING. Commissioner Saltzman?

COMMISSIONER SALTZMAN. I'm not sure this is an appropriate question for this panel, but I'd like you, if you could, to take a stab at it. We're looking for how Baltimore, and using Baltimore as a model to other cities, might move forward in providing for the development, the economic development of minority communities where in our major cities the major proportion of the population in cities is becoming minority, and what recommendations would you make in terms of what you see as the key place—and I understand, Mr. Brothers, you're new to the community; you may not have developed a point of view on this—to promote the participation of the minority community in the mainstream. What we heard here is that, really, Baltimore is pretty low down on the scale of moving the minority community into economic participation in the life of the community, that there are fewer businesses here than in most other

major cities that have developed, etc. Well, what can get the city moving in that direction? What are the key elements?

MR. BERKOWITZ. Well, if I may respond to that, I think the city has been moving, and in many respects it's been moving successfully. A key ingredient of that forward movement has been the availability of some of the funding that I've talked about, and I think it's really so unfortunate that just as we have developed some momentum, and some successful momentum with some of these programs, that they are now being cut back, threatened with being cut back.

I don't think that there is one single answer to your question. I think that a very comprehensive, multi-faceted approach is required. I think part of the answer is projects like the Park Circle Industrial Park, that is, industrial and commercial projects that are located in or adjacent to the low-income black areas that experience high unemployment, to target new employment opportunities on those communities, to try to bring in branch plants of national corporations, as we're trying to do with Park Circle. That's part of the answer.

I think part of the answer is in the educational system. Baltimore, as well as other cities in the United States as a whole, but particularly in the Middle Atlantic and northeastern sections of the country, is experiencing a gradual decline in manufacturing and related employment. Now, we're doing our best to retain the employment that we have, but the future of the economy of the United States, with increasing automation of manufacturing plants, with relatively slow growth in the traditional manufacturing sectors—the future is in the higher technology, the service fields, many of which require higher level of educational skill training. So there has to be a long-range strategy or a longer range strategy to improve the educational and occupational skills of the minority population.

There are a number of ingredients for a successful program that have to be added or enlarged. We clearly need a source of venture capital, a much better source of venture capital, for minority business development. And it's my feeling, and I'm sure I'm speaking for the city in this respect, that the appropriate source of that is not the city but the private sector. I mean, the private sector should come forth with the creation of various capital pools for venture capital and other sources of capital, along with some of the tools that we have had from the Federal Government, particularly in the financing field.

I'm sure that I haven't thought of all of the facets of a comprehensive program. Technical and managerial assistance is a key ingredient and one that's become more and more recognized, and we have improved our resources in that area. We have better resources for managerial and technical assistance than we had perhaps 2 or 3 years ago, but we need still better resources in that field.

Those are just some aspects of what I think has to be a very comprehensive approach.

MR. PACY. I'd like to back up what Mr. Berkowitz said. It occurred just last week in my office, when a group of men came in—minority—a group that wanted to take advantage of Goodyear—and I think that's the one with the blimp, the Goodyear Corporation, whose goal it is to establish, I believe, in 100 cities across the Nation, 100 minority-operated service centers, automobile service centers. And they were looking for a location. I think there is a good, solid example of what Mr. Berkowitz is saying of the private endeavor working with the city.

I would also—Lord knows it's a tremendous problem—I would suggest more training at the supervisory level. I know that when I have worked with some of the CETA employees, and specifically during the summer-time, the youth groups, what I've found lacking was not so much the enthusiasm amongst the younger boys and girls, but the supervisors lacking the training to muster them together and to produce the job.

I know our office has done so and will continue to strike out and try to locate the leadership in the black community to help us identify the opportunities that exist. We do that on a monthly basis of meetings. It has not borne fruit, frankly. And we'll continue to do it.

CHAIRMAN FLEMMING. Do you have any further comments, Mr. Brothers?

MR. BROTHERS. I have one brief comment, and you will have to bear with me. As I said, I've been here a very short time, but I was listening to Bill, and I think one of the things that makes a successful real estate development company is information, and it strikes me that one of the ways that minority businesses might succeed is to have access to information. Information is very difficult to get. It's perhaps somewhat easier for some people than others to get, and it seems to me that if there were a pool of information available to the minority business owners and operators, that that would be immeasurably helpful. And I think as Baltimore progresses, and it seems to be progressing at a much quicker pace than some other areas of the country that I have observed, the—what I would call the interface between black- and white-owned businesses will increase and as that does increase, the transfer of information will increase. I think that has to be a conscious effort. And I think that we're going to try to do that as a company.

CHAIRMAN FLEMMING. Thank you very much. We appreciate the contribution that has been made by all of the members of the panel. Thank you very, very much for being with us.

Counsel will call the—

MR. O'ROURKE. Mark Wasserman, M.J. Brodie, Shirley Ann Williams. Please remain standing until you are sworn in.

[Shirley Williams, Mark Wasserman, and M.J. Brodie were sworn.]

**TESTIMONY OF SHIRLEY WILLIAMS, COMPLIANCE OFFICER,
BALTIMORE CITY LAW DEPARTMENT; MARK WASSERMAN,
MAYOR'S COORDINATOR OF PHYSICAL DEVELOPMENT;
AND M.J. BRODIE, COMMISSIONER, DEPARTMENT OF
HOUSING AND COMMUNITY DEVELOPMENT, BALTIMORE**

CHAIRMAN FLEMMING. Thank you.

MR. O'ROURKE. Would you each please state your name, address, and occupation for the record. Ms. Williams?

MS. WILLIAMS. I'm Shirley Ann Williams. My address is 9 Henry Court, Baltimore, Maryland. I am compliance officer with the Baltimore City Law Department.

MR. WASSERMAN. My name is Mark Wasserman. My home address is 5705 Ranny Road here in Baltimore. My title is physical development coordinator.

MR. BRODIE. I'm M.J. Brodie. I'm the commissioner for Housing and Community Development for Baltimore and I live at 2217 Foxbane [phonetic] Square in the city.

MR. O'ROURKE. Mr. Wasserman, earlier today the Commission heard from witnesses who described minority participation in the downtown development projects as negligible. I was wondering what your assessment of the extent of minority participation in those projects was and if you could describe what steps the city has taken to foster minority participation in those projects?

MR. WASSERMAN. Fine. It's my feeling that as the city began its involvement in downtown redevelopment, which was some time ago—and I think taking the historical perspective is the key here—as you watch the city's effort to build—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.

I can offer a perspective from about the mid-seventies on, and I'll try to offer you my observations slightly before that. I think the effort of municipal government—and I want to make it clear that I am restricting myself to municipal government effort—has built and built. And I think there is a momentum and a commitment and a conditioning of the private sector as we go along using the Federal tools that have been described to the point where we are establishing, I think, a pretty healthy track record.

If I could just circle the downtown and just describe a few of them, and I ask my colleague, if you care to have us interact, join me. Let me take you around the retail district as an example. The city worked awfully hard, using a variety of Federal tools, to situate the Social Security Administration Metro West Complex. That meant consolidating jobs and adding about two or three thousand jobs in our downtown base, and those were primarily jobs held by minorities.

We have worked hard, for example, in Lexington Market to create a—to help create, I won't say we created it—a restaurant that I think is doing very well. There is an entrepreneur who operates a marina here in the Inner Harbor and does extraordinarily well. We have coalesced nicely with the Rouse Company in a way that I think is a model for lots of future endeavors like that where we had a substantial percentage of minority contracting, substantial percentage of minority employment, and a real intensive effort which has borne fruit in the way of about 20 new minority businesses in Harborplace.

One of the points I want to make as we go along—and I won't dwell too long on this question—is that one of the ways that municipal government works best is when it's coordinated. And I would cite our example of using our starters program as a means of working with the private sector to screen employees, when the private sector is willing, so that we move people off of—from public sector employment, public experiences, and into the private sector. That's worked at Harborplace, it's worked at the Hyatt, and it can work elsewhere, and where there's a commitment it does work.

Brown's Arcade is another example where the entrepreneur made a commitment to minority contractors and subcontractors, to minority employment. Three out of the seven commercial tenants are minority, and I think as we have gone along, our efforts have continued to grow.

MR. O'ROURKE. You said when the private sector is willing to cooperate—most of the projects that you've described were undertaken with public monies to some extent, were they?

MR. WASSERMAN. In almost every case, yes, there has been public sector involvement. You know, I think it's a fair statement that, in this city, the public sector has provided much of the initiative for redevelopment. Where you see progress, you see city government.

MR. O'ROURKE. Does that public sector money provide a leverage with which to make the private sector more willing to enter into these relationships?

MR. WASSERMAN. It can and does, sure.

MR. O'ROURKE. Mr. Brodie, you were about to say something?

MR. BRODIE. Yes, I was going to go back to your question. Someone, and I forget who, suggested earlier, in a long day, that the city could have been more inclusive in trying, I think was the word, in trying to get minority developers in the Inner Harbor and Charles Center. We're delighted to have them.

As the person who picked Ken Wilson to run the marina 5 years ago and took a certain amount of criticism about that, I think I have some insight into the difficulties of finding such folks around. Downtown development in this city or any other, in most cases—and the marina was an exception—require an enormous amount of capital. There are few David Murdocks in

this country; there are few other people of the kind who have built major buildings. You happen to be in a publicly built one here, but major private investment in the Inner Harbor—and you can go around those—the Hyatt Corporation, IBM, U.S.F. & G. 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 Ken Wilsons, to find the Alan Quills, and to try to get them involved. But it is a very difficult scene, given the magnitude of the demand on capital.

MR. O'ROURKE. Thank you very much. I realize the downtown development project is very visible, but was that project undertaken at the expense of the city's various neighborhoods? To what extent has economic and community development monies been distributed proportionately between the downtown and the various neighborhoods?

MR. WASSERMAN. We can both take this on. I think the city's record will stand up as well as any place in this country as far as the distribution of public funds, as they are measured between neighborhood investment and downtown investment. I think we consistently, over the years, in the use of our block grant funds, have maintained a ratio of about 80 to 85 percent in the neighborhoods and the remainder in the downtown.

We have gone through a very exhaustive analysis of our capital investment patterns over the last decade, which the mayor may be able to talk about tomorrow, I think, when he visits with you. But I think over the long haul, historically, we have maintained a better than 70 percent investment in the neighborhoods, with a large chunk of the additional investment going into citywide improvements like solid waste and utilities and whatnot. So the city has a very deep commitment to its neighborhoods; the neighborhoods are the strength of the city.

MR. O'ROURKE. Could you identify the analysis that you did of the city expenditures giving a roughly 80/20 percent between the neighborhood and the downtown? Did you similarly do an analysis to determine whether the money is somewhat equitably distributed among the neighborhoods, as I say, whether predominantly black neighborhoods and identifiably white neighborhoods received—

MR. WASSERMAN. Yes, as I say, the data will be submitted, but I think generally what you'll find—and I want to make it clear this is not a distinction we normally draw in the way we do business. I think it is a pattern that is established overall because we are committed to the wholesale redevelopment of this city. But I think what we have seen, and it's been an important experience for us, is that generally speaking our investment has been about the same proportion, about the two-thirds, one-third proportion between black communities, mixed communities, and that as one category and otherwise, you know, white communities.

MR. BRODIE. I could be a bit more specific for you right now, since I have a few numbers put together, at your request, that—this is looking back 1970 to 1981 of the use of the community development block grant monies—

CHAIRMAN FLEMMING. If we're going to be supplied the statistics for the record, I don't think we need the exact numbers but proportions and percentages, I think, would provide us a useful understanding of the situation.

MR. BRODIE. Just to give you a quick sense of that, I'll round the numbers and percentages off. Out of roughly \$214 million that was available to the city over that time, about 76 percent went into neighborhoods, as distinguished from either downtown or projects that might have been in industrial parks, so they were neither in a neighborhood or downtown. And the 76 percent represents about \$162 million. Of that amount, 52 percent went into neighborhoods that were predominantly black, 18 more percent went into neighborhoods that were racially integrated, 5 percent went into neighborhoods that were predominantly white. So you have overall, if it adds up to 100 percent, hopefully, about 76 percent neighborhood, 14 percent downtown, 10 percent other expenditures over that time.

MR. O'ROURKE. Are you talking about community development block grant monies now?

MR. BRODIE. I am.

MR. O'ROURKE. Could you identify those neighborhoods which have been the principal recipients of—the top three or four.

MR. BRODIE. Sure. The top three or four I could certainly do. I didn't try to rank them, so I have to just gaze over this, but I think the winner in the sweepstake, you might say, was the Upton neighborhood, which received almost \$14 million over that period. And had the Commission chosen to hold its hearing today on Pennsylvania Avenue, you could have looked out a window there and seen black development up and down Pennsylvania Avenue, and I might suggest that for some future hearing. The Poppleton neighborhood in west Baltimore has received about \$7.5 million, as has the Oldtown neighborhood in east Baltimore around the Belair market. I think that was referred to as an SBA classic case of investing—closer to \$8 million actually, \$7.8 million. Just for a few big numbers here, oh, the Park Heights neighborhood has received almost \$13 million.

MR. O'ROURKE. And Coldspring?

MR. BRODIE. Coldspring, just a second, has received \$10.9 million.

MR. O'ROURKE. Thank you. Mr. Berkowitz discussed the impact of proposed Federal budget cuts in the UDAG program and the Economic Development Administration program. Could you discuss what the impact

of such proposed cuts in the community development block grant would mean for city plans?

MR. BRODIE. If I must, yes. They are not happy things to envision. Just to tell you where we are right now, our year starts January 1, and we have been told by the HUD folks to assume a 15 percent cut in our entitlement funds, and we are looking programwide to see how that affects us. It affects us on the operating side—that is, we’re proposing to have to lay off, we’re preparing to have to lay off people, if in fact the 15 percent cut comes down the line.

It means a great cutback in starting new things. And you’re dealing in 38 different neighborhoods, as I touched on a minute ago. What you’re trying to do is to move a whole bunch of pieces on the board a step forward every year, and you 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 the full funding we would have been able to have in this next year.

In the housing area, which is probably even more severe, we have either completed or under construction or about to come off the boards about \$73 million worth of turnkey or section 8 housing, all done by minority developers in this city. It represents close to 2,000 units and, looking at the subsidized housing figures for next year coming down the Congress, Baltimore will be “lucky” to receive enough funding to do one project, and maybe none. So that’s the sort of magnitude that we’re looking at.

MR. O’ROURKE. Did you want to say something, Mr. Wasserman?

MR. WASSERMAN. Yes. Not necessarily want to, but I think it’s a picture that ought to be adequately drawn for you. Let me just start with our manpower system. Last year, at its peak year under the last year of the Carter administration, our manpower system was operating with \$80 million in funding. We expect this year to be down to \$25 million. We calculate that that will mean, and the situation could become even more bleak, that that will mean that 14,000 people in Baltimore will have fewer opportunities to on-the-job training, public service employment, that gap that the public sector has been I think filling, at least in Baltimore filling pretty well.

In the area of transportation, the administration tells us that they are going to be phasing out subsidies for mass transit operations. In a very real sense that means that minorities who are transit-dependent are just going to have a tougher time getting from point A to point B. We’re told that there will be no new starts as far as developing mass transit. Joint development as far as taking maximum advantage of development around transit is out. It’s already gone. Direct loans by EDA and SBA we’re told violate some

sort of, you know, philosophical approach and there will be no direct loans. There will be a substantial reduction in loan guarantees.

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.

MR. O'ROURKE. Thank you. Mr. Brodie, could you please describe the city's commercial revitalization project?

MR. BRODIE. Sure, the commercial revitalization program really was invented here, and it's been replicated a number of places around the country. It was started with no Federal funds, which is unusual, and it started with a recognition that many of the older shopping centers, where especially if you put together the aggregate of all the older shopping centers in this city, that they really equated the central city, the central business district, but there was no Federal program to deal with the problems in those areas, which were the same kinds of problems, albeit at a smaller scale, than were downtown.

So we undertook first some planning. To answer the question were these areas viable for the future—the great majority of them are. We then went to the voters of this city and asked them for several kinds of money, using city general obligation bond funds. One created a reserve fund in which we use the funds to lend money at 1 percent above the city's GO [General Obligation] bond rate to small merchants in those areas, and the other was to make public improvements—sidewalks, streets, trees, off-street parking lots. We realized after a while, a short while, that just given the historical pattern, that most of the areas we were dealing in had very little black ownership. So I personally instructed the staff to go out and find black ownership and black tenants, even if they weren't in some of these classic areas, even if there were four stores clustered on a street corner, or however they were arranged. And we have produced some interesting results out of that.

We have found, for example—just that quickly comes to mind—a black liquor store owner who was sitting in the middle of a shopping center in a very solid area in far east Baltimore. The owner of that shopping center had not taken very good care of it, and it was deteriorating and really wanted out. The owner of the liquor store would like to have purchased the center but didn't have the wherewithal to do it. We helped him do it. It's now done and with a block grant loan and also some other funds through the city. And this potential has really, you know, just begun to sprout.

I mean, to give you just one or two other quick examples, the Oldtown Mall, which was the first example of inner-city development in Baltimore and the Oldtown area had one black owner, a lady named Evelyn Hill, who was selling shoes when we started there about 12 years ago. Black ownership in that area is now up to 30 percent. It's been done not through

magic but through a combination of hard work and money. And the money has typically been commercial revitalization loans, leverage, SBA loans, where we use the commercial revitalization loan to rehab the building and the SBA loan to help deal with inventory and working capital.

CHAIRMAN FLEMMING. During the course of the commercial revitalization program, did you discover factors which tended to limit participation by black merchants, and if so, could you identify them?

MR. BRODIE. Sure. Well, in the first place they couldn't get the money. There were no conventional sources of financing to people on Gay Street. It was just not an area that conventional lending institutions were willing to make loans. At the risk of telling anecdotes, we went out to the SBA office, which an earlier speaker noted was not in the city, and asked them to join us in improving life on the Oldtown Mall. They took a slightly dubious view of it, and so we asked them at some point 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 LDC, a local development corporation, and used that as the conduit and funded 10 percent of that with city money to try and cushion the shock of any potential future defaults or loans that went bad. And it was then a question where they couldn't say no.

And then of course in more recent years the Oldtown Mall and the SBA loans there have been featured on the cover of SBA literature. So that was a very positive experience, although one certainly wouldn't have anticipated it from the start, but it required the city taking the initiative and matching the rhetoric with some dollars to make the end result happen.

MR. O'ROURKE. We have been talking about Federal money and talking about the problem that minorities have obtaining capital, and debt financing. Baltimore has a somewhat unique financing mechanism in its trustees. I wonder if, Mr. Wasserman, you could briefly describe the trustees and their responsibilities and describe ways in which those funds have been used to foster minority business development.

MR. WASSERMAN. If I may, I would just like to add two small points with regard to the commercial revitalization program. I promise you I'll talk about the trustees.

One point I wanted to make was that, in the course of our approach to commercial revitalization, we had started out with a very definite quid pro quo arrangement, and that was that we wanted the private sector to develop a certain amount of investment before the public sector funds would come in to leverage them, and we have gradually adjusted our

formula recognizing some of these difficult circumstances that face minority entrepreneurs; that's one point.

Second is, at the level of municipal effort, when we found, as is obvious, that minorities in commercial areas tend to be tenants—and we were restricted by our bond authorization—we went to the State legislature and had it changed so we could make loans to tenants and we—you know, we have been as flexible as we can to come at this problem.

On to the trustees. The trustees are a body created through a series of trust agreements between the city and this nonprofit operation to oversee a pool of funds for the purpose of making loans and creating economic development. This group and all their actions are subject to full public scrutiny. All their actions are approved by the city's board of estimates. And I might say that this organization operates under streamlined procedures which enable things to happen. And making things happen is what we're all about.

Let me give you some examples of the kind of things the trustees have been involved in, and they'll go from little, tiny examples to major ones. I've noticed in reading through some compilations of trustees' activities that they have made loans as small as \$5,000 to minority contractors to get them started.

We have worked with a company, newly formed company, which has government contracts, defense contracts to manufacture eyeglasses. They have made a loan which, in large measure, enabled that firm to get off the ground and take advantage of the opportunity of access to defense contracts. And when they had difficulties, the city came in additionally and helped to make a match between the Commercial Credit Corporation, which was willing to provide managerial assistance. And these are the kinds of roles that we played overall in economic development.

I'll let Jay talk about the shake 'n bake project, but there's one where we couldn't generate any investment; there's one that was the centerpiece of a commercial revitalization area where there were jobs at stake and the trustees bore the full—

MR. O'ROURKE. Before you go on, if you're going to continue to talk about the shake 'n bake project—

MR. WASSERMAN. Let Jay provide a little description of that.

MR. BRODIE. Notwithstanding its curious name, it's a family recreation center. We were approached by Glenn Doughty about 3 years ago, who was at the time playing football for the Baltimore Colts but who saw that part of his life coming to an end and wanted to go into business and he had a unique idea. The idea was to do what he had called a family recreation center in the middle of Pennsylvania Avenue, the Upton area in which we have been working now for 12 years, which would combine a bowling alley and roller rink and some food operations and electronic games—those are the major components of it. 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 we even applied for and received about a \$1.8 million UDAG to assist doing it. We issued revenue bonds as the city to assist doing it. We tried to find some smidgen of private investment to help get this thing to happen and Mr. Doughty, of course, put a few dollars of his own into it.

But we're talking about a \$4 million project, so he was hardly able to finance even a major piece of it. It turned out that the bond houses, who at first seemed keen on selling revenue bonds, helping revenue bonds, insisted that the city guarantee the revenue bonds 100 cents on the dollar, which in fact made it a city direct loan. It turned out because of some legal complications that the UDAG was unusable in the way it was proposed to be used. And so finally it 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. We had, by the way, already agreed to provide the land and the subsoil work to give the soil sufficient bearing to put the building on, and an off-street parking lot, in addition to the \$4 million.

And it was through the trustees mechanism, using city funds generated from past bond issues, that the board of estimates agreed to make Mr. Doughty a loan of the \$4 million, even given the unique nature of the project and the possibility that it could not—that it might not succeed. But it seemed to us that it had at least enough going for it to justify such a venture, not the least of which is Mr. Doughty's incredible personal commitment to it, and its good location. 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.

MR. O'ROURKE. Thank you. Ms. Williams, could you please describe Baltimore's minority business enterprise program?

MS. WILLIAMS. Yes. We have a numerical goal program whereby a minimum of 15 percent of the total value of all contracts awarded by the city must go to minority businesses.

MR. O'ROURKE. Which minority groups are subject to that program?

MS. WILLIAMS. Blacks, Hispanics, Asian Americans, American Indians, and American Alutes.

MR. O'ROURKE. To what extent are women included in this?

MS. WILLIAMS. We don't classify women as minorities, but we do have a special provision for them whereby, if a contractor has achieved 10 percent minority participation, he can meet the rest of the 15 percent goal with 5 percent female participation.

MR. O'ROURKE. Your office, the office of equal opportunity compliance, is responsible for administering that program?

MS. WILLIAMS. Right. We administer the program.

MR. O'ROURKE. Could you explain what the office does?

MS. WILLIAMS. Okay. Initially we review contract documents before they are finalized to make sure that the MBE [Minority Business Enterprise] specifications conform to the law, we attend prebid meetings to discuss with the prospective contractors the program, when the forms are due, and what kind of information has to be submitted. When the bid documents are submitted by the bidders, they are returned to us by the contracting agency and we verify the minority participation information. And we do that by calling the minority business listed, verifying the service to be performed, and the amount of money that the contractor is to receive for the service. We don't recommend any minority contractors for awards that have not been certified by our office as legitimate minority firms and that have not been prequalified with the city of Baltimore or whose applications for prequalification are not on file.

MR. O'ROURKE. Have you encountered problems or allegations of front companies?

MS. WILLIAMS. Yes, we have. Initially we had a very streamlined certification procedure whereby companies wanting to be certified as minorities had to fill out a relatively short form, and we received several complaints from minority companies and from the Maryland Minority Contractors Association that we had actually certified companies that were not legitimate minority companies. For that reason, we changed our certification procedure. We now have an extensive procedure whereby companies coming—companies who want to be certified, where there is a white person involved in the administration or the management of the company, have to appear before a certification committee. And that committee is comprised of all of the city's compliance officers.

MR. O'ROURKE. Thank you. Do you believe that with this, Ms. Williams, that with this minority business enterprise program, the minority contractors are now obtaining their fair share of city contracts?

MS. WILLIAMS. I don't know if I could say fair share. I don't know what you would call fair share. I can say that the contractors—the contracts that we approve are meeting the goals.

MR. O'ROURKE. Thank you very much. Mr. Brodie, Mr. Wasserman, you have discussed a number of different city attempts to foster minority business enterprise and minority economic development. I wonder if you could evaluate the different programs and describe those which you think have been successful and why, and those which you think have not been successful and why.

MR. BRODIE. Well, I could tackle a few and we could go back and forth. We could spend a few hours discussing just that question. I think

successful—let me start from just the housing and community development department’s perspective, which is only a part of city government. I think perhaps our most successful things—and we haven’t talked about it at this session—have 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. The folks who were in what was then called remodeling 15, 20 years ago were doing club cellars and awnings and garage changes but nobody was rehabbing houses.

So we have in fact, 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. Some of them were people who once worked for us. I think of a guy named Clarence Gross who used to work for us in rehab services and started a company called the Springdale Construction Company that has now done a number of major rehab contracts and should be a good solid company for the future of this city. Even where we have been doing relatively small scale work, \$5,000 grants to low-income people to fix up houses, by getting out in the community and letting people know those programs existed and there’s money to be made by being a contractor, a significant number of black contractors have arisen and are working in that program. Same thing with weatherization.

The message here, I guess, is twofold. One is the availability of some dollars from somewhere—and these were public dollars—to start these programs. But I think as important, and I haven’t heard it discussed much today, that an attitude of trying to go out and let people know that the stuff exists and to try and help them and encourage them and show them that there’s a possibility of making a living out of this kind of company. In some cases there is a natural hesitancy of people who have been working for a salary and expect to see that check coming every 2 weeks or a month to go out and compete in what is not an easy world to compete in, but there’s been some real success stories in the rehabilitation field and I think that’s the most positive.

Least successful—that’s hard to say. I guess sort of—in general, where I think we need to go a lot further in the city is bringing in the private sector to share risks. I think what I see, looking back—and I’ve been at this 20 years now—have been many projects which are now looked upon as terrific projects in the city in which the city government, with city or Federal funds, was taking all of the risk, or so much of the risk that there really wasn’t any other significant risk left. I don’t think we’re going to be able to do that, given what life looks like in the future, and I think it’s absolutely critical, not just a nice thing, to structure a different kind of partnership in which the city government can play a role and provide perhaps some kind of funding but in which private sector folks are going to

have to step forward in much bigger ways and share the risk and take different kinds of risks than perhaps they've been used to taking in the past.

MR. O'ROURKE. As you look back over the 20 years as you've just done, is minority participation in these large scale development projects a natural consequence of the economic activity itself? Has it been your experience that it occurs when there's conscious, planned, deliberate efforts to insure that it occurs?

MR. BRODIE. It doesn't happen automatically. No. I mean, it's—we're talking about fields which have not been traditional fields in Baltimore for young black people to see themselves as building a career, as a developer, as a banker, as—it's a new kind of field in which there 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. I'm not embarrassed by that word. It takes some of that. I think that we who are in it every day see how far we have to go, but we also see how far we have come.

I do remember 20 years ago in Baltimore. I think, as Commissioner Saltzman asked, it was a very different city. There were blacks sitting in balconies in theaters and not being able to try on dresses in downtown department stores. It was a city in which we weren't having the kind of conversations we have been having today. So it's come a very long way and I think what we're facing in minority economic development is maybe the most difficult but certainly not impossible task. I think what has happened in Baltimore, leading up to this point, is an economic momentum in which the pie has gotten larger and it is now sharable in much better ways than a city that 20 years ago was stagnating and in which there wasn't business to be done, white or black, by anybody. So I think, you know, the total movement of Baltimore forward and the creation of business is now making possible involvement of black firms in viable operations that were simply unthinkable 20 years ago, both for legal reasons and custom reasons and economic reasons.

MR. O'ROURKE. I have no further questions, Mr. Chairman.

CHAIRMAN FLEMMING. Commissioner Ramirez?

COMMISSIONER RAMIREZ. I was just curious, in terms of the rehabilitation success story, are you talking about success in terms of the volume of participation or the number of black firms participating? Would you say there was equal success in terms of the dollar volume as in the number of firms participating?

MR. BRODIE. Yes, I would.

COMMISSIONER RAMIREZ. And have problems of capitalization, bonding—you provided the market access.

MR. BRODIE. Right.

COMMISSIONER RAMIREZ. How were the problems of capitalization and bonding overcome in that effort and—well, go ahead.

MR. BRODIE. Well, a lot of—one of my favorite quotes from Muhammad Ali was “different strokes for different folks,” so there’s been a lot of different ways to try and deal with some of the problems as they have arisen.

Let me give you a very simple one. Small contractors like to get paid once a week. They like to get paid once a week so they can make their payroll. And the city—and this is typical of most cities—the whole business of filling invoices and cutting checks and all that stuff takes a while and people get hung up in it. So we started a process—we’re also the housing authority in Baltimore and that’s a useful flexibility. So as the housing authority, we’re able to cut checks every Friday afternoon and pay small contractors who can stay afloat from week to week and can’t stay afloat over 5, 6 weeks. It’s a small thing but it’s become a very critical one. We have taken on some people without bonds. I’m not sure that I would recommend that as a general citywide policy because there’s some definite risk involved, but we have done that. And we have not had the kind of long track record demands of people. We have tried to look at the individual case by case basis.

Capitalization. We’ve made loans to minority firms, we have made loans directly, we have made loans through CEBO, which we talked about earlier today. And it’s really required all of that. I mean, it’s—there really is no single answer. Some firms have not needed that full treatment, you might call it. Some have just needed one thing; some have needed help in accounting. We try to help with that through a, you know, block grant hiring a sophisticated accountant to help people set up their books and take them through the first year and get them started in the right way. It’s just the—as somebody, I think Scott Ditch, said earlier, it’s a very different scene being the proprietor and having to meet the payroll and do your workmen’s compensation and not get in trouble. I mean, we have seen people get in trouble. It’s not hard. And what we try to do is to meet the problems up front and to try and reduce the trouble and occasionally, and I think another piece that I didn’t hear mentioned today, there’s been an occasional failure. We don’t have to go into names particularly, but I can think of some minority firms in construction who tried very hard and simply couldn’t make it. And that’s not incredible. You know, that shouldn’t deter us from doing others. The city governments and trustees and occasionally private banks have to be in business to take some calculated risks. If we’re not doing that we shouldn’t be in this business. And the fact that there is an occasional failure shouldn’t turn us off for the future.

COMMISSIONER RAMIREZ. In terms of your experience and your understanding of how the public sector can be used in better ways, are

there other areas of public operations that hold similar kinds of contracting conditions to the rehabilitation area that cities are not looking at?

MR. BRODIE. Other areas in sort of public—government jobs?

COMMISSIONER RAMIREZ. Yes.

MR. BRODIE. Public enterprise. Do you want to pitch in?

MR. WASSERMAN. You know, I think with the effort with our own contracting activities, the efforts through our rehabilitation activity, our purchasing, there's plenty more we can do, but I think we have got the mechanisms in place to take advantage and leverage every bit of municipal activity that we can generate. I think we're nearly tapped out as a public entity in sort of generating the kind of activity all of us want to produce.

COMMISSIONER RAMIREZ. You feel like—

MR. WASSERMAN. The key, I think, is to use that leverage and launch these operations so that they can stand on their own and not have such fledgling status. In many cases where a private rehabilitation activity has been produced in this city, which doesn't always involve Jay's department, my suspicion is, and I'll ask him to comment on it, that these firms have been able to benefit.

MR. BRODIE. That's right.

COMMISSIONER RAMIREZ. I was just interested in what you said about being tapped out. And let me ask you—let me explain my confusion. I understand there's a 15 percent set-aside.

MR. WASSERMAN. Right.

MR. BRODIE. No, it's not a set-aside.

COMMISSIONER RAMIREZ. It's a 15 percent numerical goal similar to what one might think of as a set-aside except that it is not a set-aside.

MR. WASSERMAN. Right.

COMMISSIONER RAMIREZ. When you say you're tapped out, are you reaching that 15 percent goal across the board?

MR. WASSERMAN. I think Shirley said we are.

MS. WILLIAMS. Yes, we are. And in Mr. Brodie's department, for the past year, we did better than that. We reached 22.4 percent.

MR. WASSERMAN. I think you've got to look at the picture that's being created. We're going to have far fewer public resources to do what we have been doing. So for there to be a dependency on our effort alone the situation is not going to improve.

COMMISSIONER RAMIREZ. I appreciate that. What I was worried about was that the 15 percent might be a maximum rather than a minimum which you would be shooting for, and your statement about being tapped out confused me.

MR. WASSERMAN. I see. I think generally we are now committed to 15 to 25 percent.

MS. WILLIAMS. Right. Fifteen is the floor. We don't accept less than 15. And I might point out that we even require that 15 percent minority

participation from minority general contractors that get the prime contract.

MR. BRODIE. I think—

CHAIRMAN FLEMMING. Commissioner Berry.

MR. BRODIE. Excuse me. It's not essential.

VICE CHAIRMAN BERRY. First of all, Ms. Williams, would you be opposed to having the figures that you use be a set-aside as opposed to a goal? And would you be opposed to raising it? And is it somehow 15 percent or 25 percent for some reason, some rational reason? Is it related to the percentage of the population which exists, what you see as the capability within the population, or is it just a number someone pulled out of their head?

MS. WILLIAMS. We based the goal on the availability of MBE's and the services to be performed and that's how we came—we looked at what kind of work the city contracts for and we determined the trades that were necessary and we came up with the 15 to 25 percent goal as an attainable goal for minority participation.

VICE CHAIRMAN BERRY. Does that goal, when it was set up, did it permit the possibility of trying to stimulate expansion of minority business enterprises and to what extent did it consider that as a possibility?

MS. WILLIAMS. What do you mean by expansion—

VICE CHAIRMAN BERRY. I'm just looking at what the capabilities were that existed. Did it project certain activities elsewhere in the government that would stimulate more minority business enterprises, which would take up even more of the business, or was it just looking at what was available then?

MS. WILLIAMS. We looked at what was available and we considered, we projected. That's why we have the flexible goal.

VICE CHAIRMAN BERRY. So that minority business enterprise is guaranteed at least 15 percent.

MS. WILLIAMS. At least 15 percent of all contracts.

VICE CHAIRMAN BERRY. Why don't you raise it to at least 25 percent or 30 percent or 40 percent?

MS. WILLIAMS. Well, that's a good question, but I don't set policy. But I think what you have to keep in mind is—once again, we canvassed the market area and we were establishing a realistic goal that we felt we could meet. We don't—if a contractor wants to go above the goal, we certainly encourage it and in some areas quite often they do.

VICE CHAIRMAN BERRY. I'm not concerned about the contractor wanting to go above the goal, I'm concerned about requiring people to go above the goal, and I'm trying to find out if there's any reason why you wouldn't start out with a target of, say, 40 percent or—I mean, I haven't understood yet why it's at 15 percent or 25 percent and why it wouldn't be

more than that. And I understand you don't set it. So I'm not asking you for that reason. But do you know of any reason why it shouldn't be higher?

MS. WILLIAMS. I don't know if we have the capability in terms of minority contractors to make a 30 or 40 percent goal on all city contracts.

VICE CHAIRMAN BERRY. So you don't know if we have the capability. And the minority contractors are those who have testified about people wanting to become contractors but don't know whether they can get the business. You've got a chicken-and-egg problem, I guess.

MS. WILLIAMS. I think so.

VICE CHAIRMAN BERRY. The other question, on this business of being tapped out or the expression that somebody used—

MR. WASSERMAN. Actually, now I very much regret having used that term.

