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ENTREPRENEURSHIP: TRENDS AND CONSEQUENCES

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by

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ABSTRACT

Government efforts to promote minority entrepreneurship have emphasized making long-term credit available to minority businessmen at moderate rates of interest. Programs include direct government loans and indirect assistance through commercial bank loans that are insured against default risk by the Small Business Administration (SBA). In the six fiscal years 1968 through 1973, the SBA has approved nearly 40,000 loans and bank loan guarantees providing over $1.1 billion to minority group business borrowers.

The purpose of this note is twofold. First, I will describe changes over time in the number and dollar volume of loans channeled to central city businessmen under the auspices of SBA's various loan programs. Loan recipients have been disaggregated into three racial ethnic groups: Whites, Blacks and other minorities. Rather surprisingly, the evidence indicates that government efforts to promote Black entrepreneurship (Black capitalism) peaked over four years ago. Secondly, I will evaluate certain identifiable or predictable consequences of SBA programs for promoting Black entrepreneurship. On the important topic of job creation, estimates of employment opportunities attributable to SBA lending activities will be compared to Black unemployment in Boston, New York, Philadelphia, Washington, D. C., and Chicago.

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Government efforts to promote minority entrepreneurship have emphasized making long-term credit available to minority businessmen at moderate rates of interest. Programs include direct government loans and indirect assistance through commercial bank loans insured against default risk by the Small Business Administration (SBA).[1] In the six fiscal years, 1968 through 1973, the SBA has approved nearly 40,000 loans and bank loan guarantees providing over $1.1 billion to minority group business borrowers.[2]

The purpose of this note is twofold. First, I will describe changes over time in the number and dollar volume of loans channeled to central city businessmen under the auspices of the SBA's various loan programs. Loan recipients have been disaggregated into 3 racial/ethnic groups: Whites, Blacks, and other minorities. The evidence indicates that government loans to promote Black entrepreneurship (Black capitalism) have been declining over the last four years. Second, I will evaluate certain identifiable or predictable consequences of SBA programs for promoting Black entrepreneurship. On the important topic of job creation, estimates of employment opportunities attributable to SBA lending activities will be compared to Black unemployment in Boston, New York, Philadelphia, Washington, D. C., and Chicago.

I. TRENDS IN FINANCING MINORITY ENTERPRISE

Assistance for minority group entrepreneurs is sometimes equated with Black business development or the promotion of "Black capitalism." This tends to obscure what has been occurring. To avoid possible confusion, I will distinguish between Blacks and other minority groups--i.e., Eskimos, Orientals, Indians, Puerto Ricans and Spanish Americans. A third group, White borrowers, will also be identified in the following analysis.

The samples considered in this paper have been drawn from SBA tapes listing all loan approvals originated in the Washington, D.C., Philadelphia, New York, Chicago, and Boston regional SBA offices. These tapes contain information about individual loans and guarantees approved between June 1967 and June 1973; variables include loan terms, racial/ethnic group affiliation of the borrower and some business characteristics. To focus upon urban unemployment and job creation in this study, loans have been dropped fron consideration if their businesses were not located in the central city areas of the previously mentioned metropolitan regions.[3] Nearly all of the minority business borrowers were located in central cities; the deletion of noncentral city firms simply removed most of the White borrowers from the analysis tape.

In these five central cities, SBA approved over 7,300 loans to borrowers during the period under consideration. Time trends in relative shares of loans received by the three racial/ethnic groups are particularly revealing. In fiscal year 1968, Blacks and other minority groups received 251 and 46 loans, respectively; in 1973, Blacks and other minorities received 740 and 357 loans. The major part of the increase in loans to minority groups took place in fiscal year 1969 when Howard Samuels implemented Project OWN. In July 1968, he was sworn in as director of SBA "and charged by the President with the responsibility of greatly increasing loans to minority businesses."[4] Samuels emphasized the complementary notions of "compensatory capitalism" and the underrepresentation of minorities as owners of businesses.[5] Project OWN sought to increase the size and scope of the minority business community by enormous increases in private sector lending to minority entrepreneurs. In addition to guaranteeing bank loans to minorities, SBA lending criteria were eased in all agency financial assistance programs. Samuels vigorously promoted bank lending to Blacks and other minority groups and he scrutinized regional SBA offices to insure that his policies were being implemented at the local level.[6]

