IMPACT OF PREFERENTIAL PROCUREMENT POLICIES ON MINORITY-OWNED BUSINESSES

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Financial data on minority firms that compete for business in government and corporate set-aside programs reveal that these firms lag behind their nonminority counterparts in important respects. They are, relative to nonminorities, (1) less profitable, (2) younger, and (3) much more highly leveraged. Large-scale minority enterprises are no longer the rarity that they were 20 years ago. These firms have not, however, achieved parity with their nonminority cohorts, and their unique traits—especially undercapitalization—continue to reflect the vestiges of discrimination.

The use of "set-asides" and procurement dollars targeted to minority firms by corporations and government units has grown by leaps and bounds in the past decade. Corporate members of the National Minority Supplier Development Council, for example, claim to have purchased \$5.3 billion in goods and services from minority-owned businesses during 1982.[1] A major element of the procurement approach is the Small Business Administration's 8(a) program, which awarded \$2.3 billion in contracts to disadvantaged, predominantly minority firms in 1983. Set-asides, typified by the 1977 Local Public Works Employment Act earmarking \$400 million worth of local public works for minority enterprise, are increasingly being utilized by local governments in the 1980s. Reflecting the growing political power of blacks and Hispanics in many central cities, procurement programs targeted to minority firms have proliferated in recent years. A recent study of 33 major cities found that only three—Boston, St. Louis, and San Francisco—had no major or significant programs for minority business development. New York, Chicago, Los Angeles, Philadelphia, Detroit, New Orleans, Dallas, and Minneapolis are among the large cities that have shown "major support for minority business development activities."[2]

This study examines various major types of set-asides and procurement programs. Inconsistencies in the lines of justification for minority business set-asides are identified and analyzed. The most fundamental conflict concerns the question of who should be the target recipients—the most deprived minorities versus those whose prospects of business success are greatest. The first approach entails using minority business aid as a redistributive poverty program for assisting entrepreneurs who are in dire economic straits. The second approach entails encouraging business creation and expansion, usually by those who already possess the traits of successful entrepreneurs, such as managerial experience, strong education credentials, and generally above-average incomes.

This study examines a group of over 1,000 minority firms that are either actual or potential participants in government and corporate-sponsored minority set-aside programs. These larger-scale minority enterprises are the ones that have benefited most from set-asides, and they cannot—as a group—be accurately characterized as "deprived." The question that invariably arises when assistance accrues to higher-income minority entrepreneurs is this: why help those who are already successful? The response to the objection is straightforward. These rapidly growing, economically viable firms promote economic development by creating jobs in minority communities. Their profits support investments that, in turn, permit further business expansion and job creation. The presence of business success stories lures younger, better-educated minorities into self-employment, thus further promoting the economic development thrust of minority entrepreneurship. Similarly, existing minority-owned firms in less profitable lines of business are induced—by the success story phenomenon—to reorient their operations to areas that offer greater profit potential; once again, economic development is promoted. All of the above describe the process whereby the vestiges of discrimination are gradually overcome, allowing minority enterprise to approach parity with the nonminority entrepreneur universe.

Although the findings of this study are largely supportive of minority business set-asides, one type of program—which focuses on helping the truly deprived entrepreneur—has been unsuccessful. Most viable firms participating in this type of program are run by individuals who are not particularly disadvantaged; the truly disadvantaged participants, in contrast, fail in droves. Successful minority business set-aside programs award contracts through bidding processes whereby the more efficient minority concerns are most likely to receive contracts.

Owing, in part, to preferential procurement and set-asides, large-scale minority enterprises are no longer the rarity that they were 20 years ago. The rapid increase in the numbers of such firms represents tremendous progress in the realm of minority business development. These businesses have not, however, achieved parity with their nonminority cohorts, and their unique traits—especially undercapitalization—continue to reflect the vestiges of discrimination.

