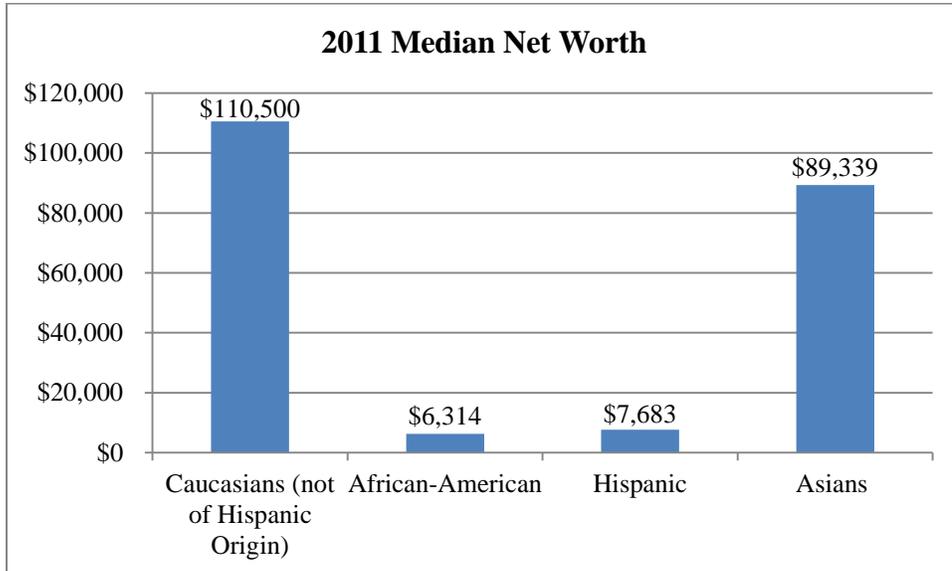




Wealth Gap Report

EXECUTIVE SUMMARY

Inequality manifests itself in a variety of ways, including the significant wealth gap between Caucasians and minorities. Minorities earn lower incomes and have less wealth over time. In 2011, the median net worth (i.e., wealth) of Caucasians (not of Hispanic origin) was \$110,500, compared to \$6,314 for African-Americans, \$7,683 for Hispanics, and \$89,339 for Asians. The wealth gap hinders minorities' ability to create, maintain, and grow their small firms, which negatively impacts the entire economy.



Small businesses serve as a vessel for wealth creation for most Americans. According to the U.S. Small Business Administration's Office of Advocacy, small businesses created 64 percent of new jobs between 1993 and 2011. In 2010 alone, small businesses employed 55 million Americans.

The U.S. Census Bureau estimates that minorities will comprise 57 percent of the population in 2060, a dramatic increase from the current 37 percent. In light of the projected changes in America's composition, minority-led firms are expected to continue to play an important role in maintaining the strength of America's economy.

Factors that contribute to the wealth gap are:

A. Homeownership

For most American families, their most valuable asset is their home. In 2004, 76 percent of Caucasians, 60 percent of Asians, and fewer than 50 percent of African-Americans and Hispanics owned a home. The disparity in demographic homeownership continued in 2010; below is Census homeownership data for nearly 117 million households. Homeownership impacts the amount of capital available to start a business. Dr. Robert Fairlie, Professor of

Economics at the University of California at Santa Cruz, concluded that a “10 percent annual increase in housing equity increases the mean probability of entrepreneurship by 17 percent.”

B. Generational Wealth Transfers

Minorities’ lack of assets and inherited wealth impacts their attainment of capital to start, maintain, or grow a small business. In fact, 82 percent of minority small business owners open sole proprietorships, compared to 71 percent of Caucasians. Thus, minority small business owners have to rely on personal equity to a greater degree, which can be difficult due to the wealth gap and lack of inherited wealth.

C. Asset Diversity

A diversified portfolio is essential for wealth creation and small business growth. As of 2009, 24 percent of both Hispanics and African-Americans sole asset was a motor vehicle, while only 6 percent of Caucasians had such a limited portfolio.

D. Education

Education is fundamental for economic advancement and teaches entrepreneurial tools in order to accumulate wealth. According to the Consumer Financial Protection Bureau, a significant amount of student debt can limit the ability to open a small business. The Department of Education found that the median and average student debt levels vary by demographic; African-Americans took out the highest amount of student loan debt.

E. Lending Inequalities

Minorities face lender discrimination, which in turn impacts their ability to open or expand a small firm as well as attain wealth. In 2010, 15.2 percent of Caucasians did not apply for a small business loan due to fear, compared to 38.8 percent of African-Americans and Hispanics. This trend also existed along gender lines, with 21.1 percent of women not applying compared to 17.8 percent of men.

F. Professional Networks

Access to effective professional networks is critical to a small firm’s success, because they open access to capital, contracting, trade, and counseling, which in turn can increase an entrepreneur’s wealth. However, minorities do not have the historical access to such networks. The SBA Office of Advocacy issued a report detailing that venture capital (VC) firms are more likely to do business with firms that are within the VC network. However, when VC firms stepped outside their professional network to work with more women-owned small businesses their profits increased.

G. Language Barriers

Language barriers can hinder potential small business owners from utilizing government entrepreneurship resources. Currently, SBA's national resource guide is written in English; although, district offices have the choice of providing multi-lingual materials for their geographic area.

H. Unemployment

The unemployment rate is disparate among demographics and can hinder wealth accumulation. The U.S. Bureau of Labor Statistics' June 2013 unemployment rates are organized by demographic in the below chart.

Group	June 2013 Unemployment Rate
Caucasians	6.8%
African-Americans	14.3%
Hispanics	9.1%
Asians	5%
Native Hawaiian or other Pacific Islanders	6.1%
Native Americans	12.8%

I. Internet Access

Small businesses need access to broadband in order to stay afloat in today's economy. The Census found a demographic disparity on the rate of Internet usage between 2000 and 2011. Below are charts detailing this data:

2000

Group	Percent of Population Internet Use
Hispanic	23.6%
African-American	23.6%
Caucasian	46.1%
Asian	56.2%

2011

Group	Percent of Population Internet Use
Hispanic	58.3%
African-American	56.9%
Caucasian	76.2%
Asian	82.7%

Since becoming Chair of the U.S. Senate Committee on Small Business and Entrepreneurship, Senator Landrieu has held 5 hearings and roundtables to examine the wealth gap. These discussions have focused on several aspects of the minority wealth gap and its effect on American small businesses and America's economy. The information contained within this report should provide a launching pad for legislators, policy advocates and stakeholders to work toward putting forth the best ideas to solve these problems.

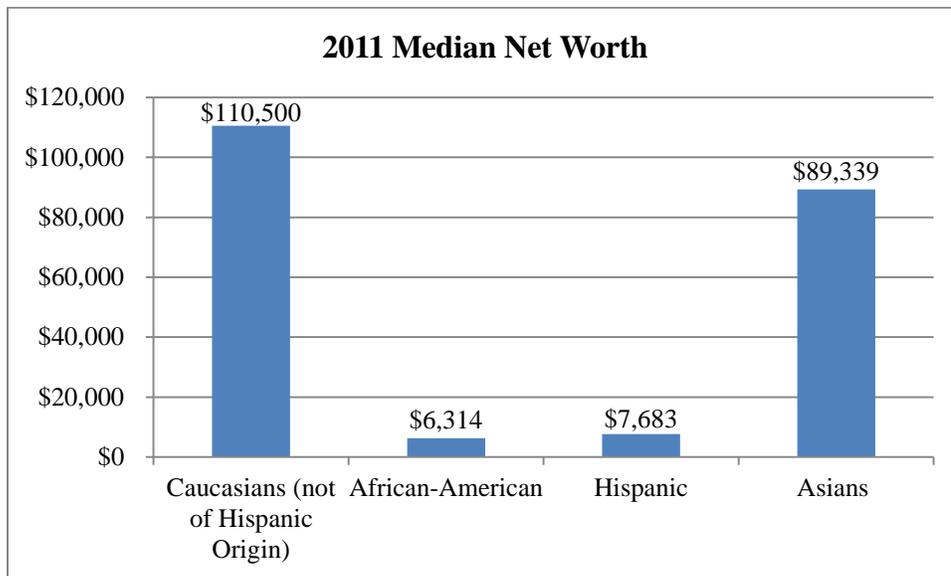
U.S. SENATE COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

Senator Mary L. Landrieu, Chair

Majority Committee Report: The Wealth Gap in the United States¹

I. Introduction

Inequality manifests itself in a variety of ways, including the significant wealth gap between Caucasians and minorities.² Minorities earn lower incomes and have less wealth over time.³ In 2011, the median net worth (i.e., wealth) of Caucasians (not of Hispanic origin) was \$110,500, compared to \$6,314 for African-Americans, \$7,683 for Hispanics, and \$89,339 for Asians.⁴ The wealth gap hinders minorities' ability to create, maintain, and grow their small firms, which negatively impacts the entire economy.



¹ The Chair would like to thank Irma L. Palmer and Kristen Bushnell for writing this report. She would also like to thank Shadawn Reddick-Smith, Julia Walters, and Bradley Williams for their work as research fellows.

² Wealth and income are not synonymous with one another. Income refers to people's earnings from work, interest, and dividends. Wealth refers to the difference of total assets and liabilities an individual (or typically, a family) has been able to accumulate over an extended period of time.

³ "Detailed Tables on Wealth and Asset Ownership." Census. 2011. United States Census Bureau. July 2013. <<http://www.census.gov/people/wealth/data/dtables.html>>. Asian American net worth is not recorded by ethnicity and Native American wealth data is put into the "other" category by the Census.

⁴ "Detailed Tables on Wealth and Asset Ownership." Census. 2011. United States Census Bureau. July 2013. <<http://www.census.gov/people/wealth/data/dtables.html>>. Some analysts use the Federal Reserve Board Survey of Consumer Finance for wealth data, which asks different questions about wealth accumulation. Whether one is using the Federal Reserve or the Census' numbers the trend of the wealth gap amongst racial demographics is maintained.

Small businesses serve as a vessel for wealth creation for most Americans. Between 1993 and 2011, small businesses created 64 percent of new jobs.⁵ In 2010 alone, small businesses employed 55 million Americans.⁶

Minorities will comprise 57 percent of the population in 2060, a dramatic increase from the current 37percent.⁷ In light of the projected changes in America’s composition, minority-led firms are expected to continue to play an important role in maintaining the strength of America’s economy. The chart below details how minority firms are a strong component of the economy.⁸