In the five cities under consideration, direct loans and loan guarantees to Blacks and other minority groups increased sharply in fiscal year 1969; from 251 to 635 for Blacks; from 46 to 128 for other minorities; and from 362 to 255 for Whites.

Under the Nixon Administration, Project OWN was renamed Operation Business Mainstream and the SBA established a blanket guarantee arrangement which minimized the paperwork involved in obtaining SBA guarantees for bank loans. This simplification undoubtedly encouraged increased bank participation in programs for lending to Blacks and other minority groups. Relative to fiscal year 1969, direct SBA loans to Blacks in the 5 cities fell from 414 to 289 in fiscal year 1970 while direct loans to other minority groups rose from 84 to 124. During this same time period, SBA guaranteed bank loans to Blacks rose from 221 to 396 and guaranteed loans to other minority group borrowers increased from 44 to 81. Table 1 (below) shows that loans to Blacks leveled off in the 1970-1973 time period while loans to other minority groups increased rapidly and loans to Whites skyrocketed.

Banks were responsible for the entire increase in loans to Blacks during this four-year period: SBA guaranteed bank loans increased from 396 to 547 while SBA direct loans to Blacks declined from 289 to 193. SBA

TABLE 1

Gross Approvals of SBA Direct and Guaranteed Loans for Borrowers in 5 Major Cities; Fiscal Years 1970 through 1973

1. Number of loans approved by year:

	Blacks	Other Minority Groups	Whites	Total
1970	685	205	201	1091
1971	697	269	345	1311
1972	715	345	463	1523
1973	740	357	672	1769
Total	2837	1176	1681	5694

2. Rates of increase in number of loans approved; 1973 relative to 1970:

Blacks	8.0 percent (685 vs. 740 loans)
Other Minority Groups	73.3 percent (205 vs. 357 loans)
Whites	234.3 percent (201 vs. 672 loans)

direct loans to Whites and other minorities increased 193.9 percent and 7.3 percent respectively in this time period. The cutback in SBA direct loans was sharpest in fiscal year 1973 and it affected both Blacks and other minority groups (but not White borrowers).

Data reported in Table 1 are gross loan approvals; they seriously overstate the number of net new loans actually received by borrowers. For a three-city subsample of loan approvals to Blacks in Boston, New York, and Chicago, I tried to estimate the amount of this overstatement. Other magnetic tapes from the SBA's Office of Records indicate that 1074 loans to Black borrowers had been approved between June 1967 and June 1970 in these three cities. By visiting the regional SBA offices in Boston, New York, and Chicago and by individually examining the loan files of these 1074 borrowers, I found that the loan proceeds had never been disbursed in 90 (8.4 percent) of the 1074 instances of loan approval. Further, in two cases loans had not been approved; in 15 other cases nothing could be located in the records of the relevant regional offices.[7] An additional 69 loans were refinancings or "refunding loans" which were designed to pay off earlier loans to firms that had already appeared once (or twice) in the sample of 1074 observations.[8] Refunding loans were most commonly bank guarantee loans and they appeared disproportionately among loans approved near the end of the three-year period under consideration. If the same pattern of refinancing continued after 1970, it appears that the yearly number of new loans to Black borrowers may not have increased since that year. Indeed, defining net loan approvals as gross approvals minus refunding loans, it seems that net loans to Black businessmen have been declining steadily since 1970.