EXAMPLES OF SET-ASIDE PROGRAMS

Minority business set-aside programs have their roots in longstanding government policies designed to strengthen the viability of small business. Notable among the programs designed to increase small business participation in government contracts was the set-aside procedure established under section 8 of the Small Business Act of 1953. Section 8 authorized the Small Business Administration (SBA) to enter into contracts with government agencies having procurement powers and to arrange for fulfillment of these contracts by letting subcontracts to small businesses. In the mid-1960s congressional concern for assistance to small businesses focused increasingly upon economically disadvantaged segments of the population. The 1967 Amendment to the Economic Opportunity Act directed SBA to pay "special attention to small business concerns (1) located in urban or rural areas with high proportions of unemployed or low-income individuals, or (2) owned by low-income individuals."[3] The act authorized using government's procurement process to assist these types of businesses. The notion of focusing assistance specifically on minority entrepreneurs arose during the War on Poverty years of the mid-1960s. Since minority business set-asides were first formulated in the War on Poverty milieu, the program logically focused initially upon entrepreneurs with very low income. The language of "socially or economically disadvantaged" entrepreneurs being eligible for 8(a) program assistance, however, opened the door to participation by minority entrepreneurs whose incomes actually exceeded those associated with a poverty level of existence.

During the 1970s, minority business set-asides were increasingly targeted to entrepreneurs in middle- and high-income brackets, including many who were obviously neither socially nor economically disadvantaged. Broadly speaking, justification for minority business set-asides in the 1970s was a matter of remedying the effects of past discrimination; the War on Poverty goal of assisting the impoverished entrepreneur, however, remained. In 1970 an explicitly stated goal of SBA was to increase the number of minority-owned businesses. The notion of an "ownership gap" was introduced as a rationale for assisting minority entrepreneurs: minorities, according to one well-known study, constituted 17 percent of the nation's population, but only 4 percent of the total number of the nation's self-employed persons.[4] A strategy of increasing the number of minority-owned firms was justified by the goal of narrowing this ownership gap.

By the late 1970s, justifications for minority business set-asides were once again shifting, acquiring a more qualitative focus. At the Minority Business Development Agency (MBDA), for example, the goal of simply increasing numbers of firms was supplanted by the goal of creating and assisting more substantive firms, especially those having future growth potential. Assisting manufacturers or wholesalers was viewed as far more important than assisting a like number of barbershops or beauty parlors. When introducing a minority business set-aside provision in the Senate in 1977, Senator Edward Brooke (R-Mass.) stressed the need to alleviate the chronic unemployment in minority communities; minority-owned firms, he claimed, draw their work forces primarily from such areas.[5] Justifying minority business set-asides on economic development grounds—particularly for creating jobs in high-unemployment areas—possesses wide political appeal. A final justification for minority business assistance in general (including set-asides) is the goal of creating an expanding middle class to serve as a role model for minority youth.[6]

The above discussion of justifications for minority business set-asides reveals important inconsistencies. The most fundamental conflict concerns the question of who should be the target recipients—the most-deprived minorities who (for that reason) need help most, or those who need help less but have much better prospects for business success. These conflicting objectives run through the various minority business set-aside program initiatives.

After enactment of the 1967 Amendment to the Economic Opportunity Act, SBA established a new program, under section 8(a), that expressly directed federal contracts to firms owned by disadvantaged businessmen. Section 8(a) procurement contracts—amounting to a modest $8.9 million in 1969—have grown to $208 million in 1973, to $768 million in 1978, and to $2.3 billion in 1983. Although SBA is not required to award 8(a) contracts exclusively to minorities, the program has largely operated as a minority set-aside operation. A report in 1978 from SBA indicated that 96 percent of the 8(a) companies were owned by members of minority groups.[7] Entry into the 8(a) program is contingent upon SBA approval of a business plan prepared by the prospective 8(a) firm. The plan identifies the types of assistance needed to create a profitable, self-sustaining business. The business plan projects the amount of 8(a) contract support needed for the firm to reach self-sufficiency; it also projects the firm's operating performance for the next three years. The criteria utilized by SBA to accept or reject 8(a) business applicants have tended to be vague and inconsistent through time. But then, no one familiar with SBA has ever identified "consistency" as one of its traits.