VICE CHAIRMAN BERRY. The description that I've heard from you, Mr. Wasserman, and you, Commissioner Brodie, would seem to indicate that city government as a producer, that is, as an agency that has funds to spend on projects, is doing a good job—if I am to believe everything I've heard, and I have no reason not to believe it—of trying to utilize minority contractors. You cited various projects working, but that the city as representative of the people, either as elected officials or appointed officials appointed by those who are elected, is not doing a good job based on everything else I've heard in trying to get the private sector to do something about expanding minority business enterprise. What is the city doing in its role as city representing the people, government, to try to get some leverage either in the area of regulation or in the area of what do you have with your contracts to the private sector to stimulate more private business activity in the bonding area, the capitalization area, all the areas we have been listening to discussions about today, to see to it that minority business enterprise gets a fairer shake and is supported in its efforts to expand?

MR. BRODIE. Well, I think there's a number of things. As I said before, there's lots more to do. I think you've heard from Mr. Obrecht earlier about some GBC initiatives which are commendable ones and I think there's a lot more to do. Yes, there is a role for the public, the elected representatives, and folks like ourselves in talking to the private sector and encouraging them to do certain things.

There's also a role to be played in the private sector speaking to themselves and speaking to their consciences and speaking very pragmatically about what needs to be done to bring black Baltimoreans into the mainstream of the economic life of this city for the future as a healthy thing for all of us. And I guess what I'm suggesting, to be more specific about it, that to solve the bonding problem, which is a continual, nagging problem, it is there to be solved by the private sector, it can be solved, to open up markets beyond public sector markets which we demand to increase the

demand side, there's a lot more, there's a lot more private demand out there—private markets than city government is ever going to be able to create by itself.

VICE CHAIRMAN BERRY. But government does have a role to play—

MR. BRODIE. Absolutely.

VICE CHAIRMAN BERRY. —as an agency of government which can make rules, regulations, which has enforcement power, which can determine how it will utilize procurement, not just to minority businesses—

MR. BRODIE. Sure.

VICE CHAIRMAN BERRY. —but to majority businesses, whether it will withhold contracts from them if they do not leverage in the area of capitalization or bonding and the like. I have not heard anything about the city government doing anything in those areas, although I am satisfied with what I've heard about what the city is doing in terms of using Federal resources and the money it generates in its programs. I'm satisfied except that I don't understand why it is 15 percent or 25 percent as opposed to 40. But I still haven't heard what the city, as government, recognizes as its responsibility, and I'm only asking you because you happen to be sitting here now.

MR. BRODIE. Sure. That's very fair. Well, I am more on the side philosophically, of trying to create some positive role models, which is what we worked very hard to do with the Rouse Company at Harborplace, not only on the construction side, but on the permanent job side, on the marketing side, and within the Rouse Company itself.

You know who symbolically represents the Rouse Company at Harborplace? The manager is Tony Hawkins, who is black and does an excellent job, and I think that's an important symbol to this whole community of that kind of possibility. The same thing with Hyatt, which I think has come a long way in hiring and creating jobs and in training people from scratch.

And my preference is to be able to now say to the private sector—on the carrot and stick thing, I guess I'm more on the side of the carrot—is to say here are two excellent examples, I think, and there are others but those happen to be big and recent in two major companies. Now we want you, David Murdock, the representative who was here before, to do as well as Jim Rouse and A.N. Pritzger did on those two cases in Harborplace and Hyatt, and I think that kind of useful role model is the best way for us to try and promote. I think if that fails, then we're going to have to go harder to regulations and statutes.

MR. WASSERMAN. I take a different view on that and I'd like to share it because I think it's important that you go away understanding all of the pressures that build on a city when it does economic development. The atmosphere for investment here is a very difficult one. We are just

retaining the basic industry that we have here. It is an enormously difficult challenge for us.

To the extent that you advocate imposing regulation—and I'm really not quite sure I understand just exactly what you're driving at, except for a larger municipal role in this—I think you're asking us to overstep a very delicate balance which may have a very serious effect on a very sensitively situated economy.

I think the appropriate role for government is to use every bit of resource it has to stimulate this kind of activity and to be a catalyst so that the private sector has positive experiences when it gets involved with us, and that they understand that we are the proponents of minority economic development and that eventually we make marriages and they go off and they continue to do business together. That seems to me is—

VICE CHAIRMAN BERRY. Well, Mr. Wasserman, not to belabor the point, but since you took my comment about regulation to mean—I draw the inference that you thought I meant more red tape or something, which isn't what I meant at all. I meant that government does have the power to enact laws, regulations, issue orders, decide how to spend its own money and how other people can spend theirs, and, related to it, whether it's tax credits, incentives, there are a whole range of options and whatever the government chooses to do. I'm not trying to say what it should do, I'm just saying I haven't heard anything about it except anything that the government does with its own resources, which I understand from what you're saying are going to be limited from now on so there is a big problem in that area. And I was just wondering whether anybody had done any thinking about what to do? Because it's hardly satisfactory to tell a minority community which complains that it does not have access to business development that, well, if we do too many things, we'll rock the boat and therefore we ought to go slowly or whatever, if you're supposed to be representing that community. That was all. I have nothing further, Mr. Chairman.

CHAIRMAN FLEMMING. Commissioner Saltzman.

COMMISSIONER SALTZMAN. I'm glad, Mr. Brodie, that there's one person in Baltimore who has a memory.

MR. BRODIE. I'm sure more than one.

COMMISSIONER SALTZMAN. I only—I don't know how old you are, but you don't look as old as the grayhaired men.

MR. BRODIE. Forty-five to be exact.

COMMISSIONER SALTZMAN. I think they look a little older. Maybe you can help them retain your youthful appearance.

MR. BRODIE. We'll—

COMMISSIONER SALTZMAN. But I can remember that period, and I lived in Hagerstown, when public restaurants and public facilities were not available to blacks and other realities in this State, in this area, and it really

is a telltale sign or a vindication of the movement of this State and the city forward in 20 years from where it was. I think it's an enormously significant record and gives us hope for another decade looking ahead to vindicate the optimism of those panelists, made up of black businessmen, who say we have hope for progress.

I think that progress made in the past, though the progress yet to be made may be more, much more difficult, I think people of good will and people who have memories can mount an effort, and I think now the great challenge is to the private sector. I'm not exactly sure that the private sector is yet convinced, and I say that as a result of the testimony of the panel which didn't have any memory. Why should the private sector take the risks about which you spoke? I mean, forget the moral responsibility; why should they take those risks?

MR. BRODIE. Well, I guess I could divide that into what I would call upside and downside. I guess on the upside there's a profit to be made in this city, and it may be stretching our minds a little more than the way we have conventionally done business.

But I think the model of the NHS, the Neighborhood Housing Service, that, I think, Bob Irving touched on, is a useful model in the residential field, and I think with some modifications maybe there are some ways to translate that into the commercial field. That was not an easy beginning, and to take the—just to touch on what happened there that I think was useful, it is a public-private partnership, it was one in which city government did a fair amount of what I would call jawboning to private lenders to come in and get involved a little. We cushioned the shock by creating a high-risk loan fund with some city money to kind of take the default scare away, and we found, as the Marines like to say, a few good men at the beginning. There were few of them, a few lending institutions to take some of that risk up front.

There are now 10, 15 institutions involved in NHS. But it took the example of a couple of their brethren after a couple of years to say, well, look, we've been in here, we've made some loans that you guys might think are risky in the conventional sense. The default rate is good. The city government is in here with us to help cushion the shock. It's working and they are bankable loans. They are standard underwriting; they're making a profit. They're getting their origination fees and life is going on, but it took a few leaders to do that. I think it always takes a few leaders.

I think it takes a few people to step into the business development side of the Baltimore economy in the same way that some brave souls stepped into neighborhood housing services. Because it's good for the future of this city, because there is a profit to be made, maybe less of a profit, that shouldn't be a shocking idea. But less of a profit in the short term for a more stable, healthy, viable city in the long term. I would say that's a very good tradeoff to make.

The downside, you know, was touched on by other people about feelings of devisiveness and unrest and those kinds of troubles for the future. I would hope that by working hard at it—and I agree with you in the long way the city has come—that the downside things are avoidable, if we work hard at it with enough imagination and creativity and a little help from our friends in the Federal Government, I don't think this city or any other city can do it within its own limited financial resources.

COMMISSIONER SALTZMAN. Let me ask you, in a few other areas, whether you think the city has any role. We were told—we received testimony today—I don't know whether you were here—that there are different criteria used for blacks when they applied for loans vis-a-vis when a white business person applies for loans, that the collateral—for example, not only must there be collateral but a personal guarantee by the chief corporate officer, which they say is not true when a white person or a white business comes around.

MR. BRODIE. I didn't hear that. I mean, I heard you; I didn't hear it before. Loans from the city or loans—

COMMISSIONER SALTZMAN. No, from banking institutions. There was testimony that there is that kind of discriminatory treatment.

MR. BRODIE. I don't know it from my own experience. I mean, we have typically asked for personal guarantees on city loans. That's why I asked, because we have to do that for everybody. But I have not heard that raised as a problem. The bonding, the other kinds of problems, I am very familiar with.

COMMISSIONER SALTZMAN. Let me ask you also about one person who suggested that there have to be some structures in the community, whether the city has a role in promoting those structures like a minority bank, an investment minority corporation, a minority urban affairs corporation, that those kind of structures would be helpful in promoting black entrepreneurship.

MR. BRODIE. Well, some would. I mean, I think—I've been involved with one or two efforts to start a MESBIC [Minority Enterprise Small Business Investment Company] in Baltimore which have not yet borne fruit yet. We haven't given up on minority, you know, whatever it means, I've forgotten at this minute, but a vehicle to stimulate loans to minority firms. I'm not sure, and you might ask other witnesses tomorrow, why that has not yet come to fruition in Baltimore. I know some in other cities that have been very effective mechanisms. I would still hope we do that.

There are some institutions that could use more sensitivity to the whole issue of making loans. I mean, again to go back to the residential side, because I think we have made some further strides there.

We did a study, our agency, in connection with Hopkins about 10, 12 years ago, on residential lending, which did seem to show a pattern of not lending in the inner city, not lending on houses that were older than some

mystical age, not lending on houses that were not so many feet wide. I know that sounds crazy to you now, but that seemed to be on people's minds in the lending community making loans in residential areas. And I think over a period of years we were successful in convincing not only ourselves, but private institutions, that that was foolishness, that you could make loans on 16-foot wide houses, you could make loans on 80-year-old houses, you could make loans in inner-city areas, you know, if you saw enough evidence of things improving and values increasing. And you could even be more creative in appraising values of property which are done very differently in the city now than they were—

COMMISSIONER SALTZMAN. I'm speaking about structures that the city can help finance business like minority banking, like other—a minority bank to the community which I understand from testimony is being explored presently. Can the city participate in that kind of effort?

MR. BRODIE. That's why I used the NHS as an example. That didn't exist; somebody thought about it; we didn't originate the idea, I think we have improved and perfected the idea in Baltimore and I would look for that kind of shared public-private relationship to try and deal with small business development in the future. But I do think, if I don't reemphasize it too many times that it requires major private sector initiative to make it happen.

COMMISSIONER SALTZMAN. Would it be feasible for the city to bring together the banking institutions to see whether they would participate in the helping to fund a minority bank?

MR. BRODIE. If that hasn't already been—

MR. WASSERMAN. I think the mayor has done that from time to time.

COMMISSIONER SALTZMAN. Let me ask one final question. I understand that there is some kind of industrial development group that the city has organized, and one witness gave us testimony that there are no blacks on the—

MR. WASSERMAN. If I'm not mistaken, I believe Otis Warren is sitting on—a black city realtor, is a member of that authority, and there are just a few members on it. There is minority representation. I would want to check that, and I would be happy to communicate to you through Steve, but I believe that to be the case.

COMMISSIONER SALTZMAN. Well, we did receive testimony that that is an example of where blacks are being excluded in an important area of development in the city, and I was wondering whether that indeed is the case.

MR. WASSERMAN. I don't believe it to be the case.

CHAIRMAN FLEMMING. I don't know whether you were here when I talked with Mr. Ditch about a comment that he made to the effect that when they wanted to get minority businesses into the development for which they had responsibility, they found it very difficult to find minority

businesses that could move into that particular area. And I asked him what roadblocks he felt stood in the way of improving that picture in view of the fact that the members of the black community constitute such a large percentage of the population.

It seems to me that there ought to be a positive program underway designed to increase the number of minority businesses. He talked about two roadblocks that stand in the way. One is financial and the other is the lack of an indepth, effective program for introducing minorities to the operation of retail businesses. I gather from what he said that there isn't any program underway, significant program underway, designed to deal with that second roadblock.

MR. BRODIE. The education—

CHAIRMAN FLEMMING. Well—I just want to say I'd like to link that up with Commissioner Berry's concern about the 15 percent goal or the 15 to 25 percent goal. You indicated that the goal was fixed on the basis of it being an attainable goal in the light of the situation that exists at the present time. Here again, if that is frozen in a sense and that becomes recognized as the only attainable goal for minority businesses here in Baltimore, it seems to me that that would be a pretty discouraging picture as far as many members of the black community are concerned. I just would like to ask if you know of any effort that's creative, that's imaginative that would really try to get at this problem of opening up opportunities for large numbers of persons to have training experiences in the retail area as one way of increasing the number of minority businesses. Is there anything underway along that line?

MR. BRODIE. There's nothing that has been of that sort of what I would call a training institute to do it. It's an idea that we have—

CHAIRMAN FLEMMING. The way—

MR. BRODIE. Excuse me.

CHAIRMAN FLEMMING. You noticed when I first stated it, I didn't use the word training. I moved around that. I said giving them the opportunity to have experiences—

MR. BRODIE. I under—

CHAIRMAN FLEMMING. —which would make it possible for them to become involved in a successful way in this, because the minute we use the word training we do begin to think about certain formal programs and so on and so forth.

MR. BRODIE. All right, I won't use the word training.

CHAIRMAN FLEMMING. And some of that's needed.

MR. BRODIE. Right.

CHAIRMAN FLEMMING. But more than that is needed.

MR. BRODIE. Sure.

CHAIRMAN FLEMMING. And it just seems to me that there's an opportunity here for a creative, imaginative program of a considerable

order of magnitude, not just experimental, trying it here and there and so on. And as I listened to Mr. Ditch I just had the feeling that there wasn't anything like that underway and I had the feeling that it isn't really on the drawing boards either at the present time.

MR. BRODIE. Well, it's an idea well worth pursuing. Let me try and be more specific about it. One is creating jobs in the retail. Let's just deal with retail for a second, in that sector where people can learn the rudiments of what it takes. And a good example of that is—we opened a supermarket in Upton, Pennsylvania Avenue, 2 weeks ago. The gentleman who is managing that supermarket started as a clerk in a produce section in some other supermarket about 10 years ago. I'm talking about a minority person, and I'm sure his first job was not particularly glamorous or well-paying or whatever, but by A, through some application of his own, and by B, us helping to create the opportunity for there to be an Upton supermarket, finding this gentleman, letting him know that we would like him to take this next step into a much higher and tougher piece of responsibility, and offering a little learning to help do that through a program that we were involved in, he is now the manager of a supermarket and is delighted to be so and I think is going to be successful doing so.

The kind of opportunity I see, and we realized it with the Rouse Company, is if we can combine, and it's got to be, there has to be the combination of, first, the job opportunity that's viable, not some city job that was made up to hire somebody for 2 years and is dependent on a government grant that disappears, but a job that's viable in the private sector. And I think this is one of the magics of Harborplace.

And then I would recommend to myself and to you a model that's not a terribly original one, but asking existing private going businesses in Baltimore, whether they are minority or majority, to adopt another business and provide that kind of learning experience over a short time and then some number of people will then go off and do their own thing, and some won't. But I think that sort of—we have got businesses in Baltimore adopting schools and helping improve some learning of that sort, but we haven't tried to do it in the way of direct entry into the retailing field, and I think we should. I think it's a good idea.

CHAIRMAN FLEMMING. I think that is an idea that's worth exploring, but, you see, you gave me a case history which is a very relevant one and a good illustration of what can be done. But that is a single—

MR. BRODIE. Sure.

CHAIRMAN FLEMMING. —case history and I still have the feeling that if the Rouse Company or some other company 5 years from now or 10 years from now sets out to do just what the Rouse Company set out to do some months ago, namely find some minority businesses that could become a part of a development, that they would encounter the same difficulty that

was encountered this time. Now, I don't sense any overall citywide program that is designed to get at that particular situation.

MR. WASSERMAN. I wonder if I could just comment, and I don't pretend to have the answer to the scenario you're laying out.

I do want to make it clear that as far as our sort of overall definition of economic development, it does expand into the—our view does expand into the areas of the school system, the junior college system, the alternative training area. And we have got some elements that I think are about to fall into place which are not going to answer your problem entirely but do represent an initiative and a recognition that young people coming up through our educational system, either conventionally or not so conventionally—and we try to develop tools in either direction—have got to be moved toward where the jobs will be in the future.

We're in a very uncertain economy right now. As Mr. Berkowitz sat here and told you, this is a city that is seeing its basic manufacturing tail off; retailing is an area that we ought to be preparing people for. High technology, wherever that goes, if we can capture a share of it here, and we ought to be anticipating where these things are going to be and trying to educate and train and move our young people toward careers in these areas.

And, Commissioner Berry, I do think that this is an area where we haven't ever been successful, I think, in hitting upon the right set of incentives where corporation *X* says: Yes, I'm going to bring that young fellow in here and I'm going to show him everything and it's worth my while to do that. Somewhere in this—a coordination of the training system, the education system, and building in the proper incentives in the private sector to provide that training and a means of scaling that ladder is really somewhere in there, I think, is where the answer may lie.

CHAIRMAN FLEMMING. Commissioner Saltzman.

COMMISSIONER SALTZMAN. I wonder whether either Mr. Wasserman or Mr. Brodie could, for the record, submit information on the makeup of the industrial development authority.

MR. WASSERMAN. Oh, sure.

MR. BRODIE. Surely.

VICE CHAIRMAN BERRY. I had just one quick question.

CHAIRMAN FLEMMING. When the information is submitted, it will be entered in the record.

VICE CHAIRMAN BERRY. Quick question. Ms. Williams, could you tell me what percentage of that 15 percent or 20 percent, whatever it is, the number that you are using as a goal now, how many of those minorities are blacks or how do they break down in terms of—

MS. WILLIAMS. Roughly 99 percent of the minorities used by city contractors are black.

VICE CHAIRMAN BERRY. Okay. What are the other 1 percent?

MR. BRODIE. American Indian.

MS. WILLIAMS. Well, American Indian and Hispanic.

COMMISSIONER RAMIREZ. I just want to clarify one thing very quickly. When you say used by the city contractors, you're talking about being used as employees?

MS. WILLIAMS. As subcontractors.

COMMISSIONER RAMIREZ. As subcontractors. Okay.

MR. BRODIE. There's one very successful American Indian rehabilitation contractor, Mr. Shivez, and I know he's in there.

MS. WILLIAMS. Sure.

CHAIRMAN FLEMMING. We appreciate very, very much your testimony. It's been very helpful. Thank you very much. The hearing is in recess until tomorrow morning at 8:30.

UNITED STATES COMMISSION ON CIVIL RIGHTS

Wednesday, November 18, 1981

The U.S. Commission on Civil Rights convened, pursuant to notice, at 8:40 a.m., in the Constellation Room, World Trade Center, 401 E. Pratt Street, Baltimore, Maryland, Arthur S. Flemming, Chairman, presiding.

PRESENT: Arthur S. Flemming, Chairman; Mary F. Berry, Vice Chairman; Blandina Cardenas Ramirez, Commissioner; Murray Saltzman, Commissioner; John Hope III, Acting Staff Director; Paul Alexander, Acting General Counsel; Michael McGoings, Assistant General Counsel; Robert Owens, Staff Attorney; Stephen O'Rourke, Staff Attorney; Susan McDuffie, Staff Attorney; Karen Primack, Staff Attorney; James Karantonis, Staff; and B. Gregory Ford, Staff.

PROCEEDINGS

CHAIRMAN FLEMMING. I will ask the hearing to come to order. Counsel will call our next witnesses.

MR. MCGOINGS. Harold Young, Claire Freeman, Arthur Teele. Will you please stand and take the oath?

[Harold Young, Claire Freeman, and Arthur Teele were sworn.]

TESTIMONY OF CLAIRE FREEMAN, DEPUTY ASSISTANT SECRETARY, COMMUNITY PLANNING AND DEVELOPMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; HAROLD YOUNG, DIRECTOR, COMMUNITY PLANNING AND DEVELOPMENT DIVISION, BALTIMORE AREA, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; AND ARTHUR E. TEELE, ADMINISTRATOR, URBAN MASS TRANSPORTATION ADMINISTRATION, U.S. DEPARTMENT OF TRANSPORTATION

CHAIRMAN FLEMMING. Thank you. We appreciate it. We are delighted to have all of you with us.

Counsel may proceed.

MR. MCGOINGS. For the record, will each of you please state your name, address, and occupation?

MS. FREEMAN. Claire Freeman, Deputy Assistant Secretary for Community Planning and Development at HUD. Do you want my business address or my personal address?

MR. MCGOINGS. Whichever.

MS. FREEMAN. 451 7th Street, S.W., Washington, D.C.

MR. YOUNG. Harold Douglas Young. With the local office of HUD. I'm Director of the Community Planning and Development Division. My address at home is 6211 Benhurst Road, Baltimore, Maryland.

MR. TEELE. Arthur E. Teele, Jr., Administrator of Urban Mass Transportation Administration, [United States Department of Transportation], 400 7th Street, S.W., Washington, D.C.

MR. MCGOINGS. Thank you.

MS. FREEMAN, which of HUD's programs are most widely used in large-scale urban development?

MS. FREEMAN. Large-scale urban development would be, of course, the community development block grant program, the urban development action grant [UDAG] program and the rehab program.

MR. MCGOINGS. Mr. Young, what has been—

VICE CHAIRMAN BERRY. Excuse me, counsel, I didn't catch that last part of her last answer.

MS. FREEMAN. The rehab program, section 312.

VICE CHAIRMAN BERRY. Okay. Thank you.

MR. MCGOINGS. Mr. Young, what has been the extent of Baltimore's participation in these HUD programs from 1975 to the present?

MR. YOUNG. Approximately \$296 million has come to the city of Baltimore, which includes the community development block grant program, the urban development action grants, as well as special grants, such as the innovative, the areawide housing opportunity grants, and special financial settlement grants for, again, a total of \$296 million.

MR. MCGOINGS. Do you know the amount that was spent in Harborplace?

MR. YOUNG. Approximately \$102 million have been spent in Harborplace, which would include two urban renewal projects, Urban Inner Harbor 1 and Inner Harbor West, and that would include urban renewal funds, community development block grant funds, as well as urban development action grant funds.

MR. MCGOINGS. Do you know what the financial commitment of the private sector investors was at the initial development of Harborplace?

MR. YOUNG. Initially 100 percent public funds went into the development of Harborplace, the Inner Harbor projects. We're involved in projects such as the World Trade Center, the Science Center, the Convention Center. Most of this had to take place prior to the private sector getting involved, and then we saw grant participation in areas of the Audubon homesteading area, participation through the urban development action grant for the Hyatt Regency Hotel and other private developments that are now underway.

MR. MCGOINGS. Thank you. Ms. Freeman, the present administration is emphasizing the role of the private sector in economic development. What policies and plans is HUD pursuing to obtain greater private involvement?

MS. FREEMAN. We don't have any new programs to date. Right now our major economic emphasis is still the UDAG program, and that is our major outreach to all private sectors in terms of their participation in the development.

MR. MCGOINGS. Do you know whether the administration will be promoting a private initiative program?

MS. FREEMAN. Not anything specific as of yet. We have several ideas that are being developed, but we don't have anything that is in a stage such that we can say it is ready to go in terms of a full-blown program.

MR. MCGOINGS. Thank you. Ms. Freeman, each of HUD's grant programs places limitations and restrictions on the use of funds. How does HUD monitor compliance with program objectives to ensure minority participation?

MS. FREEMAN. Well, the HCD [Housing and Community Development] legislation requires that there first of all be—that that all funds expended be principally for low- and moderate-income people, and HUD does do indepth monitoring regarding that particular requirement. In addition to that we do indepth monitoring for 20 percent of the block grant cities on a sample basis, in terms of high risk programs, like, for example, rehab. We also do basic monitoring and a yearly audit on all certifications, such as equal opportunity, fair housing, environment, etc.

MR. MCGOINGS. What will HUD's monitoring role be if the administration achieves its goal of greater private involvement?

MS. FREEMAN. HUD's role will remain the same in terms of the UDAG projects; that is, we will continue to require a quarterly review report from each project.

MR. MCGOINGS. Thank you.

Mr. Young, what has been the city of Baltimore's performance record in ensuring minority participation in their grant programs?

MR. YOUNG. I believe, in the community development block grant program, the city has awarded 12 percent of its total grants to minorities, and under the urban development action grant 11 percent of the dollars have gone to minority businesses.

That pretty much covers the MBE participation.

MR. MCGOINGS. Do you have any specific figures for Harborplace?

MR. YOUNG. Yes, I do. If you will bear with me for one second so I can hunt them down. Okay, in terms of jobs, the Harborplace, which is sort of a combination of the Hyatt Hotel, the Equitable Bank Center, and Harborplace itself—there have been a total of 2,673 jobs created, of which 39.2 percent were minorities. There were \$52.4 million total contracts, of which \$5 million, or 9.6 percent were minorities.

MR. MCGOINGS. Thank you.

Ms. Freeman, what direct role can HUD play in addressing the high unemployment of minority urban residents?

MS. FREEMAN. That's best answered in terms of looking at the success of the UDAG program. For example, UDAG has created approximately 250,000 jobs, and one of the major criteria for a city getting a UDAG grant is that it have a high employment ratio.

As of this year, I believe that 44,000 of that 250,000 jobs have gone to minorities. That would be approximately 14 percent.

MR. MCGOINGS. Are they national figures?

MS. FREEMAN. Those are national figures, yes.

MR. MCGOINGS. Thank you.

Mr. Young, over the past 5 years, how has the city of Baltimore used HUD grants to address the unemployment problem?

MR. YOUNG. Primarily through the urban development action grant. Prior to that, the city did not have much of its money going into economic development type of activities.

Again, since the urban development action grants, we have a total of a little over 3,500 jobs that have been created through the urban development action grants, 74 percent of which are in the Harborplace complex, and that's the extent to which I could recall.

We have had a specific impact on the unemployment in the city of Baltimore.

MR. MCGOINGS. Thank you. Mr. Young, recently, HUD has awarded the city \$1 million to develop antidisplacement strategies. Would you explain what precipitated that action?

MR. YOUNG. The innovative grant is a demonstration grant that was awarded to several cities across the country. Baltimore City was one of the winners, and the idea then was to try to address what the administration

thought was some of the critical areas of cities, and that particular year it happened to have been displacement.

Baltimore City—and we agreed—was experiencing a displacement problem. The problem is primarily caused by private and indirect displacement through speculation, oftentimes growing areas of home ownership, areas where you have urban homesteading, revitalizing areas, areas where you have public improvement, where HUD puts dollars in. UDAG action grant funds tend to beef up the market and create pressure on renters who are low and moderate income and elderly persons who are on a fixed income.

So the city had embarked on an innovative grant to target their funds into four areas. In those four areas they were trying to develop a different type of intervention strategy, to acquire vacant properties and convert them to rental properties, to stabilize the rental market, to buy homes and form cooperatives, to have deferred mortgage purchase programs, giving renters an opportunity to live in properties until they are able to purchase such properties, and then they could move on to home ownership.

These are the primary efforts the city has undertaken to deal with the problem of displacement. I might add that I don't think that it is as acute in Baltimore City as it may have been publicized in some of the other areas of the country.

Baltimore does have some unique programs that it is currently using to attenuate much of the displacement that is going on. I do not mean to minimize the problem, because it is a very real problem, and it does affect persons in those revitalizing areas, and usually those are areas near college and university campuses, areas near public institutions, hospitals, and in other similar kinds of institutions.

MR. MCGOINGS. Thank you.

Mr. Teele, please describe for us the major function of the Department of Transportation's Urban Mass Transportation Administration?

MR. TEELE. Thank you. I would like to perhaps give an overview to the Chairman and the Commission, but first I would like to indicate that we are very grateful for the opportunity to testify here before you this morning on behalf of the Urban Mass Transportation Administration and as a representative of the Department of Transportation.

My appearance is in response to your question at the request of the Deputy Secretary of Transportation. I am submitting an extensive report for the record that is responsive to your request for information. I urge you to review it carefully. Should you require further clarification please feel free to contact me directly.

I realize that our time this morning is limited and you are anxious to proceed with all of the questions. Nevertheless, I hope you will permit me to make a brief introductory statement to give you an overview from my

perspective of how we view the issues, which is in response to the original question.

We recognize that all of the insidious effects of discrimination and racism are a threat to the fragile bonds that hold our society and nation together. Racism and discrimination have a myriad of social, economic, cultural, and political dimensions and implications. Unfortunately, government, a primary engine of change in our society, often acts, usually inadvertently, to perpetuate, rather than ameliorate the impacts of discrimination and racism.

But, if we in government recognize that government can and must serve as a catalyst, providing the leadership necessary to address and, ultimately, to resolve problems, then we must begin to develop and implement specific policies and program initiatives designed to offer the victims of racism and discrimination equality of opportunity, a chance if you please to complete and thereby dispel the misconceptions and misapprehensions that we believe are at the root of many of these problems.

Now, the Reagan administration, this administration, is firmly committed to the scrupulous enforcement of all statutes and executive orders pertaining to nondiscrimination. The effective development and implementation and enforcement of nondiscriminatory policies is the foundation of the Department of Transportation's effort in this regard.

The responsibility of the Department of Transportation—highways, airports, mass transit, and waterways—are all essential responsibilities for construction, maintenance, and improving our Nation's transportation infrastructure.

I need not dwell on the vital economic, military, and cultural importance of the Department of Transportation's infrastructure. We believe it is self-evident.

What we must recognize in this context and, we believe, in the context of this hearing, is that the construction, development, and operation of the transportation infrastructure generates employment, creates opportunity for the acquisition of new job skills, and stimulates entrepreneurial activity, all of which can be of benefit to the minority community if properly targeted.

The Department of Transportation, and my agency, the Urban Mass Transportation, in particular, have undertaken programs which we believe are designed to ensure that businesses owned and controlled by socially and economically disadvantaged persons have every possible opportunity to participate in and benefit from the Department's direct contracting activities.

A primary focus of these efforts has been the Department's Minority Business Enterprise, or the M-B-E, regulation. This regulation prescribes specific procedures that must be followed by each and every grant recipient of the Department of Transportation Federal funds. The purpose

of the regulation is to promote participation by minority-owned businesses in the Department's program. Although we believe the MBE regulation has been effective, we also note that there is room for improvement.

Many of these, for example, face extraordinary difficulties in obtaining surety bonds and guarantees, the subject this Commission heard from on yesterday afternoon. In an effort to address this problem, the Federal Highway Administration, for example, is working together with the \$1.5 billion Los Angeles Century Freeway Project to make such bonding available.

MBE s will be able to participate in the project through a program in which the Federal Government subsidized the purchase of stock in a bonding company, with the bonding of qualified MBE s as the condition of purchase, or the condition precedent.

Another example is the Minority Business Resource Center, initially designed and mandated by Congress, I might add, to serve only the Federal Railroad Administration; now, however, this administration has mandated its departmentwide resources under our Office of Small and Disadvantaged Business Utilization Center in a more expanded role.

We at the Department believe in the minority business resource concept. We have and we will continue to work to strengthen this program. Permit me to share with you exactly what we have in mind for the future of this program which has been accepted, implemented, and strengthened by this administration. The Office of Small Disadvantaged Business Utilization Center, which is, as I indicated, really a function of the Secretary, will fund development and continued activities of program management centers to be located in a number of major cities throughout the United States. The staff of these program centers will work at regional and local level to facilitate MBE participation in the financial assistance and the direct contracting programs of all of the DOT [Department of Transportation] activities. They will establish and maintain working relationships with minority firms and DOT grant recipients in the areas in which they are located.

Our goal, Mr. Chairman, is to have 16 small disadvantaged business management centers in place by mid-1982. It is my information that that is up from the five that we currently have. We believe in this concept, as I previously said, and we will keep you and this Commission informed on the progress that we will make and the obstacles we encounter during the implementation of the program.

Our experience will be instructive and we encourage you to scrupulously examine it and carefully determine whether its utility transcends the Department of Transportation.

Another example of our commitment of the struggle to mitigate discrimination and to promote equal opportunity is our utilization of the section 20 program of the Human Resources Program of my own agency,

the Urban Mass Transportation Administration. The purpose of this program is to provide outreach programs to increase minority and female participation in public transportation activities and to offer training assistance for minority businesses.

In this regard, we have two significant ongoing programs and, at this point, I think we should note them. We are funding a venture capital program in conjunction with the construction of a major railroad project in the city of Philadelphia. We are providing upfront dollars to facilitate MBE participation in the construction project. This assistance will give MBE's the chance to compete on an equal basis with other contractors. In Pittsburgh we are providing funds to establish a training facility for maintenance supervisors who will be employed by a new service that is being constructed by Port Authority of Allegheny County.

I would like to underscore the importance on the concept underlying our section 20 funds in projects because we believe this approach may be particularly effective. These programs are effective because they address minority economic development from a quantitative perspective—qualitative perspective. The interjection of dollars alone is quantitative. On the other hand, the injection of dollars for skill development that enhances competitive capacity delivers long-term benefits to those who are affected.

Let me mention just one other initiative wherein action by UMTA is responding to the needs of minorities. We are providing direct assistance to the minority business community in the riot-torn Liberty City area in Miami. Through a special waiver of Federal procurement regulations, Metro-Date has directed a significant portion of an UMTA act for the construction by minority contractors for a new bus maintenance facility in Liberty City. This special injection of \$10 million of Federal funds will help minority contractors and will create desperately needed jobs in the local area.

In a July 1975 report, this Commission concluded: "Employment discrimination is a matter of paramount concern in this country. It impedes the equitable delivery of services by public and private institutions, and it prevents minorities and women from competing economically in our society. Of fundamental importance is the damage it causes to the self-respect of those adversely affected. To overcome this ingrained problem requires a bold, new approach."

I agree with this Commission's conclusions and submit that this administration, and Secretary Lewis of the Department of Transportation in particular, are ready and willing to try some bold, new concepts and approaches. To this end we are committed to making every effort to see to it that the Department of Transportation's programs are administered in a nondiscriminatory manner.

I hope that this has provided some oversight in the decentralized method that the various seven modes within the Department of Transportation function.

MR. MCGOINGS. Thank you, Mr. Teele. Mr. Teele, in April of this year, the Department of Transportation made a number of changes in its minority business participation program. Could you please explain those changes and the justification for them?

MR. TEELE. Well, the MBE regulations that you have cited, which were issued only on March 31, 1980, were modified on April 27 of this year. The regulations prescribe specific affirmative action steps to be taken by the grantees at the dollar threshold level.

Specifically, it required the establishment of goals based on economic analysis, the designation of the MBE liaison officer, and the undertaking of the grantees of steps to encourage MBE participation, such as the provision of technical assistance, breaking down large amounts into smaller amounts, and so on.

DOT provides—DOT changes, which are under review and have not been promulgated as final rules, were determined and are under review to determine whether or not they were unacceptably costly, burdensome, or obtrusive to local governments.

The current administration is focusing upon nondiscrimination, and MBE's should be afforded an equal opportunity to participate in DOT funding.

I think the question gets to the heart of the presumption, the conclusive presumption that the previous rules had, which was the effect of the change, the heart of the change. The requirements now ask the grantees to use the best effort in their MBE utilization.

Originally, this standard was not—there was a more conclusive presumption which suggested that, if one bidder could in fact have adequate, or what was deemed to be statistically adequate participation, then all of the bidders without regard to whether or not that bidder was a successful bidder or not, is the heart of the change.

MR. MCGOINGS. How will minority businesses benefit from these changes?

MR. TEELE. The question assumes that the benefits can be quantitatively measured, which we are just not certain that that is the case. The thrust and the direction of the Department has not changed. It is a procedure by which we have determined whether or not a presumption should attach when a bid is submitted versus whether or not the presumption should attach when the bid is opened—is the heart of the change. To the extent that minority participation is required under both standards, we are not certain there will be any degradation or any significant change from the procedures that can be qualified—quantified.

MR. MCGOINGS. Does DOT require that recipients use a specific procedure to certify minority firms for participation in the MBE program?