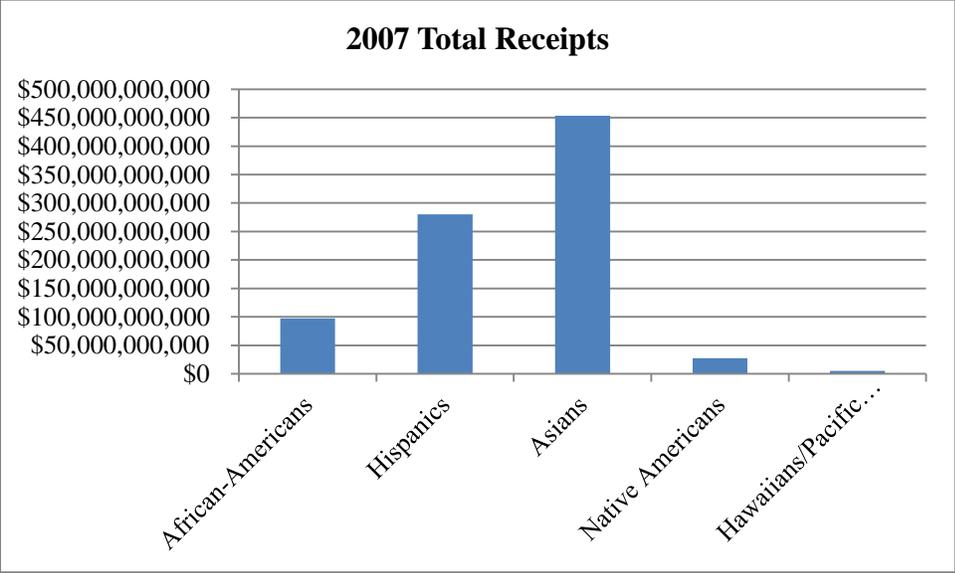
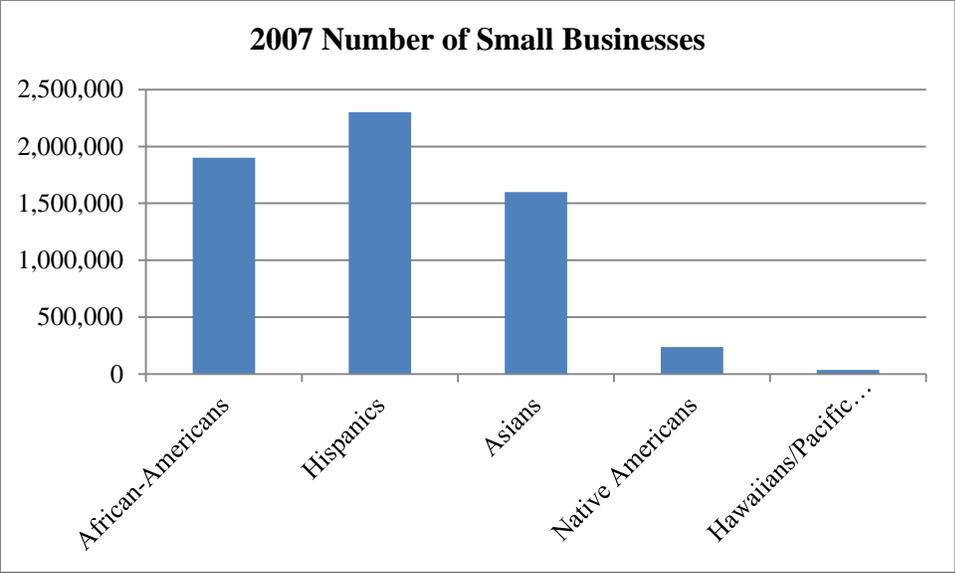
Group	2007 Number of Small Businesses	2007 Total Receipts	2007 Number of Employees
African-Americans	1.9 million	\$97,145,000,000	910,000
Hispanics	2.3 million	\$279,921,000,000	1.9 million
Asians	1.6 million	\$453,574,000,000	2.8 million
Native Americans	237,000	\$27,494,000,000	185,000
Hawaiians/Pacific Islanders	38,000	\$5,250,000,000	38,000

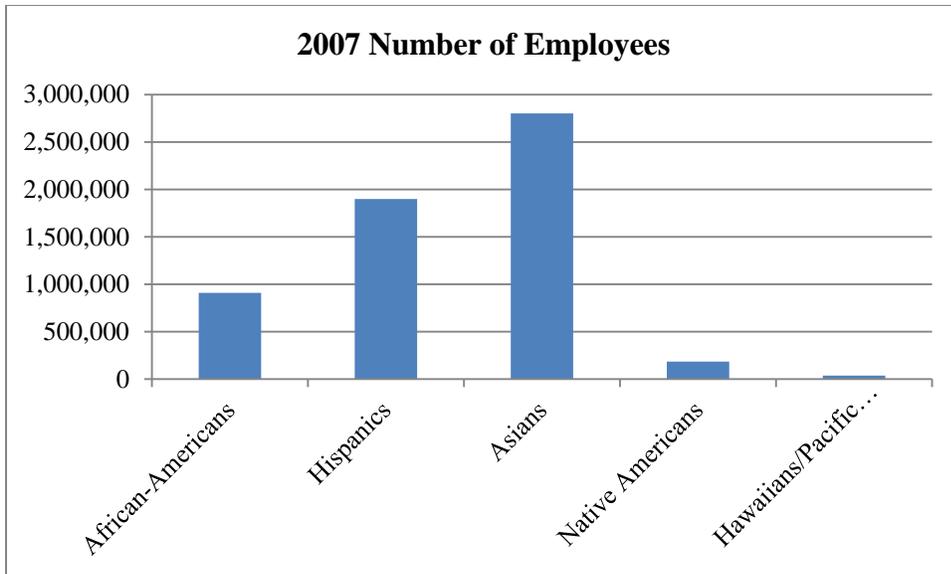
⁵ “Frequently Asked Questions.” U.S. Small Business Administration Office of Advocacy. September 2012. U.S. Small Business Administration Office of Advocacy. July 2013. <http://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf>

⁶ “Small Business Profile.” U.S. Small Business Administration Office of Advocacy. February 2013. U.S. Small Business Administration Office of Advocacy. July 2013 <<http://www.sba.gov/sites/default/files/us12.pdf>>

⁷ “U.S. Census Bureau Projections Show a Slower, Older, More Diverse Nation a Half Century from Now.” Census. 12 December 2012. U.S. Census Bureau. July 2013. <<https://www.census.gov/newsroom/releases/archives/population/cb12-243.html>>

⁸ “Small Business Profile.” U.S. Small Business Administration Office of Advocacy. February 2013. U.S. Small Business Administration Office of Advocacy. July 2013 <<http://www.sba.gov/sites/default/files/us12.pdf>>





First, the report identifies some factors that contribute to the wealth gap. Second, it summarizes testimony from five hearings and roundtables about the wealth gap. Finally, the report concludes with additional organizations' policy recommendations aimed at minimizing this gap.

II. Factors Contributing to the Wealth Gap and Obstacles for Small Business Growth

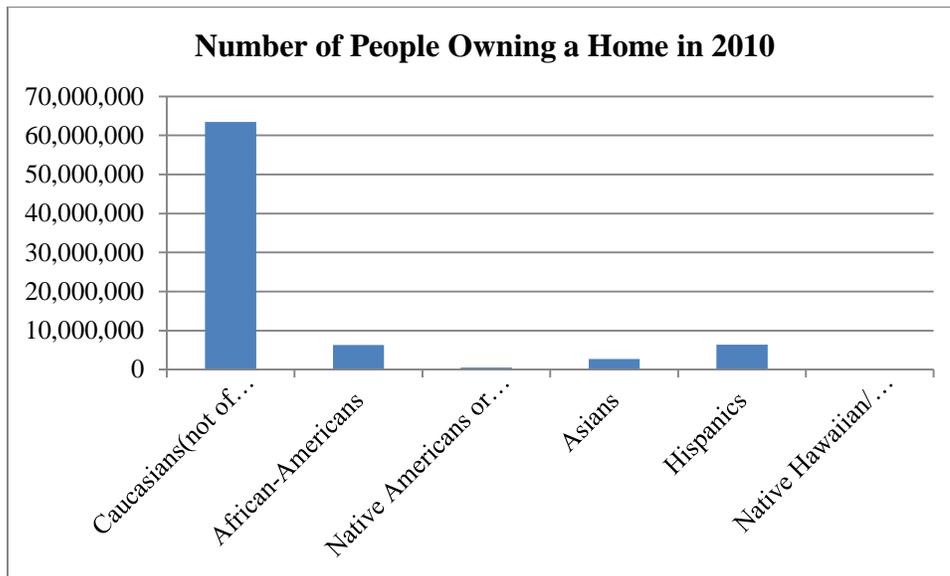
J. Homeownership

For most American families, their most valuable asset is their home. By owning a home, a family accumulates wealth by paying off their mortgage as well as building wealth and home equity, even if the price of the home does not increase. This equity can be used to secure a loan, fund a college education, finance a retirement, or start a small business. In 2004, 76 percent of Caucasians, 60 percent of Asians, and fewer than 50 percent of African-Americans and Hispanics owned a home.⁹ The disparity in demographic homeownership continued in 2010; below is Census homeownership data for nearly 117 million households¹⁰:

⁹Duda, Mark, Haurin, Donald, Herbert, Christopher, Rosenthal, Stuart. "Homeownership Gaps Among Low-Income and Minority Borrowers and Neighborhoods." U.S. Department of Housing and Urban Development. March 2005. U.S. Department of Housing and Urban Development. July 2013. <http://www.huduser.org/portal/publications/HOMEOWN/HGapsAmongLIInMBnN.html> >

¹⁰ "Tenure by Race of Households." U.S. Census Fact Finder. 2010. U.S. Census Bureau. July 2013. http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=DEC_10_SF1_H14&prodType=table >Data for all demographics in the table, except for the Hispanic population, were found at this source.

Group	Number of People Owning a Home in 2010
Caucasians (not of Hispanic origin)	63,446,275
African-Americans	6,261,464
Native Americans or Alaska Natives	509,588
Asians	2,688,861
Hispanics ¹¹	6,368,449
Native Hawaiian and other Pacific Islanders	61,911



Recent volatility in the housing market has disproportionately harmed minority communities. At a financial summit in 2012, Federal Reserve Chairman Ben Bernanke stated two discriminatory practices that made the financial downturn worse for minority Americans: “One is redlining, in which mortgage lenders discriminate against minority neighborhoods, and [the second is] pricing discrimination, in which lenders charge minorities higher loan prices than they would to comparable non-minority borrowers.”¹² This reflects a historical trend. A 1998 study conducted by the Department of Housing and Urban Development found that blacks carried a greater proportion of subprime mortgages, “In predominantly black neighborhoods, the high-cost subprime lending accounted for 51 percent of home loans in 1998 - compared with

¹¹“Tenure by Race of Households.” U.S. Census Fact Finder. 2010. U.S. Census Bureau. July 2013. <<http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk>>Data for the Hispanic population was found at this source.

¹² Waldron, Travis. “Federal Reserve Chair: Discriminatory Lending Made Housing Crisis Worse for Minorities.” *Think Progress*. 16 November 2012. 29 July 2013.<<http://thinkprogress.org/economy/2012/11/16/1203241/bernanke-discriminatory-lending/?mobile=nc>>

only 9 percent in predominately white areas.”¹³ This study also found that African-American homeowners made up 13 percent of the subprime mortgage market, but only 5 percent of the entire mortgage market.¹⁴ Furthermore, African-Americans had 33 percent of all refinanced mortgages compared to only 8 percent for Caucasian borrowers.¹⁵ Continuing this historical trend, in 2011, the Center for Responsible Lending found that, “among borrowers with a FICO score of over 660, African Americans and Hispanics received a high interest rate loan more than three times as often as white borrowers.”¹⁶ In July 2012, the U.S. Department of Justice (DOJ) settled with Wells Fargo Bank over claims that the bank consistently discriminated against qualified African-American and Hispanic borrowers.¹⁷

While the Great Recession reduced all Americans’ wealth held in home equity, minorities saw even greater declines. Per the Pew Research Center, below is a chart that details this data.¹⁸

Group	Percent Median Home Equity Decline	2005 Median Home Equity	2009 Median Home Equity
Hispanics	51%	\$99,983	\$49,145
Asians	32%	\$219,742	\$150,000
African-Americans	23%	\$76,910	\$59,000
Caucasians	18%	\$115,364	\$95,000

¹³ “Unequal Burden: Income & Racial Disparities in Subprime Lending in American.” U.S. Department of Housing and Urban Development. April 2000. U.S. Department of Housing and Urban Development. July 2013. <http://www.huduser.org/Publications/pdf/unequal_full.pdf>

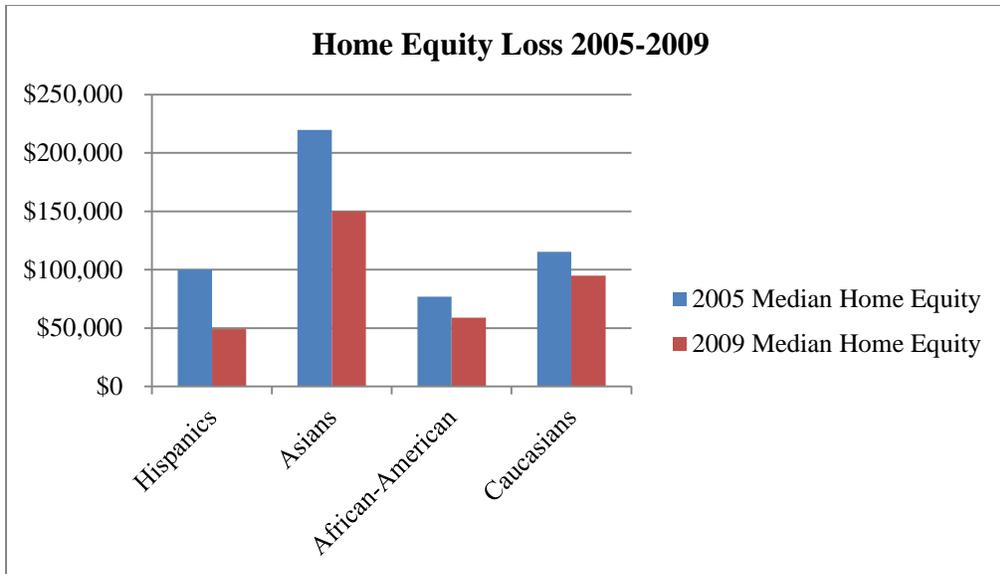
¹⁴ “Unequal Burden: Income & Racial Disparities in Subprime Lending in American.” U.S. Department of Housing and Urban Development. April 2000. U.S. Department of Housing and Urban Development. July 2013. <http://www.huduser.org/Publications/pdf/unequal_full.pdf>

¹⁵ “Unequal Burden: Income & Racial Disparities in Subprime Lending in American.” U.S. Department of Housing and Urban Development. April 2000. U.S. Department of Housing and Urban Development. July 2013. <http://www.huduser.org/Publications/pdf/unequal_full.pdf>

¹⁶ Bocain, Debbie; Quercia, Roberto. “Lost Ground, 2011. Disparities in Mortgage Lending and Foreclosures.” Center for Responsible Lending. November 2011. Center for Responsible Lending. <<http://www.responsiblelending.org/mortgage-lending/research-analysis/lost-ground-2011.html>> A FICO score of 660 or above indicates a reliable borrower eligible for lower interest rates.