In the five cities under consideration, the SBA appears to be promoting entrepreneurship for Blacks and other minority groups by (1) relying increasingly upon guaranteeing bank loans and (2) providing relatively more loans to other minority groups and fewer loans to Blacks. This latter trend was most pronounced in fiscal years 1970 to 1972. In 1973 total loans to both Blacks and other minority groups had leveled off in number. Quite clearly, the SBA is aggressively expanding the flow of loans to central city businesses owned by Whites. This is true for both SBA direct loans and bank guarantee loans; if the dollar amount rather than number of loan approvals is examined, this trend is much more pronounced because loans to Whites are typically larger than loans to Blacks and other minority groups (see Table 2). Although guaranteed bank loans bear much higher interest rate charges than SBA direct loans, bank loans may be advantageous because they are typically larger in dollar amount.

In fiscal year 1973, for example, the mean direct and guaranteed loan amounts for Black borrowers were $25,425 and $58,617, respectively in the five cities. Annual interest rates on direct loans ranged from 5.5 percent to 6.75 percent in 1973 while for guaranteed loans, "the interest rate is set by the bank,"[9] typically 2 or 3 percentage points above the prime interest rate. That is, guaranteed bank loans bore interest rates of 10 to 12 percent for the period in question.[10]

The SBA has recently been accused of switching emphasis from Blacks to Spanish Americans, "...the change was made to attract Spanish voters after Republicans concluded that it was futile to go after the Black vote."[11] Evidence presented here weakly supports this assertion but further suggests that changing priorities favor Whites over both Blacks and Spanish-speaking persons (the other minorities category is predominantly Spanish American and Puerto Rican for the five cities under consideration).

TABLE 2

Dollar Volume of Loan Approvals for Borrowers
in 5 Major Cities; Fiscal Years 1970 through 1973

1. Total dollar volume, all loans:

	Blacks	Other Minority Groups	Whites	Total
1970	22.1 million	4.0 million	11.4 million	37.5 million
1971	23.8 million	5.7 million	20.2 million	49.7 million
1972	31.8 million	10.2 million	31.7 million	73.7 million
1973	36.6 million	14.9 million	67.6 million	119.1 million
Total	114.3 million	34.8 million	130.9 million	280.0 million

2. Average $ loan amount:

	Blacks	Other Minority Groups	Whites
1970	32,204	19,383	56,532
1971	34,400	21,169	58,487
1972	44,576	29,707	68,549
1973	49,443	41,641	100,585

Sparse evidence provides a rough overview of SBA's national lending activities and further reinforces the notion that government resources are being oriented increasingly toward financing White rather than Black and other minority group entrepreneurs.

TABLE 3

Total SBA Direct and Guaranteed Bank Loans Received by All Minority Borrowers[12]
(expressed as percentage of all SBA loan approvals)

	Number of Loans	Dollar Volume of Loans
1970	41 percent	23 percent
1971	36 percent	19 percent
1972	32 percent	16 percent

II. CONSEQUENCES OF PROMOTING BLACK BUSINESS DEVELOPMENT

When measured by either numbers of loan approvals or relative emphasis on lending to Whites and others, it appears that government efforts to promote minority business development, particularly Black enterprise, have stagnated. As the SBA has shifted from granting direct loans to guaranteeing bank loans, minority group borrowers have clearly been burdened with much higher loan interest payment obligations. In order to evaluate the importance of the decline in government assistance to minority entrepreneurs, it is necessary to examine the impact of programs which sought to increase the size and scope of the minority business community. Recently, the government's minority enterprise program has been charged with ineffectiveness, politization, and corruption.[13] If existing programs have, in fact, been inconsistent with commonly espoused equity and economic efficiency criteria, then perhaps their demise is no cause for lament.