The 8(a) procurement program typifies utilizing business set-asides as a tool for helping deprived minority firms. The 8(a) approach to business assistance has generally been unsuccessful, as all other minority assistance programs focusing on helping the truly deprived minority enterprise have been.[8] In theory, 8(a) firms use their contract support to attain self-sufficiency and then they "graduate" from the program. In fact, graduation is rare (five firms graduated during the 1975-80 time period), and a handful of politically well-connected firms have gotten the bulk of the contracts.[9]

A second type of minority business set-aside program has developed at the level of individual federal departments and agencies. Although these programs differ from agency to agency, their common reason for being is found largely in a series of presidential communiques mandating agency purchases from minority business vendors. The initial order of this type was issued by Richard Nixon in 1970, calling for increased representation of small businesses—especially minority business concerns—among federal department and agency contractors. In addition to executive orders, legislation has sometimes directly shaped agency programs that seek to funnel procurement dollars to minority-owned firms. In the case of the Department of Transportation (DOT), the Railroad Revitalization and Regulatory Reform Act of 1976 authorized creation of a Minority Resource Center. One of the center's duties was to assist minority businesses in securing government contracts. This piece of legislation was interpreted by the secretary of transportation as a mandate for minority business set-asides: minority subcontracting rose from practically nothing in 1976 to roughly $85 million by May 1978.

The term "set-aside" requires clarification at this point. The programs discussed in this section are, more accurately, de facto minority business set-asides. As with the 8(a) program, set-aside procurement regulations most commonly refer to "disadvantaged" businesses, and procurement officials most commonly equate disadvantaged business with minority business. It is altogether possible, however, that procurement officials may in the future shift set-aside dollars away from minorities and toward low-income (or women) entrepreneurs. There are also agency efforts to increase awards to minority firms even outside of the "set-aside" framework. For example, an open competition might include a provision for including minority or disadvantaged group ownership as a factor in evaluating offers. Though not technically set-asides, these efforts do tend to increase the agency's awards to minority businesses.

A third type of minority business set-aside is typified by the 1977 Local Public Works Employment Act (LPW), which earmarked $400 million worth of local public works for minority firms. A major feature of this act was its minimum 10 percent set-aside provision favoring minorities. The 8(a) program, in contrast, does not automatically rule out nonminority firms, while the agency specific set-aside procurement programs typically do not target rigid percentages of expenditures to minorities. Of tremendous significance is the fact that the 1977 Local Public Works Employment Act was challenged, leading to the 1980 Supreme Court decision (in *Fullilove* v. *Klutznick*) upholding government enforcement of a minority business set-aside. The use of racial classifications was found justifiable in light of the government objective: remedying the present effects of past discrimination. According to the decision, "Congress had abundant historical basis from which it could conclude that traditional procurement practices, when applied to minority businesses, could perpetuate the effects of prior discrimination."[10]

In addition to the three types of set-asides discussed above—8(a) set-asides, agency specific set-aside programs, and set-asides created by Congress that explicitly establish percentages of expenditures to be expended for minority businesses—other types of set-asides for minorities are common. A relatively new subcontracting program for example, was created in 1978 through an amendment to section 8(d) of the Small Business Act. For federal contracts exceeding $500,000 ($1 million for construction), this new program *requires* that prime contractors submit a subcontracting plan for the benefit of small firms generally, and for firms owned by socially and economically disadvantaged individuals particularly.

THE IMPACT OF SET-ASIDES

Discrimination's Continuing Relevance

Since the 1960s, the traditionally backward minority business community has begun to diversify and expand in response to an influx of talent and capital. Opportunities created by set-asides, preferential procurement policies, and the like have induced better-educated, younger minority entrepreneurs to create and expand firms in areas such as skilled services, contracting, wholesaling, and manufacturing. The average age of self-employed minorities dropped from 46.2 years in 1970 to 43.6 in 1980, while mean years of schooling rose from 9.7 to 11.3 years.[11] The gap in average earnings and years of education between white and minority entrepreneurs has narrowed steadily since 1960. Although the traditional minority business community consisted predominantly of very small firms serving a ghetto clientele, the lure of opportunity in recent years has induced entrepreneurs to create larger firms that are oriented more toward corporate and government clientele. Growth has been fastest in the skill-intensive and capital-intensive lines of business, where the presence of minority-owned firms has traditionally been minimal.