CHAIRMAN FLEMMING. Pardon me. Just before you proceed to that question, I would just like to make sure we are clear on one point.

These are proposed changes that have not yet been promulgated. Am I correct in my understanding?

MR. TEELE. They are interim changes that are in effect now, but they are not final. Yes, Mr. Chairman.

CHAIRMAN FLEMMING. Okay. Thank you.

MR. MCGOINGS. Does DOT require that recipients use a specific procedure to certify minority firms for participation in the MBE program?

MR. TEELE. Again, on March 31, 1980, a DOT MBE regulation was promulgated which had specified criteria. They include the percentage of minority stock ownership, the explanation of the partnership and joint venture arrangement, licenses, charters, and other data, and generally the parameters of the MBE definition of control must be stated.

It is actually a joint procedure whereby a particular business can be certified by the Department; however, we have consistently given away to local and State determinations in this area.

MR. MCGOINGS. Could you comment on any standards that would be acceptable to DOT?

MR. TEELE. Well, the standards, without second-guessing the State or local government, stand on their own and they are contained in 49 C.F.R., Part 2, which, again, was issued on March 31, 1980. But unless a standard by local government, or an agency outside of the Department of Transportation, has been challenged or questioned, then it would appear that the issue would not be raised, but, if the issue is raised, we reserve the right and we frequently, in conjunction both with the Office of the Small and Disadvantaged Business Agency, the Office of the Director of Civil Rights within the Department—and, of course, the various agencies have parallel offices within their own agencies, such as Urban Mass Transportation, Federal Railroad, or Highway—reserve the right to independently investigate. And we do investigate any properly filed motion that an agency is not an MBE—properly certified MBE under our rule.

MR. MCGOINGS. Thank you.

Mr. Chairman, I have no further questions.

CHAIRMAN FLEMMING. Vice Chair Berry.

VICE CHAIRMAN BERRY. Ms. Freeman, just for some clarification, what is the budget of your CDBG [Community Development Block Grant], I guess it is, program for '81, '82 and '83?

MS. FREEMAN. Well, I wish I could say that I knew positively what that budget is. As you know, we are currently going through the exercise of having to reduce our budget further from the first 25 percent reduction.

Currently, though, we are hoping we can maintain the block grant funding at around \$4 billion.

VICE CHAIRMAN BERRY. How much less will Baltimore be getting? Maybe you know that, or Mr. Young.

Ms. FREEMAN. I will defer to Mr. Young.

VICE CHAIRMAN BERRY. In CDBG and UDAG, both.

MR. YOUNG. Baltimore's entitlement amount is approximately \$32, \$33 million, and we've been told by the central office that that could be reduced to about 10 percent for '82, and we do not know what that might be for '83.

As you know, the urban development action grant is a competitive program, so it is very difficult to say what might happen, but if I hadn't said it already, Baltimore City has received awards for 24 grants for a total of \$44.4 million.

VICE CHAIRMAN BERRY. Would you think the overall impact of the total HUD funding that Baltimore has gotten in the last few years has been to make economic conditions better for the black workers and those who are unemployed in the city?

Would you just, in general, reach that conclusion or not, Mr. Young?

MR. YOUNG. Could you restate the question again? I'm not sure I got it.

VICE CHAIRMAN BERRY. Would it be your impression that one result of the HUD funding that has gone into Baltimore and the various projects that have been produced, in general terms, without going into specifics, has been to improve the economic conditions for the poor black community in Baltimore?

MR. YOUNG. I would think generally, yes, the HUD monies have gone toward bettering that end; however, I would hasten to say that in spite of the millions of dollars that I have told you that have, in fact, been spent here, I don't believe that the conditions of a minority individual or the minority community have substantially improved, and I think some number of reasons are behind that.

One, I think we need to put more emphasis on economic development. We must have more jobs, and we must have more minority businesses that are allowed to expand and grow, and we must encourage the city of Baltimore to increase its employment of minorities in key positions, and those city agencies particularly that have used HUD funds are not where they ought to be in that regard.

But I say, generally, I think the intent is good, but I don't think we've come nearly as far as we need to come. I think we are going to have to ask the private sector to pick up the slack that is going to be left with decreasing amounts of Federal dollars that will be coming into the city to help minority businesses to develop and expand and grow to create jobs.

I think that is probably the most critical problem the city is facing today—the high rate of unemployment. I think we are going to end up

with a whole generation of people, young blacks, who do not have jobs, have never had jobs, and that is going to create some very serious problems for the city of Baltimore.

VICE CHAIRMAN BERRY. In just walking around in this harbor development and looking in restaurants and stores, and doing a random unscientific analysis, it seemed to me that in many of the jobs that required few skills there were no blacks, or there were very few blacks there.

If you walk into the restaurants and the various enterprises around here as I did—I know the survey is unscientific, but at least it was using my eyeball looking at the people who were washing dishes and bussing tables, waiting on tables and stores, and the like—was there anything in HUD regulations or policy or anything else that could have enabled HUD to be more restrictive in terms of who got employed in some of these jobs when these funds were allocated?

MR. YOUNG. Well, when HUD negotiated the—first of all, Harborplace is a private concern developed by the Rouse Company on public land, and certainly it was part of the private leverage that was required for the Hyatt Regency I spoke of earlier, so it is all linked in there.

VICE CHAIRMAN BERRY. Right.

MR. YOUNG. And I think the extent of participation is about 39 percent of the employees are minorities.

VICE CHAIRMAN BERRY. So, my eyeball is not very scientific. I'll just move off of that. I won't ask you any more about that.

Ms. Freeman, I have been reading some reports since I have been here in Baltimore about various governmental officials saying that Baltimore has received a disproportionate amount of Federal HUD funds over the last few years.

We had people testify from the government agencies here who were complaining about reductions in funds and saying how important these funds were to further economic development for minorities, or for anybody, in this city.

Is it your impression, and is it the general impression within your Department, that Baltimore has received too much money from HUD and, therefore, that was a bad thing?

MS. FREEMAN. Well, I wouldn't say they have received too much money, nor would I say it is a bad thing. I think we are always pleased to have a successful UDAG, and I think Harborplace has been exemplary of the kinds of things that can be done in the private sector with the Federal leverage.

Whether Baltimore got more than its share of UDAGs—I'm sure New York and Detroit would probably say yes, that is true. I could not, though, with the information that I have, say that overall they had more than their share.

They did very well for themselves in the competitive process. It was, in fact, a competitive process.

VICE CHAIRMAN BERRY. Mr. Young spoke in his testimony earlier about the need for private investment, and you were asked a question earlier about HUD proposals to get the private sector more involved, and you said there were not any, if I understood you correctly, that were now at the stage of being approved or discussed or anything like that, but there are some ideas.

What ideas would you have, or propose personally, or in your official capacity, for getting the private sector to get more involved as a replacement for some of the Federal programs that are being cut, or addition to?

Do you have any ideas along that line that might be beneficial to communities like Baltimore that rely so heavily on these funds?

MS. FREEMAN. Well, for example, we are asking our UDAG technical assistance folks, the folks who provide TA [technical assistance] to cities in terms of economic development, to begin to add that on their list of things to help cities do.

That is, how do cities begin to reach out to the business world and get them in fact to invest. For example, insurance companies, pension funds—they have been known in the past to put substantial funds into industrial housing, etc., and there is no reason why that should not be able to take place at a larger scale.

VICE CHAIRMAN BERRY. Thank you.

Mr. Teele, based on your impact studies in connection with your new MBE regulations, or the interim regulations, would you think minority business enterprise participation is likely to increase under these regulations, or do you have any impression as to what—when I say participation, either in quantity or quality, under these new regulations?

MR. TEELE. Based not only on our impact studies but relying on expert evidence, such as reports of this Commission, we view the paramount problem as one that impedes the entry into the direct contracting process with the government as one of bonding and assurances. To that extent, we would not focus on the regulations per se, but on those factors that impede. As I stated in the opening statement, we view the establishment of the minority business centers that are designed to package, if you please, the proposals and to assist in those packaging and to actually provide direct grant money, as we are doing in Philadelphia for the upfront money and working with the various bonding agencies around the country, which is a Department high priority as one of the keys to getting the increased participation.

Quite frankly, Mrs. Berry, we just don't view the regulations as being the obstacle to date to full participation.

VICE CHAIRMAN BERRY. Thank you.

CHAIRMAN FLEMMING. Commissioner Saltzman?

COMMISSIONER SALTZMAN. I only have one question.

Mr. Young, you were telling us about the innovative programs relative to intervention to ease the problem of displacement, and yesterday we had testimony clueing us in on how serious a problem that is.

Could you give us any information on the budgetary commitments relative to this problem, this year, in terms of funding some of those innovative programs, and what it was last year?

MR. YOUNG. Well, there was an initial grant about 18 months ago of approximately \$1 million for the innovative grant itself, and that approximately \$175,000 was allocated to each of those four areas that I said the city had identified, and \$175,000 was left for contingency reasons, and the rest for administration; beyond that we don't have, or the city does not have, any specific amounts of dollars that have been targeted for "displacement."

They have millions of dollars going to intervention strategies, such as home ownership development, the local public agency rehab where an individual would buy from the city a house that was rehabbed by the city and written down a substantial loss to the city but certainly at a affordable level for the potential homeowner.

They have a \$3.5 million bond issue that is targeted for rental conversions to allow those persons to go over the threshold from renter to home ownership. A certain amount of the \$100 million mortgage or loan money that has been made available through a bond issue, also, a certain percentage of it—I don't recall exactly what it is now—has been targeted for lower income persons, and they develop cooperative housing opportunities to try to stabilize it.

Some of this is difficult to do because in those neighborhoods that are undergoing revitalization, you have a home ownership-renter tension. Once a homeowner gets their foothold in a community, they want it to be predominantly a home ownership.

So it is difficult in some instances for the city to do anything unless there is a vacant property of multifamily type that they could come in and buy and hold it and try to convert it to rental or to cooperative kinds of housing. Beyond that I don't know of any specific—I can't recall of any specific dollars that have been targeted for displacement.

CHAIRMAN FLEMMING. Commissioner Ramirez?

COMMISSIONER RAMIREZ. Just a few very short questions.

Mr. Teele, as I understand it, part of the problem with minority contractors accessing Department of Transportation originated monies has to do with the fact that often those contracts or those projects are of a size that not only is bonding difficult because it is difficult for minorities, but bonding is difficult because of the size, the money amount required.

Do your interim regulations make any provision for the subcontracting or reduction of the size of those projects in such a way that minority contractors might more easily secure bonding and the funding for that?

MR. TEELE. The interim regulations specifically encourage consideration of the factor that you have just discussed, and recognize also as a potential institutional barrier to full participation, but, you know, Commissioner, we view this whole problem as one which cannot be adequately and fully addressed by regulation.

Even the current or the previous regulations did not mandate that, but we do and we aggressively—the other administrators, Mr. Barnhard in particular of the Highway Administration, Mr. Blanchette at the Federal Railroad Administration—we do take the opportunity when we do let large contracts to ensure what we call “contract management,” or the way the contracts are actually let—that this consideration is given.

To cite two examples, in the Miami-Dade project where we have a \$670 million—three quarters of a billion dollars—investment going on, we have specifically asked them in written correspondence to give consideration to letting portions of the contract in their contract management so that minorities can participate. We have had considerable success in minorities actually getting a piece—actually getting general contract responsibility for some of the stations, and in New Orleans, where we talked to the governor last week on a similar question involving a bridge project—

COMMISSIONER RAMIREZ. I would very much like to have for the record any report that you may have which indicates your success in this area, the way you have operated, the basis for your presence in the process, if you would, and your success. I understand that your principal thrust will be a programmatic one through the minority business resource centers and you will have 16 of these across the Nation. What will be the average—

CHAIRMAN FLEMMING. If you could provide the information that Commissioner Ramirez has just requested in the form of a memorandum, I ask that it be included in the record of the hearing at this point.

MR. TEELE. I will be happy to, Mr. Chairman.

COMMISSIONER RAMIREZ. What will be the average funding for the minority business resource centers for each one for a year, let's say?

MR. TEELE. The request for bids has gone out. That matter is under contract review and in procurement right now. I think it is fair to say that the range that we are looking at is somewhere between \$150 and \$175,000 per center on an annual basis. That is only for the administrative costs. That has nothing to do with the amount of funds that we infuse, for example, section 20 funds, where we may infuse for \$2 to \$5 million upfront money in Philadelphia alone.

COMMISSIONER RAMIREZ. That would be providing essentially for the technical assistance talent that you would buy for the minority business resource centers?

MR. TEELE. Essentially, that's correct, and, of course, the overhead, such as the actual physical structure, the cost of operating that center as well.

COMMISSIONER RAMIREZ. I would just suggest, Mr. Teele, it seems like a rather small sum. The kind of talent that in my experience is required to make these places go and the expressions that we have already heard this week in terms of the demands on those technical assistance centers across the government are very great. I think the programmatic thrust has a lot to be said for it, but unless those technical assistance activities are well supported, the promise is often not realized.

I have nothing further.

CHAIRMAN FLEMMING. Mr. Teele, if I could just ask a couple more questions about the interim regulations, not necessarily their content but the process. What is the date they were promulgated?

MR. TEELE. It is my understanding they were promulgated in April 1981.

CHAIRMAN FLEMMING. Okay, April 1981. The Department provided the opportunity at that time for comment on those interim regulations, looking forward to the possibility of their becoming promulgated as the final regulations.

Are you aware of what response the Department received to the invitation to file comments, and do you have any feel at all as to the nature of those comments? If you don't have that information available right now, I would appreciate it if you could have a memorandum prepared which would give us just a brief summary of the kind of response the Department received and a summary of the kind of comments that were made relative to the regulations.

MR. TEELE. Mr. Chairman, I will be happy to provide a summary of the docket to the Commission. I would indicate that it is fair to characterize the initial responses as being one of concern, particularly on the part of potential minority business participants, and one of acclaim and some praise on the part of the contractors that viewed the regulations as being excessive, particularly to the point of the preparing of the actual contract.

If you will recall, the thrust of the regulations and the thrust of the change deals with the question of determining, at the time of bid opening, whether or not there is significant minority participation, whereas the previous regulations' thrust was designed to ensure that everyone had submitted a responsive, fuller responsive bid.

It went to the question of responsiveness versus low bid, which we believe did impose an additional burden on disappointed bid applicants.

CHAIRMAN FLEMMING. What are the plans for resolving whatever issues have been identified as a result of these bid notations and issuing regulations in their final form? What is the approximate timetable for doing that in the Department?

MR. TEELE. We are estimating 6 months and, of course, I would not be in a position to offer a guess as to the direction that those regulations would go since it is a matter of rulemaking and it is under review.

CHAIRMAN FLEMMING. Six months from now?

MR. TEELE. I think that is a fair timetable at this point.

CHAIRMAN FLEMMING. Okay.

Mr. Young, in response to one of the questions addressed to you, you said approximately this, that although many millions of dollars have been made available to the Baltimore community, you have the feeling that the conditions in the minority community, particularly from the standpoint of more minority businesses coming on the scene, had not improved markedly.

I don't know whether that is a fair summary of what you said or not. You can correct it. But, if it is, it touches on an issue that we discussed quite a little yesterday with witnesses that appeared before us, and if you do have the feeling that one of the issues confronting this community is somehow or other to make it possible for more minority businesses to become a part of the economic life of the community, I am just wondering if you have any specific suggestion or suggestions growing out of your experiences here as to what the community should be thinking about doing?

MR. YOUNG. Well, we have received approximately 60 to 65 applications for urban development action grants in the city of Baltimore for, again, \$44.4 million.

Five of those applications were from black businessmen, and one was successful in the competition. It is my belief that, to the extent that you have black businesses or minority businesses developing, there will be a direct relationship toward increasing the number of minority or black employees.

Personally, I would like to see the private sector get involved in providing more technical assistance.

In one of our neighborhood strategy areas, the Park Heights community, we have an economic development corporation that is designed to assist minority businesses; however, I think we need to have much more effort put into economic development to assist that Park Heights corporation.

I think we can get much of this if we got more technical assistance from the city and from the private sector.

I think for too long Baltimore City's white business community has not been very attentive to the problems of the minority business community. I don't think they quite saw the relationship or the benefit that, perhaps, could be derived by the total community going out and assisting those struggling businesses to grow and expand.

So there is a lot of energy out there in the community among minority businesses wanting to develop proposals, UDAG types of proposals, but

for lack of expertise in packaging and for lack of expertise in developing the project concept, and for lack of financing, particularly from some of the lending institutions that we have in the city of Baltimore, they need to get more active and help turn that thing around.

CHAIRMAN FLEMMING. I appreciate your comments, and time has expired, but I would like to pursue it a little bit further with you because one of the things that kind of haunted me—growing out of the testimony yesterday—was the testimony from a representative of the Rouse Company, detailing the experience that they had in trying to locate, find minority businesses to come into their development. As you know, there are minority businesses in the development, but they had difficulty finding them simply because of the fact there are not very many minority businesses.

In this particular instance, the suggestion was made that, of course, one of the roadblocks was represented by some of the fiscal problems you have identified.

Another roadblock is the fact there is not a creative, imaginative, comprehensive training program for those looking forward to becoming involved in entrepreneurial activities in the retail business, and so on. It seems to me that this is one of the issues confronting us.

I want to express our appreciation as a Commission to all of the members of the panel for coming here and being with us today and sharing with us your insights. It has been very helpful. Thank you very much.

Counsel will call the next witness, please.

MR. MCGOINGS. Mr. Frank Carlucci?

[Frank Carlucci was sworn.]

TESTIMONY OF FRANK CARLUCCI, DEPUTY SECRETARY OF DEFENSE, U.S. DEPARTMENT OF DEFENSE

CHAIRMAN FLEMMING. Before counsel addresses questions to Secretary Carlucci, I would like to say to him that we deeply appreciate his coming here today and sharing with us all of the insights that he has, not only growing out of his experiences in the Department of Defense, but his experiences in many other positions of responsibility.

I feel that Secretary Carlucci is one of the Nation's outstanding public servants and I deeply appreciate his being willing to come here today and to share with us whatever ideas, suggestions he may have.

SECRETARY CARLUCCI. Thank you, Mr. Chairman. I appreciate your comments, and it is a delight to be here. May I also reciprocate and say that, based on my long association with you, sir, I consider you one of the most capable and dedicated public servants our Nation has ever had.

CHAIRMAN FLEMMING. Thank you. I appreciate that. Counsel may proceed. Our procedure, Frank, is that counsel will ask some questions and

then members of the Commission will undoubtedly have some questions in addition.

MR. MCGOINGS. Let's begin by having you state your name, address, and occupation for the record.

SECRETARY CARLUCCI. My name is Frank Carlucci. My address is 1514 Mintwood Drive, McLean, Virginia, and I am currently Deputy Secretary of Defense.

MR. MCGOINGS. Thank you. Mr. Carlucci, the data supplied by the Department of Defense to the Commission staff indicates that Defense prime and subcontract awards to small disadvantaged businesses has increased steadily through fiscal year 1980 to reach \$1.2 billion. Similarly, subcontracts to small disadvantaged firms have also increased, reaching \$452 million in fiscal year 1980.

Both figures represent approximately 1.8 percent of Defense Department prime and subcontracting awards. Is it your perception that increases in Defense outlays planned by this administration will result in increased participation by disadvantaged firms in Defense procurement contracts as prime and subcontractors?

SECRETARY CARLUCCI. If I may, I have with me Ms. Leftwich, and let me ask her to interject, if I am incorrect, but I think those figures that you read may be slightly off.

For disadvantaged firms in 1980 the figure is \$1.659 billion, which is an increase of about 132 percent over the 1979 performance, which was \$1.2 billion.

I think that this whole issue has to be looked at in historical perspective. Since the passage of [Public Law] 95-507 in 1978, the share of Defense contracts going to small disadvantaged businesses has steadily increased from somewhere in the neighborhood of 1 percent to what we anticipate will be about 2.2 percent in 1981.

The 1.8 percent figure that you cited was a 1980 figure, and while this figure has been going up—indeed it has been going up in the Department of Defense at a faster rate than other agencies, even though during this timeframe the Defense budget has not been increasing as fast as the budgets of other agencies.

There are indications that the rate of increase is slowing down a bit, and that is to be expected because of the complicated nature of Defense Department contracting. So my own anticipation would be that the growth would continue; we would expect the share of the budget to continue to rise, but at a somewhat slower rate.

Let me also point out that the share over this period—the period of the past 5 years—the share of the overall Defense contracting budget going to small business has stayed pretty much the same, around 19 or 20 percent. But the share going to small disadvantaged business has been steadily rising

within that 19 or 20 percent. So my overall assessment is we will continue to increase, but probably at a somewhat slower rate.

MR. MCGOINGS. Thank you. Is it your perception that at some point the effort to improve the participation of disadvantaged businesses in Defense procurement ceases to be cost effective?

SECRETARY CARLUCCI. We are certainly nowhere near that breakpoint, if there is such a breakpoint, and it would be pure speculation on my part. We regard this program as cost effective; we do not regard it as a social program.

We think it has produced benefits for DOD. We are enthusiastic about it. We are aggressive in outreach and in providing technical assistance, and I have no hesitancy in saying we will continue to do that.

MR. MCGOINGS. Could you describe some of the specific areas in which you provide technical assistance or special outreach?

SECRETARY CARLUCCI. Well, we hold approximately 25 conferences a year in various parts of the country to acquaint small disadvantaged business, and small business as well, with our contracting procedures, which, due to the nature of our business, are quite complex.

We have one-on-one counseling sessions. We have, as the Commission is probably aware, entered into a contract with the Booker T. Washington Foundation, where they also provide engineering assistance in a number of cities, provide facilitative offices. So we do have what I would regard as an aggressive program, trying to acquaint small disadvantaged business with our procedures and help them wend their way through the labyrinth of contract negotiations.

MR. MCGOINGS. Could you comment on the Department of Defense's participation in the 8(a) program?

SECRETARY CARLUCCI. Yes, we have participated enthusiastically in the 8(a) program. In terms of statistics, the dollar volume of 8(a) awards since Public Law 95-507 has gone up from \$404 million to \$713 million in 1980, and we anticipate the figure will be in the neighborhood of \$746 million in 1981. Perhaps one of the most significant aspects of our participation in the 8(a) program, though, is the nature of our contract.

Rather than just pure service contracts, gradually some of the contracts are moving into the technology area and they are moving into high-dollar volume contracts. We regard this as an encouraging sign.

MR. MCGOINGS. Thank you. Can you cite us some examples of minority firms which are successfully competing for Defense procurement contracts and subcontracts?

SECRETARY CARLUCCI. Yes, we have four examples, and I'd be glad to submit them for the record; we have them written up. One is the Newsome Construction Company in Omaha, Nebraska, which received the Department of Army contract valued at \$800,000 for a telephone exchange

building, followed by a \$2.9 million contract for the addition and alteration of an emergency power plant at Offutt [phonetic] Air Force Base.

Medley [phonetic] Tool and Mold Company in Philadelphia, Pennsylvania, which started out in 1967 and received 8(a) contracts and has been a successful producer of many specialty items for DOD.

The J.W.M. Corporation in Philadelphia, which started operations in 1969, doing cable assemblies and other simple electronic systems, and through the assistance of the 8(a) program has continuously taken on more complex work, and today are producing highly sophisticated electronic gear for DOD.

Systems Management American Corporation in Norfolk, Virginia, which has been providing software for military ADP equipment for some years through the 8(a) contract program and plans to install 450 71 computer systems for the Navy over the next 5 years under a contract that will approximate \$50 million.

Sona Craft Corporation in Chicago, another 8(a) company, established in 1969, which has steadily grown and this year received an Air Force award under the 8(a) program valued at \$1.622 million for definition phase of emergency communications network.

There are more details here and I will be glad to submit them for the record if you like.

MR. MCGOINGS. Were all of these firms 8(a) contracts?

SECRETARY CARLUCCI. Yes, they are all 8(a) contractors.

MR. MCGOINGS. Is it your opinion that these firms would be able to successfully compete on Defense Department contracts if they were not 8(a) contractors?

SECRETARY CARLUCCI. I don't think it would be appropriate for me to comment on individual firms, but let me give you a generic answer: There have been very few firms in the Defense contracting business that have graduated successfully from the 8(a) program.

Our own judgment is that, in general, these firms would encounter some difficulty if they were moved out of the 8(a) program.

As I say, I don't think it would be appropriate for me to comment on the capability of individual firms.

MR. MCGOINGS. Have you had any particular problems dealing under the 8(a) program? Has it caused any specific problems for the agency?

SECRETARY CARLUCCI. None other than the usual problems that result from the usual interaction between bureaucracies, although we did, as the Commission is aware, we did have considerable difficulties with the 8(a) pilot program where the Army was obliged to allow SBA to pick and choose among its contracts.

That resulted in a number of lawsuits and considerable difficulty, but the regular 8(a) program, I would say, has been subject to the normal strains of a company with any bureaucratic dealings.

MR. MCGOINGS. Thank you. Mr. Carlucci, are there, in your opinion, other structural barriers which continue to adversely affect minority firms which are not adequately addressed by existing Federal programs?

SECRETARY CARLUCCI. Well, that question goes a bit beyond my competence. Clearly, high inflation rates, high interest rates are structural barriers to small minority business participation and growth in participation, in any government program.

The barriers as far as DOD is concerned are principally the highly sophisticated nature of our procurement and the maze of procurement regulations that one has to wend one's way through.

MR. MCGOINGS. Thank you. We understand that the Department of Defense's Director of Small and Disadvantaged Business Utilization reports to you. We also understand that you ordered that all Small and Disadvantaged Business Utilization offices be staffed with the required number and grades of personnel to achieve such DOD procurement objectives.

What role do these offices play in procurement negotiations and monitoring of the rates of participation of small and disadvantaged firms in Defense procurement?

SECRETARY CARLUCCI. Well, the Director of that office, Mrs. Leftwich, is here with me, and, with your permission, I would like to have her comment. That is the basic function of the office, to assist small and disadvantaged business in gaining access to Defense contracting, to set goals, goals required by P. L. 95-507, and to monitor the implementation of these goals.

She does report directly to me, and by virtue of that has substantial access to the contracting offices throughout the Department, but the office itself does not have any contracting function per se. That would obviously be impractical in an organization as large as the Department of Defense.

MS. LEFTWICH. If I may, sir, my office has counterparts in each of the military services. Beyond that we have a field structure of some 600 small business specialists that are stationed in our major purchasing activities.

At the OSD level in my office we do a sort of macro-oversight, the subcontracting statistics. There are forms in place that come in to us on a quarterly basis that give us an overview of how the services are performing, how their subcontracting awards are proceeding, vis-a-vis the goals that have been set in their contracts. Beyond that the actual contract monitoring is carried out by and large by our DECAS [Defense Contract Administration Services] organizations, our administrative contracting offices, and our small business specialists in the field, in the activities where the contracts are managed.

MR. MCGOINGS. Thank you.

Mr. Chairman, I have no further questions.

CHAIRMAN FLEMMING. Secretary Carlucci, I am very much interested in the testimony relative to the rate of growth in terms of participation of disadvantaged firms, and also your feeling that that rate of growth will probably slow down somewhat.

Basically, why do you feel that the rate of growth may slow down? Is it because you feel that there are not enough small or not enough minority businesses out in our communities to come in and to participate in the process in order to enable that rate of growth to continue to move up at its present rate?

SECRETARY CARLUCCI. I think that is one of the problems, Mr. Chairman. Of course, when you look at the 60 billion or so in defense dollars that are spent annually on contracting, 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, of course, in that area. But increasingly we are in the high technology area, and, while I indicated earlier that we are encouraged by the number of firms in the 8(a) program that are moving into the technology area, there is still a limitation on the number of firms that are available, and our movement, our needs, particularly as was pointed out with an expanded Defense budget, will probably outstrip the availability of disadvantaged contractors, despite our best efforts and our increasing efforts to bring them along to the best of our ability.

CHAIRMAN FLEMMING. What can minority businesses do that they are not doing at the present time that would enable them to participate to a greater extent? I am very much impressed with the fact that you do render technical assistance, and you render it out in the field where the minority businesses are, so your people do have direct grass roots contact with this problem.

Have they talked with you about their observations as to things that minority businesses are not doing that they could do which, if they did do, would bring them into the picture?

SECRETARY CARLUCCI. I think one of the areas that might be fruitful—and Mrs. Leftwich has more experience than I in this—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. And there, too, 95-507 has been helpful by obliging us to have goals set by the prime contractor for subcontracts going to minority business.

I think the kinds of things that we are doing already, encouraging subcontracting, providing technical assistance, engaging in outreach, are helpful from the DOD point of view.

From the small disadvantaged business point of view, I think the primary requirements are increasing sophistication, reliability, and performance. One of the directives that I have issued in connection with the

reform of the entire procurement process is that we will keep records; we are not keeping any kind of a blacklist, of course, but we will keep performance records and make them available throughout the Defense Department and to the extent that these businesses, that the minority businesses, small disadvantaged business have a proven track record or performance, their access will increase.

MS. LEFTWICH. If I may add to that, I think that we are still seeing an aura of mystery about approaching the Defense Department. This is, of course, not only specific to minority businesses but small businesses. There is a fear that there it is—too large, too complex to approach to get business out of, and that is one of the bridges that we are trying—gaps we are trying to bridge; that this is not an awful, awful place to do business.

We know there appears to be a lot of paperwork, a lot of requirements that mil specs, military specifications, can seem overwhelming, but you've got to come in and come up to bat to see if you can win or strike out.

I think that is still a barrier and clearly minority businesses have to do a little bit more aggressive marketing. I think that goes along with it.

Their resources are limited, but they've got to come in the building.

CHAIRMAN FLEMMING. If I could follow up there. Take Baltimore, for example. What points of contact are available to small minority businesses here in Baltimore?

MS. LEFTWICH. We have a small business specialist right here in our Baltimore DECASMA [Defense Contract Administration Services, Management Area]. As a matter of fact, he is here today, Chuck Hadson [phonetic]. He is the point of contact, point of entry, for minority businesses seeking opportunities with DOD.

CHAIRMAN FLEMMING. And he is prepared to sit down with them and counsel with them and advise them and so on?

MS. LEFTWICH. Absolutely.

CHAIRMAN FLEMMING. I appreciate the fact that I am now going beyond, undoubtedly, the opportunities that may be available to the Department of Defense, but I have been impressed as a result of the testimony we have taken here with the fact that we are in this city, where there is a large minority population, but where the number of small minority businesses is not great by any means. They are comparatively few, and where people seek them out, they find it difficult to find small business, so that it seems to me that there is an opportunity to develop, not only an opportunity but almost a necessity, to take affirmative steps designed to develop small business activity here in the area.

Well, now, let us assume that the city got interested in that and that a program was developed along that particular line. I assume here again the field person here in Baltimore would be available to consult with and confer with them and give them suggestions and so on, which could introduce some element of hope into the process because people might

then have the feeling: Well, if we do take these steps, then there is something down at the end of the road.

SECRETARY CARLUCCI. Yes. We are not only prepared to do that; we are delighted to do it. Our people are encouraged to do it.

CHAIRMAN FLEMMING. Secretary Carlucci, I assume from your testimony that you feel that 95-507 has proved to be good legislation?

SECRETARY CARLUCCI. I think it has been helpful. Yes, sir. I am not prepared to comment on every aspect of the law.

CHAIRMAN FLEMMING. But the general thrust—

SECRETARY CARLUCCI. The general thrust has been—

CHAIRMAN FLEMMING. Vice Chairman Berry?

VICE CHAIRMAN BERRY. Yes. Mr. Carlucci, you had a wide-ranging or far-ranging government experience, naturally, and my question is, how would you generally compare the minority business enterprise programs in the other agencies in which you have worked with your experience at the Defense Department?

You seem to be optimistic; you seem to feel that DOD programs are doing a good job. Has that been generally the case in all the other agencies where you have worked, or is the DOD an outstanding example of the program at its best?

SECRETARY CARLUCCI. Well, this is the—despite what you call my vast experience—this is the first large contracting agency that I have been in. Then—HEW could not be characterized as a large contracting agency, and, of course, a number of—as you are very familiar, a number of its programs were formula grants, grants that were mandated toward particular disadvantaged groups.

CIA [Central Intelligence Agency]—I can't really talk about in a public forum, but it has very small programs in this area; it was making some efforts. OEO [Office of Economic Opportunity], once again, was pretty much a grant program, although we did start some economic development programs which I understand are alive and well today.

Let me only say that I think there is growing enthusiasm in DOD for the small disadvantaged program. This does not mean that there aren't obstacles. Some of the traditionalists in the contracting area, the contracting officers, 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.

As Norma pointed out, some of the firms are intimidated by the very complexity of our process. We are making intensive efforts to simplify that process. This was one of our principal objections to what I characterize as a "motherhood" amendment introduced by Senator Nunn the other day.

It just adds one more reporting burden to our procurement process which already has a lot of reporting burdens. So, we are going through our regulations step by step to try and simplify them.

The bottom line answer to your question is, I think Defense is doing well relative to other government agencies. They have been an enthusiastic supporter of the 8(a) program, but this does not mean we could not do a lot better.

VICE CHAIRMAN BERRY. On the issue of graduation from 8(a), a number of people argue that all the firms that are in 8(a) should be required to graduate so other firms can come into 8(a).

I sense from your response to an earlier question that you might not be generally supportive of that position. Am I correct or incorrect?

SECRETARY CARLUCCI. I think it depends on your definition of the goals of the 8(a) program. If the program is simply to ensure that some money is funneled into small disadvantaged business, you may not want to graduate them.

On the other hand, if you say: Well, you ought to have some turnover, you may want to graduate them, but it 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.

But we are prepared to do what the law mandates and what SBA works out. It would really be beyond my competence to pass an overall judgment on whether the graduation policy is a desirable policy or not.

Let me simply confine my remarks to saying that it could complicate our relationships.

VICE CHAIRMAN BERRY. Last question.

How many minority firms here in Baltimore, insofar as you know, participate in either the 8(a) program or have procurement contracts with DOD? Do you have any data like that?

SECRETARY CARLUCCI. We don't have it with us. We will have to supply that for the record.

VICE CHAIRMAN BERRY. I would like to see that for the record.

SECRETARY CARLUCCI. Yes.

CHAIRMAN FLEMMING. Sure.

Commissioner Saltzman?

COMMISSIONER SALTZMAN. Secretary Carlucci, I'd like to follow up a little on the Chairman's questioning. We've had testimony presented to us by various agencies where the programs they have undertaken sound, on the surface of it, innovative and valuable to the advancement of the small disadvantaged minority businessman, and yet the individual who is responsible for those programs has to come to the conclusion that the end result is there hasn't been substantial progress. One of our prior witnesses indicated that.

SECRETARY CARLUCCI. Excuse me, has or has not been?

COMMISSIONER SALTZMAN. Has not been. So, what is the cause between the gap between a plan that sounds so good and the result or the fruits of

that plan? In some instances in testimony yesterday, for example, while—relative to the SBA—there is outreach, one witness testified that the training programs are outside of the city where minorities do not have access, so that the training programs are there but not the access by minority businessmen. Your indication of the outreach is impressive, by the DOD, that is.

Are there those kinds of problems which limit or negate the participation of the disadvantaged businessman from participating, being included in the outreach programs?

SECRETARY CARLUCCI. Well, I would be the last person to suggest that all our programs are perfect and that we do reach every group that should be reached. In fact, as I indicated, I think we ought to continue to be aggressive in the outreach and technical assistance area. I can only speak for the Department of Defense.

CHAIRMAN FLEMMING. Mr. Secretary, if I may interrupt, I think some of the questions from my colleagues are conditioned by their remembering that you also served as Deputy Director of OMB [Office of Management and Budget] and they recognize that you have an overview of the situation which we all respect.

SECRETARY CARLUCCI. My past is catching up with me. I would plead there is some time distance between me and my service in OMB, including service in Portugal and the CIA, which did not keep me too close to those programs.

But, going back to my OMB days, as you may remember, Mr. Chairman, one of the things I initiated was a program for reporting. I think one of the most valuable things we can do in this area is have good data so that we know how effective our programs are, and try to look at those gaps that have been identified, such as Commissioner Saltzman mentioned.