What are the major tangible and identifiable consequences of SBA's programs for financing central city Black businesses? I will focus primarily upon job creation and, secondarily, upon certain equity considerations relevant to the SBA's lending policies. Two qualifying statements are necessary: 1) certain less tangible consequences of promoting Black entrepreneurship defy measurement and they are therefore not being analyzed in this section;[14] 2) government programs for assisting minority entrepreneurs are not restricted to SBA loan programs and perhaps the entire set of programs should be evaluated as a package. Evidence about related programs is not of sufficient quality for them to be included in this paper.[15] Examples of possibly related programs include the seemingly stillborn Minority Enterprise Small Business Investment Companies (MESBIC's) Project,[16] the Office of Minority Business Enterprise (OMBE) franchising program which was designed to permit aspiring minority enterprepreneurs to set up firms under the guidance of established national business franchisors,[17] and a program for supplying credit to minority borrowers by increasing deposits in minority-owned banks. (Since such banks take advantage of the SBA's loan guarantee program perhaps their inclusion would be double counting.)

A. Employment Potential

From the previously described sample of business borrowers in five cities, a subsample of Black borrowers in three cities was selected for more intensive analysis.[18] For 559 Black loan recipients in New York, Chicago, and Boston, additional data were collected on business financial assets and liabilities, number of employees, loan repayment status and a number of other variables.[19] Two hundred eighty six of these 559 loans financed the expansion of existing Black-owned businesses; the remaining

273 loan recipients were establishing new firms. Because of the paucity of data on businesses being formed, data describing the past operations of existing Black enterprises will be used to estimate the number of new jobs which may be opening up as a consequence of the SBA's programs for lending to Black enterpreneurs. Jobs created by the sample of Blacks forming new firms will be estimated by assuming that the new businesses will have the same ratio of fixed assets to total assets as Black existing firms in the corresponding industrial classifications. The estimated number of jobs created per dollar of loan funds is therefore equal for new and existing businesses in identical industrial classifications. Black businessmen receiving SBA loans are assumed to hire Black employees exclusively as their operations expand.

The job creation estimates are summarized in Table 4. Two assumptions used in making these estimates concern the proportion of loan proceeds used to purchase fixed assets and the constancy of the ratio of employees to fixed assets at the time of the loan application and after the loan proceeds have been spent. First, the proportion of loan proceeds spent on fixed assets is assumed to equal the ratio of fixed assets to total assets which existed at the time of the loan application; for example, if fixed assets were 40 percent of total assets on the balance sheet accompanying the loan application then 40 percent of the loan proceeds are assumed to be used to purchase fixed assets. Second, the number of employees per dollar of fixed assets is assumed to be constant over time (i.e., when the loan is applied for and after the loan proceeds have been fully invested in the business); one can estimate the number of jobs created by multiplying the estimated dollar increase in fixed assets by the number of employees per dollar of fixed assets.[20]

With these assumptions, Table 4 shows that \$115.69 million, borrowed by 3096 Black firms, generated 24,919 jobs in the five cities under consideration. Note that SBA's listings of loan approvals indicate that Blacks in these five cities received 3,723 loans totaling \$135.0 million during the six fiscal years 1968 through 1973. In Table 4 these gross data have been adjusted downwards to measure the net dollar amount actually received by Black borrowers. The patterns of non-dispersal, refunding, etc., observed in my three-city analysis of 1074 loan approvals were assumed to apply to the entire sample of 3,723 loan approvals.[21]

These job creation estimates do not necessarily mean that New York, Chicago, Washington, D.C., Philadelphia, and Boston have experienced an overall increase of 24,919 jobs due to six years of lending efforts by the SBA. Some of these jobs may have been created by drawing Black employees from other jobs. In addition, some SBA loans to Blacks forming new businesses actually financed buyouts of existing enterprises previously owned by Whites. Such buyout transactions typically mean no overall increase in employment opportunities. On the other hand, additional secondary jobs may have been engendered as service infrastructure evolved. It is not clear that new jobs created through multiplier effects and the development of service infrastructure exceeded the overstatement of the above estimates of jobs created attributable to takeovers and job switching. Assuming that these offsetting biases are of roughly equal magnitude, it appears that the SBA's lending programs may be creating over 4,000 jobs annually for Blacks in these cities during the years under consideration.