Self-employed minorities have made great progress in recent years. Their annual earnings exceed those of minorities who work as employees. A comparison of 1970 and 1980 census data indicates that minority self-employment grew very rapidly during the 1970s. Furthermore, both average earnings and average educational levels of minority entrepreneurs rose faster—between 1970 and 1980—than the education and earnings levels of nonminorities.

Nevertheless, the gap has not closed, and the vestiges of discrimination are glaringly apparent. Compared to minorities, nonminorities are over twice as likely to be self-employed, and they are overrepresented in such high-earning lines of business as finance, insurance, real estate, professional services, wholesaling, and manufacturing. Minorities, in contrast, are heavily overrepresented in the least remunerative line of small business—personal services. Having relatively little accumulated wealth to draw upon, minority entrepreneurs who have established larger-scale firms in fields such as wholesaling and construction have relied heavily upon long-term debt as a source of funds. Being highly leveraged depresses profitability in periods of high interest rates, and it increases the risks of financial illiquidity and firm failure—especially during recessions.

The debt-burdened capital structure of larger-scale minority businesses is the single trait that most clearly delineates them from nonminority firms of similar size and scope. Historically, lack of access to capital in any form was a severe constraint to minority business expansion. Today, in contrast, it is the form of capital available to minority entrepreneurs—long-term debt—that is a severe constraint on their profitability and hence their ability to expand. Further data on this phenomenon are presented in the rest of this article.

Effects of Set-Asides on Minority Enterprise

Exactly one comprehensive data source exists that is appropriate for analyzing the effects of set-asides on minority-owned businesses. Creation of this database took place between 1979 and 1980 under the sponsorship of the Minority Business Development Agency of the U.S. Department of Commerce.[12] For 1980, the MBDA database contains extensive balance sheet and income statement data for over 1,000 minority enterprises, as well as comparable data for a matching sample of businesses owned by nonminorities. These data were selected from a Dun & Bradstreet database known as Dun's Financial Profiles (DFP). Dun & Bradstreet maintains records on over four million firms, which are used to produce credit reports on businesses. Roughly 20 percent of these forms provide Dun & Bradstreet with balance sheet and income statement data. If these data pass certain consistency checks, they are included in the 800,000-record DFP database.

Unfortunately, DFP records contain no data on the racial or ethnic identity of business owners. MBDA therefore collected minority business directories from sources throughout the United States, yielding a list of over 23,000 minority-owned firms.[13] This list was then compared with the 800,000 business names in the DFP files, and all firms that appeared on both lists were extracted from the DFP database.

Useful data on over 1,000 minority enterprises were extracted in this manner from the DFP files; summary statistics describing these firms are presented in Table 1. Because most of the firms in the MBDA sample were actual or potential participants in corporate and government minority business procurement and set-aside programs, they are much larger than the mean firm in the minority business universe.[14] For this reason, the sample firms are overrepresented in construction, manufacturing, and wholesaling, relative to all minority businesses. Within the service industry, personal service and repair lines of business are rare; most common are business services, professional services, finance, insurance, and real estate.

In addition to the MBDA sample of minority firms, the DFP database has been used to create comparable data on nonminority firms. The samples of nonminority firms were selected to resemble the minorities regarding four traits: (1) industry, (2) annual sales, (3) geographic location,

TABLE 1
Summary Statistics Describing the MBDA Sample of Minority-Owned Businesses (in thousands of dollars)

(Thousands of Dollars)

	Variable	Median	Mean	Standard Deviation
A.	CONSTRUCTION			
	Net Profits	37.1	71.5	166.8
	Total Assets	282.8	650.2	1,183.7
	Net Worth	114.0	244.6	452.9
	Number of Observations	308		
B.	MANUFACTURING			
	Net Profits	53.1	132.7	295.7
	Total Assets	507.6	1,606.7	4,123.3
	Net Worth	258.3	606.6	1,151.0
	Number of Observations	214		
C.	WHOLESALE			
	Net Profits	26.9	50.2	94.2
	Total Assets	422.8	1,074.5	2,018.0
	Net Worth	106.8	308.4	523.0
	Number of Observations	151		
D.	SERVICES			
	Net Profits	30.7	68.9	143.6
	Total Assets	244.2	1,084.1	4,342.0
	Net Worth	100.9	284.9	985.7
	Number of Observations	207		
E.	RETAIL			
	Net Profits	18.2	44.2	128.5
	Total Assets	170.8	456.1	1,232.5
	Net Worth	87.0	171.3	285.4
	Number of Observations	136		