If you have particular problems that relate to DOD, I'd be glad to try and address them. Overall, I think our statistics indicate that we are moving in the right direction: an increase since 1978 from \$900 million to \$1.6 billion and 1 percent of the contracting budget to 2.2 percent in a relatively short timeframe, I think, is encouraging, but still and all, it is a small percentage of the Defense contracting budget.

If there are new and different ways that we can do our job, we are delighted to do them, and we would welcome advice from this Commission.

COMMISSIONER SALTZMAN. Well, with respect to new and different ways you have indicated—and, of course, we know that there will be increased DOD spending—will and how does that trickle down to the minority business firm?

We heard testimony yesterday that there are problems relative to bonding and capitalization. Are there any plans, new plans that will speak to these issues by the Department of Defense?

SECRETARY CARLUCCI. Let me, first of all, say that we don't view it as trickle-down. We view it as dealing directly, either through the 8(a) program or direct contracts or subcontracts with small disadvantaged business.

The bonding problem is the particular problem with regard to the construction industry. We've looked at that, and, at this point, we can't see much that DOD can do, but if the Commission has some suggestions in this area, we would be more than happy to examine them. It is the kind of issue that we don't have any legal authority or financial authority to cope with.

COMMISSIONER SALTZMAN. One final question. If goals were to be dropped from contractors' requirements, would you suggest that we would still nevertheless continue to see any progress? That is, are goals essential to developing minority participation?

SECRETARY CARLUCCI. I don't know that I would characterize them as essential, but I certainly think that they are helpful. 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 these goals. My own guess, for what it is worth—and Norma can speak for herself—if you don't have goals, we probably would continue to make progress, but it would be harder to measure that progress against some kind of target.

MS. LEFTWICH. I would agree 100 percent, if not more, primarily because our own statistics indicate that since the goaling came into being with 95-507 we've seen significant growth. It has given the programs greater visibility, an aura of greater importance, if you will, and I happen to think they are very important to continuing to encourage, if you will, our prime contractors to do a good job.

CHAIRMAN FLEMMING. I appreciate your emphasizing it as a meaningful, effective tool of management.

COMMISSIONER SALTZMAN. Sounds like you, Mr. Chairman.

SECRETARY CARLUCCI. He and I worked together for a number of years.

CHAIRMAN FLEMMING. Appreciate it very, very much. Commissioner Ramirez?

COMMISSIONER RAMIREZ. I just want to understand—you said you had small business specialists. In how many sites across the Nation?

MS. LEFTWICH. We have small business specialists in every major buying activity that we have, so that would be about 600 major buying activities across all of the services in the United States.

COMMISSIONER RAMIREZ. Is a military installation—and we have so many of them in Texas—a purchasing activity for the most part, a buying operation?

Ms. LEFTWICH. It can be, yes.

COMMISSIONER RAMIREZ. Now, is it one small business specialist per buying operation, or is it several?

Ms. LEFTWICH. Not necessarily. It depends on the size of the activity and the dollar volume of contracts that they may have handled. In fact, our small business people may have support staffs.

COMMISSIONER RAMIREZ. Now, is there a person who has responsibility for the disadvantaged or minority goal other than this overall small business goal?

Ms. LEFTWICH. The person is actually called a small and disadvantaged business specialist, all right? So that person is there to cover both programs, if you will.

But let me say this, however, that the small and disadvantaged business goals that are handed down to our contracting activities are not just the responsibility of our small business specialist but the responsibility of the commanders of those activities.

So, that program is not run in a vacuum, only at the small business level.

COMMISSIONER RAMIREZ. Now, what percentage of the contracting business is small business right now?

Ms. LEFTWICH. Small business as opposed to minority business?

COMMISSIONER RAMIREZ. As opposed to big business.

Ms. LEFTWICH. All right. At prime contract level, it hovers between 19 and 20 percent of all prime contracts awarded to small business, and at the subcontracting level, oh, about 42 percent of our subcontracts go to small business.

COMMISSIONER RAMIREZ. And it is the minority or disadvantaged business part of it that is about 2.2 percent of the overall?

Ms. LEFTWICH. That's correct.

SECRETARY CARLUCCI. But as I indicated earlier, that share is increasing. Of the 19 to 20 percent, the part that is changing the most is small disadvantaged business.

COMMISSIONER RAMIREZ. Thank you. I have no further questions.

VICE CHAIRMAN BERRY. I have one last question.

When you send us the data on the contracts for participation here in Baltimore, if it is broken down by racial, ethnic groups, I would like to see that.

Ms. LEFTWICH. It is not. We do not keep statistics by racial groups.

CHAIRMAN FLEMMING. My understanding is, however, that you have brought with you, in response to questions from staff, some additional data.

SECRETARY CARLUCCI. Oh, yes. We'll be glad to supply it, any data you want.

CHAIRMAN FLEMMING. We appreciate your doing that, and whatever you have brought with you now, I would like to have entered in the record.

I would like to say on behalf of all of us, again, we are so grateful to you for coming over and sharing your insights with us, growing out of your very rich experience, and it has been very helpful to our testimony.

SECRETARY CARLUCCI. I thank you, Mr. Chairman, and we will look forward to the Commission's report. I am quite sincere in saying that if you have suggestions on how we can do better, we'd be glad to examine them.

CHAIRMAN FLEMMING. Thank you very, very much.

Counsel will call the next witnesses.

MR. MCGOINGS. Will the next panel please come forward? Michael Cardenas, Arnold Feldman, Raymond Handy, Victor Rivera.

[Michael Cardenas, Arnold Feldman, Raymond Handy, and Victor Rivera were sworn.]

**TESTIMONY OF MICHAEL CARDENAS, ADMINISTRATOR,
SMALL BUSINESS ADMINISTRATION; ARNOLD FELDMAN,
DIRECTOR, AND RAYMOND HANDY, ASSISTANT DIRECTOR,
BALTIMORE DISTRICT OFFICE, SMALL BUSINESS
ADMINISTRATION; AND VICTOR RIVERA, DIRECTOR,
MINORITY BUSINESS DEVELOPMENT AGENCY, U.S.
DEPARTMENT OF COMMERCE**

MR. MCGOINGS. If any of the members of this panel anticipate their assistants testifying, these assistants will also take the oath. Please remain standing to take the oath. For the record, would each of you state your name, position, and your address, please?

MR. CARDENAS. Michael Cardenas, Small Business Administration Administrator in Washington, D.C., 1441 L Street, N.W.

MR. HANDY. Raymond Handy, Assistant District Director for Finance, Baltimore District Office, SBA.

MR. FELDMAN. J. Arnold Feldman, District Director of the Baltimore District Office, Towson, Maryland.

MR. RIVERA. Victor Rivera, National Director, Minority Business Development Agency, U.S. Department of Commerce, Washington, D.C.

MR. MCGOINGS. Thank you. Mr. Cardenas, would you please briefly describe the major role and functions of the U.S. Small Business Administration, and, specifically, those programs which have the greatest impact on minorities?

MR. CARDENAS. Very good, sir. What I will proceed to do, in so doing in answer to your response I will read a brief three-page comment which I have here, which I think will answer most of your—respond to your questions.

Mr. Chairman and members of the Commission, I am pleased to have this opportunity to discuss the Small Business Administration's role in minority economic development before the United States Commission on Civil Rights. The Small Business Administration is directed to aid, counsel, and assist small business concerns. We also have a special statutory

mandate directed toward minorities to assist small business concerns owned by individuals who are socially and economically disadvantaged.

This agency is dedicated to the concept of minority economic development and administers several programs that directly assist minority economic development. For example, under section 8(a) of the Small Business Act, SBA channels contracts, on a noncompetitive basis, to disadvantaged small businesses to help them become self-sufficient. Also, under section 301(d) of the Small Business Investment Act, minorities are aided by small business investment companies who limited their financial assistance to persons who are hampered in business because of social and economic disadvantage. These investment companies are popularly called MESBICs [minority enterprise small business investment companies].

Another program important to minority economic development is SBA's Management and Technical Assistance Program, authorized by section 7(j) of the Small Business Act. This program is divided into two segments. One authorizes SBA to make competitive and noncompetitive awards by cooperative agreement grant and contract to consult firms that agree to be on call to provide counseling and general management assistance to eligible individuals referred to them by the SBA.

The other is derived from a relatively new section which was added to the Small Business Act by Public Law 95-507 in October 1978. It provides supplementary management and technical assistance, exclusively to firms participating in the SBA 8(a) program. Section 7(j) also authorizes SBA, together with a 10-member presidential advisory committee, to encounter the placement of subcontracts by businesses with small businesses—concerns located in the areas of the high concentration of unemployment or low-income individuals, with small businesses owned by low-income individuals, and with section 8(a) small businesses.

Furthermore, assistance and incentives may be provided to businesses that will aid in the training and the upgrading of eligible disadvantaged businesses.

Another program designed to spur minority economic development is contained in section 8(d) of the Small Business Act. That law requires certain government prime contractors to utilize disadvantaged subcontractors pursuant to a subcontracting plan. Such plan is negotiated with the procuring agency for the purpose of providing the maximum practicable opportunity to participate in the performance of contracts let by any Federal agency.

The section (d) program is under the Office of Procurement and Technology Assistance. The MESBIC program is under the Office of Finance and Investment. All other programs are administered by the Associate Administrator for Minority Small Business and Capital Ownership Development.

It should be additionally noted that the Small Business Administration is dedicated to the enforcement of Federal civil rights.

In 1971 your Commission conducted a review of the civil rights enforcement effort by Federal agencies, and the Small Business Administration was identified as the agency with the most effective civil rights compliance program.

We will continue our dedication to the enforcement of civil rights programs and efforts to support minority economic development. I might also add that, in addition to the other members of the panel here, I have various members of our staffs, in the event there are more specific answers required to questions and will be glad to respond.

MR. MCGOINGS. Thank you.

Mr. Rivera, would you please briefly describe the functions and programs of the Minority Business Development Agency?

MR. RIVERA. Yes, sir. We have four basic programs or services that we provide to the minority business community and these are mandated by Executive order 11625. They are, one, to coordinate all Federal programs and activities related to minority enterprises. We do that via the Interagency Council for Minority Enterprise, which is a council of some 26 Federal agencies that deliver programs that can assist minorities.

The Secretary of Commerce chairs that council, and I am the executive director of the council. At the local level, the Minority Business Opportunity Committee is a council of Federal and, in many cases, State and local officials that coordinate their programs at the local level.

Our second mandate is to stimulate public and private sector initiatives on behalf of minority enterprise. We do that primarily by funding State and local governments. We have presently 17 State governments that we fund.

We fund four city governments. We work with corporate America through the purchasing council. We also fund numerous minority trade associations.

Our third responsibility is to collect and disseminate information useful in the establishment and successful operation of minority businesses. We do that primarily through conducting an information clearing house in our Washington office.

Our fourth and principal mandate is to fund public and private organizations to provide management and technical assistance, and we fund innovative and pilot projects aimed at overcoming special problems of minority enterprise.

In 1981 we funded approximately 125 organizations. In an area like Baltimore, for example, we established a general business services center, which provides management technical assistance. We have a district officer who coordinates activities in the government and private sector. We have a Minority Business Opportunity Council or Committee here in Baltimore.

We fund an organization to provide technology, commercialization services. We fund a purchasing council to service the Baltimore area.

We also have a joint venture with the Greater Baltimore Trade Council. So we do fund and work through funded organizations to provide management technical assistance.

MR. MCGOINGS. Thank you. Mr. Cardenas and Mr. Rivera, the Reagan administration is committed to the revitalization of the economy by tax cuts, budget reductions, and regulatory reform. What roles will your agencies play in carrying out the administration's programs?

Mr. Cardenas?

MR. CARDENAS. Well, very specifically, regarding regulatory roles, our advocacy department, headed by our Chief of Advocacy, Frank Swain, is very involved. In fact, that is objective number one, to review regulations to make sure the regulations existing that are burdening the small business community will be revised or at least addressed.

Every regulation—and I am talking about reviewing the regulation not only of the Small Business Administration, but of all the other agencies, somewhat 90 or more, which we are responsible for reviewing all regulations brought into the books since January 1, 1981. So this is a task that is being addressed currently, and they are working very actively with the Vice President's Task Force, which has responsibility delegated by the President.

MR. MCGOINGS. How do you see the tax cuts affecting your program to foster minority economic development?

MR. CARDENAS. Well, I can only—as a CPA coming from the private sector prior to coming to Washington, I can see that the tax cuts would have to benefit the small business community. In these times of economic stress, I think there is a feeling that they do not benefit the small business community, but I have a very firm belief—if I were in public practice, I could very well see where it would help the small business person.

MR. MCGOINGS. Could you be more specific about that?

MR. CARDENAS. Well, first of all, in more rapid depreciation; certainly lower tax rates, which will funnel down to the individual. After all, the bulk of our small business persons are still unincorporated, but the lower tax rates, the more rapid depreciation to allow them to have larger writeoffs, all go hand in hand with capital retention.

So I feel that, in general, the act, while it does provide some benefit, certainly for those that are spending larger amounts of dollars, such as large industry, that it has to have benefit to the small businessman, if through no other reason than the large industries will benefit by those tax rates and then will have more money to work and provide more benefit or opportunity to the small business contractors.

MR. MCGOINGS. Thank you.

Mr. Rivera?

MR. RIVERA. Yes, the administration's program has the aim, as was the aim of previous administrations, really to help create an environment where all Americans, regardless of race, sex, national origin, will have an equal opportunity to participate in the private enterprise system.

Now, we all know we are a long way from accomplishing that aim because equal opportunity presupposes two things: it presupposes equal access to information, and we know that in the case of minorities the gap is widening, as a matter of fact.

A case in point are the benefits of the President's Economic Recovery Tax Act. What are we doing to close the gap a little bit—for example, next month we are sponsoring a conference in Washington, inviting minority business leaders, bringing together tax officials at Treasury to explain the benefits of the tax cuts to minorities.

Very often people are not aware of the fact that over 93 percent, as a matter of fact, of all minority-owned businesses are sole proprietorships; so when you talk about a 25 percent tax rate cut, that has to have a favorable impact on minority businesses.

Equal opportunity also presupposes equal access to resources. Again, that is a critical area in terms of minority business development. The gap is widening, especially now with the cost of money being what it is. It does not permit many qualified minorities who are interested, on the verge of either entering business or expanding business, to do so. So that's an area that we are concentrating our resources in.

MR. MCGOINGS. Thank you.

Mr. Cardenas and Mr. Rivera, do you believe that your agency should emphasize the creation of new minority business ventures, the expansion of existing minority businesses, or the acquisition of already-established majority businesses, or what new initiatives have you taken to promote these goals?

MR. CARDENAS. Our agency definitely is committed to assist, however possible, the minority small business sector, and I think that we have done everything we can; we are promoting or going out forward to see that we have these new licensed agencies, such as the SBICs, the small business investment companies, the MESBICs, which I alluded to earlier, the 503 programs, because these agencies should provide that extra avenue by which minorities can have access to—in the event that the bankers do not have, are not willing to participate that actively in the minority community.

Certainly we will do all we can to encourage and communicate with the banking community to encourage them to help the minority, but I think that all these other programs are the ones that we're particularly interested to make sure they are not self-serving, but they have that extra outreach for the minority.

MR. MCGOINGS. Mr. Rivera?

MR. RIVERA. Yes, our purpose for being is to promote or help promote the formation and the expansion of viable and competitive minority enterprises, and I underscore the word “viable” and “competitive.”

Our programs, therefore—our new programs—are aimed at providing the type, the quality, the intensity, the timeliness of assistance that will make minority business owners more competitive, more self-reliant, less dependent on government help in the long run. In terms of new initiatives or expanded initiatives, we have a growth industry program where we are identifying those industries that obviously have a high probability of success.

We have a growth company program where we are targeting the larger sized minority companies. It is our contention that minority entrepreneurship in this country is a very much underdeveloped, underutilized national resource and, if given the proper assistance or opportunities, minorities can play a very significant role in the revitalization of America, be it in terms of jobs created, be it in terms of the tax base expanded, community stability, etc. We are very much involved now with an acquisition program.

We know there is a high correlation of failure rates and small businesses and size of business. We are attempting to assist minorities acquire larger corporations, or larger businesses.

We have a technology commercialization center to introduce high technology, new technology, new processes to minority-owned firms so they can become more competitive. We are involved in getting more minorities in the international trade field. We have a joint program underway with the SBA to assist those 8(a) firms and others who want to graduate or become more involved in the private sector. So, we have a series of programs that we are either expanding or are developing or putting new resources, new focus in.

MR. MCGOINGS. Thank you.

Mr. Cardenas, is your agency pursuing a policy to promote the development and expansion of minority businesses into growth industries, also?

MR. CARDENAS. Very definitely. We are encouraging them to get into the high technology area, and certainly want to encourage them. After all, we are not only looking at promoting so-called “mom and pop” businesses—those types of business certainly have their place and play a very important role in the economic impact in certain areas, but we are looking into industrialized areas where businesses can be developed that will lead to higher employment, and there is certainly no reason to preclude the minority in that area.

MR. MCGOINGS. Are there any new programs that are specifically targeted towards that end?

MR. CARDENAS. Well, that is where our MESBICs can play a major role. The 503, which is the small business development companies that lead to expansion of plant and equipment at better interest rates, and certainly better terms. Those are programs—that is the reason why we are so high on those programs currently.

MR. MCGOINGS. Do you favor special Federal tax incentives for small businesses?

MR. CARDENAS. Yes, I would.

MR. MCGOINGS. What about for small businesses which locate in disadvantaged urban areas? Would you encourage additional tax incentives for them?

MR. CARDENAS. I think that there ought to be special incentives. You are alluding to the typical enterprise zone that's been talked about and developed currently. Yes.

MR. MCGOINGS. Would you favor additional tax incentives for minority entrepreneurs?

MR. CARDENAS. I haven't given that any thought. I am thinking of the small business sector in general—I think do deserve special tax incentives.

MR. MCGOINGS. Thank you.

Mr. Handy, we understand that approximately 90 percent of SBA financing is achieved through the guaranteed loan program. An examination of the rate of black participation in the guaranteed program in Baltimore shows that from July 1975 through May 1981 blacks received 17 percent of the 367 loans which were provided.

This is in direct contrast to the 66.5 percent that blacks received in the direct loan programs of SBA. To what local factors do you attribute this?

MR. HANDY. Well, I guess the banks are just unwilling to take that risk with a minority small business. We are being an advocate of small business. I hope we are a little more expertise in small business lending, I would like to think, anyway, than the banks are.

So, in these direct loans that we make, I think there is a feeling we know what we are doing, and we have a viable business that we are going to make that loan for, so we are willing to take that risk on a direct basis where the banks aren't on a guaranteed basis.

MR. MCGOINGS. Why do you think the commercial banks are not willing to take the risk?

MR. HANDY. I think it is a profit—

MR. MCGOINGS. It is what?

MR. HANDY. I don't think they believe there is profitability in those loans, especially because of the tremendous servicing that is required in all small business loans and probably more so in minority loans—very expensive servicing.

MR. MCGOINGS. There has been earlier testimony, Mr. Handy, that SBA loan approval procedures are often bogged down in governmental

red tape. Could you explain the role of SBA and the guaranteed program and where the time delay in loan approval occurs?

MR. HANDY. Well, we have always heard there's red tape and processing time. I think that we are probably somewhere in the middle. I do not think it is as bad [unintelligible] the red tape is as bad as small business would have us believe, and I do not think it is as good as we may like them to believe. I think it is somewhere in the middle. Of course, we deal with these application forms on a daily basis, so it is not red tape to us. I don't think it is that bad.

We have always asked the banking community and small business to tell us in our application forms what they would like eliminated. And we are always looking at that over the years, to eliminate some of this extra "red tape," to make the application form that much easier. But I think we have to know a lot about this person or this business that we're making a loan to.

We are going to be servicing it. We are going to live with it for a long period of time. We want to know initially, or going in, who we are dealing with, and we want to know everything about that small business that we can.

So, we do have papers to fill out, or application forms. The processing time—we have four major banks in Baltimore City, and I believe these four banks, the last time we looked, probably account for 80 percent of SBA's business—are all bank certification participants.

Under this bank certification loan program we must process that loan in 3 days. We must have an answer back to the bank in 3 days. That's our agreement with them.

You must bear in mind that we only have control over a very small portion of that timeframe on a processing of a loan. From the time the small business person contacts his bank to the time he gets the money, we are only involved in a very small percentage of that processing.

MR. ALEXANDER. Mr. Cardenas, I would like to clarify a point we went over before. In response to associate counsel's question regarding new technology, you indicated the use of the MESBICs.

MR. CARDENAS. Yes, sir.

MR. ALEXANDER. I am not clear on how MESBICs would produce new technology. MESBICs, as I understand it, was a way to expand capital finance. The one that existed in Baltimore went bankrupt a while ago, and I understand from the SBA budget figures that you are funding MESBICs at a lower rate this year than previously.

So, could you explain the tie between MESBICs and new technology?

MR. CARDENAS. Well, in addition to the other programs, we feel that not only the SBIC, which are the small business investment companies, and the 503, the development companies—that MESBICs, which are specifically set up for minority enterprise small business investment companies—that they should be the ones taking a harder look at helping the minority

sector, the minority small business person. We feel that wherever the banks cannot make those loans, that these MESBICs and SBICs and 503s should not be self-interest groups, that they should be out there really as an outreach to do everything they can for the minority, and certainly, if they are not operating in that direction, we intend to make them go in that direction.

Perhaps there hasn't been enough of it during the last year because we did have a moratorium on the programs, and, basically, all we were trying to do was review regulations that controlled some of these to see that we had a better input.

Our whole overall objective is to see they are not self-interest, but operate for the benefit of the small business community.

MR. ALEXANDER. To follow that up, the original question was about new technology firms, and allowing or encouraging minority firms to access that developing business corridor.

Are there any new programs within the SBA other than the ones that you mentioned, which have all been around for the past decade, that are being geared up on the planning boards for this new growth sector in our economy?

MR. CARDENAS. Well, I think we are, because in general our big task, commencing just recently since I have been on board, is to change the attitude in its entirety of our staff, the attitude being that we need to coordinate these efforts. So what I am saying is that our district directors and our personnel should then try to be identifying these areas in their locales to encourage participation of these MESBICs and the banks with the minority sector; so that's the big difference the development of the attitude in SBA to assist in that coordination.

MR. ALEXANDER. So that I understand clearly, the answer is that you are trying to change staff attitudes. There are, however, no particularized programs to access developing technology?

MR. CARDENAS. Well, I think very importantly, in addition to that is the fact that we have supported the innovation act by which agencies will be required to allocate a percentage of their research and development, and that this money go for research and development to the small business development companies, to the small business contractors.

We think that all this goes hand in hand in identifying better opportunities in the high technology field for minorities as well as the general small business community.

MR. ALEXANDER. Thank you.

MR. MCGOINGS. Mr. Feldman, with your recent experience as District Director in the State of Iowa as background, are there differences in bank participation in the guaranteed program in the Baltimore area as compared to your previous assignment?

MR. FELDMAN. Yes. There are some differences between the bank participation here and in Iowa. For one thing, I think we had a closer relationship to the banks in eastern Iowa than we have here.

MR. MCGOINGS. Why would that be, sir?

MR. FELDMAN. Any answer would be speculation. I think part of it is that it is a less urbanized area, away from the megalopolis of the east coast and, therefore, I think naturally there would be a closer relationship.

Also, in Iowa there is no branch banking. In Maryland the banks are statewide.

MR. MCGOINGS. Are interest rates charged on guaranteed loans higher in the Baltimore area?

MR. FELDMAN. Yes, they are. In Iowa we were able to work with the banks and I hope we will be able to do the same thing here. We hardly ever got a loan application, a guaranteed loan application, in the Cedar Rapids office which was higher than prime, and very rarely did we get one at prime; they were usually below.

Here, all the guaranteed applications come in at the maximum allowed, which varies between 2-1/4 to 2-3/4 above prime.

MR. MCGOINGS. Why is that, do you know?

MR. FELDMAN. Well, it would be speculation. I really have not had an opportunity to talk to many bankers. I have only been here a little over a month. I think some of the speculation I gave before about the fact there is no branch banking in Iowa and banks here are statewide.

The fact that this is a more metropolitan area—there isn't perhaps the closeness to the small business community felt by bankers here as there was there.

MR. MCGOINGS. Thank you.

Mr. Cardenas, are there improvements in the guaranteed program being considered by SBA now?

MR. CARDENAS. Well, the expansion of our certified lending program, which in the last year has doubled to a total of 500 in number throughout the country, is certainly an improvement because it enables the banking community, who really have the personnel and expertise, to develop these loan packages and work with the business community to come to us with a package, which was alluded to earlier, that we would have a 3-day turnaround period which, I understand, is working very effectively with very minor exceptions.

We are continuing to work on that certified lending program and to correct any problems we may have with it, so we can go on to a more preferable—called “preferred lending program”—which would enable the banking community to almost work alone on these loans so that, with their expertise, they can speed them up and would not have to wait even for our consent in the end. I think this is a marked improvement in the guaranteed loan.

Also, recently, as the advocate of small business, I felt it was incumbent upon me to initiate some reduction in interest rates, and we initiated regulations to reduce the interest rates to the so-called prime rate.

I felt that was a badly needed move—to encourage the reduction of interest rates. At this point those regulations—proposed regulations—we are in the process of summarizing the comments, and nothing has been said as a result of those printings.

MR. MCGOINGS. Thank you.

Mr. Cardenas, yesterday we heard testimony from the banking community. One of the things that we learned was that while they can provide us with information concerning their loans through the SBA program, they could not provide us information based on the race of recipients of those loans.

Has SBA ever given any consideration to requiring recordkeeping of bank loans by race?

MR. CARDENAS. Yes, we have, and we are [unintelligible] Mr. Feldman, can you—

MR. FELDMAN. Yes. I was the Chief of Civil Rights Compliance for SBA for 10 to 12 years prior to becoming a District Director last year. We do have those figures, and I am surprised that the banks did not have the figures.

We know by race and so forth which loans are minority, what minority, which loans are to women, which loans are to Vietnam era veterans, and so forth, including the guaranteed loans.

MR. MCGOINGS. Does SBA require the banks to keep that information by race for its SBA loans?

MR. FELDMAN. It is required that we know and, therefore, if we do not see the client, the bank has to tell us.

MR. MCGOINGS. So, they would know in order to tell you?

MR. FELDMAN. Usually, yes.

MR. MCGOINGS. Mr. Cardenas and Mr. Rivera, would you comment on the following concerns that were mentioned to the Commission staff during the field study in Baltimore concerning SBA's direct loan program?

One comment was that the average loan amount that is approved is frequently too small to ensure survival of the business in hard times.

MR. CARDENAS. I think due to inflation that that concern is well taken, that perhaps our limits are not high enough due to inflation.

It is certainly—inflation, if it continues the way it is—we ought to address that program.

MR. RIVERA. I share that concern that they are low. Very often we facilitate entry of a minority into the business mainstream, so to speak, but we don't provide enough support either financially or, very often, in the management technical assistance, very necessary for him or her to survive.

MR. MCGOINGS. Another comment was that there is such a backlog of applications for direct loans that it often takes SBA 1 year to process the application. Mr. Cardenas?

MR. CARDENAS. Well, since I have come on board, of course, we have addressed that problem, or we have been very concerned about it. Perhaps Mr. Handy can allude to that question.

MR. HANDY. Actually, what we do in that situation is, we will take a loan application in, even though we don't have funds to fund it. If it can be funded within a 3-month period, we will keep the loan and process and approve and then fund when money becomes available.

If it cannot be funded in a 3-month period, we return it to the applicant and explain exactly what the situation is, an approximate ballpark figure of when we feel that loan can be funded.

Of course, this is depending upon our allocations which—a lot of times we don't know from year to year what we are going to get, so the applicant is well aware what we have done with his application and what our situation is.

And, of course, in that return to him, we do tell him to still seek guarantee participation, and then when it looks like the loan can be funded within a 3-month period, we will contact that small business person and say, "Come on in here and we'll take another look at that application."

MR. MCGOINGS. Mr. Rivera, would you have any comments on that concern?

MR. RIVERA. The delay in SBA processing?

MR. MCGOINGS. The backlog of applications and the 1-year delay.

MR. RIVERA. I have served as a District Director. Usually there should never be that long a delay because, at least in New York, what we would do, if we knew we would not have any funding for at least an additional quarter, we would not take an application, because all you are doing there is building expectation or hopes for an individual. They are very often going to get their expectations high and the frustration level will be very high later on when those funds are received. And very often, because of the time lag, the 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 his past expenses, so, in effect, you are not really helping a person. All you are doing is increasing his debt-to-equity ratio.

MR. FELDMAN. Mr. McGoings, I would like to add one thing.

MR. MCGOINGS. Go right ahead.

MR. FELDMAN. I think the 1 year came from the fact that at the present time that is about how far we are estimating and telling people it will be before a direct loan will be funded, and then urge them at that time to seek bank participation so they can get their loan earlier.

MR. MCGOINGS. Thank you.

Mr. Cardenas, another concern was that the release of the loan principal in incremental amounts frequently results in lost opportunities for small and minority entrepreneurs.

MR. CARDENAS. I am sure that may be the case in many cases where it depends upon, how should I say, prompt decisions to acquire certain inventories and equipment and the like.

I guess it was SBA that provided that procedure to allow some kind of management assistance along the way; however, perhaps Mr. Handy can address those problems.

MR. HANDY. I do not think it is a very big problem with the SBA. I think it is a very big problem to that small business person who has an incremental disbursement. We are kind of torn on both sides. We have to protect the interest of the government; we have to protect the interest of taxpayer's money; we have to conform with regulations; and we also have to help that small business person.

I think the solution to any of those problems that come along on incremental disbursement is simply communication, as it is, I think, with any of our small business people. It is just a communication problem.

We try to correct those situations when we know about it. Communications is a two-way street.

MR. MCGOINGS. So you do have a mechanism that could overcome that problem?

MR. HANDY. Absolutely. Of course, we still have to help that small business person. There is no point in approving a guarantee loan or direct loan and then throw them off the side of a cliff. We have to stick with him all the way through until we get that last payment in.

So we are concerned all the way through that whole process.

MR. CARDENAS. I might add from my personal past experience in working with small business persons, or participating in some technical assistance programs in California, there were instances where the small business persons did receive their money at the very beginning and, not being good business and money managers, did not spend it as was originally planned. That certainly developed into many problems, in fact, worse problems and violations by them, so I can see some kind of a plan to work with them constantly at the beginning is appropriate.

MR. MCGOINGS. Mr. Rivera?

MR. RIVERA. I think that is an area where from time to time we can be helpful. One cannot generalize in making statements that incremental payments can or should not be made but, of course, should be done on a case by case basis. But the problem, as Mr. Cardenas stated, stems from the fact that very often people go into business without having a good business plan or good cash flow analysis, and they don't anticipate certain problems or situations that might affect that cash flow. You may have an incremental program that looks good on paper, but if something crops up in the

economy, or any emergency, the SBA or others should be flexible enough to change to meet the situation.

MR. MCGOINGS. Thank you.

Mr. Cardenas and Mr. Rivera, your agencies directly or indirectly provide a variety of technical and managerial assistance programs. To what extent is this assistance provided by private contractors?

Mr. Cardenas?

MR. CARDENAS. Well, as I stated in my opening remarks, that we do have a program under 7(j) by which we do go to a cooperative bidding process to obtain services from the private sector and independent contractors.

MR. MCGOINGS. Is there a method of maintaining quality control over those private contractors?

MR. CARDENAS. That has been a serious concern of mine in the past, and we are currently reviewing that situation right now, because I feel that we want to make sure that small business community, particularly the minorities in the 7(j) program, do benefit from those contractual services.

We are in the process of evaluating and seeing how their delivery system will, in fact, take effect. I am concerned that the small business persons and selected businesses to receive this service are benefited and not just being reviewed for a short period, and that the contractor is really just building up a business for himself and benefiting himself rather than seeing that the small business person is helped over a period of time.

A very serious concern of mine, particularly since I come from the independent accounting field.

MR. MCGOINGS. Thank you, Mr. Rivera?

MR. RIVERA. If I may preface that with a little statement of the problem: if you look at the three principal problems faced by minority entrepreneurship, basically three, one is a very low participation rate of minorities in business.

It is approximately one-sixth that of the majority of the population. Unfortunately, that ratio or rate has not changed significantly over the last 10 or 12 years, despite, at least from our agency's perspective, over \$1½ billion of expenditure.

We have not significantly impacted on that participation rate of minorities; so that remains a serious problem.

Second one is the low growth rate of minority firms. A lot of people don't realize that over 80 percent of minority firms have zero employees. That again has not changed over the years.

Third, the very high failure rate of minorities. It averages at least three times higher than majorities, so we have to ask ourselves, after 10 or 12 years of the minority business development effort, where are we on the learning curve? We have contracted or used consultants and contractors, private contractors, over the years.

I think you raised a very good question: What kind of performance measurements—how do you hold them accountable for contributing towards changing those three problems that I stated before?

Some of the things that we have done in the past, because we have been accused of contracting or using consultants and it became a situation of the blind leading the blind, so last year the agency went to a competitive bid process to award consulting and management technical assistance awards. We are reviewing that process now.

We have had some success stories. We have had some disasters as a result of that. We are in the process right now of entirely revamping our delivery system to provide, as I mentioned earlier, the type and the quality of management and technical assistance that will make minorities more competitive both in the private and the public sector, because unless we can prepare minorities to compete in both areas, we are not really talking about economic equality.

Because the label of minority—being labeled a minority or, even worse, a disadvantaged firm, of and by itself is not going to make you competitive on the basis of price, quality, or service. Those are the areas that our contractors will be measured, by their ability to do that.

MR. MCGOINGS. Thank you.

Mr. Cardenas, what efforts has SBA currently made to identify so-called “front” companies and what remedies, other than decertification, can SBA employ?

MR. CARDENAS. To identify fund companies?

MR. MCGOINGS. Front companies.

MR. CARDENAS. Front companies. Well, of course, we have our Department of the Inspector General, who makes his reviews and investigations, and we have our—that would be our prime thrust, there in the Inspector General’s office, and, of course, we have avenues by which we are encouraging our staff throughout, and all those connected in any way through advisory councils, to be observant of those situations and to let us know so we can have our Inspector General make a review. And certainly I am very much committed to make sure that these problems do not exist. So we are making an all-out effort to identify them.

MR. MCGOINGS. Is there anything other than decertification that the agency can employ now?

MR. CARDENAS. Of course. To my knowledge, I don’t think so, other than certainly to see that justice takes its place, yes.

MR. MCGOINGS. Mr. Handy, have front companies been a particular problem in the Baltimore area?

MR. HANDY. No, I don’t really believe they have. It is a very difficult thing to turn up because you are dealing with professionals, in a way. I don’t think it is still a problem.

MR. MCGOINGS. Do you recall whether a front company has ever been decertified in Baltimore?

MR. HANDY. Not in an 8(a) contract, no. There was one—I think this was a State, the State equivalent of 8(a), I believe. I think they were prosecuted, in fact.

MR. RIVERA. Very often, if I can add, the problem of front companies is more the publicity that is given to them. They do exist, of course, and some action should be taken to penalize them, but very often the press and others harp on that and that does a tremendous disservice to other minority firms. When that happens, they should put a stop to it and identify the culprit and they should be punished.

MR. MCGOINGS. Thank you. Mr. Chairman, I have no further questions.

CHAIRMAN FLEMMING. Commissioner Ramirez?

COMMISSIONER RAMIREZ. Thank you, Mr. Chairman.

Mr. Cardenas, as I understand it, there is SBICs and MESBICs and the MESBICs have a focused responsibility to develop minority entrepreneurship?

MR. CARDENAS. That is correct.

COMMISSIONER RAMIREZ. What minority entrepreneurship responsibilities does an SBIC have?

MR. CARDENAS. SBIC or the S-B-I-C-s you are referring to, the small business investment companies. I would say that they have, on the broad basis, just as much responsibility as their community needs to see that the minorities have an equal opportunity.

COMMISSIONER RAMIREZ. Okay, if I am in a city where there is not a MESBIC but there is an SBIC,—

MR. CARDENAS. An S-B-I-C.

COMMISSIONER RAMIREZ. An S-B-I-C, then I am able to participate and should participate, but do they have an affirmative responsibility in the minority business enterprise area?