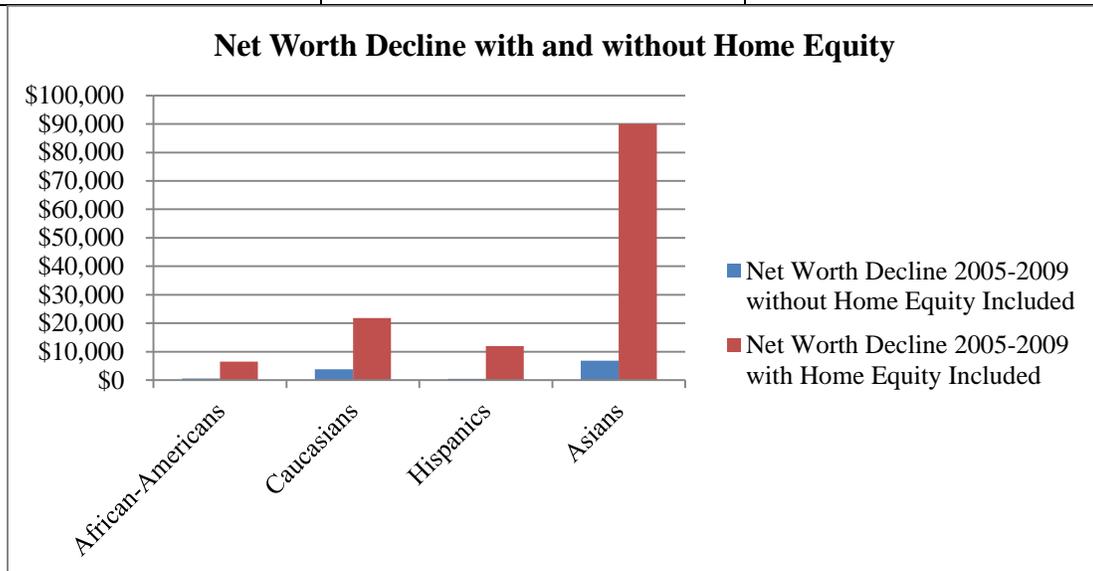
¹⁷ “Justice Department Reaches Settlement with Wells Fargo Resulting in More Than \$175 Million in Relief for Homeowners to Resolve Fair Lending Claims.” U.S. Department of Justice. 12 July 2012. U.S. Department of Justice. July 2013. <<http://www.justice.gov/opa/pr/2012/July/12-dag-869.html>>

¹⁸ Fry, Richard; Kochhar, Rakesh; Motel, Seth; Taylor, Paul; Velasco, Gabriel. “Wealth Gap Rise to Record Highs Between Whites, Blacks and Hispanics.” Pew Social Trends. 26 July 2011. Pew Research Center. July 2013 <http://www.pewsocialtrends.org/files/2011/07/SDT-Wealth-Report_7-26-11_FINAL.pdf> Statistics on other minority groups, such as Native Americans, were not available.



The Pew Research Center also found that among all households, Asians experienced the most significant decline in net worth due to reduced home equity¹⁹:

Group	Net Worth Decline 2005-2009 without Home Equity Included	Net Worth Decline 2005-2009 with Home Equity Included
African-Americans	\$626	\$6,477
Caucasians	\$3,792	\$21,843
Hispanics	\$479	\$12,034
Asian	\$6,837	\$90,037



¹⁹ Numbers are expressed in 2009 dollars

Homeownership impacts the amount of capital available to start a business. Dr. Robert Fairlie, Professor of Economics at the University of California at Santa Cruz, concluded that a “10 percent annual increase in housing equity increases the mean probability of entrepreneurship by 17 percent.”²⁰ Since many banks require potential borrowers to use their home equity as collateral in order to obtain a small business loan - reduced homeownership and declining home equity disproportionately impact minorities’ ability to start or grow their own businesses.

K. Generational Wealth Transfers

Transfers of wealth between generations are more prevalent among Caucasians than minorities. An Urban Institute study concluded that African-Americans and Hispanics are five times less likely to receive inheritances from family members than Caucasians.²¹ The Urban Institute also found that “large gifts and inheritances received over the past ten years account for 12 percent of the difference in wealth between whites and blacks.”²² The lack of generational wealth transfers impacts the ability to start, grow, and maintain a small business.

Inheriting a business is a form of wealth inheritance. Dr. Fairlie’s book cites a study that shows: small business owners who inherited their business were more likely to survive and to have higher overall sales than those businesses that did not.²³

Minorities’ lack of assets and inherited wealth impacts their attainment of capital to start, maintain, or grow a small business. In fact, 82 percent of minority small business owners open sole proprietorships, compared to 71 percent of Caucasians.²⁴ Thus, minority small business owners have to rely on personal equity to a greater degree, which can be difficult due to the wealth gap and lack of inherited wealth. A 2007 Bates study found that “21.2% of black firms borrowed from family members and that the average amount borrowed was \$18,306. A larger percentage of white borrowers obtained loans from family members -- 26.8% and for a higher

²⁰ Fairlie, Robert; Krashinsky, Harry. “Liquidity Constraints, Household Wealth, and Entrepreneurship Revisited.” UCSC Economics Department. August 2011. University of California, Santa Cruz. July 2013. <<http://economics.ucsc.edu/research/downloads/liquidity62.pdf> >

²¹ McKernan, Signe-Mary; Ratcliffe, Caroline; Simms, Margaret; Zhang, Sisi. “Do Financial Support and Inheritance Contribute to the Racial Wealth Gap.” Urban Institute. September 2012. Urban Institute. July 2013 <<http://www.urban.org/UploadedPDF/412644-Do-Financial-Support-and-Inheritance-Contribute-to-the-Racial-Wealth-Gap.pdf>>

²² McKernan, Signe-Mary; Ratcliffe, Caroline; Simms, Margaret; Zhang, Sisi. “Do Financial Support and Inheritance Contribute to the Racial Wealth Gap.” Urban Institute. September 2012. Urban Institute. July 2013 <<http://www.urban.org/UploadedPDF/412644-Do-Financial-Support-and-Inheritance-Contribute-to-the-Racial-Wealth-Gap.pdf>>

²³ Fairlie, Robert, Alicia Robb. Race and Entrepreneurial Success. (London: The MIT Press, 2008) 112.

²⁴ “The New Agenda for Minority Business Development.” Kauffman Foundation. Kauffman Foundation. July 2013. <<http://www.kauffman.org/research-and-policy/new-agenda-for-minority-business-development.aspx>>

average amount -- \$35,446.”²⁵ Thus, a minority-owned small business owner is less likely to receive capital assistance from a family member; if the minority owner does receive capital assistance from within the family, he or she typically receives less than Caucasians.

L. Asset Diversity

A diversified portfolio is essential for wealth creation and small business growth. Asset diversification allows an investor to increase her wealth by investing in different assets classes, such as stocks, bonds, currency, and real estate. Asset diversity also works to preserve wealth by ensuring that a decrease in the value of one asset class does not undermine the total value. Furthermore, it helps small businesses attain startup capital. As of 2009, 24 percent of both Hispanics and African-Americans sole asset was a motor vehicle, while only 6 percent of Caucasians had such a limited portfolio.²⁶

The lack of diverse wealth portfolios amongst various groups is demonstrated in a New York University study that notes, “about 90 percent of the total value of stock shares, bonds, trusts, and business equity, and about 80 percent of non-home real estate were held by the top 10 percent of wealth households. Stock ownership is also highly skewed by wealth and income class. The top one percent of households classified by wealth owned 35 percent of all stocks in 2010, the top 10 percent 81 percent, and the top 20 percent 92 percent.”^{27,28}

A diverse wealth portfolio often involves a retirement account, such as an IRA, 401K, TSP, or KEOGH. Retirement accounts serve as a buffer against the possible failure of the new venture for pre-retirement and post-retirement individuals²⁹. However, minorities have smaller retirement accounts than their Caucasian counterparts and as a result do not have the same safety shield.

²⁵Fairlie, Robert, Alicia Robb. Race and Entrepreneurial Success. (London: The MIT Press, 2008) 112.

²⁶ Fry, Richard; Kochhar, Rakesh;Motel, Seth;Taylor, Paul; Velasco, Gabriel. “Wealth Gap Rise to Record Highs Between Whites, Blacks and Hispanics.” Pew Social Trends. 26 July 2011.Pew Research Center. July 2013<http://www.pewsocialtrends.org/files/2011/07/SDT-Wealth-Report_7-26-11_FINAL.pdf >

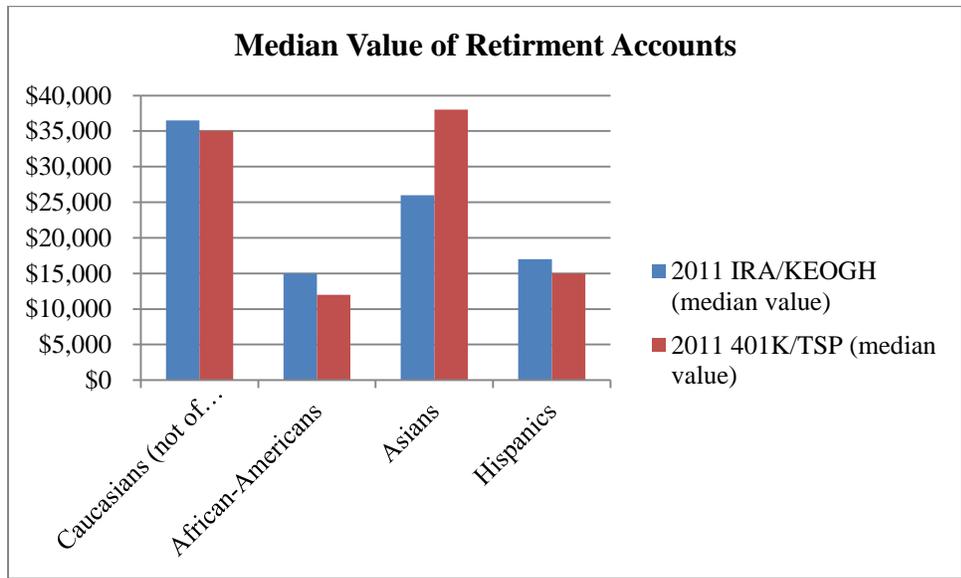
²⁷Wolff, Edward. “The Asset Price Meltdown and the Wealth of the Middle Class.” New York University. 26 August 2012. Page 48-49.

