



Thomas D. Boston
School of Economics
PH: 404•894•5020
FAX: 404•894•1890
e-mail: Thomas.boston@econ.gatech.edu

May 12, 2010

Honorable Maxine Waters, Chairwoman
Subcommittee on Housing and Community Opportunity
Rayburn House Office Building
US House of Representatives
Room 428(A)
Washington, DC 20510
Attn: Amanda Fischer

RE: Joint Hearing on "Minorities and Women in Financial Regulatory Reform"

Testimony of: Thomas D. Boston, Professor of Economics, Georgia Tech and CEO of EuQuant

Honorable Chairwoman Maxine Waters, Hon. Chairman Dennis Moore, and Hon. members of the Subcommittee on Housing and Community Opportunity and the Subcommittee on Oversight and Investigations; I am deeply honored to have been invited to testify before you about the importance of minority and women business inclusion in financial regulatory reform. Chairwoman Waters and Chairman Moore, I am a great admirer of your work to create a level playing field for all American business owners and individuals. I especially support this effort to promote greater business and employment opportunities in federal contracting for minority and women-owned businesses. The proposed "Office of Minority and Women Inclusion" as reflected in H. R. 4173, The Wall Street Reform and Consumer Protection Act, can be an effective and creative way to help level the playing field.

My name is Thomas "Danny" Boston, and I am testifying today as a Professor of Economics at Georgia Tech and as CEO of EuQuant; an economic consulting company that specializes in, among other things, research on small and minority-owned businesses. I have written or edited six books and many scholarly articles on topics related to minority-owned businesses and community economic development. I have also prepared a large number of reports on these subjects and currently provide background research to congressional committees that are seeking to improve the effectiveness of the country's procurement practices with minority businesses. One of the most important reports I have prepared is entitled, "Increasing the Capacity of the Nation's Small and Disadvantaged Businesses

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Atlanta, Georgia 30332-0615 USA
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(SDBs)". The report does several things: it focuses specifically on 47,000 small business concerns that were registered with the federal government in 2007 (the study is currently being updated to 2010); it documents the national and local employment and income impact of minority businesses that are federal contractors; it measures the magnitude of discriminatory barriers that minority firms encounter even when their business related attributes are equivalent to the attributes of non-minority firms; and it makes specific recommendations for improving the effectiveness of the 8(a) and SDB programs.

A 2010 study, commissioned by the Minority Business Development Agency, documents the disparities encountered by minority businesses when they seek loans. The study found that minority firms, in comparison to non-minority-owned firms: are significantly less likely to receive loans; are more likely to receive lower value loans when they do, are more likely to be denied a loan, and are more likely to pay a higher interest rate when they receive a loan. For these reasons, they are more often discouraged and deterred from applying for loans.

In 2007, I conducted an empirical study of 47,254 small business concerns that were registered with the Central Contractor Registration system of the federal government; 39% of these firms were owned by members of minority groups. After controlling for differences in the attributes and industries of firms, I found that minority firms that participated in the SDB or 8(a) program had annual revenues that were \$2.8 million greater than were the revenues of minority federal contractors who did not participate in those programs. I also found that the revenue of SDBs (which includes 8a firms) would be \$900,000 higher if they were compensated for their work in the same manner as are similarly situated non-minority federal contractors.

Distinguished subcommittee members, I could consume all of my time talking about market disparities that minority firms encounter that are not encountered by non-minority-owned firms. However, over the next few minutes I would like to share a perspective that too often is missing from the national debate on minority businesses. Specifically, I would like to focus on the value proposition to the American economy of supporting minority- and women-owned businesses. I will not minimize the importance of leveling the playing field by providing remedies for past and present discriminatory treatment of minority and women business owners. Rather, I argue that, even if business disparities did not exist, America still has a compelling economic rationale for supporting the Office of Minority and Women Inclusion.

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The Value Proposition of Minority-owned Businesses

Honorable members of these two Subcommittees, I am certain it does not surprise you to hear that since 1992, 77% of all the country's new jobs have been created by businesses with 500 or fewer employees. It may however surprise you to learn that during the worst quarter of the last recession (Q1: 2009) small businesses added 82% of all new jobs and those jobs were concentrated in firms with 50 or fewer workers. As of the last business census in 2002, minority-owned firms comprised 18% of all US small businesses and their number is increasing at a rate that greatly exceeds that of non-minority-owned firms.

In 2007 there were 47,254 small business concerns registered with the federal government's CCR program (this excludes WOBs and VOBs). Of this number, 19,237 (or 40.7%) were minority-owned businesses-- even though minorities comprise only 18% of all US businesses. This means that minority firms are much more dependent upon federal contracting than are non-minority-owned firms.

The 19,237 minority businesses that were federal contractors had total revenues of \$43.5 billion and employed 287,482 workers in 2006. Of these firms, 6,758 participated in the 8(a) and SDB programs and 2,848 formerly participated in those programs. Their total revenue of active participants was \$19.2 billion in 2006. By actively participating in the SDB and 8(a) Programs, they added \$3.7 billion to GDP and created 86,038 jobs. These revenues and jobs would not have existed absent the program. Combined, current and former program participants added 124,000 jobs and \$5.5 billion to the US economy annually.

The study selected fourteen central cities for closer examination. The purpose was to identify the characteristics of the neighborhoods where these minority-owned federal contractors located their business headquarters. It was found that 31% of these minority businesses were located in high poverty areas (i.e. places where the poverty rate was 20% or higher). These communities have the greatest need for employment, income and economic development. In Baltimore and Philadelphia, 69% and 60% respectively of minority owned federal contractors located their businesses in high poverty areas. In Los Angeles and San Francisco, 31% located their businesses in high poverty areas.

The results document that minority-owned firms are more likely than are non-minority-owned firms to locate their businesses in low income central city neighborhoods, but they also tended to operate higher skilled ventures in these locations. In 2007, I conducted a national survey of 350 CEO of Black-owned small

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businesses with 10 to 100 employees. The survey found that 67% of the workforce of these companies was African American.

Honorable Chairpersons and Subcommittee members, the implications of these findings are clear. Minority-owned businesses add significantly to national output and employment; the lingering effects of discrimination in private markets has lead minority firms to rely more heavily on federal contracting opportunities than donon-minority firms; by participating in federal procurement programs such as the 8(a) and SDB Programs, annually these firms added almost \$6 billion to GDP and created 84,000 jobs; minority firms are more likely than are non-minority firms to locate in distressed areas of urban communities where unemployment rates are significantly higher—especially among minority populations; the quality of employment provided by minority firms in those locations exceed that provided by non-minority firms on average; and finally, we know that (at least for Black-owned businesses), two-thirds of their workforce is Black.

Given these facts, it is possible to argue that the most important rationale for the proposed Office of Minority and Women Inclusion has very little to do with social justice (although it addresses that issue). Much like the unemployment compensation act initiated during the Great Depression, this bill can be viewed solely on its merits as an effective approach to economic stimulus, poverty reduction, community revitalization and job creation among minority workers in distressed central cities.

Therefore, in closing Honorable Committee members, the provision of HR 4173 is much more than an attempt to achieve social equity. Rather, it aligns with the value proposition that minority businesses represent to America-- if they are properly and effectively supported through the federal contracting process. Thank you.

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