MR. CARDENAS. They have the responsibility to have their program open to everyone, so by those terms I mean that they should also be concerned with the minority small business development. And when I mentioned earlier about attitude—and we are pushing this now very fervently—by the way, we have just recently brought our—most of our regional administrators are on board and I have delivered the message that our district directors be out there as coordinators, and I don't want to hear of a district director or anyone associated or connected with SBA that will downtalk those license agencies. They have to be able, if someone comes to them, to discuss certain—say somebody came to them and say they were not having any luck in going to the guarantee, there are no direct funds, by golly, they ought to be directed to those licensed agencies in their communities to see that they get a fair opportunity.

COMMISSIONER RAMIREZ. You must have heard about some happenings in my part of the country.

MR. CARDENAS. I don't know where you come from, Mrs. Ramirez, but I had the specific experience of asking someone in Texas to ask a district director whom we thought was an excellent employee, what they felt about going to an S-B-I-C.

I am disturbed to hear that he didn't have that much of an optimism directing that person to an SBIC, and I am going to address that problem very soon. But this is what I mean about changing attitudes. If we want to change the attitudes of the community, the attitudes of the banking world, then our attitudes in SBA, have to be directed in the right direction.

COMMISSIONER RAMIREZ. Do you have plans to put in place a tracking system which could audit or monitor for you differential treatment by minorities within the SBA system? In other words, we know in my field of work, social services, that minority persons are likely to have to wait 17 days for service in a social service agency, whereas a white person might be expected to receive services in about 11 days, or something to that effect.

Do you have any way of knowing whether that is occurring in SBA? Is it important to you, and do you have plans to be able to track that kind of thing?

MR. CARDENAS. Well, let me say first, when I came on board with SBA I think I made it very clear that we wanted to be an agency based on economic principles, but that I was committed to reviewing the programs to see that they were effective and efficient and should be open to all so that everyone receives fair treatment, and that included, of course, the minorities and the women, too.

Of course, I am sure that there have been complaints, but, Mr. Feldman, do you have any comments on that?

MR. FELDMAN. Yes. There is a tracking system. The Civil Rights Compliance Division of SBA monitors SBA program offices, and it also monitors recipients. It monitors the small business investment companies that you were talking about just a few moments ago—make sure they don't discriminate on the basis of race, color, religion, sex, national origin, handicap, age, and so on and so forth.

COMMISSIONER RAMIREZ. I suppose my concern stems from the fact that we sometimes have different treatment of people in different regions of the country, and in some cases, our government agencies reflect the prevailing attitudes of their region.

If you had a way to target and be able to act upon specific areas, I think it would be very helpful and I trust that you will be looking at that.

I have no further questions.

CHAIRMAN FLEMMING. Mr. Saltzman?

COMMISSIONER SALTZMAN. I'm not exactly sure—maybe Mr. Cardenas can indicate who should answer this, but in testimony provided us yesterday, while there were some positive statements about SBA, there were some concerns about the function of SBA.

One is that the training programs provided for minority business take place in areas not conveniently located to minority businesses; the offices of SBA related to minority businesses are not where the minority community lives.

Without any, I think, negative inferences, some testimony was given to us that SBA was inadequately staffed and inadequately funded, and therefore, their followup is, for the small minority businessman, inadequate.

You can only get to see a counselor—twice was the number. I don't remember the span of time—but indicating that they need more technical assistance and that technical assistance is very crucial to their success and not really provided by SBA, not always because they don't want to, but funds and staffing are inadequate.

Of course, you have already referred to the time gap which was another criticism. The question is: How do we address these problems?

MR. CARDENAS. Certainly the concerns about location of training and the office—certainly those are concerns well taken and we will certainly address those.

Regarding our lack of personnel and funds and reductions, there is no question that, over the years, basically, we have had the same amount of personnel with certainly the burden of many, many more programs and certainly a tremendous expansion and participation in all levels of the small business community.

I know that, if we had all the money and all the people aboard on SBA to even touch in a fair percentage, which I know we don't touch enough of those small business persons, that we still have to depend on the private sector for expertise.

Certainly, in keeping with the philosophy of the current administration, we are making a very strong effort in that direction to tap the resources of the private sector. This is what I mean by the complete change of attitude of SBA to be the coordinators of the private sector to enable them to come together to help the small business community.

We have a large group of retired executives under the program of SCORE, which is a Service Corps of Retired Executives, which we have realized that they need an updating if they are to be counted on to help the small business community.

We have to ensure that they have assistance to be updated so that they are current with current business ideas. And currently we are developing that coordinating effort with not only the professional societies, the civic organizations like the chambers of commerces, the NFIB [National

Federation of Independent Business], the various regional organizations and trade, to encourage them to participate, encourage that their membership participate in assisting us to give assistance to the small business community, as well as to assist in training our SCORE program so they, in turn, who are very able and willing to help the small business community, so we have more numbers participating in this program.

My feeling in keeping with the overall philosophy, if we do not get the respective communities active to help the small business in those communities, that the job will not adequately be done.

I think we are going to go a long way by this procedure. We are reactivating—not reactivating but restructuring our advisory councils to be committed to assist in that manner. In the past, we have had somewhat like 1,300 or 1,400 people on our advisory councils who have been willing to help, but relatively few have helped.

By receiving commitment from them and a recent restructuring of those councils, we will be able to receive more help. There is no question that we would like to be able to hit a large section of the small business community, but with the current funds and employees, we cannot do it, and we really don't have, can't have—it is impossible for us to have the expertise we need to tap the expertise of the private sector, and this is something I pledge to do everything I can to create that cooperation.

I will let Mr. Feldman here address our problem on the local training situation.

MR. FELDMAN. Yes, I heard the same allegation, Rabbi Saltzman, yesterday, and, therefore, I talked to our management assistance people here.

During this last year we have only had two—three training sessions downtown, while the previous 3 years we used to hold them weekly downtown. The reason it was changed was because we weren't getting very good attendance downtown. The number of minority business persons attending our training programs doubled when we moved—who are business persons in the city—doubled when we moved them to the beltway because of the cost of parking and because of convenience in getting to the locations.

During this last year we had 1,644 minority business persons, at least half of whom, probably more, were from Baltimore City, attend these training programs.

COMMISSIONER SALTZMAN. With respect to what Mr. Cardenas said, in bringing in the private sector, Mr. Feldman, I know you are here only a short time, but do you find the private sector responsive to the concept of coordination and working with SBA and providing the technical assistance that SBA is not always equipped or staffed to provide?

MR. FELDMAN. Yes. Yes, I do. At least those I have met so far. Probably I met the more cooperative people first, so you know it is hard to give an

overall answer, but I have had meetings with about 10 different groups in the private sector, and all of them have indicated a willingness to cooperate, and some of them have already demonstrated a willingness to cooperate.

COMMISSIONER SALTZMAN. How about the banking institutions? Do you find them affirmatively engaged in an effort to help promote small minority business?

MR. FELDMAN. I think, in terms of their own perceptions, they have been so far. I think it is too early really for me to tell if they are in my terms.

COMMISSIONER SALTZMAN. Mr. Handy, we received testimony yesterday indicating to us that in terms of giving out loans that the loan officer, if he happens to be a white, and the loan applicant black, that there is a gap in communications. And the information-gathering process by the loan officer is more complicated because he is unaware of the sources and the resources for that data gathering, that the loan officer ought to more constructively be a black person and have contacts within the black community whereby the information can be more adequately gathered and successfully gathered.

In the SBA is this a factor in terms of relating to the black or the minority small business person?

MR. HANDY. I don't really believe so, Rabbi Saltzman. I am just sitting here mentally trying to figure what the experience is of the financial—the four financial people that we have reviewing loans. It is close to 100 years, I would imagine, in time.

COMMISSIONER SALTZMAN. Can you tell me what their race is?

MR. HANDY. They are all white. Most of our minority loans in the city are generally put together by the Council for Equal Business Opportunity, CEBO, which is staffed, not entirely, but the majority, are blacks. They are the ones that give us this completed package, so I really don't think it would be of any significance to us to have—you know not significant to have a black loan officer, but what you just said, because most of the loans are coming in from CEBO—minority loans are. That is who we deal through.

We rely upon them almost entirely to gather this various information for us, plus to give us a narrative on their feelings towards this loan.

COMMISSIONER SALTZMAN. So what is the loan officer responsible for doing?

MR. HANDY. He does a credit analysis, our own credit analysis—presents this to a credit committee that makes the decision on the SBA loan.

COMMISSIONER SALTZMAN. Is there a one-on-one interview?

MR. HANDY. There could be. It is not a requirement because we use CEBO to do our one-on-one. If he has a problem, if there is a problem in

approving his credit or some other problems, even in an approved credit, yes, there would be a field visit and a one-on-one.

COMMISSIONER SALTZMAN. The Vice Chair had to leave, and, for her information, I would like to just ask Mr. Cardenas and Mr. Rivera—she is concerned about the graduation from the 8(a) program. Should there be some time element whereby a minority firm is graduated so that more room could be made for other minority firms? Is that a concern that you have?

MR. CARDENAS. Very definitely. At the very beginning of my term, knowing that we had problems there, that the 8(a) program was dominated by too few and too many were not being given the opportunity to participate, I initiated new proposed regulations, and the final regulations, I am very hopeful, will be signed today by OMB. They have gone to OMB for final approval.

We did specifically that in order to allow a turnover, a constant turnover every year of 2 to 300 or more small business contractors of going in and out of the program, not that they are going to be limited to one year, but in order that there be a definite plan.

The new regulations basically will require them to have a business plan submitted by the end of the month, and negotiations for their overall program by next April will enable us to review and negotiate with the existing contractors so that then we can have what we call a completion program and allow new ones to come into the program.

We felt it was only the right thing to do and the true spirit of 8(a) as it was set up 12, 13 years ago, to give an opportunity to many to participate in this noncompetitive process and to receive business development, expense, and technical assistance.

So, I am very pleased and just delighted to see that we have taken that on as one of our top priorities and that we are well on our way to accomplishing what we wanted to accomplish.

There is much work to be done, but I think the Vice Chairman's concern has been addressed since I have been on board.

COMMISSIONER SALTZMAN. Could we have those regulations submitted for the record, Mr. Chairman, at this point in the record?

CHAIRMAN FLEMMING. Yes.

COMMISSIONER SALTZMAN. Is there a time element within the regulations or just—

MR. CARDENAS. No.

CHAIRMAN FLEMMING. Just to make it clear, we will enter in the record at this point those portions of your regulations dealing with this particular issue. Maybe all of the regulations you are talking about deal with this issue, do they—the ones that have gone over to OMB?

MR. CARDENAS. Yes, in general, they have—there is a time period—fixed participation time.

WALTER WARREN [General Counsel, SBA]: Mr. Chairman, if I might say, this is still pending from OMB. They have not as yet been approved. As soon as they are we will, of course, make them part of the record, but until they are I don't think it's a predecisional matter.

MR. MCGOINGS. What is your name, sir?

MR. WARREN. I am Walter Warren. I am General Counsel of the Small Business Administration. I apologize for interrupting, but—

CHAIRMAN FLEMMING. The record will be open long enough so that we can receive it once you've got a decision on the part of OMB in conformity with your request.

MR. CARDENAS. I think the concerns are where there is a fixed participation time, fixed to enable a proper turnover—

COMMISSIONER SALTZMAN. Let me finish. Assistant Secretary Carlucci indicated that what's the sense, in terms of a time that has no other considerations, what's the sense of investing the Department of Defense, in particular—training, carrying along this firm, and then letting go, forcing them out of 8(a) before they really are capable of making it on their own, of graduating them, because the Department of Defense has such an investment and then has to retrain, so, I mean, I can see the complexities.

Were you here when he gave that testimony?

MR. CARDENAS. I heard part of it, sir.

COMMISSIONER SALTZMAN. Would you like to respond? Is there a fixed time?

MR. CARDENAS. Well, there is. We have proposed a fixed participation time which would give an opportunity—the whole objective and spirit of 8(a) was to give as many as possible the opportunity to participate in this program, and it certainly was not intended to have anyone make a career of it. It was basically to receive help, and I think we have to be concerned not only with the 2,100-plus currently certified contractors; we have to be concerned about the other 10,000 contractors who would be readily eligible for this program according to recent Department of Commerce statistics, when in fact we are probably thinking of 40,000 small business contractors throughout the United States who are potentially eligible for this program.

Unless we operate in the true spirit of 8(a), of the original intent of 8(a), we will not give a fair opportunity to the many who could be eligible and participate.

Now, the fact that a contractor will complete his overall business plan and be completed from the program, as we like to call it, or graduated, does not mean that the Department of Defense cannot deal with him in the regular procurement process, but I think we have to work with them for this fixed time to enable him and give him every opportunity to progress.

The responsibility is really on the contractor.

MR. RIVERA. Can I respond to that?

CHAIRMAN FLEMMING. Yes, go ahead.

MR. RIVERA. Let me say that I appreciate the fact, and I can share some of Mr. Carlucci's concerns, because I was very much involved in the promotion of the 8(a) program, and not only does the Department of Defense, but the Federal Government, the SBA, and MBDA has a large investment. It is unfortunate that the constraints of resources limits the number of firms to enter the program.

It is also ironic that those firms, after a while, become the most productive, employ the most people, and—in fact, it depends a lot on how one interprets the spirit of the act. If it is to use the 8(a) program as a tool for economic development, if it is to use the 8(a) program to hire disadvantaged people to help stabilize communities and what have you, then obviously it doesn't make sense to graduate the most successful firms. The ones that should graduate, of course, would be those who are not successful, that can't compete, or cannot find any markets for their products. That is kind of a wishful approach to it.

Mr. Cardenas has X number of resources and I am sure, you know, it is a dilemma to try to accomplish both a good, well-intentioned program and try to bring it into reality with limited resources.

MR. ALEXANDER. Did your agency comment on the proposed regulations?

MR. RIVERA. No. We have been working very closely with the SBA in terms of assisting firms to enter what we call the transitional phase, from the last year they would be in the program to the time they can, hopefully, compete in both the public and private sector on their own.

CHAIRMAN FLEMMING. I noted in Mr. Cardenas' opening statement his reference to a comment on the part of the Commission on Civil Rights relative to your civil rights program made in the early 1970s.

Then I took note of the fact that Mr. Feldman had been in charge of the civil rights program at SBA, I assume, during the period that the Civil Rights Commission made that oversight study. I also took note of your very quick response on this question of records being kept by race—that there is a requirement on the part of SBA that the records be kept by race.

I commend SBA for having decided to institute such a requirement. Secretary Carlucci, right near the end of his testimony, referred to some of his experience as Deputy Director of OMB, where he took the lead in insisting on certain kinds of records being kept so that we would have the opportunity of measuring progress or lack of progress.

Certainly in this whole area of opening up opportunities for minorities we've got to be in a position where we can measure progress or lack of progress.

You, Mr. Feldman, expressed some surprise that the banks, in view of the interrelationships, were not keeping records of this kind. I noted earlier in the discussion a dialogue which involved you and Mr. Handy relative to

the low participation on the part of the banks in the Baltimore area in minority business loans.

I also noted your comment about your plans for endeavoring to establish closer relationships with the banks in an effort, I assume, to bring about a greater degree of participation, and I assume, Mr. Cardenas, that that links up with your concept of SBA being the coordinator of the private sector.

On the basis of the testimony we received, it seemed to us that there is quite an opportunity for cultivating the ground, so to speak, here in order to bring about a greater participation.

I think, Mr. Handy, you indicated that you felt that one of the reasons for low participation was their feelings relative to the profitability of the loans.

First of all, I think I would like to ask you whether or not you believe that that feeling on their part is a valid feeling? Are they taking a valid position, just looking at it from the standpoint of the economics of the situation?

MR. HANDY. No. I think minority business is good business.

CHAIRMAN FLEMMING. I gathered that from your comments on the experience of SBA. In other words, there's an educational job to be done here?

MR. HANDY. I think we have our work cut out for us in the next—

CHAIRMAN FLEMMING. But you do feel that the facts are on your side—

MR. HANDY. Yes.

CHAIRMAN FLEMMING. —in your effort to see a greater degree of participation. Now, linking it up with the records, do you think requirement on records, keeping records by race and so on, has anything to do with reluctance?

Have you run into that in other parts of the country, Mr. Feldman, maybe in Iowa or any other place where you have had experience?

MR. FELDMAN. No. We've really never had any experience that I am aware of, and during my time in the Civil Rights Compliance Division we reviewed virtually every SBA program office, including their relationship with the banking community.

I am unaware of any real problems. Even when we published the regulations and included guaranteed loans, we got one minor comment from the American Banking Association that had nothing to do with recordkeeping. We have never had any resistance from them on that.

CHAIRMAN FLEMMING. I know there is general resistance to recordkeeping. I understand that, particularly where the requirement comes out of the government, but nevertheless there are certain areas where, if we don't keep records, we don't know whether we are moving forward or backward.

MR. RIVERA. Part of the problem, of course, from the bankers' perspective is that, generally speaking, the amount of paperwork is the

same whether it is a \$25,000 loan or it's a \$300,000 loan, and it costs the bank, in other words, more, relatively speaking, proportionally, to process any small loan, regardless of whether it is [a] minority or majority firm.

That, very often, is a principal factor, the size of the loan. That is a function of the types of businesses that minorities are in and the size of their business.

CHAIRMAN FLEMMING. Mr. Rivera, you made one comment that ties in with other testimony we have heard. You put it a little different way, that is, the percentage of minorities in business. You may have heard me comment on earlier testimony, on the small number of minority businesses, comparatively speaking, considering the size of the population.

In other words, where there is a potential resource here, the way I like to look at it, that we in our communities, or as a Nation, are not utilizing in an effective way.

Growing out of your experience, do you have any suggestions as to how a community can go about increasing that percentage of minorities, become interested, and not only interest, but as a result of becoming interested have some satisfying experience?

MR. RIVERA. I think, Mr. Chairman, you have to divide the problem with the market into three elements: one, there are existing minority businesses; and then there are the potential ones on the verge of going into business, waiting for something to happen; and, third, there are the future—what I consider the future entrepreneurs, our children and our children's children.

I think we in government and the public sector and the private sector need to be more actively engaged in demonstrating to minority youth that self-employment as a career opportunity can be creative, can be psychologically fulfilling and can be socially responsible. And I think, unless we, with the educational community and government do that, we may lose another generation. We have to start not only in college—and we have a program with black colleges—we have to get down to the high school and possibly the elementary level.

CHAIRMAN FLEMMING. Mr. Cardenas, do you have any comment you would like to make on that overall problem that we are thinking of right now in relation to this community?

MR. CARDENAS. Right. Of course, my hopes are to address the very current problems, and that is why going to the private sector I think is going to prove to be a very, very good philosophy in addressing your problem about whether the banks have facts or statistics on how many they turn down.

I would like to know the number and the reasons why the minorities are being turned down by the banks because then it becomes a community effort through our private sector in management assistance to address the problem.

In other words, did they turn them down, number one, just because they didn't have enough assets, or did they feel they were not creative, they did not have a track record? What was the problem, so that we can get our private sector involved through coordination of our management assistance program to provide that management assistance, or at least give them an opportunity in the sense to come back with a better application.

I am afraid that in many cases, because of discriminatory practices in the past, and I am sure currently, that many are given the no answer without proper reason. With that proper reason, then comes our responsibility to find out how can we correct that, and that is what I want to address currently.

CHAIRMAN FLEMMING. Thank you.

Commissioner Ramirez?

COMMISSIONER RAMIREZ. You struck a chord when you talked about children, Mr. Rivera. We heard about the absence of minority loan officers for hiring by banks.

We heard about commercial loan officers. We heard about a relative absence, in some cases an absolute absence, of minorities employed as bonding officers.

We heard about this yesterday, and you did say you had a black colleges program, but do you have an overall strategy for the development of personnel, young people, going into economic development fields from an institutional perspective? That is, the institutions which facilitate economic development, by and large, it is my perception, tend to be devoid of the minority talent that is necessary in order to make it work.

So many minority persons are going into education, going into the social service fields, going into professions other than economic development.

Do you have an overall strategy in this area?

MR. RIVERA. Very honestly, no. We have been accomplishing that aim indirectly by working with many of our funded organizations, whether it is the National Business League, whether it is many of our minority trade associations who do have programs, so that indirectly we are assisting them in that aim.

For example, we work very closely with the National Bankers Association, which is an association of minority-owned banks, and they, in their program—have programs aimed at training and improving the skills of their members and participants. We find that very often these groups, these persons graduate from that area, and then go into the corporate world and work with a large bank and what have you.

NETA, for example. You are very familiar with NETA. A number of our graduates with business development organizations are now working in banks and working in positions in government where they can play a role in economic development, but we are going to develop a strategy.

COMMISSIONER RAMIREZ. Good.

CHAIRMAN FLEMMING. General Counsel has a question.

MR. ALEXANDER. Mr. Feldman, you mentioned the civil rights monitoring function. Are all the firms that receive SBA loans monitored for their employment practices?

MR. FELDMAN. No, sir. I have been away for a year.

MR. ALEXANDER. Then Mr. Cardenas can answer.

MR. FELDMAN. We never monitored all the firms.

MR. ALEXANDER. What is your cutoff point?

MR. FELDMAN. When I left it was 20 or more employees.

MR. ALEXANDER. Mr. Cardenas, what is it now?

MR. CARDENAS. I will have to leave that question to Mr. Robinson.

CHAIRMAN FLEMMING. If you would just give your full name for the record.

MR. ROBINSON. George Robinson, Director of Equal Employment Opportunity and on the staff of Mr. Cardenas.

Normally, we have been monitoring companies with 20 or more employees. The Justice Department and our own auditing, internal audits department, suggested that we reduce that to cover service-oriented firms because of their ability to discriminate in terms of the public. They wanted us to monitor all of the service-oriented firms.

We made a compromise because of the lack of facilities and resources that we were monitoring, or plan to monitor, companies with 10 or more employees. At the moment we have a dilemma because of a problem with the Office of Management and Budget in which they want us to reduce the paperwork burden on small businesses.

MR. ALEXANDER. And that would be a 250 cutoff, I believe?

MR. ROBINSON. That is what they have asked us, cutoff at 250 employees.

MR. ALEXANDER. And in the small business field would that effectively limit the affirmative action monitoring of most companies receiving SBA funds?

MR. ROBINSON. Yes, it would.

MR. ALEXANDER. Thank you.

Mr. Cardenas, you mentioned the reasons that banks turn down minority companies. As I understand it, in order to get a guaranteed loan, a person must bring to the SBA their turndowns.

Does the SBA examine those turndowns and determine on a systematic basis whether or not there are patterns of racial discrimination or other such discrimination in the turndown of commercial lending institutions?

MR. CARDENAS. It is my understanding that we do. Mr. Feldman or Mr. Handy?

MR. FELDMAN. Yes, that is part of the monitoring that the Compliance Division has been conducting of SBA program offices.

MR. ALEXANDER. Can you tell us, in the Baltimore region, what are the major reasons that minority persons are not receiving direct commercial loans?

MR. FELDMAN. I would say now from my compliance experience—and we did look at the Baltimore office a couple of times before I left the Compliance Division—that every turndown we saw on the basis of race was a legitimate credit decision.

The minority loans that have been turned down have been higher risk, and that really has been one of the reasons that we had direct lending authority; it was a last-resort authority.

Each credit decision has to stand on its own, and these loans really were higher risk than the loans that the banks are approving.

MR. ALEXANDER. Mr. Cardenas, on the 8(a) program, so we have the record clear, is the 3- to 5-year period that was in the proposed regulations what has gone forth to OMB for the graduation period for 8(a) firms?

MR. CARDENAS. No, sir.

MR. ALEXANDER. What is the current period?

MR. WARREN. I am Walter Warren, General Counsel. I am going to object to any questioning on this until the final decision has been published, because it is a predecisional matter by the executive branch, and we might get embarrassed if further decisions are made to change the numbers of years.

MR. ALEXANDER. It may be a matter within the executive branch, sir, but it certainly has been a matter for public comment under our regulatory process, and it is a matter that this agency has commented on, and we have commented on a 3- to 5-year provision.

MR. WARREN. Is your question then, sir, just what was initially published in our proposed regulations?

MR. ALEXANDER. I asked if the 3- to 5-year provision was retained.

MR. WARREN. Well, we don't know that yet, and I don't think that question can be properly answered until we come to a final decision that has been finally approved by the OMB.

MR. ALEXANDER. Will you submit the final regulation to us?

MR. CARDENAS. Yes, we will.

MR. ALEXANDER. And the rationale behind whatever term or years is provided.

MR. CARDENAS. Absolutely.

MR. ALEXANDER. Could you tell us, under the initial provision of the 3- to 5-year standard, what impact that would have on the existing 8(a) firms in the Baltimore region?

We received testimony from 8(a) firms in Baltimore that if their status were removed—these are firms that are viewed as the few successful minority businesses in this region—that they would be close to bankruptcy.

It would substantially affect the employment of minorities in the city of Baltimore and so on.

That seems to concur with Mr. Carlucci's testimony earlier. Could we have that either now or for the record?

MR. FELDMAN. We have the Assistant District Director for Minority Small Business in the Baltimore district office here. I think he could probably best give an answer to that.

MR. ALEXANDER. Who is watching the store?

MR. FELDMAN. Excuse me, may I also introduce my deputy, Don Templeton? As I said, I wanted to have staff so that if we got into specifics, we could get into it. This is Don Templeton, who has been assisting me with the 8(a).

MR. ALEXANDER. Thank you.

MR. TEMPLETON. I would like to answer the question, probably not so much as relates to particular firms you have in Baltimore, but as to firms that are currently in the program at the present time. There is nothing in the regulations that requires the immediate cutoff of 8(a) assistance to firms. In fact, in the new regulations there will be a period of time that they will be guaranteed continued participation. I won't, because of the General Counsel's concerns, indicate that period of time. It will be in the regulations, which you will receive shortly.

There is no intent to immediately eliminate these firms and thereby to see them go into bankruptcy. Obviously, that would be a poor thing to do. On the other hand, many of these firms are—and again not speaking of the ones in Baltimore, but many of these firms are able to compete; many of them do compete on the outside of the 8(a) program. While there is a period of adjustment, it is not fair or reasonable to assume they will automatically go into bankruptcy.

I honestly believe that some of them will find that they can compete much better than they think they can and there is certainly an amount of smoke screening in the statement they are going into bankruptcy.

MR. ALEXANDER. Mr. Rivera, Mr. Cardenas, in the greater Baltimore Committee study and on minority business development, which found, of course, there was very little business development in this community—that study was critical of the Federal role. One of the particular criticisms was there was a lack of coordination between government entities. I would like you both to respond to that. Your two agencies are the major agencies involved.

MR. RIVERA. Obviously, there has not been too much minority business development or even new starts in the minority or majority community over the past year or so. I think the major reason for that, of course, is the cost of money. People do not go into business when they have to borrow at 18, 19, 20, 22 percent.

MR. ALEXANDER. I was more concerned with the allegation, if you will, that there was a significant lack of coordination between the arms of the Federal Government with responsibilities in the area of minority business development.

MR. RIVERA. Okay. What I am saying, regardless of whether there had been the greatest of coordination—if the economic situation in any given area is not propitious for entering into business, it is not going to happen. But we are correcting that.

We have, as I mentioned in my opening statement, an interagency council that had been somewhat dormant. We had our first meeting October 7, and the purpose of that council, which, by the way, has been restructured—we have the Secretary of Commerce chairing it; we have three committees: a capital development committee, a management and technical assistance committee, and a marketing committee.

All of the Federal agencies involved in those three areas will be working together, and hopefully we will be doing a better job of coordinating our efforts at the Federal level.

At the local level, via the minority business opportunity committee, hopefully the Federal, State, and local agencies will be doing a better job of coordinating.

We have a program to deal with that. The criticism, I guess, has been valid in the past.

MR. ALEXANDER. Mr. Cardenas, would you care to comment?

MR. CARDENAS. Sure. From the very beginning I had the commitment to try to strengthen our working relationships With all Federal agencies, and since—let's see, I guess from June onward, I have visited personally with my staff and with staff of other agencies, about 26 different agencies with whom we do about 90 to 95 percent of our subcontracting and contracting business for the small business community.

I knew that the relationship was rather strained there, and I asked them out front what were the problems. Basically what I was telling them was I wanted, first of all, to improve communications. I wanted it to be a two-way street, and any problems that we had in our agency I wanted to make good to make sure they were satisfied.

But I stressed that I was there to plead with them that the small business community get their fair share of the business and, in fact, one of the last ones that I visited with was Mr. Carlucci. As I say, I think it was a strained relationship there.

I was there to assure him personally that I would do everything possible to improve our relationship and to stress the implementation of 95-507.

MR. ALEXANDER. Thank you.

Mr. Chairman?

CHAIRMAN FLEMMING. We deeply appreciate your coming and providing us with this testimony in response to our questions. It has been very, very helpful.

Thank you very, very much.

Counsel will please call the next witnesses.

MR. MCGOINGS. David Noer, Bernard Manekin, Daniel Henson, William Boucher. Please come forward. Remain standing until taking the oath.

[David Noer, Bernard Manekin, Daniel Henson, and William Boucher were sworn.]

TESTIMONY OF DAVID NOER, VICE PRESIDENT, PERSONNEL AND ADMINISTRATION, COMMERCIAL CREDIT, INC.; BERNARD MANEKIN, CHAIRMAN, MANEKIN CORPORATION, AND CHAIRMAN, GREATER BALTIMORE COMMITTEE; DANIEL P. HENSON III, EXECUTIVE DIRECTOR, MINORITY BUSINESS DEVELOPMENT COMMITTEE, GREATER BALTIMORE COMMITTEE; AND WILLIAM BOUCHER III, PRIVATE URBAN CONSULTANT AND FORMER EXECUTIVE DIRECTOR, GREATER BALTIMORE COMMITTEE

MR. MCGOINGS. Would each of you please state your name, address, and occupation for the record?

MR. NOER. I am David Noer. My occupation is vice president of personnel and administration for Commercial Credit Company in Baltimore. My address is 1200 Winespring Lane in Towson, Maryland.

MR. MANEKIN. I am Bernard Manekin, chairman of Manekin Corporation. My address is 7806 Crossland Road, Baltimore, Maryland.

MR. HENSON. I am Daniel P. Henson III. I am executive director of the minority business development committee for the Greater Baltimore Committee. My home address is 5517 Groveland Avenue in Baltimore.

MR. BOUCHER. I am William Boucher III, private urban consultant. My address is 326 North Charles. I live at 1900 Western Run Road, Cockeysville.

MR. MCGOINGS. Thank you. Mr. Boucher and Mr. Henson, how would you characterize the state of minority participation in Baltimore's economy at the present time?

Mr. Boucher?

MR. BOUCHER. On a scale of 10, I'd put it at about 2—1 to 2—something like that. I think it is not good, it's bad.

MR. MCGOINGS. Mr. Henson?

MR. HENSON. I have the advantage, I guess, of listening to some of the testimony yesterday, and I can only just reaffirm what Dr. Hearn said yesterday about the statistics: Baltimore City is not a good area in terms of the development of minority-owned businesses in a sufficient number.

MR. MCGOINGS. Thank you.

Mr. Manekin, what role do you believe the private business sector should play in fostering minority economic development?

MR. MANEKIN. I am very glad you asked that question, because, while I wasn't here yesterday, I heard and I read of much of the testimony, and I would hope that a recitation of where we have been might be a prologue to where I think we ought to go and hope to go in the future.

It is to that prospect, if you will, that I would hope we might address some of our own comments in this particular panel. We are, in the city of Baltimore at this moment engaged through, primarily, the cooperation of the private sector with government in a major undertaking addressing this problem.

We have funded, out of the Greater Baltimore Committee—and you heard Mr. Obrecht yesterday speak to the study that his committee, under the auspices of GBC, had engaged in over a period of 18 months.

As a result of that study, in August, we launched an intensive 18-month study of this entire problem, funded with \$75,000 from the private sector through the Greater Baltimore Committee and matched by a \$50,000 grant from the Department of Commerce, which Mr. Rivera and his Department recommended for us, for which we are grateful.

We hope that by the time the 18 months has concluded that the sum of \$150,000 will be expended in this study. One of the major results already is the fact that we were able to retain the services of Mr. Henson as our executive director in pursuing this study.

We are launched in the project. We are very hopeful, very optimistic about the results that will come forth from that study. We have formed a committee. The majority of the membership on that committee comes from the black community, the minority community.

The minority membership is from the white community. We have specifically designed membership on behalf of the white community as represented on that committee coming from the chief executive officers of major corporations in order to get maximum input in the deliberations and the considerations that this group will take over the next 18 months.

We are addressing the five major problems of concern in this area, and, as I said, looking down the road, this is the first significant attempt that has been made to address this very real problem, and the fact that the private sector recognizes and the Greater Baltimore Committee recognizes this as a very major socioeconomic problem in our community speaks for the importance of it.

From that initial step we are very much encouraged about the prospect for what this study will produce in the 18 months ahead.

MR. MCGOINGS. Do you have any thoughts on the kinds of recommendations you would like to see come out of the study?

MR. MANEKIN. Well, there are about 15 or 18 people on that committee, Mr. McGoings. I don't want to speak for them. If you ask me personally—

MR. MCGOINGS. Yes.

MR. MANEKIN. —what I would like to see come out of it, yes. I would hope that we can, in my opinion, view this minority business development or enterprise development as being not a social program, not a handout, which I don't think is what the minority business entrepreneur would want, but rather as an economic—basically an economic development which has obviously—like all economic developments, social implications, and social overtones. But, if we can proceed on that basis, that it is primarily an economic consideration, then I would hope that we could also see a program that would have three primary elements involved, because I think these elements are absolutely significant and important for the success of a minority business development program as we envisage.

Those three elements are government, the private sector, and the minority community; all three must be involved in this process. One element, comparatively short range, namely the government—and I would hope to expand on that—but a much longer range and a more permanent involvement on the part of the private sector, because, hopefully, the minority business group would become part of that private sector if this scenario could be implemented successfully and brought to that kind of a conclusion.

Above and beyond all, there must be a continuing involvement of the minority community in this entire process.

MR. MCGOINGS. Could you be specific as to the role you believe the Federal Government should play in fostering minority economic development?

MR. MANEKIN. Well, I think to get this program started or going in a meaningful and, hopefully, a permanent contribution to our economic life and well being, the government is going to have to get involved in a number of programs that are going to take a rather substantial sum of money initially.

That involvement should not be expected to be permanent, but it has got to be of a sufficient duration to guarantee the successful launching of the program, and I believe that, if it is successfully launched, the minority business enterprises can take its place, or their place, in the economic fabric of our country and our community.

It is important—the minority population of this country represents approximately 10 percent, and of that number the majority, again, are in major urban communities of this country and therefore, their presence there is felt much more keenly.

Unemployment is higher among blacks than whites. Historically, the black is the last to be hired and the first to be fired. We must recognize this situation, and as a Nation commit ourselves to solving this problem as quickly as we possibly can.

Minority-owned businesses have the potential to help solve some of the varied problems, the problems of poor housing, the problems of crime on the streets, to some extent the social problems of welfare.

All this is part of the malaise brought on by an economy where minority groups have suffered most and suffers primarily. So the Federal Government has got to be involved in this thing in a very meaningful and positive way from a funding point of view because, if we can establish the credibility, the ingenuity from the minority sector, then it can, as I said previously, take its place in the economic society and the fabric of our country.

MR. MCGOINGS. Thank you. Mr. Boucher, what role do you believe the private business sector should play in fostering minority economic development?

MR. BOUCHER. I think, particularly under the present circumstances of an obvious lessening of Federal involvement in many programs, including this, that the private sector has the primary responsibility. In my judgment, they have it for two reasons.

The private sector, private business community, and professional community, has the greatest stake in the success of our economic system—political and economic system.

If more people participate in democracy and more people participate in the free enterprise system, those systems become stronger, and so long as we, through whatever reason—prejudice, complicated procedures, ignorance, lack of moral leadership—for whatever reason we stand off from facing this problem, we weaken both the small democratic system and free enterprise system.

Therefore, I think the primary actor under all of those circumstances in the future has to be the private sector, the private business community, and, you know, I think it was Kenneth Clarke who said that the American businessman was the most pragmatic problem-solver the world has ever seen.

If that is true, and I think it is true, then since they have the greatest stake, they are problem-solvers, they have the primary responsibility.

MR. MCGOINGS. Thank you.