<http://appam.confex.com/data/extendedabstract/appam/2012/Paper_2134_extendedabstract_151_0.pdf>

²⁸ For more information on U.S. Joint Economic Committee reports about stock ownership, please see: “The Online Books Page.” University of Pennsylvania Library. University of Pennsylvania. July 2013<<http://onlinebooks.library.upenn.edu/webbin/book/lookupname?key=United%20States.%20Congress.%20Joint%20Economic%20Committee>>

²⁹ “Net Worth and Asset Ownership Households 2011.” U.S. Census Bureau. U.S. Census Bureau. July 2013. <<http://www.census.gov/people/wealth/>>

Race of Householder	2011 IRA/KEOGH (median value)	2011 401K/TSP (median value)
Caucasians (not of Hispanic origin)	\$36,500	\$35,000
African-Americans	\$15,000	\$12,000
Asians	\$26,000	\$38,000
Hispanics	\$17,000	\$15,000



Typically, under-banked and unbanked individuals do not have a diverse wealth portfolio. Assisting traditionally under-banked and unbanked individuals gain access to traditional financial services is one way to close the growing wealth gap. According to the FDIC, “under-banked households hold a bank account, but also rely on alternative financial services (AFS) providers.”³⁰ The FDIC also notes that “unbanked households are those that lack any kind of deposit account at an insured depository institution.”³¹ In 2011, the Federal Deposit Insurance Corporation found that 10 million American households were unbanked (i.e., 1 in 12 families) and 24 million American households are under-banked (i.e., 1 in 5 families).³²

³⁰ Burhouse, Susan; Osaki, Yazmin. “2011 FDIC National Survey of Unbanked and Underbanked Households.” Federal Deposit Insurance Corporation(FDIC). September 2012. FDIC. July 2013
< http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf>

³¹Burhouse, Susan; Osaki, Yazmin. “2011 FDIC National Survey of Unbanked and Underbanked Households.” Federal Deposit Insurance Corporation(FDIC). September 2012. FDIC. July 2013
< http://www.fdic.gov/householdsurvey/2012_unbankedreport.pdf>

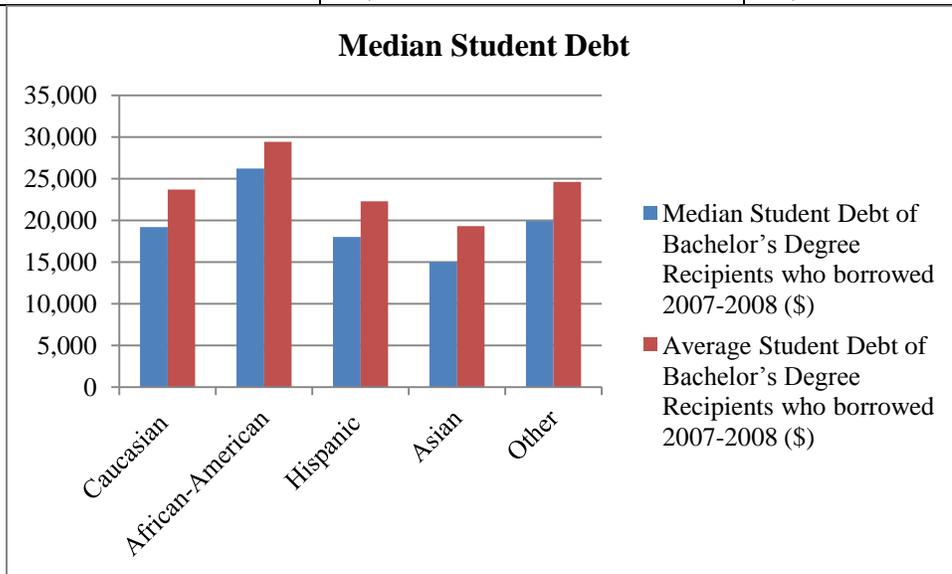
³² “2011 FDIC National Survey of Unbanked and Underbanked Households.” Federal Deposit Insurance Corporation(FDIC). September 2012. FDIC. July 2013
<<http://www.fdic.gov/householdsurvey/>>

M. Education

Education is fundamental for economic advancement and teaches entrepreneurial tools in order to accumulate wealth. However, the growing cost of college has become a burden on many Americans. According to the Consumer Financial Protection Bureau, a significant amount of student debt can limit the ability to open a small business. Hence, an individual will be diverting money toward student loan payments and in turn increase their debt-income ratio, which can make it difficult to attain a small business loan.³³

The Department of Education found that the median and average student debt levels vary by demographic; African-Americans took out the highest amount of student loan debt. Below is chart detailing this data.³⁴

Group	Median Student Debt of Bachelor's Degree Recipients who borrowed 2007-2008 (\$)	Average Student Debt of Bachelor's Degree Recipients who borrowed 2007-2008 (\$)
Caucasian	19,200	23,700
African-American	26,200	29,400
Hispanic	18,000	22,300
Asian	15,000	19,300
Other	19,900	24,600



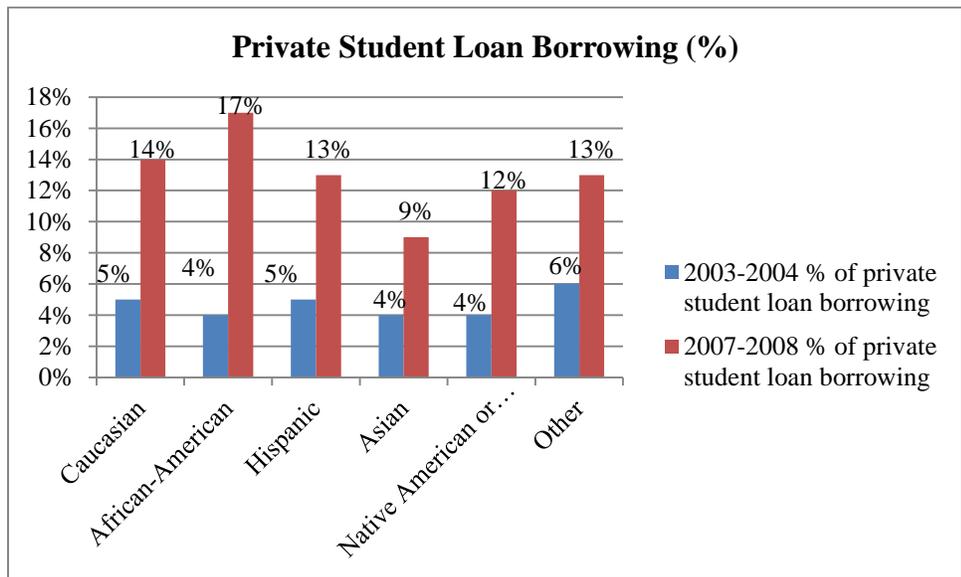
The Institute for College Access and Success found an increase in private student loan debt among all demographics. African Americans had the highest percent increase³⁵:

³³“Student Loan Affordability: Analysis of Public Input on Impact and Solutions.” Consumer Financial Protection Bureau, 8 May 2013. Consumer Financial Protection Bureau.

<http://files.consumerfinance.gov/f/201305_cfpb_rfi-report_student-loans.pdf>

³⁴“Profile of 2007-08 First-Time Bachelor’s Degree Recipients in 2009.” U.S. Department of Education, October 2012. U.S. Department of Education, July 2013. <<http://nces.ed.gov/pubs2013/2013150.pdf>>

Group	2003-2004 % of private student loan borrowing	2007-2008 % of private student loan borrowing
Caucasian	5%	14%
African-American	4%	17%
Hispanic	5%	13%
Asian	4%	9%
Native American or Alaskan Native	4%	12%
Other	6%	13%



Financial literacy is an important education component to owning a small business. A few government initiatives to increase financial literacy are as follows. The joint venture between the Federal Deposit Insurance Corporation (FDIC) and the Small Business Administration (SBA), Money Smart for Small Business curriculum, helps small businesses owners understand financial tools to help their company grow.³⁶ The Financial Literacy and Education Commission was created in 2003 through the Fair and Accurate Credit Transactions Act to ensure that all Americans have access to financial literacy via “mymoney.gov.”³⁷ Ensuring that all demographic groups have access to the prior and latter as well as other financial literacy tools is essential to closing the wealth gap.

³⁵ “Private Loans: Facts and Trends.” *Project on Student Debt*. July 2011. Institute for College Access & Success. <http://projectonstudentdebt.org/files/pub/private_loan_facts_trends.pdf>

³⁶ Chodos, Michael. “Small Business Get A Leg Up with Financial Literacy.” *U.S. Small Business Administration*. 30 April 2013. U.S. Small Business Administration. July 2013 <<http://www.sba.gov/community/blogs/small-businesses-get-leg-with-financial-literacy>>

³⁷ “Financial Literacy and Education Commission.” *U.S. Department of Treasury*. June 2013. U.S. Department of Treasury. July 2013. <<http://www.treasury.gov/resource-center/financial-education/Pages/commission-index.aspx>>

N. Lending Inequalities

Multiple research studies, found in Dr. Fairlie's book, show that minorities face lender discrimination, which in turn impacts their ability to open or expand a small firm as well as attain wealth.³⁸ Dr. Fairlie notes a study that minority-owned businesses were found to have both a higher interest rate and higher loan denial rate than Caucasian-owned businesses, even after the studies controlled for creditworthiness factors.³⁹ He also noted that African-Americans were more likely than other groups to forgo loan application opportunities due to fear of denial:⁴⁰

The SBA's Office of Advocacy found the fear of loan application rejection to be higher amongst minorities than Caucasians:

Black and Hispanic [business] owners were nearly three times more likely to have this fear [of loan denial] compared with White owners. Nearly one-third of Black and Hispanic owners stated that they had this fear [of loan denial] in 2007, and the percentage was even higher in the years of the financial crisis.⁴¹

In 2010, 15.2 percent of Caucasians did not apply for a small business loan due to fear, compared to 38.8 percent of African-Americans and Hispanics. This trend also existed along gender lines, with 21.1 percent of women not applying compared to 17.8 percent of men.⁴²

O. Professional Networks

Access to effective professional networks is critical to a small firm's success, because they open access to capital, contracting, trade, and counseling, which in turn can increase an entrepreneur's wealth. However, minorities do not have the historical access to such networks. A Duke University study notes, "Previous research further finds that black firms face consumer discrimination and have limited opportunities to penetrate networks, such as those in construction."⁴³

The lack of access to professional networks also exists along gender lines. The SBA Office of Advocacy issued a report detailing that venture capital (VC) firms are more likely to do

³⁸ Fairlie, Robert, and Alicia Robb. Race and Entrepreneurial Success. London: The MIT Press, 2008.

³⁹ Fairlie, Robert, and Alicia Robb. Race and Entrepreneurial Success. London: The MIT Press, 2008.

⁴⁰ Fairlie, Robert, and Alicia Robb. Race and Entrepreneurial Success. London: The MIT Press, 2008.

⁴¹ Robb, Alicia, and San Rafael. "Access to Capital among Young Firms, Minority-owned Firms, Women-owned Firms, and High-tech firms." U.S. Small Business Administration Office of Advocacy. April 2012. U.S. Small Business Administration Office of Advocacy. July 2013 <<http://www.sba.gov/sites/default/files/files/rs403tot%281%29.pdf> >

⁴² Robb, Alicia; Rafael, San. "Access to Capital among Young Firms, Minority-owned Firms, Women-owned Firms, and High-tech firms." U.S. Small Business Administration Office of Advocacy. April 2012. U.S. Small Business Administration Office of Advocacy. July 2013 <<http://www.sba.gov/sites/default/files/files/rs403tot%281%29.pdf> >

⁴³ Chatterji, Aaron; Chay, Kenneth; Fairlie, Robert. Duke University. "The Impact of City Contracting Set-Asies on Black Self-Employment and Employment." February 2013. Forthcoming, Journal of Labor Economics. July 2013 <http://sites.duke.edu/ronniechatterji/files/2011/09/JOLE_FinalTextTables.pdf >

business with firms that are within the VC network.⁴⁴ However, when VC firms stepped outside their professional network to work with more women-owned small businesses their profits increased.

P. Language Barriers

Language barriers can hinder potential small business owners from utilizing government entrepreneurship resources. Increasing the variety of languages on official SBA materials could narrow the wealth gap for minority small business owners by providing more access to tools (such as access to capital programs, contracting opportunities, and counseling) to develop their small firm. Currently, SBA’s national resource guide is written in English; although, district offices have the choice of providing multi-lingual materials for their geographic area. Only a limited number of resources are written in both English and Spanish; the cost of producing more materials could be a reason why they are not.