NOTE that mean values are skewed sharply by the presence of some very large firms in the data base. For describing the "typical" minority business, the median is a superior summary statistic for these data.

and (4) corporation status. Table 2 summarizes key minority, nonminority sample differences regarding profitability and leverage. The entire comparison group of nonminorities reported mean net profits equal to 15.2 percent of total assets, which is higher than the 13.9 percent corresponding figure for the minority businesses. The most pronounced difference indicated in Table 2, however, concerns the higher overall leverage that typifies the minority enterprises.

TABLE 2
A Comparison of Minority-Owned Firms from the MBDA Sample with Similar Nonminority Businesses

1. By Industry	After Tax Profits as a Percent of Total Assets		Net Worth as a Percent of Total Assets	
	Minority	Nonminority	Minority	Nonminority
Construction	16.5%	18.5%	40.6%	54.8%
Manufacturing	12.6	13.3	44.8	54.1
Wholesale	7.3	12.1	33.8	56.1
Retail	13.5	14.1	49.0	55.8
Services	18.3	16.3	41.3	51.1
All	13.9	15.2	41.2	54.0

2. By Age of Firm	Minority	Nonminority	After Tax Profits: Median	Sales: Median
Formed before 1968	35.0%	57.8%	$40,856	$1,045,170
Formed between 1968 and 1973	30.8%	14.3%	$32,254	$ 700,859
Formed between 1974 and 1980	34.2%	27.8%	$27,815	$ 554,577
Total	100.0%	100.1%		

Tables 1 and 2, together, describe major lines of minority enterprise—construction, manufacturing, and wholesaling—that participate actively in minority business set-asides. Relative to nonminority enterprises of similar size and scope, they are slightly less profitable and much more highly leveraged. Indeed, their relatively heavy debt loads are the major cause of their lower profitability (Table 2) in comparison to nonminorities. In all lines of nonminority business (Table 2) owner net worth exceeds 50 percent of total business assets; for minorities, the exact opposite pattern prevails—owner net worth is less than 50 percent of total assets in all cases. Another contrast with the nonminority sample reveals that the minority firms are younger overall; nearly two-thirds of the minority businesses were started in the post-1967 era of widespread government assistance (Table 2).

It is among the youngest minority firms that undercapitalization is most apparent: net worth was equal to 38.0 percent of total assets for the group of minority firms formed since 1974, versus 46.8 percent for their nonminority cohorts whose firms were created during the same period. If conventional wisdom holds, greater reliance on debt rather than equity is associated with higher loan delinquency rates and heightened possibilities for business failure. Previous studies have consistently documented high loan default rates among minority firms. The minority businesses described in Table 1 also exhibit much more profit variance than their nonminority counterparts. Indeed, the incidence of minority firms with negative profits was 11.2 percent, whereas only 2.7 percent of the nonminority business comparison group reported negative profits. On balance, the large-scale minority businesses in the DFP sample we have analyzed do have unique problems—particularly in the realm of leverage—but the evidence indicates that both minority and nonminority firms become less highly leveraged as they grow older. Second, firm age is directly related to dollar levels of firm size and profits for minorities (Table 2). As the age distribution of minority firms begins to approach that of the nonminority business community, leverage problems should begin to lessen and aggregate profits should begin to rise.

Minority business set-aside efforts have been criticized for assisting the larger-scale, more profitable minority enterprises. Data in this section have shown that the types of firms that participate most actively in minority set-asides are indeed much larger and more profitable than the average firm in the minority business universe. The data have also shown that these minority-owned firms lag behind their nonminority counterparts in important respects. In comparison to the nonminorities: (1) they are less profitable as a group; (2) their incidence of nonprofitability is over four times greater; (3) they are very highly leveraged and thus vulnerable to delinquency on debt obligations (and hence actual failure); and (4) they are a younger group of firms.