When data were collected (August, September, and October 1971) for the three-city sample of 559 Black borrowers, 26.2 percent of the existing and 35.2 percent of the new businesses had either ceased operations or

TABLE 4

Estimated Number of Jobs Created by Black Business Loan Recipients
by Industrial Classification

	Retailing	Contracting Services	Professional Services	Other Services	Manufacturing, Wholesaling	Entire Sample
1. Number of existing firms receiving SBA loans--3-city sub-sample only*	100	29	22	88	46	285
2. Mean value of business fixed assets expressed as a proportion of total assets	.3902	.3943	.5646	.5982	.4526	
3. Mean value of loan amount	$27,657	$23,479	$39,864	$21,107	$40,297	
4. Mean increase in fixed assets resulting from SBA loans (row 2 times row 3)	$10,792	$ 9,258	$22,507	$12,626	$18,238	
5. Number of employees per $1,000 of business fixed assets (mean value)	.466	.847	.342	.394	.497	
6. Mean number of jobs created per $10,000 in loan funds dispersed (row 2 times row 5 times 10)	1.82	3.34	1.93	2.36	2.25	

*One business was excluded from the calculations summarized in Table 4 because it had zero total assets.

TABLE 4 (continued)

	Retailing	Contracting Services	Professional Services	Other Services	Manufacturing, Wholesaling	Entire Sample
7. Number of Black firms receiving SBA loans--5-city sample, adjusted	1416	197	313	790	380	3096
8. Aggregate loan funds (net) received by Black firms--millions of dollars	46.44	9.94	14.12	23.22	21.97	115.7
9. Total number of jobs created (row 8--using tens of thousands rather than millions of dollars--times row 6)	8452	3319	2725	5480	4943	24,919
10. Mean number of jobs per firm created by SBA loans (row 9 divided by row 7)	5.9	16.9	8.7	6.9	13.1	8.0

were in the process of closing down because they were unable to repay their SBA loans. These firms collectively offer no job opportunities but their fixed assets continue to exist. The estimates of job creations derived in Table 4 are based on the assumption that when a Black loan recipient fails in business, the fixed assets of that firm will continue to be utilized by other firms in the area; jobs created by the SBA induced investment in fixed assets will therefore remain in existence and they will be held, by earlier assumption, exclusively by Blacks.

Data from the Census of Population permit estimates of the number of Blacks in Chicago, Philadelphia, Washington, D.C., Boston, and New York that were unemployed in 1970. In these five cities well over 100,000 Black members of the civilian labor force were unemployed and nearly 100,000 Black males between ages 20 and 62 were employed on a part-time basis.[22] Of course, these data on unemployment and underemployment considerably understate the employment problem facing inner city Blacks because they ignore the facts underlying low labor force participation rates which are characteristic of ghetto areas. In relation to the magnitude of the unemployment problems present in central city Black residential areas, the number of jobs being created for urban Blacks through SBA lending efforts is small.

B. Considerations of Equity

The SBA states that its lending programs seek to increase the number of minority-owned businesses.[23] The SBA apparently uses its lending powers to achieve some notion of equity; it feels that Blacks and other minority groups should own more businesses.

Nearly two-thirds of the SBA's loans to Blacks finance new business formations and a large number of these business efforts end in failure.

In the previously discussed sample of 559 Black borrowers, 46.9 percent of the Blacks forming businesses had encountered problems in repaying their loans.[24] While Black borrowers forming new firms who were not delinquent had a mean personal income of nearly $12,000 (in the year before they received an SBA loan), the group of delinquent borrowers had a mean personal income of only $6,800. If a borrower's business fails, he must still meet his loan repayment obligations unless he pleads bankruptcy. The availability of capital at low interest rates had encouraged many Black wage earners to enter businesses that are not viable; the resultant sequence of events--failing in business and defaulting on one's loan obligations--places severe hardships on unsuccessful entrepreneurs.[25] One of the great tragedies of Black business development programs has been the frequency with which the availability of loan funds has induced Black wage earners to become owners of businesses that are not viable.