Q. Unemployment

The unemployment rate is disparate among demographics and can hinder wealth accumulation. Small business economic policies can impact and help improve the unemployment rate. Dr. Robert Fairlie found that individuals create their own job through entrepreneurship and minority firms are more likely to hire other minorities for their small business.⁴⁵

The U.S. Bureau of Labor Statistics’ June 2013 unemployment rates are organized by demographic in the below chart.⁴⁶

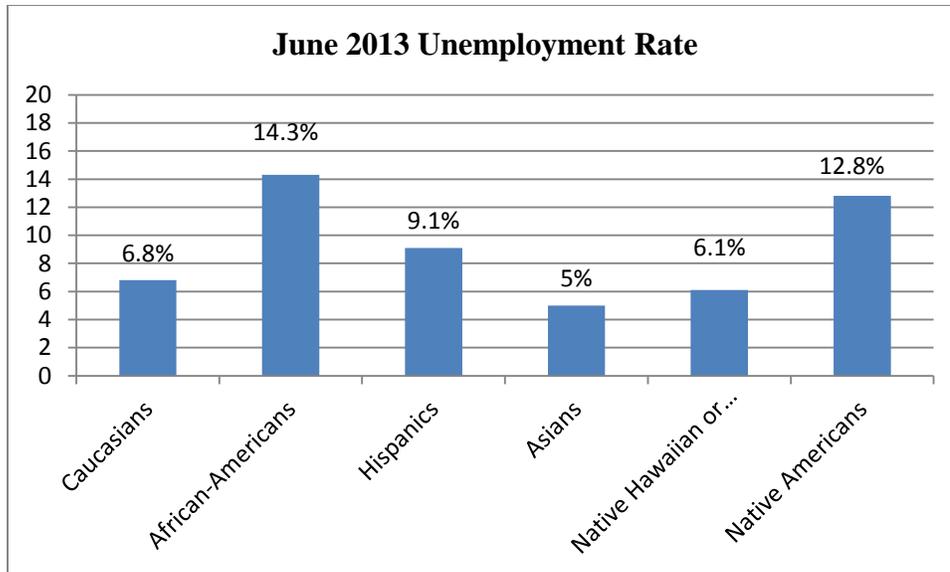
Group	June 2013 Unemployment Rate
Caucasians	6.8%
African-Americans	14.3%
Hispanics	9.1%
Asians	5%
Native Hawaiian or other Pacific Islanders	6.1%
Native Americans	12.8%

⁴⁴JMG Consulting; Wyckoff Consulting. “Venture Capital, Social Capital, and the Funding of Women-led Businesses.” U.S. Small Business Administration Office of Advocacy. April 2013 <<http://www.sba.gov/advocacy/7540/561201>>

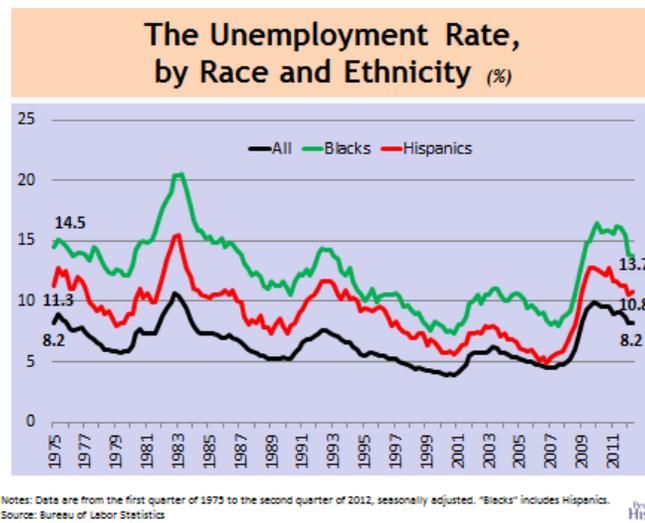
⁴⁵ Chatterji, Aaron; Chay, Kenneth; Fairlie, Robert. Duke University. “The Impact of City Contracting Set-Asies on Black Self-Employment and Employment.” February 2013. Forthcoming, Journal of Labor Economics. July 2013< http://sites.duke.edu/ronniechatterji/files/2011/09/JOLE_FinalTextTables.pdf >

⁴⁶“Employment Status of the civilian population by race, sex, and age.” U.S. Bureau of Labor Statistics. June 2013. U.S. Department of Labor. July 2013 <<http://bls.gov/news.release/empsit.t02.htm>> and “Employment status of the Hispanic or Latino population by sex and age.” U.S. Bureau of Labor Statistics. June 2013. U.S. Department of Labor. July 2013 <<http://bls.gov/news.release/empsit.t03.htm> >

The Department of Labor gave the authors public data on Native Americans as well as Native Hawaiian and Pacific Islanders’ unemployment rate via a PDF document; they noted that this data is from a small sample size and can vary from month to month.



According to Dr. Fairlie and Dr. Sundstrom, disparate unemployment rates among African-Americans and Caucasians has persisted over time.⁴⁷ According to the Department of Labor, “Historically, Blacks have had persistently higher unemployment rates than the other major racial and ethnic groups.”⁴⁸ Rakesh Kochhar from the Pew Research Center notes the historical unemployment rate differences between Hispanic, African-Americans, and all workers in the graph below.



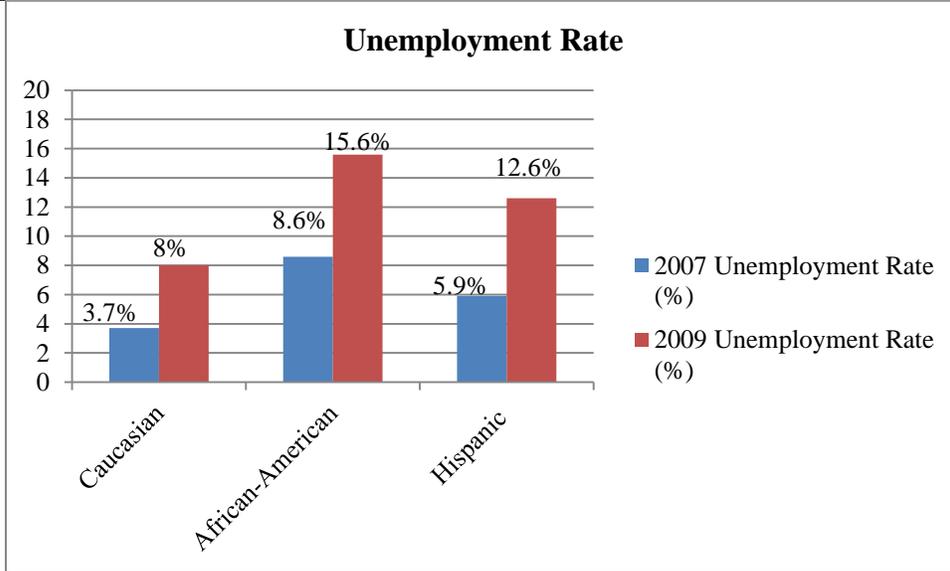
⁴⁷Fairlie, Robert; Sundstrom, William. “The Racial Unemployment Gap in the Long-Run Perspective. The American Economic Review. 87 (1997): 306-307.

Sundstrom, William. “Explaining the Racial Unemployment Gap: Race, Region, and the Employment Status of Men, 1940. Industrial and Labor Relations Review. 5- (1997): 460.

⁴⁸ “The African-American Labor Force in the Recovery.” U.S. Department of Labor. 29 February 2012. U.S. Department of labor. July 2013. <<http://www.dol.gov/sec/media/reports/BlackLaborForce/BlackLaborForce.pdf>>

The Great Recession has increased unemployment rates and decreased wealth levels of all Americans, yet minorities were disproportionately impacted. According to the Pew Research Center, during this time period, Hispanics and African-Americans had a higher unemployment rate than Caucasians⁴⁹:

Group	2007 Unemployment Rate	2009 Unemployment Rate
Caucasian	3.7%	8.0%
African-American	8.6%	15.6%
Hispanic	5.9%	12.6%



An Economic Policy Institute (EPI) study on Asian unemployment found that during the Great Recession every year “Asian Americans with a bachelor’s or an advanced degree were more likely to be unemployed than similarly educated whites.”⁵⁰

According to EPI, Native Americans have been significantly impacted by the economic downturn. They note that, “from the first half of 2007 to the first half of 2010, the American Indian unemployment rate nationally increased 7.7 percentage points to 15.2 percent. This increase was 1.6 times the size of the white [sic] increase.”⁵¹

⁴⁹Fry, Richard; Kochhar, Rakesh; Motel, Seth; Taylor, Paul; Velasco, Gabriel. “Wealth Gap Rise to Record Highs Between Whites, Blacks and Hispanics.” *Pew Social Trends*, 26 July 2011. Pew Research Center. July 2013 <http://www.pewsocialtrends.org/files/2011/07/SDT-Wealth-Report_7-26-11_FINAL.pdf> These numbers are non-seasonally adjusted estimates for 2007 and 2009’s fourth quarters.

⁵⁰ Kim, Marlene. “Unfairly disadvantaged? Asian Americans and unemployment during and after the Great Recession. (2007-2010)” *Economic Policy Institute*, 5 April 2012. Economic Policy Institute. July 2013. <<http://www.epi.org/publication/ib323-asian-american-unemployment/>>

⁵¹ Austin, Algernon. “Different Race, Different Recession: American Indian Unemployment in 2010.” *Economic Policy Institute*, 18 November 2010. Economic Policy Institute. July 2013 <<http://www.epi.org/publication/ib289/>>

The rate of unemployment has significantly impacted minority women as well. The Center for American Progress found that, “Black and Latina women are disproportionately unemployed. During the first quarter of 2012, black and Latina women saw rates of unemployment at 13.3 percent and 11.4 percent, respectively, which were much higher than the 7.2 percent unemployment rate for white women.”⁵²

R. Internet Access

Small businesses need access to broadband in order to stay afloat in today’s economy. The Internet allows entrepreneurs to sell their product through an increasing E-commerce market, expand their commercial trade reach, and find the resources to grow their business; which helps increase a small business owner’s profits and in turn their wealth.⁵³ However, gaining access to broadband infrastructure and increasing broadband adoption is difficult.

Broadband’s high cost prevents the expansion of Internet access among certain demographics.⁵⁴ Families with an income of less than \$15,000 had the highest level of no Internet usage at 42.76 percent.⁵⁵ Families with an income above \$150,000 had the highest percentage of Internet usage at 98.97 percent.⁵⁶

Rural communities do not have the same broadband infrastructure as urban communities. According to the U.S. National Telecommunications and Information Administration (NTIA), only 71% of rural communities had basic broadband service, whereas 98% of urban communities had access to basic broadband service.⁵⁷ NTIA notes that the gap continues with broadband speed.⁵⁸ Specifically, 23% of rural residents had the ability to download at a speed of 50Mbps or faster, whereas 63% of urban residents could do so.⁵⁹

⁵²Kerby, Sophia. “The State of Women of Color in the United States.” Center for American Progress. 17 July 2012. Center for American Progress. July 2013. <http://www.americanprogress.org/wp-content/uploads/issues/2012/07/pdf/women_of_color_brief.pdf >

⁵³Data on how E-commerce is increasing can be found at: “U.S. Census Bureau E-Stats.” U.S. Census Bureau. 23 May 2013. U.S. Census Bureau. July 2013 <<http://www.census.gov/econ/estats/2011reportfinal.pdf> >

⁵⁴Chung, Jaewon; Bryne, Amelia; Dailey, Dharmia; Karaganis, Joe; Powell, Alison. “Broadband Adoption in Low-income Communities.” Social Science Research Council. March 2010. Federal Communications Commission. July 2013 <http://webarchive.ssrc.org/pdfs/Broadband_Adoption_v1.1.pdf >

⁵⁵“Table 1155. Household Internet Usage In and Outside of the Home by Selected Characteristics: 2010.” U.S. Census Bureau. 2010. U.S. Census Bureau. July 2013. <<http://www.census.gov/compendia/statab/2012/tables/12s1155.pdf> >