THE UTILITY OF BUSINESS SET-ASIDES

If procurement assistance is to serve as a viable program for minority business development, then it must seek to assist the stronger and better-managed minority firms. The SBA-administered 8(a) procurement program has clearly not focused upon assisting this sector of the minority business community. According to a 1981 report by the General Accounting Office, only 166 of the 4,598 firms participating in the 8(a) program had graduated as competitive businesses.[15] According to the GAO, many 8(a) firms have had all of the help that SBA has to offer, but they still have not developed into competitive firms. As it was stated earlier in this article, the 8(a) program is designed to assist the marginal entrepreneur as opposed to the successful and the promising self-employed minority businessman. Government programs that are designed to aid the less-promising minority entrepreneurs have consistently been ineffective, and 8(a) is no exception.

Other types of set-aside programs described earlier include agency-specific efforts—created most commonly in response to executive orders—and set-asides mandated by legislation, such as the 1977 Local Public Works Employment Act. These programs provide minority enterprises with partial protection from competition in the awarding of procurement contracts, but they are fundamentally different from 8(a) contracts. A federal agency that purchases goods or services from a minority vendor will—other things being constant—pick the low-cost supplier over the high-cost alternatives; similarly, the vendor that produces reliably will be favored over the alternative that produces haphazardly. Over time, therefore, procurement business will flow increasingly to the most efficient minority enterprises. Unlike 8(a), the forces of marketplace competition will be operative: agencies will strive to minimize their procurement costs; in the resultant competitive struggle for procurement contracts, the efficient minority business will prosper. Similarly, in public works contracting the general contractor will prefer to do business with the reliable and cost-efficient minority subcontractor or supplier. Over time, the more efficient firms will be able to expand relative to the less efficient ones. Minority business set-aside programs that demand efficient business performance are the ones that are most useful to society. Such programs are also consistent with the goal of utilizing minority business expansion as a tool for promoting economic development. By encouraging expansion of the more efficient minority enterprises, government is creating the role models and success stories that are vital to the minority business development effort. Regarding job creation, the available evidence indicates that minority firms working on set-asides—as well as minority business in general—disproportionately employ minority employees. However, by no means are all of their jobs filled by minorities, especially when the firms involved are producers of professional services. Firms in construction and manufacturing are most likely to be the ones creating jobs that are overwhelmingly filled by minority employees.

Minority business set-aside programs have been evaluated thus far largely in terms of their contribution to minority business development. In this realm, they have aided in the creation and expansion of thousands of larger-scale minority enterprises in such nontraditional fields as wholesaling, general construction, business services, and large-scale manufacturing. Federal government programs have been emulated by corporations as well as state and local government units. Over the last decade, average incomes of minority entrepreneurs have expanded much more rapidly than those of self-employed nonminorities. Younger and better-educated minorities have been lured into self-employment by the expanded opportunities that corporate and government markets represent.

A negative aspect of minority business set-asides, however, has been the higher procurement costs incurred by government as a result of utilizing firms that may be less experienced relative to nonminority enterprises. Higher procurement costs are inherent in set-asides such as the 8(a) program, which assumes that the contract recipients are not competitive. In the procurement programs that seek to utilize the most efficient available firms, however, higher procurement costs are generally a transitory phenomenon and they are *not* necessarily wasteful in the long run. Consider, for example, the widely studied 1977 Local Public Works Employment Act, which contained a large minority business set-aside provision. Approximately 18 percent of expenditures under this act accrued to minority firms, and this resulted in an estimated overall cost increase of over 1 percent in the construction projects that were ultimately completed.[16] In the absence of minority participation, not only could the construction have taken place at a cost saving of over 1 percent, but certain projects could have been completed faster.