C. Summary

Three immediate consequences of programs for lending to Black entrepreneurs have been identified:

1. Some new jobs have been created for inner city Blacks.
2. The SBA has aided many middle-income Black entrepreneurs by providing them with long-term credit.
3. Many borrowers have failed to repay their loans.

Other long-term consequences of these programs may exist, but evidence of them is not presently available. Of the three immediate consequences only the first appears to be consistent with commonly espoused equity and economic efficiency criteria. However, the second may also lead to greater output if Black loan recipients succeed in creating jobs for impoverished, unemployed Blacks through multiplier effects which expand society's output of goods and services. The third consequence was the subject of a previously published article which demonstrated that likelihood of failure is quite predictable; most defaults are therefore avoidable.[26]

The number of jobs being created by the SBA's loan program is small relative to the magnitude of the unemployment and underemployment problems existing in Black inner city areas. Black business development appears to be generating a small (but not inconsequential) number of jobs.

NOTES

[1]The SBA has several loan guarantee programs for bankers; depending upon the program and the size of the loan, SBA typically assumes from 90 to 100 percent liability for loans that become delinquent.

[2]Loan figures for fiscal years 1969 through 1973 are taken from, Limited Success of Federally Financed Minority Businesses in Three Cities, Comptroller General of the United States (Washington, D.C., 1973), p. 17. Fiscal year 1968 loan figures come from, "Evaluation of the Minority Enterprise Program," Small Business Administration, 1970 (mimeo), p. 4.

[3]Central city areas analyzed in this study were defined to include those counties which were dominated by the city under consideration. For New York City, Washington, D.C., and Philadelphia, city boundaries coincide exactly with the boundaries of the central counties. For Chicago and Boston, the central counties used to define the central city area, Cook County and Suffolk County respectively, encompass the entire cities and small parts of the surrounding metropolitan areas.

[4]Howard Samuels, "Compensatory Capitalism," in Black Economic Development, eds., G. Douglas Pugh and William F. Haddad (Englewood Cliffs, New Jersey: Prentice-Hall, 1969), p. 71. In Ibid., p. 70, Samuels states that "banks increased their rate of lending to minority businesses by more than 800 percent during the first seven months of Project OWN."

[5]Project OWN and "compensatory capitalism" are discussed in more detail in Timothy Bates, "An Econometric Analysis of Lending to Black Businessmen," The Review of Economics and Statistics, LV, 3 (August 1973), p. 273.

[6]Howard Samuels, "How to Even the Odds," The Saturday Review, LII, 34 (August 23, 1969), p. 26. The New York SBA director, Charles Kreiger, was transferred to Washington in late 1968 because Samuels felt that he lacked the ability to implement SBA's programs for promoting minority entrepreneurship. With the change of administration in January 1969, Samuels was forced out of the SBA directorship and Kreiger was restored to his New York post. According to one source, Kreiger summarized the problems of minority businessmen by stating that Blacks just don't know how to handle money. For a detailed discussion of Kreiger's conflict with Samuels and his opinions of minority entrepreneurs, see Arthur Blaustein and Geoffrey Faux, the Star-Spangled Hustle (New York: Doubleday, 1972), pp. 187-193.

[7]For a detailed analysis of the selection and the editing of this 1074 observation sample, see Timothy Bates, "The Potential of Black Capitalism," Public Policy, XXI, 1 (Winter 1973), pp. 147-48.

[8]Ibid., p. 147.

[9]SBA: What It Is...What It Does (Washington, D.C., Small Business Administration, 1973), p. 4.

[10]Available information does not permit safe generalizations of the relative merits of large, high cost versus small, low cost loans. Empirical evidence suggests that injections of loan funds would yield rates of return between 14.4 percent and 23.0 percent before payment of interest charges. These are marginal rates of return, though, and they may decline as loan size increases. These rates of return are estimated in Chapter 3

10 (cont.)
of Timothy Bates, Black Capitalism: A Quantitative Analysis (New York: Praeger, 1973), pp. 55-62.