⁵⁶“Table 1155. Household Internet Usage In and Outside of the Home by Selected Characteristics: 2010.” U.S. Census Bureau. 2010. U.S. Census Bureau. July 2013. <<http://www.census.gov/compendia/statab/2012/tables/12s1155.pdf> >

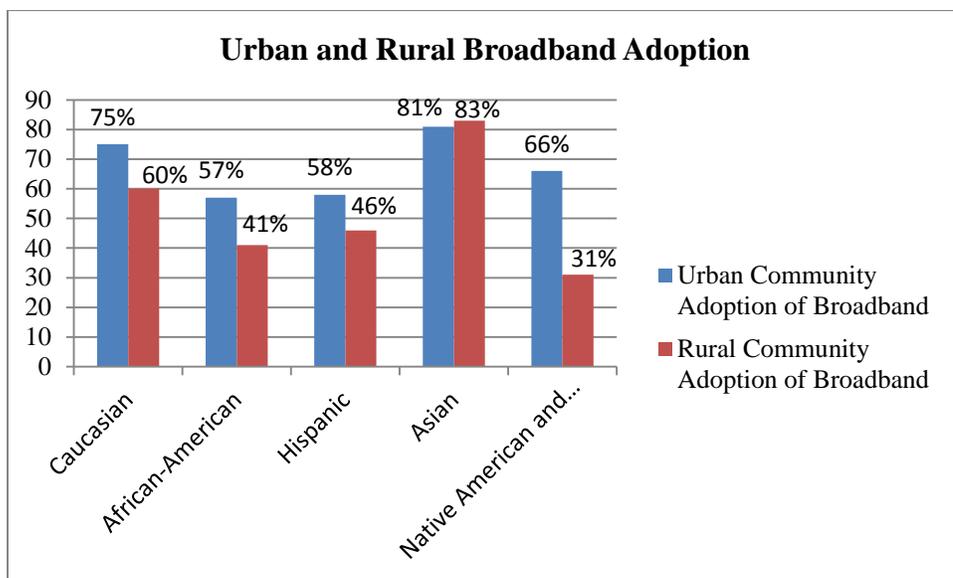
⁵⁷“Broadband Availability Beyond the Rural/Urban Divide.” National Telecommunications & Information Administration. May 2013. U.S. National Telecommunications & Information Administration. July 2013. <http://www.ntia.doc.gov/files/ntia/publications/broadband_availability_rural_urban_june_2011_final.pdf >

⁵⁸“Broadband Availability Beyond the Rural/Urban Divide.” National Telecommunications & Information Administration. May 2013. U.S. National Telecommunications & Information Administration. July 2013. <http://www.ntia.doc.gov/files/ntia/publications/broadband_availability_rural_urban_june_2011_final.pdf >

⁵⁹“Broadband Availability Beyond the Rural/Urban Divide.” National Telecommunications & Information Administration. May 2013. U.S. National Telecommunications & Information Administration. July 2013. <http://www.ntia.doc.gov/files/ntia/publications/broadband_availability_rural_urban_june_2011_final.pdf >

The NTIA study found that minorities were less likely to adopt or gain connection to broadband than Caucasians, “fewer non-Asian minority households adopted broadband Internet in 2011.”⁶⁰ Below is a chart detailing this data.⁶¹

Group	Urban Community Broadband Adoption (%)	Rural Community Broadband Adoption (%)
Caucasian	75%	60%
African-American	57%	41%
Hispanic	58%	46%
Asian	81%	83%
Native American and Alaskan Natives	66%	31%



The Census found a demographic disparity on the rate of Internet usage between 2000 and 2011. Below are charts detailing this data:⁶²

⁶⁰ “Exploring the Digital Nation: America’s Emerging Online Experience. National Telecommunications and Information Administration, June 2013. National Telecommunications and Information Administration; Economics and Statistics Administration; U.S. Department of Commerce. July 2013

<http://www.ntia.doc.gov/files/ntia/publications/exploring_the_digital_nation_-_americas_emerging_online_experience.pdf>

⁶¹ “Exploring the Digital Nation: Computer and Internet Use at Home.” National Telecommunications and Information Administration, November 2011. Economics and Statistics Administration; National Telecommunications and Information Administration; and U.S. Department of Commerce. July 2013

<http://www.ntia.doc.gov/files/ntia/publications/exploring_the_digital_nation_computer_and_internet_use_at_home_1109_2011.pdf>

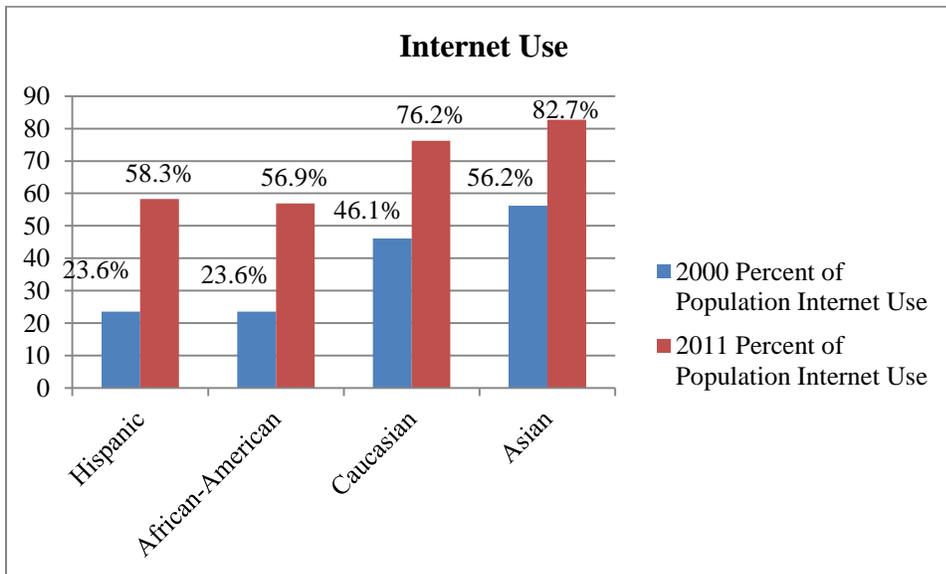
⁶² <http://www.census.gov/prod/2013pubs/p20-569.pdf>

2000

Group	Percent of Population Internet Use
Hispanic	23.6%
African-American	23.6%
Caucasian	46.1%
Asian	56.2%

2011

Group	Percent of Population Internet Use
Hispanic	58.3%
African-American	56.9%
Caucasian	76.2%
Asian	82.7%



Due to the lack of access to traditional broadband, minorities are more likely to use their cell phone for Internet access. Per Pew Research, “Half (51%) of African-American cell Internet users do most of their online browsing on their phone, double the proportion for whites (24%). Two in five Hispanic Internet users (42%) also fall into the ‘cell-mostly’ category.”⁶³

⁶³Smith, Aaron. “17% of cell phone owners do most of their online browsing on their phone, rather than a computer or other device.” *Pew Internet & American Life Project*. 26 June 2012. Pew Research Center. July 2013. <http://pewinternet.org/~media/Files/Reports/2012/PIP_Cell_Phone_Internet_Access.pdf>

Increasing access to broadband through infrastructure, speed, and adoption could help more small businesses thrive and in turn help close the wealth gap.

III. Testimonies from Hearings and Roundtables

Since becoming Chair of the U.S. Senate Committee on Small Business and Entrepreneurship, Senator Landrieu has held 5 hearings and roundtables to examine the wealth gap. Below are summaries of the testimonies and comments from these events.

Minority Entrepreneurship: Evaluating Small Business Resources and Programs⁶⁴ September 24, 2009

Introduction

Chair Landrieu stated that minority entrepreneurs face particular barriers such as access to capital, contracting, and counseling. She continued, “I believe that the Nation has not yet quite tapped the strength and potential of this particular group [minority entrepreneurs].” Chair Landrieu noted, “One of our nation’s greatest assets is our diversity, it is a great strength that allows us today, and hopefully in the future, to be the most competitive Nation in a growing global marketplace.”

Contracting

General Contracting

Mr. Rube Williams, President and CEO of JET Learning Laboratory, said that if America wants to be globally competitive, then minority small businesses must have an equal opportunity to succeed. He noted that, “when minority businesses are funded you are going to have a lot better spread of wealth in minority communities.”

Dr. Danny Boston, Professor at Georgia Tech and Owner of Euquant, explained the importance of government contracting as it tends to be “the first point of market entry” for small businesses seeking contracts.

Timely Contract Payments

Small businesses face the problem of local, state, and federal governments not paying them on time. Chair Landrieu said this problem can lead to a small firm’s bankruptcy. She noted that “it is important for governments to pay promptly, which in of itself can be a barrier. Small business just cannot take the risk of doing business with someone that is not going to pay them for six months or a year.”

Mr. Ralph Bangs, Associated Director of the Center on Race and Social Problems at the University of Pittsburg, found through his research that both state and local governments do not award prime and sub contracts to minorities and women owned small businesses at the same rate as non-minority small businesses. Furthermore, if government agencies do award contracts, they

⁶⁴ United States. Senate Committee on Small Business and Entrepreneurship. Transcript - Minority Entrepreneurship: Evaluating Small Business Resources and Programs. Maryland: B&B Reporters, 2009.

do not pay on time. Mr. Bangs cited contracting problems, which included, “continued bundling, not breaking contracts into smaller sizes so that different sizes of firms can compete, and having slow pay systems so that small firms cannot get the money in time for projects.” He noted that these issues cause small businesses to not apply for contracts.

Mr. Robinson, President of the Minority Business Legal Defense and Education Fund, noted that some state governments are not required to pay as promptly as other levels of government are. He suggested that “Congress might want to consider revisiting the Prompt Pay Act and make it apply to all federal monies that flow - even indirectly through state and local governments where much of the problem exists.”

Subcontracting

Chair Landrieu mentioned that some large corporations’ bids for federal contracts name small businesses as a subcontractor, but do not use that small business once they are awarded the contract. She suggested a monitoring system to ensure that corporations are following through with their small business bid indications. She “wants to make sure that when agencies say this is the minority company they are working with that they [the large contractors] are actually doing that.” She also indicated the need to look at private sector examples so that the government can note their best contracting and subcontracting practices.

Dr. Boston echoed Chair Landrieu’s comments by saying that on the federal level, but particularly the state level, small businesses do not attain a subcontract when they have been indicated as so on a bid. He noted that “If there is not a monitoring process to ensure that it [subcontracts going to small business after a bid indication] happens, it often does not happen.” He also stated the importance of the SBA collecting more subcontracting data from “corporations that do business with the government.” He noted that prime contractors should be required to have a letter of intent to subcontract out to small businesses when they are bidding for a job.

Mr. Stephen Denlinger, President and CEO of the Latin American Management Association, stated “The issue of subcontracting, the vanishing subcontract is of course long-term, chronic and an issue.” Specifically, he recommended “a contract between the prime contractor and the subcontractor at the time the prime contractor submits his bid.” He continued, “If there is not a contract between the subcontractor and the prime contractor by the time the prime contractor gets the main contract, he [prime contractor] forgets about the subs that he was purportedly going to use to fulfill the minority subcontracting plan.”

Mr. Harry Alford, Co-Founder & President & CEO of National Black Chamber of Commerce, mentioned that subcontracting with minority small business needs stronger bid language. He suggested that if corporations bid for a contract and put a minority small business as a subcontractor, then that corporation must report any changes (i.e. if they decide to not use the original minority small business); if they drop a minority small business the subcontract, then it must go to another minority small business. Mr. Alford recommended that if the prior and latter are not completed, then the corporation should be considered in breach of contract and thus

be fined or removed from the main contract. He also suggested that the Department of Justice be involved in this endeavor.

Mr. Walter Cotton, Managing Partner, MR-IT, said large corporations need to see that small business subcontracts can increase their company's value to shareholders. He continued that prime contractors must be held accountable to use small businesses when the previously mention that they will in a bid; this could be through a "vehicle that impact their ability to acquire future contracts because of their poor performance against those goals [subcontracting to small businesses]."