The construction industry is traditionally one in which general contractors work with a closely knit group of subcontractors. In this old-boy network, close personal relationships allow subcontractors to maximize their chances of receiving business from general contractors. This kind of network is exactly what shut out minority firms—few of which are large enough to be general contractors—from their fair share of large-scale construction projects. The 1977 LPW Act changed this state of affairs by forcing general contractors to subcontract work to minorities. Thus, general contractors had to get to know the minority firms; and the process of opening lines of communication between general contractors and minority construction firms was not altogether a smooth one. The process of finding suitable minority subcontractors was of course complicated by the uncertainty contractors felt in dealing with unknown firms, as opposed to dealing with subcontractors from the old-boy network. The key point, though, is that the resultant opening of lines of communication—although difficult the first time around—promotes a more competitive overall situation in construction, which may actually reduce long-run construction costs. According to one comprehensive evaluation of the LPW act, 61 percent of the minority subcontractors continued to do business with the general contractors after their initial LPW contracting work was completed.[17] Furthermore, the LPW set-aside helped participating minority firms to increase their bonding capacity, thus improving their chances of competing for larger-scale construction jobs in the future.

Breaking down traditional barriers to minority business participation in the economy is not a costless process, but achievement of this goal is precisely the intent of minority business set-asides. Once this goal is achieved and once the buyers and sellers involved in the procurement process become knowledgeable about each other, the costs of transition to a less discriminatory economy fall off.

NOTES

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1. Roy Betts and Lewis Giles, "McDonald Sees Increased Private Sector Participation in Minority Business," *Minority Business Today* vol. 2, no. 4 (December 1983), p. 6.
2. National Institute of Government Purchasing, "Minority Business Participation in State and Local Governments," unpublished manuscript, 1982, pp. 3-10.
3. Daniel Levinson, "A Study of Preferential Treatment: The Evolution of Minority Business Enterprise Assistance Programs: *George Washington Law Review* vol. 49 (1980), pp. 64-65.
4. Timothy Bates and William Bradford, *Financing Black Economic Development* (New York: Academic Press, 1979), pp. 131-132.
5. Levinson, "Preferential Treatment," p. 76.
6. Timothy Bates, "Black Entrepreneurship and Government Programs," *Journal of Contemporary Studies* vol. 4, no. 4 (Fall 1981), pp. 59-62.
7. 8(a) Review Board, Small Business Administration, *Report and Recommendations on the Section 8(a) Program for A. Vernon Weaver, Administrator* (Washington, D.C.: Small Business Administration, 1978), p. 23.
8. See, for example, Bates and Bradford, *Financing,* chap. 9. See also Bates, "Black Entrepreneurship," pp. 59-69.
9. Comptroller General, *The SBA 8(a) Procurement Program: A Promise Unfulfilled* (Washington, D.C.: General Accounting Office, 1981), pp. 9-19.
10. Levinson "Preferential Treatment," pp. 78-79.
11. Data describing self-employed minorities have been taken from Timothy Bates, "An Analysis of the Minority Entrepreneur: Traits and Trends," final report to the Minority Business Development Agency (October 1984), pp. 2-31.
12. A full description of the data base appears in Timothy Bates and Antonio Furino, "A New Nationwide Data Base for Minority Business," *Journal of Small Business Management* vol. 23 (April 1985).
13. A representative sample of the major directories used to create the list of 23,000+ minority businesses includes: *Dallas/Ft. Worth Buyers Guide:* Dallas Regional Minority

Purchasing Council (Dallas, Tex., 1980); *Directory of Small Disadvantaged Businesses Located in the Great Southwest:* Defense Logistics Agency, Defense Contract/ Administration Service Region (Dallas, Tex., 1981); *Minority Vendors Directory:* Gulf Oil Corporation (Pittsburgh, Pa., 1979); *Minority Firms in MA, NY, CT, RI, ME, NH, VT:* Defense Supply Agency (Boston, Mass., 1980); *National Minority Business Council Business Directory:* National Minority Business Council (New York, N.Y., 1980); *State of California Department of Transportation Minority Business Enterprise List:* State of California Department of Transportation (Sacramento, Calif., 1981); *Western Electric Minority Source Directory:* Western Electric (Greensboro, N.C., 1980).

14. Bates and Furino, "Nationwide Data Base."

15. Comptroller General, *8(a) Procurement*, p. i.

16. Economic Development Administration, *Local Public Works Program: Final Report* (Washington, D.C., U.S. Department of Commerce, 1980), pp. 62-69.

17. The Granville Corporation, "A Longitudinal Analysis of Minority Business Enterprises Participating in the Local Public Works Program," final report to the Economic Development Administration (December 1982), pp. 1-3.