[11] Paul Delaney, "Aid to Minority Businesses: A Lever for Nixon in '72," New York Times (November 18, 1973), p. 70.

[12] "The SBA and Black Business," Black Enterprise (October 1972), p. 50.

[13] "Aid to Minority Businessmen, A Lever," p. 1.

[14] Less tangible consequences fall into two categories, desirable and undesirable. Desirable effects include racial pride which may be instilled in minorities by greater business ownership; a related notion stresses the benefits of minorities as decision-makers and controllers of resources. More tangible but, unfortunately, unmeasurable, are benefits accruing to minorities because minority entrepreneurs spend a higher portion of their receipts within the community, thereby generating further employment for community people. Undesirable effects include the cynicism engendered by politization of parts of the minority enterprise program and the resultant charges of bribery and kickbacks, some of which have been documented in recent congressional investigations.

[15] Closely related programs are sponsored by the Office of Economic Opportunity (OEO), Department of Housing and Urban Development, Department of Commerce, and the Department of Agriculture. Total loans, grants, and guarantees from all of these agencies amounted to slightly over half of the total SBA loans, grants and guarantees in fiscal year 1972; SBA's total was $302 million while OEO, the second largest contributor, chipped in $69 million.

[16]In 1969 Commerce Secretary Maurice Stans announced that 100 MESBIC'S would be set up by June 1970. By June 1971 eleven MESBIC's had been established. By February 1972, only 36 MESBIC's were financing minority enterprises (on a very small scale).

[17]OMBE's franchising program has been discontinued. See Blaustein and Faux, Star-Spangled Hustle, pp. 187-193 for a complete review of the Nixon Administration's programs for promoting minority enterprise.

[18]A detailed analysis of the subsample selection procedure appears in Bates, Black Capitalism, pp. 35-37.

[19]These variables are described, in detail, in ibid., pp. 38-41.

[20]The estimation procedure summarized in Table 4 may be biased for two reasons. The proportion of loan proceeds used to purchase fixed assets may tend to exceed the pre-loan ratio of fixed assets to total assets because, as shown in ibid., Chapters 2 and 3, Black businessmen have had limited access to the sources of non-human productive capital in the past. This factor, if present, would increase the number of jobs being created if the number of employees per dollar of fixed assets holds constant. The number of employees per dollar of fixed assets, though, would tend to decline precisely because Black firms have often been capital starved in the past; given access to sources of long-term credit at low interest rates, many Black entrepreneurs would tend to substitute non-human capital for labor, which would decrease the number of employees per dollar of fixed assets and therefore decrease the number of jobs being created. These two factors are both products of the same phenomenon--limited access to traditional capital markets--and their respective influences on the number of

20 (cont.)

jobs being created by SBA lending efforts will clearly tend to offset one another; job creation estimates therefore reflect the assumption that these offsetting biases are equal.

[21]An analysis of the deficiencies found in the sample of 1074 loan approvals appears in ibid., pp. 35-36.

[22]Statistics on employment status were collected from: United States Department of Commerce, Bureau of the Census, 1970 Census of Population: Detailed Characteristics (Illinois, Massachusetts, Pennsylvania, District of Columbia, and New York volumes), Table 164, "Employment Status by Race, Sex, and Age: 1970."

[23]SBA: What It Is...What It Does (Washington, D.C.; Small Business Administration, 1970), p. 13.

[24]This 46.9 percent figure breaks down as follows: borrowers delinquent but still carried as active loans, 11.7 percent; loans in liquidation or completely charged off as uncollectable loans, 35.2 percent.

[25]To lessen the delinquency and failure rates, lenders should be especially cautious in financing small scale retail operations--a line of business that is particularly popular among potential entrepreneurs; see Bates, Black Capitalism, pp. 69-70 for an extended discussion of this point.

[26]Bates, "An Econometric Analysis of Lending," pp. 272-282.