Would you tell us what you believe the Federal role should be in fostering minority economic development?

MR. BOUCHER. I think one of the most important responsibilities of the Federal role, from the President right on down, is the moral leadership, the imperative to have minority participation in the system recognized and given a high priority in the public opinion of the country—public opinion in the broadest sense—and I think there are roles of support, programmatic, money roles of support that will flow, but I think the most important thing the Federal Government can do is to make this issue a paramount issue and a high priority.

With all due respect to current and past administrations, I don't think that this has been that high on the agenda. I think it was Teddy Roosevelt who said, that the presidency is a bloody 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 change, a greater change.

MR. MCGOINGS. Do you believe that urban enterprise zone legislation such as that currently before the Congress would provide a useful tool with which to address problems of urban minority economic development?

MR. BOUCHER. I am for urban enterprise zones. I think, if the tax policy of the Federal Government is used with a social purpose, that that is not bad. I know there is a debate on that issue but, as I interpret urban enterprise zone legislation, that is an essential ingredient, to use tax incentive in order to encourage minority and small business development.

So, for that reason I am for it. When I say that, however, and when I was with the Greater Baltimore Committee, we did a study on urban enterprise zones and support them as an experimentation. It is not and it should not be viewed as an urban policy for this country. It is an experimentation that may work.

I facetiously said there was a lot less to that concept than meets the eye, and I remain quite supportive, but also quite skeptical. I am not sure it is going to work.

MR. MCGOINGS. What role do you believe the city should play in encouraging minority economic development?

MR. BOUCHER. Well, as we see a shift from Federal withdrawal from programs and government regulations and other areas like that, some of which I can understand and feel sympathetic to—not all, some—obviously, the purpose of that is to get local government more involved.

Local government has the toughest job in government today. Yesterday the House Ways and Means Committee was up the street, and the litany of problems that the mayor faces is tremendous. However, the city buys a lot. The city enters into contracts with a lot of different undertakings.

Just look around you and you can see evidence of it. It seems to me that the city can put higher on its priority the affirmative action programs which we have said exist. But my experience is it is hard to find the concrete results.

Therefore, it seems to me, the direct response to your question is that the city has to both have a policy and let that policy be known.

Thirdly, to enforce the policy. I think we have had policies, and I know we have had good ones and bad ones, but I don't think many people around town know what the city's policy is. I don't think, again, the political leadership of the city has put this high enough priority.

MR. MCGOINGS. Thank you.

Mr. Noer, what role do you believe private enterprise should play in fostering minority economic development?

MR. NOER. I think that certainly funding is what everybody thinks about, is writing the check, and I think that is important. I think that helping contribute money is obviously where most private enterprises act and what they think they are doing in helping this problem.

But I think that beyond that, the area that they can help the most in is personal involvement, not necessarily involvement as the company, but involvement as people within the company, to use both their business strengths as well as their interpersonal skills to actually go out and become personally involved in developing people one-on-one and developing businesses.

Secondly, from a strategic standpoint, I think that businesses need to recognize the fact that nothing less than their survival is at stake because, if you look on a long-term basis, if our society is to survive and if our cities are to survive, they are both customers and employees of businesses, so if businesses look on more of a strategic standpoint, it becomes almost imperative that they factor in helping and fostering minority business development as a matter of strategic survival.

Taking that one step further, if you look upon profit as a positive, as opposed to a negative motivator, and if you look upon the goals of most businesses as solving problems, and if you link problem-solving with profit, then take most of our societal needs, be it education or health care, or minority business development, or even energy, and those become substantial rewards in terms of profit if business addresses those needs.

So, in summary, I think that almost three levels of involvement: one, personal, applying individual skills to strategic; recognizing that we need both a market and we need employees; and, three, long-term, linking profit with societal problems, is what I think business should do.

MR. MCGOINGS. Could you tell us some of the ways that Commercial Credit has attempted to address the minority economic development problem?

MR. NOER. I am not sure I can address the minority economic development in the sense of helping small businesses. I probably can, but I will take it a level lower.

One of our business strengths that we think we have is education. We sell a product called "PLATO," and PLATO is really an individual learning device, to help people teach themselves. It is computer-based education, so it is a computer terminal.

One of the needs that we saw, and still see, in the city of Baltimore is that there is a tremendous level of adult illiteracy, both in those people that have graduated from high school, and even some people who have come out of the community colleges.

One of the problems, at least I see, that companies have, or small businesses have in surviving is that many of the principals—not necessarily a minority problem—really can't read a balance sheet and really can't function, can't read well enough to really understand the businesses, so one of the ways that we address that need was that we had a need to promote and to test PLATO as a device for teaching adults to read and write.

So that was a very selfish and very clear profit motive we had. The city had a need to use CETA funds or CETA people to get them employment ready. So what we did—we took our business strength, which was Plato, applied that to a societal problem, which was adult illiteracy, acted in partnership with the city of Baltimore, used Federal funds as sort of seed money, which was CETA—and I don't know if you have heard of our adult learning center we have had here in Baltimore, but it was very, very successful.

We taught a lot of adults basic math and reading skills that they didn't have before and we all won. It wasn't an adversarial relationship. It was collaborative relationship. CETA won; we won because we helped prove our product worked, and the city won because they taught adults that couldn't read and write to read and write, and, moreover, the people that went through that center won because they became literate. I know we have hired some. Some have started their own businesses and others are better citizens for it. That's kind of an example of what I am talking about.

MR. MCGOINGS. Thank you.

Mr. Noer, is the private sector involved in attempts to resolve urban problems justifiable on a strictly business basis, or is such involvement merely a social and moral responsibility?

MR. NOER. Well, it depends. Kind of both. I mean, that is not an either or question. It depends on your perspective. We are fortunate as a company that we have a board of directors and a chairman that look beyond today's profit and loss statement. That is, as I say, look more on a strategic standpoint. If we can't live together and collaborate together and make Baltimore City, in this case, a better, more productive place for us to sell our products and to live in, then really our strategy of survival as a business enterprise is kind of at stake.

In the long term it is absolutely essential. In the short term, if you, like I do, go to our board and do try to sell \$½ million budget for our—this year—our job creation facility. There are some people that say that doesn't make sense, and it doesn't if you look at the short term; so you've got to look at the strategic standpoint, I think.

MR. MCGOINGS. Thank you.

Mr. Noer, what role do you believe the Federal Government should play in fostering minority economic development?

MR. NOER. I think that the Federal Government, in my model at least, would primarily serve two roles: one would be a leadership role, and not

necessarily a speech-making role, but a leadership role that would actually do something meaningful.

Secondly, a funding role, and probably more a funding role both through direct grants and tax incentives. I don't see them playing a direct role in getting out in the communities and working directly with people. I see them more as a leadership, more of an abstract role.

MR. MCGOINGS. Do you believe your company would become involved in the Park Circle development project had it not been for public monies early in the project to make capital improvements?

MR. NOER. Sure, other similar kinds of projects that we become involved in before Federal money was available. When we first started projects like that—like on the north side of Minneapolis—we didn't even know about how to get Federal money, so, yes, we would have.

As a matter of fact, Federal money creates problems for us in that there is too much paperwork and too many people to communicate with; so, yes, we would have, I think.

MR. MCGOINGS. Thank you.

Mr. Henson, as a former administrator of SBA and the MBDA programs, would you describe for us the major strength and shortcomings of these Federal programs?

MR. HENSON. That is an all-day question, Mr. McGoings.

MR. MCGOINGS. Take your time.

MR. HENSON. Let me try to characterize it in terms of attitudinal treatment in the programs to assist minority businesses. I think that history is always 20/20. I can now look back. I have been out of the government now since March—how many months is that—but since March, and I have had an opportunity to think back, I guess, and I can tend to be a little philosophical rather than detail specific programs. It seems to me that the Federal Government, in establishing the programs and in establishing the attitude and philosophy of the programs, has made three very strategic mistakes.

First of all, the government has never accepted the fact that it should merely be a catalyst to change rather than an agent for change. You see, you do business with the government; the government doesn't do business.

Government employees don't know how to do business traditionally. They know how to bureaucratize, if that is a word. The government has to be the catalyst for change, and it has to be done in the framework of recognizing that.

There has never been a clear recognition of that fact. Secondly, the government has been unrealistic in terms of the resources that would be needed to affect change. I think I have heard, this morning, many people discussing the problem with—their various problems with OMB.

You know, the more things change, the more things remain the same. I thought it was a new administration coming in for the purpose of having OMB work with them and work for them.

Well, I had the same problem with OMB for about 4 years. OMB doesn't understand the programs. OMB doesn't understand the need for it, and you need to—at some point somebody needs to say to OMB, "Look, this is, you know, this is something that we want to do. This is an effort that we want to get off the ground. You are going to have to start being very realistic about the investment that must be involved in doing this."

Finally, the government has failed miserably in getting the private sector involved in minority business economic development.

Mr. Manekin pointed out the fact that in the short term the government must be involved because business cannot make a profit at this point in investing heavily in minority business development, but in the long run business can make a profit by being involved in minority business development.

The government needs to come up with programs in order to do that. I would suggest the government at this point—that you back up, maybe take an opportunity to do what you have been able to do over the last 6, 7 months.

Look at what you have done over the last 10, 12 years; change attitudes, change philosophies, and try it again, but recognizing that government can't do it by themselves. You've got to involve the private sector and you've got to come up with incentives and initiatives to involve the private sector.

MR. MCGOINGS. Don't you believe that the government is attempting to involve the private sector now?

MR. HENSON. There is only one case that—maybe I need to understand more what you term as the "private sector."

MR. MCGOINGS. Private business in the sense that traditionally there has not been a tremendous amount of private sector involvement.

MR. HENSON. You see, what government considers, in my experience, to be a private sector program is to give a grant to a private sector company, or a private company for profit, or not for profit, for the purpose of providing technical assistance to minority businesses. That's considered to be private sector involvement.

I am only aware of the current issue where government has agreed to become involved with the Greater Baltimore Committee in assisting and acting as a catalyst to provide incentives for the private sector to become involved. That is the only instance where I am aware of it happening.

MR. MCGOINGS. I see. Would you address some of the concerns that have been talked about over the past 2 days, specifically with the SBA 8(a) program, the MBDA programs, coordination among Federal agencies, guaranteed loan program? Could you comment on some of those?

MR. HENSON. I could comment on all of them. Why don't we take them one at a time and let me try to be as brief as possible on each.

The 8(a) program was the first one?

MR. MCGOINGS. Yes.

MR. HENSON. Again, a problem that we wrestled with when I was at SBA and MBDA, and even during the short period of time when I was with the central office at SBA, this question of graduating firms—let me just pick it up.

First of all, let me state that, without a doubt, there are at least 2,100 minority-owned firms involved in the 8(a) program right now who would not probably be at any level of business were it not for the 8(a) programs.

I very much support the program. This question of graduation is a question that has been going around for some time. It is a matter of the political incursion into the program by people who see it as a giveaway effort. Again, it is attitude, on the philosophy in the management of the program, in what established the program.

If you graduate a minority business person today, particularly if you look around in the Baltimore-Washington area, many of these people have set up businesses for the purpose of doing business with the government.

What do you graduate the firm to? You essentially graduate the firm into nothingness because Federal agencies have not been responsive to efforts by MBDA and other agencies of the government to do business with minority firms unless there is an easy way to do it.

The 8(a) program provides an easy way to let them accomplish what they see as a numbers game. That is essentially what it is.

What was the second area?

MR. MCGOINGS. The MBDA emphasis on starting new rather than purchasing already successful businesses.

MR. HENSON. Acquisition program?

MR. MCGOINGS. Yes.

MR. HENSON. I very much support it. I think that the concept of acquiring a business, a going business, with existing assets, with existing management, hopefully, or personnel at least who have been trained, with hopefully some existing capital, is a concept that has been well tested in the business community. It makes good sense that minorities should be encouraged to seek out and purchase existing businesses on an acquisition basis. I would also support another offshoot of that, which is mergers—that is, minority firms that have been somewhat successful in a particular field and they want to expand their market or go into a different area, look in terms of mergers.

I support the MBDA's grant to provide technical assistance for that effort.

MR. MCGOINGS. The effectiveness of SBA technical assistance.

MR. HENSON. Unfortunately, the best efforts, and I need to say up front that the people who, within even headquarters office of SBA, as well as the people here in the Baltimore area, and the people in all the district offices of SBA, the SCORE volunteers, and ACE [Active Corps of Executives] volunteers, mean very well.

Unfortunately, the concept 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 in fact help minority businesses.

What it does, in fact, is it hinders many minority businesses. First of all, they wouldn't take the assistance were it not tied to some form of a loan. When they take the assistance—this is, again, attitudinal problem—they take it with the mind set too often that it is worth—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.

MR. MCGOINGS. Would you have any recommendations for improving the technical assistance program?

MR. HENSON. The private sector provides technical assistance. You know, if you have a production line problem, the last thing you want is somebody coming in to help you with your production line problem who has never been down that road before.

If you've got a production line problem, you want somebody who is experienced with at least a close simulation of that problem, and I think it is the private sector, on a partnership basis with government and with minority businesses, that can provide technical assistance.

MR. MCGOINGS. What about coordination among Federal programs?

MR. HENSON. \$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.

We had an IAC meeting, an Interagency Council on Minority Enterprise meeting, every 3 months. We circulated memos all over the place. We had the Deputy Secretary of Commerce and Deputy Administrator of SBA, and we sat down and talked to people. That's in Washington.

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 just not the fact.

I was appalled to come back to Baltimore and find out, in fact, there was no coordination among people who were receiving grants or people receiving funds from various institutions or from various agencies here in Baltimore, and sitting down and determining what is the best way to utilize these resources. Resources are limited.

Why have two or three agencies essentially doing the same kinds of things, recognizing that there are some resources. For example, the basic technical assistance things, like bookkeeping services and licensing assistance are the basic kinds of things—you probably can never have enough of that.

Loan packaging—you can probably have enough of that, but there are some other much more esoteric kinds of things, like a central library, like a directory of minority businesses, that there is no reason whatsoever for five or six agencies funded by different organizations, SBA's funding this one, MBDA's funding this one, the city's funding this one, the State's funding that one. And each of these agencies are all compiling a central library and a central directory.

There's got to be better coordination at the local level, and I think the leadership has to come from the private sector, also from the minority business community. Let me just point out one, or, really, two other problems that I have seen in the implementation of these programs.

Number one, there is almost a total lack of support from the public, and as the public I would include most definitely the minority community. I am not so sure that minority community has ever been given an opportunity to understand what the long-term social economic benefits are to increasing the number and the size and the quality of minority-owned businesses.

I would say that is a failure on the part of those of us who have been in business. We have been so busy trying to make a profit that we fail to stop and back up and say "we have to make sure the people in our community are aware of the importance of this."

That translates into a lack of political support. And when the 8(a) program comes under attack in the papers, the minority community are the first people to sit back and say "Yeah, I knew that guy was stealing," never really understanding what we're dealing with here.

What we are dealing with here is a socioeconomic problem. The last thing I would point out would be the poor support of the minority business programs the minority businesses have received from the public, from the public affairs people, I would term it, the media.

You know, I was appalled yesterday, and I met a lot of very nice people from the press, but I was appalled to find they were all general assignment reporters. What we are talking about here is an economic issue, and each of these newspapers and each of these TV stations and radio stations that came here have people who are economics editors or business editors.

Where are those people? We've got general—and you all are nice people—I appreciate knowing you, but where are your business reporters? We are here talking about a business problem.

It is the poor treatment of the press. They are looking for something fantastic to come out: "the mayor hasn't done this; the President hasn't done this; this budget cut; that budget cut."

The problem here is we are looking for support, and you've got to have support in the media and understanding in the media of the problems of minority businesses.

Did I answer all of them? There are probably a few more.

MR. MCGOINGS. The guaranteed loan program.

MR. HENSON. Yes. The guaranteed loan program of the—and I really should point out that there are really two major guaranteed loan programs that in the past have provided support for minority businesses, not only the SBA loan program but also the EDA [Economic Development Administration] loan program, which also supplies guarantees.

I will address just the SBA since I have had personal experience with that. In the Baltimore metropolitan area there has always been a lack of support for that program from the banks. That is not to say that some banks don't participate in what may seem to them to be a great amount of loans in the SBA guaranteed program, but it is to say that SBA, in the Baltimore district office, has traditionally made more direct loans because of the need and because of the types of loans that have come to it.

I would say that is not solely a problem of the banking community in Baltimore. It is based somewhat on the quality of deals, although there were quite a few deals that I had an opportunity to look at that probably could have been done by a bank, could have been done by a bank either directly or with a guarantee and should have never come in for a direct loan. But I think that goes on almost everywhere.

But there is probably more—I would make a random guess; there is more, proportionate to the population, direct money utilized by SBA in Baltimore and in the D.C. area than there is anyplace in the country.

MR. MCGOINGS. Thank you.

Mr. Chairman?

CHAIRMAN FLEMMING. Commissioner Saltzman.

COMMISSIONER SALTZMAN. Mr. Boucher, and maybe Mr. Manekin, may want to join together in the response to this.

What are the differences to explain that the Greater Baltimore Committee is not actively engaged in this concern for minority economic development and minority participation, and the fact that this was not a top priority issue over the years past of the development and the work of the Greater Baltimore Committee?

MR. BOUCHER. We—they—the Greater Baltimore Committee is made up of 850 members. For 23 years, from '55 to '78, it was made up of 100 members. And there was a generally understood arrangement between the Chamber of Commerce of Metropolitan Baltimore and the Greater Baltimore Committee that we would divide the work. The Greater Baltimore Committee had a rifleshot approach on clearly-identified issues, with an emphasis early on in the physical redevelopment of the city, added

to that later the inclusion in its agenda of a good many programs of social implication.

Education, for instance—the Greater Baltimore Committee, in the mid-sixties, took the lead to advocate here the passage of an omnibus civil rights bill for the city, for example, so that expanded our agenda somewhat. The understanding that existed prior to 1978 was that the Greater Baltimore Committee would not be involved in economic development. That was a Chamber of Commerce of Metropolitan Baltimore agenda item. One of the reasons, and I think the basic reason, for the merger of the Metropolitan chamber into the Greater Baltimore Committee, effective January 1978, was that we didn't have an economic development program in the city, minority or otherwise. The city and the region had failed to develop an economic development program for minorities or majorities or anybody else, and so the merger was effectuated to create a single organization with a single board of directors and budget to do economic development, among other things.

Now, since I had staff responsibility for 26 years of that organization, until October 1, I will tell you quite candidly that 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.

If you have ever been swimming with a 10-pound weight on each foot, you might understand some of the frustrations that go into that, because I had allies, lay person allies like Mr. Manekin, like Mr. Rouse and others, but even when we had 100 members, there was not a consensus.

This goes back to my point in answer to the Assistant General Counsel's question—that it is a matter of leadership; it is a matter of priorities; and it is a matter of the private sector saying this is important.

COMMISSIONER SALTZMAN. You mean that moral leadership which you did speak of was absent in the private sector?

MR. BOUCHER. To the degree necessary, not absent. I mean, when we face—

COMMISSIONER SALTZMAN. There was some?

MR. BOUCHER. And a substantial amount. I don't mean to apologize for it. I don't mean to say that when crises came we didn't respond intelligently and compassionately and properly, but this whole area of minority economic development isn't a crisis-oriented issue. It's an issue that, from our own majority self-interest, has to be viewed as something that is proper. And I don't think that the Baltimore business community faced that issue in that context until quite recently. I think the effort that Mr. Obrecht led and Mr. Hoblitzell chairs, and Mr. Henson staffs, Mr. Manekin supervises as the overall chairman of the Greater Baltimore Committee, is a tremendous breakthrough, and is the leading edge.

But here it is 1981 and 1982, and we are getting the leading edge coming in on this issue. I think that we can only learn from the fact that for all the

26 years, for instance, or 25 of those years, we didn't do enough, and we didn't have the kind of recognition in the business community that this was a priority issue.

Why is that? Well, we are a product of our society, business is a product of its society. We live in a prejudiced world, to put it bluntly.

COMMISSIONER SALTZMAN. You mean there were factors of discrimination at work in Baltimore?

MR. BOUCHER. Sure. Excuse me, yes, sir.

COMMISSIONER SALTZMAN. I am asking this—and I don't mean to be facetious, and I am sure you don't mean to be facetious—my question arises from the fact that I asked members of the banking community who testified yesterday whether they could remember some years back the conditions that prevailed in Baltimore that indicated that there were serious discriminatory factors at work in this city, and they could not identify them; they could not remember that. And my motive in identifying that is to identify the progress, because there were members of the black community who sat there and said they were optimistic, and I think there is reason for optimism in this city. But we have to know where we came from. That important members of the banking community are not willing to—well, I'm not going to go on.

MR. MANEKIN. Rabbi, what you don't see, you obviously don't perceive.

COMMISSIONER SALTZMAN. You mean to tell me, Bernard, that they could not see?

MR. MANEKIN. I didn't say they could not see. I said, that when you have blinders on, you obviously will not see, and there were too many blinders on too many people in this community.

I think what Bill Boucher has said, if I may just hitchhike momentarily on that, I believe that the total business community of which I am a part and for which I have to confess a certain degree of guilt, did not perceive the real and the enormity of the problem.

I am not so sure in my own mind that today the leadership in government, and it has to start in government—as Mr. Noer said, one of the two things where he said the importance is in government, in funding—Dan commented on it.

The government has to lead the way, but I don't think government today understands in the fullest the real problem and the enormity of that problem. It was brought home to me even in greater specific detail just yesterday, late yesterday.

Some months back, you might recall, there was an outbreak of great violence with attendant vandalism and personal injury in England, particularly in Liverpool, a fomenting, or the surfacing of all the inner turmoil of the minority group there. And the government in England created a task force of some 21 individuals, men and women, and asked

that task force to examine some of the things that have been done in other communities, particularly in the United States, with some relevance or possible relevance on the solution to these problems in England. This task force arrived in this country several days ago, and they were divided into three groups of seven each, and one of these groups visited Baltimore 2 days ago, and they are leaving today for Chicago.

Each group is going to visit several cities. I met the Baltimore group, the group that was here yesterday afternoon. We had them at the Greater Baltimore Committee for a little discussion late yesterday afternoon. They have been to Washington, Baltimore, Chicago, Kansas City, and then home. They are on their way to Chicago now.

They are looking for answers; they are looking to see what we might have done here, and it brought home to me vividly that until we understand—when I saw “we,” until the three elements that I referred to earlier—understand not only the potential for good that can come from a minority business development program that has meaning and substance and ultimately success, not tomorrow or the next day or the next 5 years probably, because this is a problem that requires unique and specific attention, but just as this program has great potential for good, a lack of understanding the problem, and a lack of addressing the problem intelligently could also give us many, many problems for turmoil, because we are talking about, in the final analysis, dollars, and we are talking employment and, of course, unemployment.

There are great opportunities if this program were developed properly to create employment. We know, for instance, statistically, that some 80 percent of the people that have been employed in minority businesses, black and Hispanic, have been black and Hispanic people, so that obviously, if you broaden the base of minority enterprise, you will broaden the job opportunities, particularly for the people who need them most.

This is the kind of long-range program that I think we have got to embark on. Dan spoke, as he did, from his experience in government, I think we all have to share it. Washington is a fantasy world, you know, business is not—

COMMISSIONER SALTZMAN. Apparently the private sector is a fantasy world, too, where they cannot see.

MR. MANEKIN. No, no, it is real. There is a certain fantasy there, and, of course, he who engages in fantasy in the private sector usually winds up in chapter 11 or chapter 10. That's bankruptcy, voluntary and otherwise.

COMMISSIONER SALTZMAN. I understand, but not necessarily when it comes to discriminatory practices, not necessarily.

MR. MANEKIN. No, but I would say, also, that from my personal vantage point, I do not think that the discriminatory practices are anywhere near today what they were in years gone by, and I think that

whole condition could improve if the people dealing with the problem understood the problem.

COMMISSIONER SALTZMAN. Let me ask you what segments in the private sector are crucial to making the new direction feasible, workable, successful.

MR. MANEKIN. Well, I think there are many areas of private sector. You know, the commercial lenders and major corporations, in my opinion, will invest in minority business development if it is financially advantageous for them to do it. Business has got to be economically viable. It cannot be a philanthropy. It is not engaged to be an eleemosynary operation, so you can't expect banks, in my opinion, lending institutions, to invest their money or their depositors' money in shaky or uncertain enterprises, no matter how socially worthwhile they might be conceived.

COMMISSIONER SALTZMAN. Okay, but we had testimony yesterday that the secondary lending institutions have a lower rate of default and loss than do the primary, suggesting that the primary ending institutions have certain criteria that exclude minorities, and not necessarily on the basis of their ability to meet the requirements of loans.

MR. HENSON. Rabbi, let me ask for a clarification. If I remember correctly, that was in the discussion on bonding and we were talking about bonding institutions, not secondary lending. We are talking secondary bonding sources, not secondary lending.

COMMISSIONER SALTZMAN. I'm sorry, I meant bonding.

MR. BOUCHER. Could I come back to your question to me about prejudice because I perhaps—

COMMISSIONER SALTZMAN. Can I get a response to that first, Mr. Boucher?

MR. BOUCHER. Certainly, certainly.

MR. HENSON. I thought the question was on capital.

COMMISSIONER SALTZMAN. No, I meant in terms of bonding, an important issue for minority economic development, that the secondary bonding institutions have a greater success, apparently, than the primary bonding institutions. And the suggestion was then made by the individual who testified that perhaps the criteria on the bonding insurance agencies are not helpful in including minority businesses.

MR. HENSON. Well, that may be true. I'm not so sure that our process so far has turned it up as a major problem. We have found a bigger problem to be the small number of prime contracts or general contracts that minority business people are getting in this area of the country.

You see, you don't need bonding for subcontractors. The prime contractor determines that he waives bonding for whatever reason. The Baltimore City law, or the Baltimore City executive order and the State law require best efforts by the prime contractor in getting minority subcontractors, and since almost for the last couple of years in this town

almost 100 percent of the construction has been public works construction—probably less—about 90 percent of the construction has been public works construction. Many times bonds don't even reach the bonding agencies simply because the prime contractor has agreed to waive bonding.

The problem, simply, is one of getting prime contracts and developing prime or general contractors, as opposed to developing subcontractors. I think that, if you take a look at the number of bonds—and I don't have data on this, but I think if you take a look at the number of bonds coming from minority contractors for prime contracts in the Baltimore metropolitan area, you will find that there haven't been that many recently and that of course most of them have gone to the secondary market.

COMMISSIONER SALTZMAN. Apparently minority business people feel that bonding is a problem in terms of their development.

MR. HENSON. That's true, whether it is an actual problem or a function of access to market is something that I don't think anybody has been able to determine at this point. It is a fact that minority contractors are having a great deal of difficulty in receiving bonds. It is a greater fact, however, that minority contractors are having difficulty receiving prime contracts that require bonding.

COMMISSIONER SALTZMAN. Thank you. If I can get back to Mr. Manekin, what are the segments of the private sector that he sees crucial to the forward movement in solutions?

MR. MANEKIN. Well, I think obviously equity and debt funding is important; bonding is important. Access to markets is an area that we could involve ourselves in, in some areas in some limited way.

Technical assistance, as Mr. Noer referred to in Commercial Credit's operation, is an area that a private sector could be of help in. In some forms of education, that could be of some help.

These are the basic five areas of underlying concern or problem areas in this whole business of minority business development, but again I—and I keep coming back to this because the more I have involved myself in this process, the more I am absolutely convinced that you just can't—that wishing won't make it so.

Just a person saying "I want to become a builder. I want to open up a store. I want to get in the fast food business" does not mean that he should be able to walk into any bank or lending institution, or what have you, borrow whatever money he needs, and become a success. That is welfare, purely welfare in my opinion.

There has to be some credibility established, financial and otherwise, for anybody, white or black, who is going into business to get money because the banks are lending other people's money—or get assistance of any kind.

He might have no qualification for it. We have seen many instances of failures, bankruptcies and what have you on the part of business people,

both black and white, who just have not been able to compete in our free enterprise system.

What I am saying is that I believe there is a potential out there, if properly developed with the right kind of sophistication, understanding, and involvement and funding, big funding on the part of the Federal Government, to develop this whole sector in a much more meaningful way.

It won't happen overnight and it might not happen for the next 10 or 20 years, but I think it is out there. There is a huge cadre out there of very intelligent young men and women in the black community in their thirties and forties who, with proper direction, proper help, can become the entrepreneurs of the future.

It is in the investment in that kind of a cadre, in that kind of an operation, that I believe can lie the future solution to this problem.

COMMISSIONER SALTZMAN. Why is Baltimore so backward in the development, comparatively speaking, as we have been told, of minority business enterprises?

MR. MANEKIN. This is not—in my opinion, Rabbi, this is not a Baltimore problem or a Philadelphia problem; this is a problem that has to be addressed broad-based at the very top in Federal Government.

COMMISSIONER SALTZMAN. I recognize what you are saying; however, we have been told that comparatively speaking, in terms of the development of minority businesses, Baltimore has not done as well as most other cities; that there has been the creation of minority businesses to a greater extent in other cities.

MR. MANEKIN. Well, I did not hear the testimony yesterday, but I think there is always a danger in figures and looking at figures, and how one interprets those figures.

You say Baltimore has not done as well. I have to respond rather facetiously by saying “compared to what?” Baltimore's industry itself in the seventies has not advanced to any degree of anything. There probably has been some retrogression; so whatever has happened in minority business, the lack of, compared percentagewise to other communities, might be a reflection of what has been a retrogression in the total economy of the city of Baltimore. And this is not unimportant.

The same thing could be said of some other major cities, whether it is Detroit, which has had its own employment problems, or Cleveland, or Philadelphia.

You can't compare it with a city like Charlotte, North Carolina, for instance, or some other communities that have been, because of certain ingredients, moving up more aggressively in the economic world, so that we have to understand.

Bill Boucher indicated some of the reasons why Baltimore has not done as it could have or should have. We probably, in the business community,

did not have a perception of the total problem, and, therefore, could not address it or did not address it. There were many more important things on the agenda. We might now—at least I hope now we are seeing the problem in its true perspective and are trying to do something about it. I would much prefer looking ahead at the future, hopefully, than trying to assess the blame, if you will, for the past. If we've been derelict here in Baltimore, I will accept my share of the blame with the rest of the business community.

COMMISSIONER SALTZMAN. Mr. Boucher?

MR. BOUCHER. I am worried that my quick, perhaps interpreted facetious, answer to your question about prejudice might be misinterpreted.

I grew up in this town and I can remember shortly after World War II when we had two theaters—Lyric and Ford's, and at one blacks could not perform on the stage but could attend; at the other they could attend—I'm getting mixed up—and perform on the stage. In other words, diametrically opposite positions.

I remember the first effort to desegregate a downtown restaurant. I can remember the department store changes that occurred in the forties and fifties—that's not too long ago—and any leader—and a banker, per se, is a leader—I think, that could make the comment that there has been no prejudice in this town just doesn't understand this town.

COMMISSIONER SALTZMAN. I don't know that they said that. They said they were unaware of it.

MR. BOUCHER. Or any leader that could be unaware of it, that even may be worse, I'm not sure. Just doesn't—is not a leader. I am coming back to my point about this because I don't—one of the greatest joys of this 45-day new freedom that I have is sometimes disagreeing very respectfully with the chairman of the Greater Baltimore Committee.

I don't think government is the place to look for leadership today. I think the private sector is the place to look for leadership today, and I think that the private sector leadership is why the statistics that the Greater Baltimore Committee presented in its report are accurate. It is a leadership question in this community, and I think in any other community, a leadership question as to whether we are going to take this as a priority item, and that's vague, and it is not titled so and so or so many dollars so and so, but what I am trying to say is that the private sector has got the ball today and it better produce.

The riots of '68 were not people trying to bring down the system; they were people trying to get into the system, and that is a significant difference, and leaders have got to recognize their responsibility, it seems to me, to take the initiative, to change conditions which are in Baltimore wrong, and they are different to a negative degree than significant other cities.

And the work that was done by Mr. Obrecht, Danny Henson, Mr. Manekin, and others is the leading edge of it, and very important. The fact that the chief executive of the major bank heads that committee is very important, because I think we are going to see that this is finally being recognized as a leadership issue and a priority item.

MR. MANEKIN. I did not want to disagree with Mr. Boucher, and I don't think we disagree with each other. I said initially in answer to Mr. McGoings question that if this program is going to prosper and go forth, it will only do so built on the triangle of government, private sector, and the minority community, each of which is going to have to contribute his own expertise.

It so happens, in my opinion, the expertise or the resource that the government can contribute is funding, which will have to be a major capital matter.

The private sector, unbelievably, has the expertise as Mr. Boucher indicated, and I quite agree, to provide the know-how, the conceptuality of these various programs because these are business people, and they know what business needs.

And finally, the minority community, as Mr. Henson said, has got to be informed; they've got to understand, and they've got to contribute their share. So, it's the triumvirate that will make this project go or not.

CHAIRMAN FLEMMING. Commissioner Ramirez?

COMMISSIONER RAMIREZ. Mr. Boucher, I am encouraged by your sense that there is now a hopeful amount of priority set to this task, and Mr. Manekin, by your vision, which implies to me a hope that, if we came back 25 years from now we would have made substantial progress in all of the areas that we have reviewed during the last day and a half.

MR. MANEKIN. You will have to do that and tell me what you see.

COMMISSIONER RAMIREZ. Well, I will when we meet again after that. As I sit here, and you have to understand that I am a person in child development, in teaching, and these areas, and it seems to me that there are a number of considerations that perhaps I can share with you, and you might want to comment in terms of how you arrive at the realization of that vision for economic development and full participation by minorities in the economic main stream of Baltimore 25 years from now.

First of all, I wonder whether you have plans to create specific targeted programs and coordination perhaps with all of the institutions of higher education in the Baltimore area for the kind of push in training the people who will be able to both enter into midlevel positions and provide leadership in terms of economic development.

Another kind of fact that keeps coming to mind, as I listen to economic development for Baltimore, is the large number of female-headed households among the minority community in Baltimore. I wonder whether you

have thought about that and what that means to the plans that you have for realizing that vision?

We have heard about the relationship between business and schools, but I think that beyond that a sense of business and schools from the perspective of minority participation in the economic mainstream—I wonder if you thought about that, and do you have any plans in that area?

My concern as a person in human services is that the priorities at many levels have turned to economic development, to economics as the answer, etc., and I feel strongly that that is an area to which we have not attended sufficiently as minorities ourselves across the Nation.

That process has to be a comprehensive one and has to look at all of the opportunities which present themselves to push towards that vision 25 years from now.

Have you specifically thought about the role of your institutions of higher education in that process, both for the short term and the long term?

MR. MANEKIN. Yes. I'll try to be very brief in my comment. You have given us a whole host of problems, and I will try to specify.

Several years ago, in the Greater Baltimore Committee, we adopted a program, rather, we initiated a program which we called "Adopt-A-School" program. We went to major corporations in the city and asked each of these corporations to take under their, or its, respective wing, a school, an elementary school, a middle school, and with their executives and their junior executives, work with the students in that school so that those students could learn something about what they are about.

An insurance company, for instance, that has a school and brings the kids in, shows them the processes, the computer programming, and so forth that goes on—the whole business of insurance.

COMMISSIONER RAMIREZ. We were told a little bit about that. Is that part of your minority economic development?

MR. MANEKIN. No. This came before, but this didn't relate to minorities, but this related to economic development, if you will, because you are absolutely right. When we cut through all of this, all the rhetoric in the final analysis, we are looking at a dollar bill, and if a man has a bill in his pocket, or money in his pocket, then he doesn't have concern about his family, about food or anything, not \$1—I mean, green. But if he is unemployed, if he does not have any money and if he has a family of four or five that he's got to support and he doesn't know where he's going to get the money for food, or clothing, or shelter, then he becomes a very real problem not only to himself but to society.

We have tried to look—in the Greater Baltimore Committee we addressed many programs without getting too philosophical, and in the final analysis there is a sociological answer to them.