Ms. Denise Gatling, Director of Global Supplier, Diversity, and Business Development at GlaxoSmithKline, mentioned that her large corporation asks potential prime suppliers for their diversity plan in the bidding process. She said that the requested diversity strategy helps her company decide whether the potential prime supplier's plan will work for the community in which the contract will be awarded. Ms. Gatling noted that her company monitors how the prime supplier uses the subcontractors by mandating reports on the company's numbers [dollar amount of contracts given to diverse small businesses]. She mentioned that data is used for the prime supplier's annual evaluation.

Ms. Royalyn Reid, President of Consumer and Market Insights, suggested that government agencies that have a record of contracting with small businesses should be used as examples for other government agencies that don't frequently contract to small businesses.

Ms. Charlotte Burnell, President of Strategic Planning Associates LLC, said that a lack of compliance monitoring leads to small businesses not getting subcontracts. She recommended increased enforcement and monitoring of contracting bids. Furthermore, she suggests that agencies report to Congress on the number of small businesses hired for subcontracts and how much money they were allotted.

Recovery Funds

Roundtable participants discussed small businesses' role in the American Recovery and Reinvestment Act. There was a consensus that small businesses in underserved communities did not gain equal access to the Recovery Act's capital and contracting opportunities.

Ms. Reid said that recovery funds did not get allotted to communities that were hit the hardest by the recession.

Mr. Robinson was concerned that stimulus money is controlled by Federal Acquisition Regulation (FAR). He mentioned that "under the federal acquisition streamlining and federal acquisition reform that took place in the 1990s many of the socioeconomic indexes that required participation by minority and women owned firms were gutted. And a lot of what we are seeing with bundling and the lack of minority participation has its root causes in the FAR and what took place with federal acquisition free form and federal acquisition streamlining."

Mr. Denlinger mentioned that small businesses have a difficult time locating where the stimulus money is going. He suggested that minority trade organizations receive funds to notify their members of stimulus opportunities. Furthermore, Mr. Denlinger recommended looking at how small businesses associations receive information as a way to gauge how individual firms learn about opportunities.

Ms. Johnson-Pata noted that a large amount of Recovery funding went to existing contractors instead of small businesses. She noted that increased monitoring for subcontracts as well as expanding it to joint venture and mentor protégée programs could be helpful.

Mr. Joe Jordan, SBA Associate Administrator for Government Contracting and Business Development, addressed the issue of small businesses not being notified about stimulus funding and contracting. He mentioned that the SBA has been insisting that state and local governments use small businesses for contracts. Furthermore, the SBA published on their website information on how to attain a small business contract Mr. Jordan also mentioned that the federal government was close to reaching its overall goal of 23 percent of government contracts going to small businesses.

Bonding

Per the SBA's website, a surety bond "ensures contract completion in the event of contractor default. A project owner (called an obligee) seeks a contractor (called a principal) to fulfill a contract. The contractor obtains a surety bond from a surety company. If the contractor defaults, the surety company is obligated to find another contractor to complete the contract or compensate the project owner for the financial loss incurred."⁶⁵

Mr. Dwayne Wilkerson, President and CEO of Marrd Group, suggested that the SBA help facilitate surety bonds so that small businesses could be awarded more contracts to ensure competitiveness with large corporations.

Mr. Jordan mentioned that the Recovery Act increased bonding by \$5 million and mentioned that small businesses should contact their district offices to find surety bonds.

Net Worth Requirements for Small Disadvantaged Businesses

Dr. Boston mentioned that small disadvantaged businesses' growth capacity is hindered by net worth requirements. "There is regulatory problem in the SBA as it relates to small disadvantaged businesses, which constrain their ability to grow capacity that would allow them to get some of the larger contracts. It is primarily related to the issue of personal net worth."

⁶⁵ Small Business Administration. "Surety Bonds: The Basics." Small Business Administration. July 2013
<<http://www.sba.gov/content/surety-bonds-basics>>

8(a) Program

Mr. Cotton wanted the contract authority for the 8(a) program to reside with the SBA so that it becomes the contract of record between the agency and the small business receiving the contract. He mentioned that this could help ensure that small businesses are on equal footing with large corporations for government contracts.

Dr. Boston mentioned the importance of adjusting personal net worth requirements and the need to tie industry type in the 8(a) program. “Personal net worth is closely related to firm revenues, so if you cap one you cap the other.” Furthermore, “personal net worth is related to bonding capacity, so if personal net worth is too low your ability to get bonding is too low.” Instead of a net worth requirement, he suggested the average revenue and/or bonding ability be a requirement for 8(a) program entry. He demonstrated how 8(a) net worth requirements have a direct impact in a companies’ ability to attain revenue. For example, Dr. Boston “tracked companies on a month to month basis for six months after they were graduated [out of the 8(a) program, due to net worth requirements]; their revenues fell by 45%.” At the time of this roundtable, Dr. Boston noted that 8(a) firms contributed \$6 billion to the economy and created 123,000 jobs in primarily impoverished areas.

Data Collection

Mr. Bangs mentioned the difficulty in finding minority contracting data and expressed the need for increased federal government monitoring

Discrimination

Mr. Robinson explained individual small businesses’ experiences of discrimination and exclusion from programs due to their demographic.

Contracting Parity

Mr. Denlinger mentioned the importance of HUBZone parity, “We very, very strongly support the leveling of the playing field and true parity across the programs.”

Size Standards

Mr. Denlinger stated that the SBA’s size standards for small businesses need to be reevaluated so that small firms can actively compete for contracts. “We need size standards that enable us to break the large business monopoly and we need a philosophical change.” He suggested that the government’s 23 percent contracting goal for small businesses should be increased to 40 percent. Mr. Denlinger noted that, “if there are two or more small businesses ready willing able and capable of bidding out a requirement, it should be set aside for a small business competition.” However, he also mentioned the gaps between the law and FAR regulation that thwarts this from happening.

Mr. Robinson mentioned that he is a proponent of changing size standards: “There has not been a real overhaul of size standards to see whether or not they are still consistent with what would be considered small and other than small in today’s industries.” He explained that the size standards are prematurely taking away the title “small” from small businesses, which makes it difficult for them to equally compete with larger corporations in the open market. He gave the example of a technology company not being small if they surpass \$23 million, but when they compete against a technology and defense giant like Lockheed Martin they are not on an equal playing field.

Dr. Boston said, “I agree that they [size standards] need to be related to industry criteria such as the concentration in industry and what is required on average bonding capacity.”

Mr. Cotton suggested that the government analyze the size standards criteria that exempt small businesses from some contracts.

Bundling

Mr. Cotton acknowledged that when contracts are bundled it stops small businesses from competing for contracts. Mr. Denlinger echoed that it is imperative to ensure small businesses have an equal opportunity to compete for government contracts by unbundling contracts.

Counseling

Mentoring

Mr. Cotton showed support for the SBA’s mentor protégé program, “SBA’s business development mentor protégé program is an excellent tool to cause capacity creation in the small business community.”

Capital

General Access

According to Mr. Jordan, the Recovery Act provided \$375 million in funding to support the SBA loan programs and supported around \$410.7 billion for small business loans throughout the country; specifically, 20 percent of these loans were given to minority owned businesses, 19 percent to women owned businesses, and 9 percent to veteran owned small businesses.

Mr. Williams declared that the funding of minority businesses will spread wealth in minority communities.

**Hearing: Assessing Access: Obstacles and Opportunities for Small Business Owners in
Today's Capital Markets⁶⁶
April 15, 2010**

Contracting

Net Worth Requirements

After the hearing, Chair Landrieu sent Senate Leadership a letter about the wealth gap where she noted the need to re-look at net worth requirements. She wrote, "Currently the 8(a) program limits applicants to \$250,000 net worth and once accepted in the program to \$750,000 net worth. Those limits have not been changed in more than 20 years. Those limits should be lifted to at least their inflation adjusted equivalents and thereafter adjusted for inflation annually. Further, retirement accounts should also be removed from consideration of net worth."

Contracting and Capital

David Hinson, National Director of U.S. Minority Business Development Agency (MBDA), explained that small businesses do not get paid on time for completing a government contract. With the absence of working capital to help plug this funding loss, entrepreneurs go out of business. He also noted that although minority owned firms are 12 percent of all construction companies they usually procure less than 1 percent of government contracting. Mr. Hinson mentioned that the MBDA is working to facilitate more surety bonds for small businesses.

Counseling

The Importance of Counseling Programs

Grady Hedgespeth, Director of the SBA Office of Financial Assistance, cited that small businesses "need more than just the loan. They need counseling and technical assistance to help strengthen their business plans and make them more bankable in this tight lending environment." He noted that the SBA is working with their network of small business development centers, SCORE, and women business centers to increase small business training. Mr. Hedgespeth also highlighted other SBA initiatives to increase small business counseling in underserved communities. For example, the Emerging Leaders Program (originally E-200) helps promote entrepreneurship training in inner cities.

After the hearing Chair Landrieu sent a letter to Senate Leadership stating the importance of small business counseling legislation. She, "introduced the "Small Business Community Partner Relief Act of 2010" (S. 3165), and requested that this important piece of legislation be included in the next jobs bill to be considered by the Senate. This bi-partisan bill provides much needed relief to certain SBA Women Business Centers and Microloan intermediaries, which

⁶⁶ United States. Senate Committee on Small Business and Entrepreneurship. Transcript - Hearing: Assessing Access: Obstacles and Opportunities for Small Business Owners in Today's Capital Markets. Maryland: B&B Reporters, 2010.

provide critical technical assistance and financing opportunities, particularly to minority-owned small businesses which comprised 53 percent of microloan recipients.”

Ms. Henningsen, Founder and Vice President of Legacy Bank, explained that it is necessary for minority enterprises to have small business training because often times it has not been passed down from their family members. She said, “Once they [small businesses] are given the opportunity, access to capital, training, coaching to make these businesses work, they have been successful as supported by our double digit growth serving this customer base.”

Business Networking

Ms. Natalie Cofield, President of NMC Consulting Group, Inc., mentioned that minority small businesses’ lack of strong professional networks hinders their ability to attain small business capital.

Mr. Robert Johnson, Chairman and Founder of RLJ Companies, reflected on the success of creating Black Entertainment Television and said it would not have been possible without strategic partners. He said, “If most African Americans could find strategic partner, if we could go out and match up minority entrepreneurs with majority strategic partners and supporters, you could change dramatically the number of large scale minority businesses.”

Capital

General Access

Mr. Hinson noted that minority owned firms are less likely to receive a small business loan than a non-minority owned firm and the allotted amount is disparate. He mentioned the importance of the MBDA return on investment in helping minority small businesses and the entire economy; thus, “for every dollar of taxpayer money that goes into our agency, we produce \$94 of economic output.” Despite lending inequality, Mr. Hinson states that minority-owned firms contribute greatly to the U.S. economy by employing 4.7 million workers and grossing over \$661 billion in annual receipts. He states that if minority owned businesses were to reach economic parity, they would generate 2.5 trillion and employ 16 million people.

Mr. Hinson noted that in the January 2010 study commissioned by MBDA and co-authored by Drs. Robert Fairlie and Alicia Robb, entitled *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations faced by MBEs*, they found that limited financial, human and social resources – as well as racial discrimination – are primarily responsible for the disparities in capital.

Some particular aspects of the findings include:

1. Minority-owned firms are less likely to receive loans than non-minority owned firms.
 - The denial rate for minority-owned firms with **less than \$500,000 in annual revenues** is 41.9% compared to 16% for non-minority-owned firms.
 - The denial rate for minority-owned firms with **more than \$500,000 in annual revenues** is 14.9% compared to 8.4% for non-minority-owned firms.

2. When minority-owned firms do receive financing, they are provided less money regardless of the size of their firm, and at a higher interest rate.
 - The average loan size for a minority-owned firm with **less than \$500,000 in annual revenues** is just over \$9,000 while the average loan amount for a non-minority-owned firm of the same size is more than \$20,000.
 - The same holds true for **firms with annual revenues exceeding \$500,000**— the average loan amount for a minority-owned firm is approximately \$150,000 compared to more than \$310,000 for a non-minority-owned firm.
 - Additionally, loan interest rates for minority-owned firms with gross revenues less than \$500,000 exceed 9% while non-minority-owned firms of the same size are often able to secure interest rates at less than 7%.
3. Minority-owned firms also receive smaller equity investments than non-minority-owned firms even when controlling for firm size.
 - The average equity investment in a minority-owned firm earning more than \$500,000 just exceeds \$7,000; yet for a non-minority-owned firm, the average investment is more than \$19,000.
4. Yet, this same report finds that venture capital funds focused on investing in the minority business community are highly competitive.
5. Moreover, during the 2001 recession, employment at minority-owned firms increased by 4% while employment among non-minority firms declined by 7%.⁸ So had it not been for the employment growth among minority-owned firms, the job loss during this period would have been even larger.