Specifically, now, the Baltimore School Board just announced a 5-year program. Our education subcommittee, in meeting, decided that we wanted to sit down with the superintendent of schools to review that program with him because we feel that we have an input in direction in curriculum as to the different kinds of programs that they might think of in terms of industries' needs as these industrialists and businessmen see those needs over the next 5 to 10 years, with all the new sciences and technologies that are being developed. In other words, should we be spending more time in curriculum activities that would address these problems? This is another element that we are doing with schools. We are working, as Mr. Henson can tell you, with some of the colleges, with Coppin and others on programs in more advanced education to cope with the—in order to develop a labor pool, if you will, of the future.

We are concerned about dropouts. We are concerned about the problems of jobs down the road, particularly in the blue collar area because that area is diminishing in jobs with reindustrialization and so forth. But we are addressing those problems on the board, not so much as they relate to specifically minority business, although there are involvements there—but minority business we think, and I think, should become a part of the total business, one and the same.

I hope, 25 years from now, when you review it, why, you will see that there is no distinction between minority business and majority business, but that it is all business.

MR. BOUCHER. Could I add just one thought to that, and it will be very quick. There is a difference between a student's aspiration in the white community and the black community, I think, a significant difference. I related to my own experience. I grew up in a business family. My father was a small businessman, and I always had a feeling that that was a goal and a career path that I could take. And the kids on my block—their fathers were in that kind of business or profession; therefore, we had an aspiration, both the racial minority and sex minority. Women are coming out of an atmosphere and a culture that has not had that aspiration, not had that experience.

A black kid whose parent has never had an entrepreneurial position doesn't early on aspire to that, so his whole education, his whole cultural, social experience is unrelated to the aspiration to be in business, to be an economic developer.

That is where schools have to come in, it seems to me, and that is where leadership has to come in because we've got to recognize, as the Rabbi says, where we're coming from in order to address the problem.

We are coming from people who have not had that opportunity and that aspiration, that career path as part of their consciousness and we start with that.

MR. HENSON. I don't want to belabor this particular point, but let me just point out—

CHAIRMAN FLEMMING. Our time has expired, and there are one or two other questions that I would like to get of a factual nature, but go ahead.

MR. HENSON. I just wanted to point out that in the black community in Baltimore, business has never been considered to be a high status type of thing; high status occupations have been teaching, the ministry, law, medicine. There have been other things other than business.

Until just recently—and I would ask some of my contemporaries to just think back 5 or 6 years ago—we never thought of business as being—my mother, shortly before her death asked me one time, why don't I go get a job, and I'd been running my own business for 8 years, but she didn't see that as—God bless her soul—she didn't see that as actually having a job. Self-employment and things like that were never considered to be something that we should be getting future education for.

Therefore, the pool and capable minority managers who have been trained and executives who have been trained both in private corporations and in colleges is really very thin. I think we need to recognize that.

CHAIRMAN FLEMMING. Mr. Manekin, at the outset of your testimony you identified a study that will be undertaken or that is underway. Which?

MR. MANEKIN. It is underway now.

CHAIRMAN FLEMMING. What is the timetable for that particular study? How long will it take?

MR. MANEKIN. We budgeted it for an 18-month period and it began as of last—this past August, so I would say that 18 months from then, which will be about the end of 1982.

CHAIRMAN FLEMMING. The end of 1982.

MR. MANEKIN. Approximately, yes.

CHAIRMAN FLEMMING. As a part of the work of the Committee, or as a part of that study, are you also going to consider specific programs for the implementation of the recommendations that may come out of the study? That is, are action programs going to be a part of the study, with assignments and duties and responsibilities and with goals and timetables and so on?

Is that going to be one of the outcomes of the study?

MR. MANEKIN. Whenever I have trouble with an answer, I always turn over to my executive director.

MR. HENSON. Mr. Chairman, let me point out that while—I don't know how this got characterized as a study; our study phase is over. Our study phase ended really in March 1981.

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.

CHAIRMAN FLEMMING. In other words, you are now in the implementation—

MR. HENSON. We are in the—we are right now coming to the last couple of months of the phase where we would identify those things that we need to implement, is probably the best way to put it.

CHAIRMAN FLEMMING. The implementation hasn't yet started?

MR. HENSON. No, the implementation has not started.

CHAIRMAN FLEMMING. As you move into the implementation stage, are you going to work against goals and timetables?

MR. HENSON. We always work against goals and timetables. I want to make it clear, however, that in terms of determining—

CHAIRMAN FLEMMING. I am thinking of communitywide goals and timetables now. I appreciate the fact that when I use those terms they get associated with affirmative action plans implemented by an employer, public and private, but right now I am thinking of communitywide goals and timetables related to this specific issue of minority involvement.

MR. HENSON. We have established some benchmarks for ourselves. What we never wanted to get tied to, however, were the traditional methods whereby programs like this are judged. Traditionally, minority business enterprise programs have been judged based on the numbers game and I pointed that out before.

We do not want to be tied to the game of counting the number of people who got loans, the number of loans, the total amount of loans made, the number of people that contracts, or anything like that.

We would much rather be tied to looking at it over a period of several years and looking at what happened to minority economic development overall, based on a trend analysis.

CHAIRMAN FLEMMING. All right. I'm not arguing for any particular method of establishing goals, but it would seem to me that where you got a situation, which I sense you are approaching with a sense of urgency, that it is desirable to be working against goals that are measurable in some way.

MR. HENSON. We agree.

CHAIRMAN FLEMMING. So that people know whether there is a progress or lack of progress and know where they can assign responsibility, either for progress or lack of progress—and I personally believe that can be done on a communitywide basis as well as done within individual organizations. In other words, I simply regard it as a tool of management applied on a communitywide basis.

MR. HENSON. We have goals and timetables based on when we plan to complete our research into what we intend to implement.

Let me give you an example of how we thrash these things out. We know, for example, there is a problem in debt and equity capital financing in the minority community business of Baltimore. We don't know, however, what kind of vehicle to establish and what would work well and

how much money we need. That is what we are looking at now. We have set a goal and timetable to actually establish a vehicle by the beginning of the second quarter of 1982, but we don't know yet the kind of vehicle.

It is very simplistic to say that you need sources of equity capital. In the 1981 and 1980s to say what kind of an equity capital vehicle you need is a tough problem.

CHAIRMAN FLEMMING. But having decided on that vehicle, then you will institute some kind of a method of determining the effectiveness of that particular vehicle?

MR. HENSON. Yes, sir.

CHAIRMAN FLEMMING. Now, while this process is going on, as you approach the implementation stage, are there things going on in Baltimore that conceivably would lead, let's say, 6 months from now, to more minority businesses being in operation in the community than are in operation today?

Is there a forward movement here in Baltimore at the present time that people can become aware of and conscious of 2, 3, 4, 5 months down the road, or is it on kind of dead center?

MR. HENSON. I am not so sure that that is not making it too simple. I would like to make it a little more complicated for you.

CHAIRMAN FLEMMING. Well, what I am back to is, the representative of Rouse Company indicated to us the difficulty in finding minority business in this community that, in turn, could participate in that particular development and commented on the fact that there were relatively few minority businesses.

Other witnesses have testified along the same line, and I am just wondering whether there are processes underway in this community at the present time so that, if someone 6 months from now was going through the same process that the Rouse organization went through, that they would find it a little bit easier than the Rouse organization found it.

That is what I am driving at.

MR. MANEKIN. Again, without being specific, Mr. Flemming, we do have several things in mind, for instance, Commercial Credit development of the Park Circle area, where we hope that there will be an attraction for creation of small business.

Secondly, I think that the very active work that is going on daily within this committee group, the minority business development group, is educating a number of people, particularly in the white community, not only of the problem but of some of the ways to address the problem, so that I would like to think that without making any specific promises or guarantees, that this exposure on the part of people who have never been brought, as the Rabbi said, some of the bankers never knew there was any kind of a problem.

But, for the first time, some of these people have been exposed to the problem, and I think these people might come up with some solutions on their own to get things started as well.

MR. HENSON. Let me follow up on that for one more second. You mentioned something that the Rouse Company is doing and Mr. Noer has discussed something that Commercial Credit is doing.

If the Rouse Company, who are obviously members of the GBC—and Commercial Credit is a member of the Greater Baltimore Committee—if we can use the kind of experiences they are having, will have, and have had, I think overall we will be successful if that is all we ever do. If we just change the attitudes of people in terms that the way they perceive minority economic development as an economic issue as opposed to just simply a social issue.

CHAIRMAN FLEMMING. The thing that has held my attention is the fact that the Rouse organization had difficulty in finding minority businesses that, in turn, they could talk with and work with in terms of moving into their development area. What I have in mind is whether or not there are forces at work here, which would mean that, if 6 months from now another organization went through this same process, they find a few more—they would find it a little easier process than the Rouse organization did.

MR. BOUCHER. Mr. Chairman, there are institutions here and they have been here for sometime. They have been funded lavishly but not penuriously—that are in this minority economic field, and the reason this program at GBC is in existence is because there is a feeling that they haven't done enough or done it well enough, and if they had been successful, this wouldn't have been in existence, but there are places to go and there are institutions that are funded and have staff of 30 or 40 people doing this kind of work.

Whether it is effective or not is another question.

CHAIRMAN FLEMMING. It is clear that, I guess, everybody agrees that obviously there is room for progress and what I was feeling for is whether or not there are forces working now that, while you are waiting for the results of this in-depth operation that you have under way, the community could look forward to some progress in the right direction. That's all I was saying.

MR. HENSON. Mr. Chairman, I tried to make the point earlier that I thought you were letting us off kind of easy in asking us to do something that is relatively simple to do. It is relatively simple in planning for a particular project.

Let's take—Mr. Brothers was here yesterday from the Murdock Corporation. If all I had to concentrate on for the next 6 months was making sure there were enough minority contractors available for that project and enough potential retail outlets available for that project, and

you let me off the hook with that, I would be very upset with this Commission.

I would hope that what you would ask us to do is to, over the next 10, 20, 30 years, lay out a process and a plan whereby we increase the total number of minority businesses in the Baltimore metropolitan area.

CHAIRMAN FLEMMING. Let me make my own position clear. I am very much interested in the processes that look down the road 10, 20, and 30 years, but at the same time I am increasingly of the conviction that we are confronted in this community and other communities with an urgent situation as of today, and it seems to me that we have to devise ways and means of showing that we are able to respond to it as of today and point to results tomorrow, not the day after tomorrow. We've got those two kinds of assignments, it seems to me, and when I put it that way, I don't downgrade or underestimate the value and the importance of the long term, because I recognize that that long term is going to have an impact on what happens the day after tomorrow also, because of the thinking that goes on, the processes that are initiated, and so on, so I am all for that, but I don't think that we can afford to just focus on that without trying to deal with the problems that people are confronting today, which, it seems to me are very urgent human problems.

MR. HENSON. Mr. Chairman, the answer to your question is yes. One of the immediate things we are working on, as soon as I get back to the office today, is assisting in the Park Circle boundary and increasing the number of employees there by obviously increasing the amount of business there. That's a top priority for us, but it is not—I mean, that is not something that is going to tie me up for the next month.

CHAIRMAN FLEMMING. I understand how we have to divide time and I understand that it is very easy to get—

MR. HENSON. There is a sense of urgency about what we are doing.

CHAIRMAN FLEMMING. And I understand it is very easy for your time to get focused on getting action tomorrow, day after tomorrow, to the extent that we don't do the other job that you have effectively described, and I still think that job is very, very important, but I think it has got to be both hands under present conditions.

MR. BOUCHER. Mr. Chairman, may I just say, I appreciate the fact that you all are here, particularly after your last statement, appreciate your chairmanship of this committee.

CHAIRMAN FLEMMING. We appreciate your coming here and spending this time with us because we know that you are reflecting leadership that the community is benefiting from at the present time and will continue to benefit from in connection with this very important problem.

Your insights have been very, very helpful. Thank you very, very much.

We are in recess until 2 o'clock.

Afternoon Session, November 18, 1981

CHAIRMAN FLEMMING. I will ask the hearing to come to order.
Counsel will call the next witness.

MR. ALEXANDER. Mayor Schaefer.

[William Donald Schaefer was sworn.]

**TESTIMONY OF WILLIAM DONALD SCHAEFER, MAYOR,
CITY OF BALTIMORE**

CHAIRMAN FLEMMING. Thank you, and we appreciate very, very much your being with us.

MAYOR SCHAEFER. Thank you. I am glad I am here, I think.

CHAIRMAN FLEMMING. We hope you will feel that way after half an hour or so from now, also. Under our procedure counsel has some questions that he will address to you and then when he finishes, why, members of the Commission may have some questions.

I would like to say this right at the outset. I have participated in a good many hearings but I have never participated in this kind of setting with this kind of view. It's great.

MAYOR SCHAEFER. Let me thank you, and before the honorable counsel asks me the questions, I am glad you did observe the city. We are proud of the progress we have made in the last 25 years. We are proud because it didn't start yesterday; it started 25 years ago with Mayor D'Alesandro when he made that decision to improve our city and decided he would move along with the business community and move forward.

I happened to be in the city council at that time, and I guess I have been in city government longer than any other elected official in the city today. I have been in city council, I've been through the presidency, and now the mayor.

Mayor McKeldin was the one who looked down this way and decided we'd make some moves 10 years ago. Had you come to our city, you would not have seen what you see today. This building that is here now was the result of Marvin Mandel who, then governor, made the decision to build this building and it wasn't any easy decision for him because the building cost an extra \$1 million to build this building, but we just didn't want a building; we wanted this building, and this building was built.

We have made great improvements in the area of the waterfront, and it was a decision we had to make on whether we were going to keep the waterfront open or whether we were going to add the Rouse development—whether we have this development, and luckily the voters, when we were taking this to referendum, decided they would allow us to build on the waterfront, and, as a result, 2,237 additional jobs were created on the waterfront. The Hyatt Hotel, another example of CETA programs that the Federal Government unfortunately decided they are going to knock out. That one motel pays as much tax today as the whole area paid 5 years

ago, but I'd better not get off on telling you the virtues of the city. As soon as you say something about our city, I'm—

CHAIRMAN FLEMMING. Let me say that I have lived in the Washington metropolitan area over a period of 50 years off, and on, so I've been coming to Baltimore a great many times in that span of time and I have been able to witness this evolution, and it has been tremendous.

MR. ALEXANDER. Over the past day and a half we have basically heard a paradox. We've heard from some members of your staff as to the extensive effort that has been made by the city both in terms of overall economic development and some of the efforts that have been made particularly for minority development.

At the same time we have had testimony, statistical evidence that indicates that minorities in the city of Baltimore are today, after these years of effort, if not worse than they were 10 years ago, at least in a seriously depressed state, in terms of employment and in terms of economic development.

Where do we go from here? What is it that the city needs to do that has not been done yet?

MAYOR SCHAEFER. Well, Mr. Alexander, you will always have people who, no matter what you do, it will be wrong. No matter how hard you work, no matter how many statistics you can prove, no matter what you are able to do in the communities, you will always find some people that just aren't satisfied.

For instance, I had to go on national television to defend the city in the area of housing. It was something I didn't like to do. I didn't like to be pitted against someone who was saying that we have not made progress as far as housing is concerned.

The record is very easy, very clear, and I would like to leave with the Commission these volumes to show what we have done in the area of minorities and economic development.

Now, let me say that I am not overly pleased to have to do this, and the reason I am not overly pleased, I don't think you ought to try to pit black and white and white and black. What we have tried to do in the city of Baltimore, which is called a city of people—you've got to go back years to find out where the difficulties were and what we have done in the last 10 years.

I think you are going to be astounded when you read this and the statistics and the things that we have actually done and some of the people that testified, I guess, in the negative.

For instance, one person testified yesterday that city officials have not been effective in working with private institutions to alleviate barriers faced by potential businessmen.

That same businessman is one of the businesses that we put in business years ago down in the Camden industrial yard. We put him in, and when

that same man wanted to buy the business, I insisted upon an IRB [Industrial Revenue Bond] so they could purchase it. I get a little disturbed when the very businessman who we helped buy the building says he couldn't get along with the city officials.

Well, if I hadn't said that IRB will be put through, we wouldn't have done it. The reason I did it, you know, they sold the business and they wanted to purchase it back. And the decision was made we would help them because it was a local minority group that was buying the business.

So I can go through volume after volume today. There are many things I just would like to quote about—oh, housing. Where are the people as far as minority housing is concerned? Where is the leverage that we have had in minority enterprise over the period of time?

When I say I am just—I hate to have to really do this because there is another side that says “you don't do anything for us.” No matter what you do, you're not doing enough.

I can go to community after—I know it is a long dissertation. What do we need to do?

MR. ALEXANDER. What do you need to do in the future?

MAYOR SCHAEFER. What do we need to do in the future? I'll tell you where you could spend your first bit of your time over in Washington. You could spend it over before Congress and you could say to them, “Cities like this, this city of Baltimore, where you are confining the poor, where you are confining the minorities, where you are making sure that they stay in the city and not in the counties, where the public housing is in the city—most of the public housing is in the city of Baltimore. More public housing is in the city of Baltimore than the State combined, and 89 percent of the people that are in the public housing are minorities.”

I would say “how come the unemployment is so high in the city?”

And I can say to you, the CETA programs that trained our people, that gave them jobs—the Hyatt Hotel is a perfect example of a successful CETA program where we asked the Hyatt Hotel “let us give you the employees, let us work with you,” and the Hyatt Hotel had never had this opportunity before to work with a good manpower program.

They took about 200 of our CETA employees that we trained with Federal funds, and we took people that had not had a job, did not know what a job was, didn't know that you work on Mondays and Fridays, did not know you came in on time—all the basics that are necessary as far as people are concerned, and you've got to understand that some people just have not had the opportunity to go to school.

We put those CETA employees into the Hyatt Hotel and let's say, of the 200, maybe 187 are employed today.

What I am saying is the first place you could go is to Washington and say “don't cut out the training programs. Don't cut out the job programs.” You must have them in cities like ours. You don't need them in Baltimore

County; you don't need them in cities where the poor aren't confined. You need them right here in programs like ours.

Do you think we want to be able to use the statistics all the time that we've got 43,000 unemployed, 22,000 minorities? Do you think that's a figure I want to use? Wouldn't you want to think I want to make sure every youngster has an opportunity? You can't cut out those summer youth programs. You can't say to the mayor of the city of Baltimore next year, "You started out with 16,000, 4 years ago; you were down to 12,000, 2 years ago; you were down to 10,000 last year. There may be no jobs for the kids next summer."

So I would think that one of the first places to go would be right there. The second place I think you can go is to the State. I think you can say to the State, "You've got to do more for areas like Baltimore. You've got to do more for areas like Somerset County, areas of need. You must do more for them."

When you talk with minorities, yes, got to have an opportunity, but you can't expect a minority, whether it is an Asian, a black, the American Indian, or whatever it might be, to be able to get a job, to be able to hold a job, to be able to qualify for upward mobility unless they at least had the opportunity to be trained for the job.

You wouldn't say, put in a hospital a doctor—and you've heard it so many times—that isn't qualified to work on you, and that's exactly what I have said time after time. The training programs are important for a city like ours. You're going to see, as you read these volumes, statistics that we had to compile that I have never asked to be compiled before on what did we do with manpower.

Eighty-five percent of our programs went to minorities. We did not talk about that; 85 percent of our training programs went with minorities. All or most of our summer youth programs were minorities, and we did not talk about it because it is obvious why you don't talk about things like that.

Other areas want to know, why aren't we included in some of these programs.

MR. ALEXANDER. You mentioned these programs are being cut back, and I guess the philosophy about today is that the private sector should be picking up what the public sector is not going to be providing anymore.

Do you see the private sector in the Baltimore community going to be able to pick up these CETA-type jobs in the summer youth programs where we basically had a void here?

MAYOR SCHAEFER. Let me give you some examples of that. First of all, if you are in business and all of a sudden somebody comes in and says to you, "Okay, you're in business. Now, tomorrow take on 50 new employees." Fifty new employees. Your profits are down; your potential is down; your ability to sell is down.

What are you going to do? The answer is no. I want to commend our Baltimore community, Baltimore business community, when the President—and you know I get in such a defensive position of having to criticize, or whatever the word might be, the administration on this.

Some of the things I agree with—cut inflation, cut waste, cut all those nice things that sound so good. But, how do you do it? You cannot expect the business community to pick up \$80 million worth of programs that were cut from the city of Baltimore. They did a magnificent job in picking up and giving us \$500,000 for programs that we thought were important, and they thought they were.

I didn't bring *Blue Chips*. It is a book where we took every program that the Federal Government had cut down and we said, "Okay, these are programs we think are important." They took them back and they reviewed them. They said, "Okay, we'll pick up this." The gas and electric company picked up weatherization. Most of the weatherization of homes in the city of Baltimore were in minority areas, low-income people, or senior citizens. And 4,000 of them were taken care of last year, 1,000 this year because of the benevolence of a man by the name of Bernie Truceler, who knows that program is a good one.

The business community can't pick the entire thing up. They don't have the facilities right now.

Let me recite you—and I know you don't want me to take quite so long. I brought out—I swore in four members of a commission, one of them a minority, one of them a woman business lady, and two white business people, and I said, "Now, what I want you to do—you know what our problems are—I want each of you to hire five people—five people. That's not too many in your business. Do what the President said." Not a word. I said, "How about 4? How about 3? How about 2? How about 1?" And the answer is, "You know, you're asking us the impossible. Had we been able to hire more people, we would have already."

So you have to work with the business community and not end them by saying, "You've got to do this." They've got to be able to gear up. They've got to be able to sell their products. They've got to be able to enforce the things that they want to do and then they will because they'll train. They'll help train.

MR. ALEXANDER. Are you familiar with the study done recently by the Greater Baltimore Committee's minority development subcommittee which, as one of its solutions, called for a greater participation of the public and private sector?

As the mayor of this city, what role do you see yourself playing in that? Is it at all different than the one you've previously been playing?

MAYOR SCHAEFER. Let me talk about the Greater Baltimore Committee. The Greater Baltimore Committee, at the time of Mayor D'Alesandro was a great committee, had great businessmen; they were the ones that started

Charles Center. There wasn't any question about who started it, it was D'Alesandro and the Greater Baltimore Committee. They did a magnificent job. They then stopped; they stopped. They sort of rested on their laurels.

I am very pleased with the thrust of the Greater Baltimore Committee now; they are taking leadership in minority areas. They are taking leadership in the *Blue Chip* area. We are all going to work on this partnership.

I think we can't help the minority unless the private sector helps us. Let me tell you one of the philosophies that I had. 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 government. They had to be trained. They had to have the administrative capability of working in the private sector.

We almost tried to push them out from government contracts into the private sector, but they have to be financially secure; they've got to have top people if they are going to run these minority firms, and they have to work with the business community in order to do it. That's up to the private sector to do.

Our philosophy is we'll do everything we can. We'll work with CEBO and we'll work with all the rest of the minority enterprises, but the important thing is the firms must be able to compete in the private sector.

MR. ALEXANDER. There was a debate somewhat earlier today between different people in the business community as to whether or not there was sufficient commitment in the private sector to see, to make minority business development, minority economic development a high priority in Baltimore. Do you see such a commitment? Do you see it as something that people view as crucial as the redevelopment of Baltimore in a physical and esthetic sense?

MAYOR SCHAEFER. Well, Mr. Alexander, you've got to put yourself in the position of a businessman, whether he's a minority businessman or whether he's a so-called white businessman, or whatever it is.

The bottom line says, "Am I going to make it or am I not going to make it?" That is just as prevalent in the minority firms as it is in any firm: "Am I going to be able to survive?" The important thing is, are they technically qualified? Are they administratively qualified in order to perform the work? I think there are some excellent businessmen in the city who are not only committed but go way out in an endeavor to make sure minorities are accommodated, are given the jobs.

Now, we have—I understand that the question was, "You only have 15 percent. Why don't you have more? Why don't you have 40? Why don't you have 50?"

You have to also be a realist on what you can attain and not just hope you can attain. You know, 15 percent we can attain; 40 percent—in some areas we can't get there.

MR. ALEXANDER. Given that perspective, would it be appropriate with the partnership that has been called for to put together a 10-, 20-year plan that lays out specific goals and timetables—the nature of what you have done in the contracting area and go about trying to achieve it in the area of minority development? Is that the step that we're at now?

MAYOR SCHAEFER. Mr. Alexander, you've got to be realistic on what you can do. If you can go at realistic goals, I'm all for it. If you set a goal that you can't attain, then that's just dreaming.

MR. ALEXANDER. Do you think that we—

MAYOR SCHAEFER. You know, one other thing that you can do—the minority businesses themselves could do more. Very few minority businesses will come up with money to support minority businesses, and one of the things that is so essential is that we get minority business money, and there is minority business money in the city of Baltimore—to also share some of the responsibilities as far as minorities are concerned and not always look to someone else.

The minority businesses must participate in this. And when they have some business, okay, and when there is need for mortgage money, they find some mortgage money. It isn't just all one person or one group.

If you set up a plan that is realistic, I'm for it.

MR. ALEXANDER. How crucial is it to Baltimore's general future economic vitality that the minority community in Baltimore become a more significant portion of the economic development in the economic mainstream of this Baltimore?

MAYOR SCHAEFER. You see, Mr. Alexander, you start on the presumption that they aren't.

MR. ALEXANDER. Well, the studies done here in Baltimore by local academic institutions, by your business community, have all stated that they are not a significant portion of the community.

MAYOR SCHAEFER. You haven't read the report of what we have been able to do in 10 years before we started.

MR. ALEXANDER. So you would disagree with that?

MAYOR SCHAEFER. Where we started. Remember, you've got to have a benchmark to start. It is not exactly that we are way behind. Where were we 10 years ago and where have we progressed to? Where are we now? I think you might find some very interesting—we saved minority businesses. R & R Optical really had a great opportunity—R & R Optical.

MR. ALEXANDER. I am familiar with the firm.

MAYOR SCHAEFER. There was a really fine, fine minority fellow in charge of that, and you find out why didn't it make it. Why didn't that extra sum of money come from the black community, black business

people in order to help that firm? Wasn't that much money. Why couldn't that money have been found there?

MR. ALEXANDER. In your view, from the research that you just recently did, where was Baltimore 10 years ago, and where is it today in terms of minority development? Do you have a different view than presented by the Greater Baltimore Committee?

MAYOR SCHAEFER. I wasn't there when they testified. I don't know where their view was.

MR. ALEXANDER. They were saying Baltimore made minor progress in an overall sense.

MAYOR SCHAEFER. If they feel that way, then they have to be accountable.

MR. ALEXANDER. Would you disagree with that?

MAYOR SCHAEFER. I disagree. I think if you would—

MR. ALEXANDER. Yes, we would like that for the record.

MAYOR SCHAEFER. They haven't seen these. [exhibiting] They haven't seen them. They hadn't bothered to read them. What they want to say is we have to do more; I agree they've got to do more; everybody has to do more in everything.

Any city that stands still in any area, whether it is minority, whether it is done in neighborhoods—what we have done in the neighborhood—take a look at some of the neighborhoods—the neighborhood commercial revitalization that the city has done. The city has done commercial revitalization, not the private sector. We've done industrial development—that we have done. Maybe the GBC was saying maybe the city has done it and we haven't. Maybe the GBC ought to. If they said this, maybe they ought to get in the ballgame and do more.

We were the ones that came up with the mortgage program. We were the ones that came up with the industrial development loan. We were the ones that came up with the rehab loans. We were the ones that told the banks "You've got to put more money in the city of Baltimore because it's good business," and Otis Warren, who was the first real estate man in the city of Baltimore's history that was able to sell \$1 million worth of real estate in the city of Baltimore when every other real estate man was so busy making sure that houses were sold in the county—Otis Warren sold \$1 million worth of business in the city of Baltimore. Otis Warren is a black real estate developer, real estate man out in west Baltimore, and what he did—he proved that he could do it, and when he was able to show they were able to sell \$1 million, real estate people started to see it, and the banks began to see if you did invest in the city of Baltimore, commercial or industrial or residential, you weren't taking a total risk. Then they started putting money back into the city.

MR. ALEXANDER. I would like the report the mayor has referred to entered into the record as an exhibit.

CHAIRMAN FLEMMING. Without objection, that will be done.

MR. ALEXANDER. I have no further questions at this point.

CHAIRMAN FLEMMING. Mayor, I am going to recognize first an esteemed colleague of ours and citizen of your city, Commissioner Saltzman.

COMMISSIONER SALTZMAN. Thank you, Mr. Chairman.

Mr. Mayor, I would like to, at least for myself, put my interest and concerns into context.

I lived in Hagerstown some 20, 22 years ago and was attending graduate school at Hopkins and came into the city for that reason. I can recall the situation 20, 22 years ago.

After I left Hagerstown I did not come back until approximately 3½ years ago to be the senior rabbi of the Baltimore Hebrew Congregation. One of the inducements that the search committee offered me to come to Baltimore was that this was a great city, a city moving forward with one of the great mayors in the country, and it would be exciting for me to live in a city that was going to be one of the outstanding cities in the Nation and it meant a great deal to me.

Coming back here I saw the kind of progress of which you speak, so I hope you are not on the defensive here with us because we recognize, and I certainly do, the enormous influence of your leadership and the leadership of others who have joined under you to bring about the progress that is outstanding and, hopefully, will continue in the years ahead.

Our concern is not merely for Baltimore. We are not here alone in relationship to Baltimore but to the problems of the minority community around the country living in our major cities and to find out here what has worked, to find here what yet has to be done and how it may be done to compile a record that may establish some factual information for cities in the remediation of this profound problem upon which we, as a Commission, feel the future of our Nation rests. In that context, then, let me proceed.

I am glad you mentioned CETA because we have conflicting testimony, and I know, around the city, from businessmen, I have heard great criticism of CETA. From your point of view, CETA has played an important role, positive in this city, to advance minority employment?

MAYOR SCHAEFER. Rabbi, I am positive of it. I don't think it; I know it. I am positive it has. One of the problems with CETA—let me talk about defensive, Rabbi. I am defensive most of the time because of the very unfavorable press that we continually get, and fortunately—I read the morning paper and, unfortunately, I did it. I usually try not to, but I did, because it is sometimes very disheartening.

They ran an article that they ran a couple of months ago about the city hasn't changed since 1971. They had some space and they didn't know

what to do, so they ran this crazy article. It's an article that doesn't make sense, but it's run, and then you do get defensive because—you know, I went to another meeting today where England is starting to think about bringing tourism to the city of Baltimore—recognized the city of Baltimore as one of the great moving cities in the country, a city that now is open to tourists, should be brought here, and they were overflowing in their praise of the city. Then I read the paper and I see where the aquarium is in bad shape because we had put 400,000 or 480,000 people through, and we had worn the rug out and that's wrong.

If you didn't have any people in there, that would have been wrong, so you can't win and you go along.

COMMISSIONER SALTZMAN. I experience the same problems as a rabbi. People complain to me services are too crowded.

MAYOR SHAEFER. Well, Rabbi, if we could get the *Sun* paper—and there is a great opportunity and an excellent editor by the name of Reg Murphy, that I'm sure is going to change the *Sun* paper from that archaic thinking back to the positive, but if we could get a column in there where Reg would say, "We're going to put in something good each day," it would be a new philosophy for the reporters; they would not be able to do it for a while. We have to train them, but we could do it.

I'd put them on my staff, I'd teach them like a CETA employee, and eventually they would understand how to do it. Let me tell you about CETA.

We had the best manpower person in the United States in Marion Pines; she was recognized all over the United States. She was recognized by the Federal Government. The Federal Government—when we used to go over and talk about CETA, they'd always say this—and this 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."

If we run a good program and we are able to train people and we are able to get them jobs, and you are going to find in this material here how many jobs we were able to train people for and put them into productive jobs—CETA worked, manpower worked, training worked.

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 possible 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 those 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 don't 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.

COMMISSIONER SALTZMAN. Then you do feel that they play a fundamental role in the development of minority communities?

MAYOR SCHAEFER. Rabbi, if—

COMMISSIONER SALTZMAN. I got the message.

MAYOR SCHAEFER. Let me just say this: If the administration does not come up with some type of training and manpower program, we are in trouble.

COMMISSIONER SALTZMAN. What can the city, together with the private sector—when you are arguing with the appointees, you sounded a little, you know, 5-4-3 like Abraham before Sodom and Gomorrah and arguing with God “50, 10” you know. What can the city expect to get the private sector to do, given the retreat of the Federal Government in the area of manpower and training?

Are there programs—anticipation, expectations of how you are going to fill the gap?

MAYOR SCHAEFER. We are not going to be able to fill the gap entirely. There is no way. You can't take \$80 million away from us and give us \$500,000 and expect us to survive, and you can't ask private enterprise to pick up \$79.5 million. They can't do it; they can't do it.

What you have to do is convince the business community that what we are trying to do is the right thing. I do not have to go through that routine anymore. They know we are doing the right thing, but they have to have the capacity to be able to do it.

You cannot ask *X* company to take people on and train them if there is no job for them. So one of the things that I think we can do is give the business community some breathing time, hope the economy is going to turn around, because as soon as the economy turns around and people are needed—I will put my bottom dollar on this—they will be asking Marion Pines to set up a training program to get the kids and the people and the older people, whoever it is, prepared for jobs. And we have the resources to allow Marion to do this, allow her to be able to do it—same with Jay Brody sitting back here. We've got one of the finest programs on

developing of housing, how to build a house. They are working with the private sector.

That new shelter opportunity is one, and the one we just did on Argyle House. The National Association of Homebuilders felt it was necessary to help the city of Baltimore. We are paying for the supplies; they are paying for the training and are building houses on Argyle Avenue.

Those kids—when they are finished with their training—I can predict, if they just pay attention to what they are learning—and they look like all of them are good kids—they have an opportunity to go in business themselves; they have an opportunity to learn how to build a house, and there is opportunity to do this.

You can take a house in the city and fix it up and sell it. We'll sell it to them for a dollar. They fix up the house, if we could find the way to give them materials to do it. The National Association of Homebuilders came forth. Our own State Homebuilders didn't know that the National was going to do this, so they said to Jay Brody, "What is it? How come the National is doing this?"

I happened to say, "I'd like to see the rest of the block done." The State Homebuilders said, "Okay, we'll pay for the block."

That's the type of thinking you have to get. You have to get them to think how can they help, but they cannot break the pocketbook.

COMMISSIONER SALTZMAN. I want to give my colleagues a chance, but I do have one final question. In the employment by the city, in your various offices and agencies created by the city, have you made it clear, and is there an implementation of an affirmative action program with goals and timetables and everything for the hiring of minorities and the upward mobility in positions of importance within the city government?

MAYOR SCHAEFER. Rabbi, when I came in, one of the things that I said I would do for minorities, and I would do affirmative action, we have. Ben Brown has set it up. I think there is a total of 14 people working in the city solicitor's office on affirmative action for minorities. I am criticized because a lot of people aren't on commissions. I hear that, and that was one of the trick questions that was thrown at me at one time. It is a nice, interesting question, but you cannot throw old people off commissions you have, over the period of time. How many have I put on? You will find I put minorities on commissions. There are some agencies of ours that are almost 97 percent black, all the positions from top to bottom. We don't go over there and say, "Well, there has to be a lessening of minorities in there." And when you read the statistics, you're going to find a vast minority of minorities are working, and the upward mobility is something I'm for. It is to our credit if we have upward mobility of minorities in the city.

In my time in government I have seen, in our school system, young blacks and minorities, and all the rest, women, all coming out of the

schools, are in leadership positions not only in our city, but leadership positions in Washington.

Well, I always cite the example—we wanted to get an engineer, minority engineer, to fill a job, and they said, “You never put anybody in as bureau head.” I said, “Its your job; you find me a minority engineer that will fill this job.”

And the answer was we weren't paying enough for a highly qualified engineer with the qualifications necessary. You can get at least a third to a half in the Federal Government or the State government or private enterprise, and we couldn't find an engineer to fill that job.

CHAIRMAN FLEMMING. Commissioner Ramirez.

COMMISSIONER RAMIREZ. I don't have any questions.

CHAIRMAN FLEMMING. Mayor Schaefer, we have appreciated your testimony very much. We appreciate your bringing those reports which will be a very valuable addition to our record.

I'm going to ask the staff director to make arrangements to get one of our reports over to you. Last June we issued a report where, as a Commission, we endeavored to analyze the impact of the budget proposals on civil rights, and we tried to put it in a historical setting.

We did analyze, of course, the impact on the enforcement agencies in the civil rights area, but we also analyzed the impact on programs that we feel are directly related to the fulfilling of the promises contained in the 13th, 14th, and 15th amendments.

Included in those programs were the programs to which you have referred. CETA was there. The training programs, the Emergency School Aid Act from Title I and so on. In fact, Community Services Administration programs and so on, but the type of programs that you have identified were there, and we concluded that the kind of reductions that were contemplated would have a serious impact on opening up of opportunities for minorities, and we concluded that it would not be possible for State, local governments, and the private sector to close that entire gap that was being created.

So we will get a copy over, and you can quote us. We have already, in other words, tried to transmit that message both to the President and to the Congress because, under our law, we work for both the President and the Congress. I can't say that we've had a great deal of success up to the present time, but we have tried, and I am sure the Commission will continue to try.

But, again, we are grateful to you for coming and sharing with us the insights that you gained over a long period of public service.

MAYOR SCHAEFER. Mr. Chairman, if you will just let me say one last thing. I am very proud of this city, very proud. I am very proud of the people. I just came from lunch and there was a lady—she was a black lady—out in the Franklin area—Phillips Restaurant, by the way. Let us

bring in 50 community leaders with a luncheon and a trip to the Aquarium, which I think is just great of Phillips to do. And the lady walked up to me and said, "Don, stop for a minute. I want to tell you something. I saw you come out of the meeting with the President. You looked very downhearted. We were having a meeting and we said, 'You know, we got to do more for ourselves. We are going to do more in our community to take care of sanitation, to do more of things, and do this,'" and that's the pride that the city has.

You can't look at it, look out over and see it, but you go in the communities where people care, where people care about each other. I know there are people that don't care about anything, and crime is high, and all the rest of it, but there are people in these communities who are proud to say they belong in Baltimore. They are proud to say they are interested in Franklin Street; proud to say they are interested in the city. That's where the greatness of this city is, not here, but out in the communities. The people are the ones that have done it. Without that people impact, we would have gotten noplacement. We've got a lot to do.

CHAIRMAN FLEMMING. We certainly—in terms of the testimony that has been presented, we have been impressed with the progress. We have likewise been presented with testimony bearing on our specific concern, namely, the opportunities for minorities in the area of economic development.

We had a panel this morning that told about the plans that the Greater Baltimore Committee has along this particular line, and I personally express the hope that their plans would include the setting of community-wide goals and timetables, and that they would, in effect, assign duties and responsibilities so that when progress was made, why people would know who was responsible. If there was a lack of progress, they would know that, also.

I also expressed the hope that while they were working on those long-term goals that they also try to set some short-term ones so people could see progress day after tomorrow, that more members of the minority community would find it possible to come into the economic life of the city through the business route. I reached the conclusion that there are some people thinking along those lines.

MAYOR SCHAEFER. Yes, sir.

CHAIRMAN FLEMMING. I personally believe that the concept of affirmative action is applicable not just to employment, public and private; it certainly is applicable to that, but I think you can apply that concept on a communitywide basis dealing with that kind of an issue.

Again, we are very, very grateful to you.

MAYOR SCHAEFER. Thank you very much. Appreciate it.

CHAIRMAN FLEMMING. Best wishes.

Counsel will call the next witness.

MR. ALEXANDER. James W. Rouse.
[James Wilson Rouse was sworn.]

**TESTIMONY OF JAMES WILSON ROUSE, RETIRED
CHAIRMAN OF THE BOARD, ROUSE COMPANY**

CHAIRMAN FLEMMING. Welcome. We appreciate very, very much your giving us this time, Mr. Rouse.

MR. ROUSE. Very happy to be here sir.

MR. MCGOINGS. For the record, Mr. Rouse, will you please state your name, your address, and your occupation?

MR. ROUSE. James Wilson Rouse, Columbia, Maryland. My occupation is that as a retired chairman of the board of the Rouse Company.

MR. MCGOINGS. Thank you.

Mr. Rouse, how would you characterize the state of minority participation in Baltimore's economy at the present time?

MR. ROUSE. Inadequate, struggling with a good deal of conscientious leadership but without having adequate processes in the community for stimulating that minority participation to what it really ought to be in our society.

MR. MCGOINGS. How would you characterize the efforts of the local business community to increase minority economic development?

MR. ROUSE. Trying. I think that there is a very important effort being made today in Baltimore. It is just in its early birthing stage but led by the extraordinary initiative of Charley Obrech, who is here and who talked to you earlier, as the chairman of a subcommittee of the Greater Baltimore Committee, that led in turn to the creation of the committee, from which I gather you have already heard of the Greater Baltimore Committee, which has been formed to provide more explicit leadership in the business community.

I think this effort is important. I think that none of us in the business community have come to accept the kind of responsibility for personal and corporate initiative that is required to develop really an effective minority participation.

I would rather use a different phrase than "minority participation," to help to create minority enterprise and to nourish it into successful business operations.

I think our society has become so accustomed, over the past quarter century, to responding to the pressure for breaking open our society, for giving civil rights wherever they belonged to be that we haven't thought much about, haven't thought enough about the responsibility for creative initiative beyond that that simply would be compelled by new laws or new requirements in contractual relationships with government. We have not thought enough about the creative ways that we could act to bring minority business into being, help them come into being, and help to

nourish the management of such companies into being an important part of the business community.

There have been some outstanding examples here and there, but it really takes a new vision of the purpose and responsibility of business, I think, beyond an obligated response, in order to be truly effective.

MR. MCGOINGS. How do you think we can get that?

MR. ROUSE. Well, I think in Baltimore that this is seriously at work through this committee of the Greater Baltimore Committee. I think there is a very earnest commitment there to find what the barriers are and to try to knock them down with what support systems are necessary and to create them.

Greater Baltimore Committee has had a record of being successful when it undertook something seriously, and if it hangs in with this in a vigorous and creative way, I think that it could be important.

The thing that we don't recognize—I read this morning's account. I think it was Ray Haysbert who spoke in terms that we needed to approach the assistance to the minority community as we might approach a developing nation, and that struck me as a very valid point—that it isn't enough to agree to do business with a minority concern, and it isn't enough to say that they don't have the road to financing that they need, and too much of a lead, but there is only the road to the financing. Everything would be changed.

It really wouldn't be changed. The black people in our society simply haven't had the opportunity through generations to build businesses, and, therefore, young black people growing up have not had the image of successful uncles and friends of their fathers who were businessmen.

This isn't something that we have permitted to be within the range of images of possibility for young black people, and they have not just had, through their lifetime, the association with all of the pieces of doing business from borrowing, lending, enterprising, so that there is a very important supportive role that white business and business leadership has to provide in helping people who have that spark to create a business, to help them with it, help them know what they've got to do to move to the next step, and how to handle markets, how to handle the mechanics of things as simple as accounting and bookkeeping and recordkeeping and reporting, and understand the profit system, understand its risks, and points of failure.

Most businesses fail in the United States that are started. Huge porportion—I've heard it said 80 percent—I don't know that anybody knows—fail within 5 years of all new business that start in the United States.

So that failure isn't just an unlikely misadventure that occurs only to minority business; it's a real risk if all new business, therefore, people who haven't been associated in business double that risk, makes their chances

very poor; that one would hope that business would find a way to be creative in providing management, guidance, and leadership and to help give support to black people who want to go in business and be successful.

MR. MCGOINGS. Do you have any specific suggestions along those lines?

MR. ROUSE. Well, I know that the Greater Baltimore Committee is thinking along those lines. I think that, if the banks, the business corporations, the merchants, the contractors, the whole group of business people took on the responsibility for that kind of nourishment so that a young black business that wanted to succeed or wanted to go in business could not be led simply to money but led to support, and banks agreed to provide the individual who would go out and support and work with a new black business and with contractors. Whiting-Turner Company, at one time, took on a black contractor and almost made it a part of their company in helping him into success in the contracting business.

We have had some success in creating merchants by drawing people out of existing merchants into business but having the support of the business from which they came.

There are a lot of these things that could happen if business began to see it as a responsibility that it has to help create and support business, not just to do business with a minority contractor, not just accept affirmative action kinds of responses but take an initiative.

MR. MCGOINGS. Thank you.

What do you believe the appropriate Federal role would be in increasing urban minority economic development?

MR. ROUSE. The appropriate what?

MR. MCGOINGS. Federal role.

MR. ROUSE. Well, I think that the things—I am not intimately familiar as people in the city government would be, or in government generally, with existing provisions, but the ones I have had relationship to are illustrative, I think.

The basic requirement in the redevelopment grants to cities that require a certain participation of minorities in employment, in contracts, that *X* percent of the contracts must be granted to minority contractors on a job that's on land that has received Federal funds; that a certain percentage of the value of the work must go to minority contractors. The provisions in the Federal Government for requiring Federal purchasing contracts to give support to minority contractors—the vigorous advance and expansion of that under the last administration, I think, was very important. I believe that the steps that the Federal Government can include and 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 pressure; it takes endless, endless, endless pressure.

MR. MCGOINGS. Do you think that business is willing to make the commitment without the pressure?

MR. ROUSE. I think business may be willing to but I think it won't. Business is busy. It is occupied by all kinds of deadlines and demands and budgets, and all kinds of things that are occupying you enormously in the completion of a task.

Therefore, if those things which are soft, which are yearnings, may take second place to the mandatory requirements. We did a project in Boston called Fanueil Hall Market Place and there were 10 merchants—this doesn't relate to minorities; it relates to requirements—but were 10 merchants that had been in the old market, Quincy Market. Part of our contract with the city required us to provide good, new space for those 10 merchants at their then rents. Absolutely uneconomic thing for us to do, but as a part of the deal we accepted that commitment; therefore, we had to do it. It made it more difficult. I doubt that we would have done that, however much we might have yearned for the atmosphere of the oldtime merchants, but I think we probably would have felt it was only fair that we require them to pay rents comparable to other merchants, but that being a requirement, we were able to work with it.

It contributed enormously to the whole spirit of Quincy Market. When we have a condition that has persisted for a long period of time and becomes habituated in our business life and which we are trying to fight our way out of as a society, I think it takes pressures to induce, compel new steps by business, and I think our society must have them.

MR. MCGOINGS. Do you think the government ought to provide special incentives to private business?

MR. ROUSE. Well, I'm kind of—I guess I am sympathetic with it as a goal, but I can't quite visualize that, and I worry about it a little as a process. I am not sure that business should be rewarded for doing what it ought to do. I feel other kinds of incentives—I think that incentives to business to employ unemployed and unqualified workers so that they will be taken on and trained in work by business is a very desirable Federal program, and I think should be hugely enlarged. This is the kind of thing we did after World War II, the Vietnam War, in order to train veterans. Why, we had great incentives to business to employ veterans so they could get back in society. I heard Bill Norris, of Control Data, say one day that it is easy to solve the problem of the unemployed; just pay business to put them to work, and that's not bad, but I am not sure that business corporations should be paid incentives to do what really ought to be done in the support of generating minority businesses.

MR. MCGOINGS. What do you believe the consequences to the city would be if it fails in light of its over 50 percent black population, to significantly increase the participation of the black business community in the revitalization of the city?

MR. ROUSE. Oh, I don't like to think in doomsday, negative, frightening terms. Of course, there is always the possibility of riots and disorders, but I think they can come at any time, just out of sheer frustration. But I think I would rather look at it in terms of one of the alternative opportunities to a city in which there is a huge advance in successful black enterprises and one in which that does not occur, and in the first alternative I think that you would find new spirit, new hope, new excitement on the part of people.

I think it would have a contagion that would reach over into new attitudes towards the young that, if young people could see black businesses coming into being, succeeding around them, and they in turn were reaching out to other young black people, that the attitude that now prevails—have got to be huge numbers of young black people who have never worked, and move into older adulthood, never having worked because there weren't jobs and therefore forced to live by their wits, and, therefore, the alcohol and drugs and crime and all of the miserable part of our society that I believe that the growth of black business would have a very significant impact on that attitude and on jobs.

So the positive expression of what it would mean, I think, is more important to the community than any negative expression.

MR. MCGOINGS. Mr. Rouse, what do you consider to be your greatest success at Harborplace?

MR. ROUSE. Well, it wasn't my success, first of all. It was a company that did Harborplace, and it was an enormous organizational effort and a very well equipped organization that did it.

As a matter of fact, I retired as chief executive officer shortly after Harborplace Project was under way, so it surely wasn't I; it was the company that did it. I would look upon the greatest success of Harborplace and what it contributed to the general spirit of Baltimore.

I think that it has been a part of a whole set of things, including a whole Inner Harbor development, Charles Center development. It is too often looked upon as if Baltimore all of a sudden broke through into something new.

It didn't happen that way. This has been going along progressively for 15, 20 years. I have to say that in the 10 years of this extraordinary mayor we have there has been an explosion of spirit that has been a miracle for any city.

I think that the Harborplace made a contribution to the flowering of that spirit because it was a festival place, and in a city almost everything else except the market place is a slice of life, an office building, a theatre, a hospital, a university, each involves a certain segment of people, but the market place is everybody's place; it is the only thing that is everybody's place, and I guess that one of the company's greatest successes was the determination that it would be everybody's place.

That Harborplace would not be a white middle-income market place, but that it would be for everybody in the city—for black and white and rich and poor and old and young, and everybody in between those categories.

That took a lot of work to make that happen. It took great determination that there would be a high level of minority employment, a great determination that we would create black businesses.

We made a commitment. We had to win a referendum and to win that referendum—that referendum was a marvelous experience and a marvelous thing for Harborplace because it involved the whole city, but it required everybody's involvement, and we couldn't lead that campaign because, politically, our contribution was limited to \$2,500. That's all we could contribute financially, and we could respond to calls to give talks. We could go anywhere, but if the black community had not supported Harborplace, it would have been defeated in the referendum, and so it had to have the support of the black community and that called for meetings with the black leadership in the city—the head of the Urban League, the NAACP, and with the Interdenominational Ministerial Alliance and with the political leaders. And in those meetings, some of which were open and public talks, why, 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 unemployment 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.

And that was—we did our best to fulfill those representations, and that was an important part in making Harborplace a place for the whole city. I believe that black people feel that every bit of it is as much their place as it is any white man's place, and they are there and walking up and down the Inner Harbor and in the food places and shops and working there—that it is the greatest achievement in Harborplace—that it is everybody's place.

MR. MCGOINGS. Thank you.

Mr. Chairman, I have no further questions.

CHAIRMAN FLEMMING. Commissioner Ramirez?

COMMISSIONER RAMIREZ. Mr. Rouse, I am going to have to leave. I very much appreciated the spirit behind your testimony as well as your suggestions.

Before I leave, because I think you will continue to advocate in this area, I would like to share with you just one little thought about minorities. In my experience there has been somewhat of an entrepreneurial spirit in both the black community and the Hispanic community, of which I am part.

Part of what happened was that a lot of the entrepreneurs often did not find the opportunity to get into the mainstream of business, so what they wanted then for their children was a professional career. They managed to sacrifice and scrape and save, and we went into the professions, so that I think there is a gap between the potential for people who are already skilled and may have had some entrepreneurial experience and orientation in the minority communities, and the number who are enjoying the fruits and the headaches and the benefits of that experience is still rather wide. I think that there is a mass of people in minority communities who have not had that opportunity, but there is enough talent and enough potential talent in those communities that we could still tap as a seeding, if you would, of our private enterprise system.

As I said, I am terribly impressed and appreciative of the spirit with which you look at this, as well as the wisdom of your experience, and I did not want to leave without sharing with you my own perspective because I know you are going to continue to work in these areas.

MR. ROUSE. I would certainly agree with that.

CHAIRMAN FLEMMING. Commissioner Saltzman?

COMMISSIONER SALTZMAN. I certainly want to latch on to the sentiments of my colleague, Mr. Rouse. I have had the good fortune of sitting on a community organization board with you, and I recall, at one of its meetings, your emphasizing that you thought that board had to be more representative of various segments of the community, including the Asian community.

During the testimony we have received from leaders in the black community and Mr. Haysbert—I think you referred to him earlier—their sense of being welcome in the white community is not very affirmative. Indeed, he indicated that while he's been invited on certain community boards, etc., it is a rare incident. He is an exception to the general rule and in order to gain acceptance by the white community, or to gain those positions, you have to go through a mine field, and almost everyone's feet are blown off before you get there. I think that's an important condition to create as you do, too, I know. How can we promote that sense of participation and welcome into the minority community?

MR. ROUSE. That surely is a good question. I just think it has to be pushed and pushed and pushed. I think that most of the negative things that exist, such as you have described, are not a product of the deliberate exclusion or segregation or bigotry.

I think they are largely the product of unawareness and of habituated style that moves in another direction. The white community moves with its friends, as a community does, and in a socially segregated society, then, this emphasizes the division so that the white businessman doesn't take that extra effort to include the corresponding black business leader, just as a natural part of the process of things happening. They, therefore, feel

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, and I think really that awareness can be demonstrated.

I think this kind of hearing, this dialogue, reaching the right people, reaching the minority business community—that issue wasn't talked about at—I have not been as good in my attendance as I would like to have been in that minority business committee on which I served.

I don't know whether that's been discussed. Charley might know. Have you ever heard that discussed—of the role of—it has been, so that's the kind of place it ought to be discussed. There are a lot of white businessmen, a lot of them, who really want to see this thing work out very differently than it does but they need to be reminded.

I go back to 1964, I guess it was, when an open occupancy bill was before the city council. The chamber of commerce, the junior chamber of commerce, voted against the open occupancy bill, not to support it. The Greater Baltimore Committee, which could be predicted to be more conservative, voted to support the open occupancy bill and took the leadership before the city council.

That was entirely because of enough executive committee meetings of the Greater Baltimore Committee in which the issues of the city were dealt with, that there was an understanding of the importance of it. It wasn't a different group of men then—the chamber of commerce or the junior chamber association—but there was an awareness of the importance of it.

That's what I just think it takes here. I think we need to find ways of elevating the awareness of what we are doing that amounts to exclusion when it is not intended as exclusion. A more positive inclusion is really what we are talking about.

CHAIRMAN FLEMMING. Mr. Hope, do you have any questions?

MR. HOPE. I just had one. I wonder whether you could describe a little bit for us your latest project, the nonprofit Enterprise Foundation?

MR. ROUSE. Well, the Enterprise Foundation has been created to work explicitly in the area of housing for the poorest of the poor. It seeks to raise money that will enable it to maintain a staff and to grant funds to local groups around the country that are working within a set of principles. That, it seems to me, has been demonstrated by a little organization in Washington called Jubilee Housing, which has had remarkable success in working with housing for the very poor.

However, the foundation has a subsidiary it owns, the Enterprise Development Company, which is a profit-motivated, tax-paying entrepreneurial development company. It will invest money in that development company, whose job it is to make money, not help the poor. But as it makes money, that money flows back into the foundation and then goes out to help these local organizations in housing for the poor. In that way, I

hope that we can link the creativity and drive and management capability of a free enterprise business system directly to social action.

CHAIRMAN FLEMMING. I want to join my colleagues in expressing my admiration and appreciation for your approach to the issues that we have been discussing. I am reminded of the fact that, of course, you had a very intensive experience here in Baltimore, but you have also had experiences, as you indicated, in Boston and then in Columbia.

Picking up on your dialogue with Commissioner Saltzman, do you find the situation different in Columbia, for example, than you do here and, if so, why? I mean, in terms of the nature of the community.

MR. ROUSE. Well, first, the greatest difference is in housing and, therefore, the social life of the community.

CHAIRMAN FLEMMING. The integrated housing?

MR. ROUSE. That's right. Columbia, from a housing standpoint, I think, is without any question, a truly open community. It not only says it is open, but it is. Black people and white people live side by side everywhere in Columbia.

Furthermore, the most important victory there was to—as the real estate brokers came in—as housing began to be resold in the secondary market, we could compel openness in the building of new houses by not selling further land to a builder or apartment owner who didn't. We had a rule that you cannot answer the question on what is the race of the person next door.

If anybody was not willing to take that risk, they did not come, and being a large area, people lost their fear, but the real risk was that the real estate brokers in the secondary market would guide white buyers to houses occupied by white people.

Very early we set out to work on that, and, wonderfully, it was successful without too much effort, really. And I think it is fair to say that a white family coming to Columbia to buy a house in the secondary market is, without any discrimination, taking the houses occupied by black people, and, therefore, houses move from black to white as readily as from white to black so that the segregation of communities do not occur.

That means that—I believe you never know what goes on in the heart and minds of other people, but I do believe that, black people feel that, from a housing standpoint, Columbia is truly open, and that there is not [merely] acceptance. There is the full sense of ownership in the community.

In minority business, I think that some of the reasons, some of the issues that Commissioner Saltzman raised, would be different in Columbia. I think that a black businessman would feel a fuller part of the community than perhaps in a city, but I do not think that anything better is being done about the white businessman's leadership in encouraging and nourishing.

I think that black people in Columbia still suffer the sense of—although there is certainly affirmative action in employment. I'm sure that they feel many times they are not—jobs they are not able to get because of color.

I don't feel nearly as confident about what the attitude among black people would be in employment as they will do it in housing. I do not think that we do any better job of the white business community creatively supporting and nourishing the creation of black businesses.

But a black business has an easier market. Once a black businessman is there, he can move more successfully.

CHAIRMAN FLEMMING. Coming back to Baltimore, your company, in carrying out the development project here, did have in mind certain definite objectives as far as the minority community was concerned. As a result of your company's experiences, what light do these experiences shed on the nature of the problem that confronts Baltimore and on possible solutions?

MR. ROUSE. Well, more than anything, they affirm what I have said about nourishing. We were very determined to create black businesses and we set out to—we created a little—well, really, Tony Hawkins—has Tony Hawkins been before you, our manager at Harborplace?

MR. ALEXANDER. No.

MR. ROUSE. Well, the manager of Harborplace is a fine black man who has been with the company for many years, and who came much earlier than the manager normally would because we had him working specifically on finding and helping us where we couldn't find them to create black merchants.

We then identified certain areas that we felt that success was more likely than others. In those cases when we had people coming to us who—one example is a card shop. There was sure to be a card shop in Harborplace, and we knew that fellow named Manny Kain who had been with us for many years, who had card shops in our centers, and we asked him to take in a black person and train them in it and then support them in a card shop.

He said, "I'll do better than that. I have such a person who has been the manager of a card shop, been with me for 8 years, and I will make her the owner of the card shop in Columbia," and he did.

He supported her financially, helped her design it, worked with her, continues to go there every few weeks—and that is a fine card shop. She is becoming a very successful merchant.

Exactly the same thing happened with a wonderful young man, who used to work in the mayor's office, named Jim Smith, who had a set of submarine sandwich shops around the city. He wanted to come in.

We said, "Come in with a black shop."

He said, "I have just the person."

He had a young woman, very little education, who was 25 years old, who he was sure could do it, and he put her in that shop, and he has supported her.

The other night I went by there and there he was behind the counter. I said, "What are you doing here?" He said, "Well, Joyce has the night off."

She didn't know how to drive a car, and he helped her learn how to drive a car, so she could bring things back and forth. It has been a real personal support for that young woman to see that she succeeded.

Her income has doubled or tripled. And she is a terrific hard worker, and that is a successful merchant.

I believe a lot in that form of support and nourishment, and that is the way it can work. You know, Junior Achievement has been doing this for years with respect to high school students—teaching them how to go into business, and that has been a good process.

This is the kind of support that I think did work and has worked—is working in Harborplace.

CHAIRMAN FLEMMING. If people can be persuaded to cross the line and have that type of experience, they will get the same satisfaction out of it that your company does?

MR. ROUSE. Absolutely. I am sure that Manny Kaine and Jim Smith both feel very excited about those businesses.

CHAIRMAN FLEMMING. Incidentally, Mr. Ditch testified relative to development. We are very grateful for your giving us this time and giving us the benefit of insights that have come out of a wonderful example of leadership in this area.

Thank you very, very much.

MR. ROUSE. Thank you. Nice to be here.

CHAIRMAN FLEMMING. At the opening of this hearing yesterday morning, in my statement, I said that beginning at 3:30—and we are right on schedule—we will hear testimony from persons who have not been subpoenaed as witnesses.

I stated that those who wished to testify in this open session can sign up with the staff, and I also indicated that they will be permitted to speak for 5 minutes and must speak only about the subject matter of this hearing. They may not give any testimony which may tend to defame, degrade, or incriminate any person.

They will not be questioned either by the staff or by members of the Commission. This is a practice that the Commission follows in connection with all of its open hearings, and we do adhere strictly to the rules.

Counsel will not only call the witnesses, but he will also keep time and will notify persons when they have 1 or 2 minutes—whatever he decides—left. When the time is expired, the sentence may be completed, and the rest of the statement will be included in the transcript of the hearing.

I will ask counsel to call the persons who have signed up for this part of our hearing.

MR. OWENS. Thank you, Mr. Chairman.

CHAIRMAN FLEMMING. How many are there?

MR. OWENS. Five.

CHAIRMAN FLEMMING. Well, I'm going to suggest that all five come up together and come over to the witness table. Swear all five at the same time. There's room there for five persons.

MR. OWENS. Mr. James W. Hammond, Jr., Mr. Reginald Williams, Mr. William Flood, Mr. Stephen Basarab, and Mr. Hanford Jones.

[James W. Hammond, Jr., William Flood, Stephen Basarab, and Hanford Jones were sworn.]

[Reginald Williams was absent.]

TESTIMONY OF JAMES W. HAMMOND, JR., WILLIAM FLOOD, STEPHEN BASARAB, AND HANFORD JONES

MR. OWENS. Mr. James W. Hammond, Jr.

CHAIRMAN FLEMMING. How much warning are you going to give?

MR. OWENS. We will give a notice when there is 1 minute remaining of the 5 minutes that have been allocated for comments at this hearing. We'd like to call them in the order in which they registered for this session.

CHAIRMAN FLEMMING. That's the order that's being followed—the order in which you signed up.

MR. OWENS. Mr. James W. Hammond.

MR. HAMMOND. My name is James W. Hammond, Jr. I would like to take this opportunity to thank the Commission for allowing me this opportunity to testify before it. I believe, as did many other citizens of Baltimore, that the revitalization of our city, which included the subway, the aquarium, Harborplace, Hyatt Regency, and Antique Road, which is in the 800 block of Howard Street, and the renovation of Charles Street, the 1200 block, would mean many jobs for its citizens and many business opportunities for black entrepreneurs.

I, as well as most of the residents of this proud city, were not only disappointed, but deceived, in regards to same. We were deceived and misled by some very articulate politicians and the powerful men behind them.

This sprucing up of Antique Road and Howard Street, using Federal funds, did not help one black businessman. Very simply, why, because there are no black businesses on Antique Road.

Neither did the rehabilitation and renovation in the 1200 block of North Charles Street, which also was using HUD funds. In that block it consists mostly of small businessmen, not one of which is owned by small businesses, not one of which is owned by a black person.

The construction of the subway is just as bad, for it doesn't appear to involve any black entrepreneurs, when supposedly it has, and an investigation has been conducted, and they found out that the so-called, or supposedly, black owners of these businesses were really only front men for white-owned companies—and this has been documented and been in the news media quite frequently.

Sometime back when the subway started construction I was rather curious. I noticed that many of the vehicles parked near the construction site had a lot of out-of-State license tags—everywhere—from Pennsylvania, Delaware, Virginia, West Virginia, and so I decided—well, that was about one-third of the vehicles there. I wondered how many of the ones with Maryland tags were from Baltimore City, so I personally took down the list of about 16, 17. I tried to find it—I wanted to bring it here to this hearing, and I asked a police officer friend of mine if he would check just the addresses and just simply let me know whether they were city residents.

Out of those 16 to 20 vehicles, not one of them was from Baltimore City. There were people working on the subway from Carroll County, Anne Arundel, Baltimore County, Harford, and Frederick County, but not one of them was someone getting a job from Baltimore City.

The CETA program in Baltimore City—the CETA program, period—is one good heck of a good idea in theory, but when applied in Baltimore City, and as reported in the December 28, 1977, *Evening Sun*—the people that were getting the jobs—title of the article is “Well-Connected Persons Get Jobs Meant For Poor.”

As brought out in the *Sun*, the people getting these—and you'll have to let me know this—if the report in the *Evening Sun* were—such people as Sarah Greenfield, the wife of a judge making \$41,000 a year—she was on the CETA program. The nephew of—

MR. OWENS. One minute, Mr. Hammond. Let me ask you to refrain from naming individuals.

MR. HAMMOND. Okay. I would like to conclude by saying that one picture is worth a thousand words, and I would like to ask the Commissioners that, before it gets dark, if they would go up to the observation floor, 27th floor, I believe it is, and just first start looking down at the bottom, down around the World Trade Center and look at all the nice buildings, Harborplace, the Hyatt Regency, how pretty and how nice it is, and gradually start looking beyond that.

What they will see simply is—you will see slums; you'll see housing projects that are deteriorating so badly they are really shameful; you'll see streets that need repair and streets and bridges, and some that are really very dangerous to even drive on safely, and I would like for you to be so kind as to maybe take that time to do it.

Also, if you could, wait 'til later on this evening—

MR. OWENS. Time.

MR. HAMMOND. I haven't finished my sentence. This evening, say around 10 o'clock—when a lot of people start leaving Inner Harbor, please observe where the traffic heads as it leaves the city. That you will notice is like a steady stream of—I use the term “fireflies”—headlights going out of the city.

My thinking is that this place has really benefited a lot of businessmen from outside the city, and people that come here are from outside the city. But I personally cannot see much good, too much good, that it has done for the residents or the black entrepreneurs in particular.

CHAIRMAN FLEMMING. Do you want to add anything further to your statement? You may submit it for the record.

MR. HAMMOND. I apologize for going over that, and I would like to enter some information as an exhibit, sir.

MR. OWENS. Mr. William Flood?

MR. FLOOD. My name is William Flood. Mr. Hammond seems to cover just about everything that I wanted to speak on. I, as a black businessman, want to open up a business. I have been in the city all my life, and I applied for loans through the SBA, CEBO, through the banks. I have been turned down by all.

When I heard about this today, I thought I'd come up here and just—I don't have that much to say except something in the city is not right as far as black entrepreneurs are concerned. That's it.

MR. OWENS. Thank you. Mr. Basarab?

MR. BASARAB. Mr. Stephen Basarab of the Slavic American National Association. I am rather apprehensive in coming here because our organization may not be listed as a minority, yet we feel we are being discriminated against, and we are falling farther and farther down the economic ladder.

We are economically going to go even further down because we are not part of the affirmative action program. Manufacturing and mining jobs and so forth are decreasing, which Slavs have occupied in great numbers previously. The type of jobs, now, which are opening up are of a different category, where education is required, and we are not being educated; we are not recipients of amounts of money from the national foundations. They ignore us. They disgorge their millions, and we do not get any amounts to train our young people.

Similarly, merit scholarships have greatly diminished, and competent Slavs now find it difficult to become a college graduate because of that, and the costs are rising quite highly.

Furthermore, we are not part of the control and planning apparatus, whether in government or whether in business. We are not on the executive boards of corporations, or the directorships of corporations in proportion to our numbers. We are very small.

Likewise, in the Federal agencies, as of today, we don't have one appointment at the higher levels, not one Slavic American.

In the court system of the United States, since the history of the courts—that's 200 years—it is similarly that way—not one judge, Supreme Court judge, not one court of appeals judge, and so far as I know, within the past 3 years, only two district court judges with Slavic names.

Now under such conditions, where everything intermeshes, how can the Slavic people grow economically? They cannot. They are looked at as outsiders, more or less told to stay out. You work and you will not receive the full fruits of our economic society because you are not at the top; therefore, you must accept at the lower levels, and at the lower levels only. That's where you belong.

We organized because of this, on a national level. At our convention last year, in August, the whole consensus of the convention was that the economic level of the Slavic people is deteriorating. Information about us is inadequate.

One of your own publications and textbooks does not even mention, in its title, one Slavic people. The only Slavic organization mentioned in this big book is the Duquense University Tamboritsins [phonetic], that dance in song groups. How can a child in the United States of America, when it sees this textbook, make a determination that the Slavs even exist?

We know they exist, and they belong in the community and should be received as well as participate in the community life of Baltimore.

Let me cite, also, the example of a housing project in an area of southeast Baltimore. From Broadway all the way to the end of the city line, down to the southern border of the city line, is a vast area—the highest concentration of elderly in the entire United States.

The housing project was granted by HUD. Whenever the drilling started for that project, right across from St. Casimer's Church, opposition developed. The mayor of this city, without even discussing anything with the Lemko [phonetic] Corporation, withdrew his support of the project, refused in any way to fight for zoning for that particular project, and, as of now, no decision has been rendered. The only thing that the mayor offers is a dilapidated school, which you reconstruct. Only 70 units can fit in there—a historical area, where you cannot change the outside contour or add to it.

So the Slavic peoples of Baltimore City, and throughout the United States, feel as though they have not gotten a fair shake. They are being intimidated. The information about them is wholly inadequate. What information is given out is of a nature which does not tell their story to the American people. Intimidating action was the Department of Justice statement, just recently, accepting evidence from the KGB against East Europeans. What can a Slav or Eastern European feel today in America

whenever he says our enemy will come to Washington, submit evidence against you, and your relatives can be sent to Siberia?

That is the type of treatment we do not like. It affects us very badly. It makes us second-class citizens and we would like to have fairness on all boards and commissions throughout the United States, appointments in relation to our numbers.

We are over 30 million. We are not small. We are numerous, but we are relegated to a Gulag status right here in America. We should be put into the forefront, where we belong, and not into the Slavic American Gulag to which we have been relegated.

I thank you.

MR. OWENS. Mr. Jones?

MR. JONES. Commissioner, members of the Commission, my name is Hanford Jones. I am director of the Maryland Minority Contractors Association.

Today's topic is the same as yesterday's and that is urban minority economic development. However, on Wednesday's agenda, under "Future Directions, Private Leadership," there is not one black private sector individual that has been given the protocol opportunity to express the black forecasting of what its private leadership will be doing in reference to the urban minority economic development here in Baltimore City.

Also, in the afternoon session under "Future Directions, New Directions"—the afternoon session—again, we see no black private sector individuals asked to give the futuristic forecast from the black private sector of what urban minority economic development will be about.

Now, when they began the hearing—when you all began the hearing on the 17th, you started with a white lady from the State advisory council, talking about why they are holding these hearings.

The first people after that were, again, the white private sector, along with the one quasi-city government official, speaking to the tune of where the city was 50 years ago.

At the end, we see, once again, the white private sector speaking to where the future of economic minority development is going in reference to Baltimore City.

Now, at first I really thought that these hearings were going to achieve something because of the integratedness of yesterday's session from the black private sector. However, today, according to the agenda—and I must blame the Civil Rights Commission because it's on your stationary—we are being totally left out of explaining what our future forecasts will be relative to our destination, which is your topic, your issue, your reason for being here, and yet you disgrace us, disgust us. You just leave us totally out of explaining where we are going—to you—in reference to the title of your topic—your purpose of your hearings.

Now, if we had to sit here and read and play these games, then, you know, we can stop the transcriber right here and don't even do a report. What we are asking, as far as the Maryland Minority Contractors Association is concerned—a private black sector organization represented—is that another panel is convened that would have black private sector representatives on it talking specifically about, under “Future Directions” a topic relative to private leadership, and one under “New Directions.” There are black developers in this city. They have ideas, and if you are not willing to listen to them, then you are going to come right back in another 50 years and again start over with white people in the white sector, quasi-city government sectors, and say where we were 50 years ago, and end up again with white people from the city government and white people from the private sector telling us where we are going to be in 50 years henceforth. Now I'm too young to keep going through this silly kind of little game—intelligence games.

Again, our only specific request is that a black panel be convened with private black sector representatives to speak under the topic of “Private Leadership” and “New Directions.” If these hearings are any worth whatsoever, and I believe they are—I believe they are well-intended—then, I think that our request should be granted.

If not, I have very little optimistic feelings on the positiveness of the original purpose, and I would like to submit a statement for the record.

Thank you.

CHAIRMAN FLEMMING. First of all, you have an additional statement that you would like to submit for the record?

MR. JONES. Yes, sir.

Our president was supposed to be here, but he is an attorney, and, evidently, he is in court, so I was asked to come.

CHAIRMAN FLEMMING. We will be very glad to receive that. We will take your request under advisement, and I am going to say any additional information you desire to submit we will be delighted to receive.

With the presentation of the testimony from these four witnesses the hearing is adjourned.

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