Ms. Henningsen prides her business growth in the minority community. She mentions that many, now major businesses were once small businesses that a financial agency “took a chance on”. She modeled her business on smaller banks that provide financial services to underserved populations. She maintains that during this current economic climate more must be done to address the need for capital.

Paul Hudson, Chairman and CEO of Broadway Federal Bank, stated that many minority small business owners’ primary source of financial funding stems from debt financing; such as, personal and business assets in the form of the business owner’s residence, credit card debt, or loans from relatives or friends. He recommends requiring technical and financial training for newly operated businesses and allocating funding.

Hearing: Closing the Gap: Exploring Minority Access to Capital and Contracting Opportunities⁶⁷
March 3, 2011

Introduction

⁶⁷ United States. Senate Committee on Small Business and Entrepreneurship. Transcript - Hearing: Closing the Gap: Exploring Minority Access to Capital and Contracting Opportunities. Maryland: B&B Reporters, 2011.

Participants discussed unique barriers to minority-owned small businesses and the need to create a fair environment for all entrepreneurs to succeed. The Chair noted “the obstacles that minority business owners face, whether it is African American or Hispanic or Asian or women are quite unique.”

Contracting

General Importance

The SBA Deputy Administrator, Marie Johns, emphasized the SBA’s commitment to helping underserved small businesses succeed:

The core to our mission at the Small Business Administration is expanding opportunities for companies in traditionally underserved areas, including those owned by minorities, women, veterans, people with disabilities, and people from rural areas. These businesses typically have a harder time accessing the tools they need to grow and create jobs in their communities.

Deputy Administrator Johns noted that the SBA created an advisory council for underserved small businesses that has been especially useful since “minority owned small businesses are three to five times more likely to receive a SBA loan than a conventional loan.” She discussed how the recession has decreased the amount of loans for all small businesses, particularly for those businesses in underserved communities. She maintained that “with the right tools in hand, entrepreneurs and small businesses in these [underserved] communities can have [a] significant impact in driving economic growth and creating jobs where they are needed most.”

8(a) Program

This hearing discussed policy proposals for the SBA’s 8(a) business development program. Mr. Marc Morial, President of the National Urban League, suggested that the cap for set-aside small business contracts be raised from 100,000 to 500,000. Ms. Susan Allen, President and CEO of U.S. Pan Asian American Chamber of Commerce, advocated an expansion of the 8(a) Mentor Protégé Program. This expansion would 1) improve the transition program for 8(a) participants finishing the program and 2) help connect program participants to opportunities and mid-tier companies. Ms. Allen also suggested that the SBA provide more assistance to 8(a) firms by increasing the amount of specialists that manage 8(a) firms.

Contracting and Capital

Often, it can be difficult for small businesses to attain working capital in order to finish a contract. Mr. Doyle Mitchell, President and CEO of Industrial Bank, said that the Department of Transportation’s short-term lending program (i.e. line of credit for transportation contracts) should be applauded and embraced. He encouraged the Small Business Committee to request that other agencies develop similar programs. Ms. Martha Montoya, President of Los Kitos

Produce, also noted the importance of having working capital to help finish a government contract.

Women's Contracting

Deputy Administrator Johns mentioned the release of an SBA Women's Contracting Rule that includes "effective up front certification, ongoing surveillance and monitoring, and robust enforcement." She stated that this would increase the opportunities for women to contract with the federal government.

Insourcing

Ms. Allen mentioned the need to combat federal government contract insourcing, which is when an agency sources a contract internally throughout their organization as opposed to contracting externally to small businesses. She emphasized that this [insourcing] limits new opportunities for small businesses.

Bundling

Bundling is when the federal government binds together smaller contracts into one conglomerate that is too large for a small business to bid for successfully. Mr. Morial cited the importance of unbundling government contracts in order for small businesses to have an equal opportunity. Ms. Allen mentioned that there should be incentives and accountability for agencies that award small business contracts and unbundle their contracts.

Goaling

Mr. Morial suggested that the federal government increase their goal requirements for small business contracts and encouraged accountability for meeting those standards.

Capital

General Access

Chair Landrieu cited Dr. Robert Fairlie, Professor of Economics at the University of California (Santa Cruz), by saying, "the major root of the [wealth and income inequality] problem is extremely low wealth accumulation."

Ranking Member Olympia Snowe (R-ME) noted that minority-owned businesses generate \$1 trillion in annual economic output and create 9.5 million jobs. She noted a paper authored by Dr. Fairlie entitled, *Disparities in Capital Access Between Minority and Non-Minority-Owned Firms*, which concluded that minority firms: 1) are less likely to receive loans than non-minority firms, 2) receive lower loan amounts than non-minority firms, 3) are more likely to be denied loans, and 4) pay higher interest rates on business loans." She lauded the SBA for its work to increase lending to minority-owned firms. Specifically, the SBA micro-loan program.

Deputy Administrator Johns described the Small Loan Advantage and Community Advantage programs as vehicles to provide small dollar loans for small business owners. Since many of these entrepreneurs did not require an enormous loan to start their businesses, the SBA initiated these two programs. Prior to their inception, the paperwork and processing time for procuring such a loan prevented many small business owners from applying.

Senator Kay Hagan (D-NC) stressed the importance of the Small Business Lending Fund (created in the Small Business Jobs Act of 2010) providing loans to minority firms. This fund is targeted toward community lenders that provide the vast majority of lending to small businesses. The Senator also noted the critical nature of the SBA's Small Business Investment Company (SBIC) Program in leveraging private venture capital funds to encourage private equity investments. However, she also asked for further elucidation on how the program would be leveraged, per President Obama's 2012 budget plan, to support \$200 million in annual impact investments targeted to economically and socially disadvantaged businesses. At the time of this hearing, Deputy Administrator Johns stated that the SBA was still in the process of implementing this program. The impact investments would provide "equity infusion" when needed. During this hearing, the Deputy Administrator further emphasized the infancy of the program and that the SBA was still working to attain "a strong and diverse portfolio of managers who are ready and capable of serving businesses in underserved communities."

Ms. Allen provided testimony on issues plaguing Asian American's access to capital. She noted that specific small business industries (i.e. service sector) have a difficult time attaining collateral for private and SBA loans, which makes it difficult for them to access capital.

Mr. Mitchell commended the Department of Transportation's Small Business Lending Fund (SBLF) as a great example of how government can provide access to short term capital. He recommended that the SBLF interest rate be changed from nine percent to seven percent in order to increase access to capital.

Ms. Montoya mentioned that Hispanic firms are small and do not receive attention from venture capital firms, yet they remain a fast growing segment in the country. She recommended that the Federal Reserve and the Treasury department focus on the Community Reinvestment Act (CRA) to ensure support for minority small businesses and entrepreneurs.

Ms. Allen noted that during the financial crisis, large banks were unwilling to extend credit to adversely impacted Asian-American small businesses.

Mr. Morial stated that lack of access to reasonably priced capital through private-sector commercial sources was one of the reasons Minority Business Enterprises (MBEs) have not reached their full potential. He said most MBEs use either "high priced, alternative capital sources" or a credit card to access the capital needed to start their small business. He noted that the substantial wealth gap hinders African-American access to startup capital for small businesses. He also noted "It is a commonly-accepted fact that firms with higher levels of start-up capital are less likely to close, more likely to have higher profits and revenues, and much more likely to hire employees than those without [sic]." In an effort to increase capital procurement opportunities for small businesses, the National Urban League has established an Entrepreneurship Center Program (ECP) in a number of metropolises.

Wealth Gap

Dr. Fairlie noted that the fundamental reason for the disparity between non-minority and minority small business performance is a lack of access to financial capital:

A large body of research shows that limited access to financial capital hinders the formation and growth of minority businesses. Minority-owned businesses have substantially lower levels of financial capital invested in their businesses.

Dr. Fairlie cited Federal Reserve estimates of equity and loan investments in minority firms. On average, minority firms have \$3,400 in equity investments in their businesses and \$46,500 in outstanding loans. Non-minority firms have twice that level of equity investments and loans.

Dr. Fairlie maintains that the primary cause of this imbalance among minority and non-minority firms is the high level of wealth inequality in the United States. He cited 2004 data from the U.S. Census Bureau, which stated that the median net worth of African-Americans, Hispanics, and Caucasians was \$8,700, \$13,400, and \$120,000 respectively. Since personal wealth is often a primary source for start-up capital, often times there are less minority entrepreneurs.

The low rates of home-ownership and low levels of home equity held by minorities further exacerbates the problem since home equity is often used to finance small business start-ups. He noted that less than half of African-American families own their own home, while three-quarters of the non-Hispanic, Caucasian population are homeowners.

Dr. Fairlie mentioned that a large number of minority families do not have either a checking or savings account. Twenty percent of African-American and Hispanic families do not have a bank account. In comparison, among their Caucasian counterparts, only three percent are without a bank account. He said that minorities are also more likely to use more expensive financial services, such as payday loans, which also contributes to their inability to accrue wealth over time.

Dr. Fairlie cited lending discrimination as a means of preventing minority entrepreneurs from obtaining financial capital. He noted that minority owned small businesses usually pay a higher interest rate, have more loans denied, and do not apply for a loan fearing it will be rejected. He also said that minority firms that do obtain loans pay one and a half percentage points higher interest rates on those loans than non-minority firms. These disparities do not disappear even after controlling for the age, experience and education of the owner, and the creditworthiness, size, industry, age and location of the firm, which is consistent with the existence of lending discrimination.

Dr. Fairlie said that despite these obstacles, minority-owned firms make enormous contributions to the U.S. economy by producing over \$1 trillion in total, annual sales, employing

six million workers, and providing an annual payroll of \$168 billion. Therefore, he noted that there is much “untapped potential” in this country.

Roundtable: Closing the Wealth Gap: Utilizing Minority Owned Businesses as Vehicles for Job Creation and Economic Recovery⁶⁸
September 22, 2011

Introduction

On September 22, 2011 the Committee held a roundtable entitled “Closing the Wealth Gap: Utilizing Minority Owned Businesses as Vehicles for Job Creation and Economic Recovery.” This roundtable did not have a video or transcript, so the below sections are based off of the Committee’s Democratic staff notes and Chair Landrieu’s opening statement.

Background

Chair Landrieu mentioned the need for contracting equality, “they [African-Americans] want to know that when the federal government does contract for goods and services, it does so by placing small businesses on a level playing field with big business – it’s as simple as that.” She also noted Dr. Fairlie’s previous testimony that access to capital and extreme wealth inequality impacts the business performance between minority and non-minority firms.

During the hearing, Chair Landrieu cited a Pew Research study that showed the median wealth of Caucasian households to be almost 20 times more than African-American and 18 times more than Hispanic households. Furthermore, the study shows that the impact of the housing crash and the recession was not equal amongst all Americans. African-American households wealth declined by 53 percent from \$12,124 to \$5,677 compared to Caucasian households wealth decline of 16 percent from \$134,992 to \$113,149. The amount of wealth placed in housing had an impact on the previous numbers; African-Americans held 59 percent of wealth in their homes, whereas Caucasians held 44 percent of their wealth in their homes.

Contracting

8(a) Program

Participants discussed a policy proposal that would permit 8(a) small businesses, situated in a federal declared disaster location, a waiver from the “competitive business mix requirement” should they want to partake in emergency contracting for the disaster area they are located in. The issue is that 8(a) firms must have an even combination of income from both 8(a) related contracts and non-8(a) related contracts; if the 8(a) firm helps in emergency disaster area contracting, then they could have too many 8(a) related contracts for the most recently completed year and thus would be disqualified for 8(a) small business status for the current year until they fix the issue.

HUBZone

⁶⁸ United States. Senate Committee on Small Business and Entrepreneurship. [Staff Notes/Senator Landrieu’s Opening Statement - Roundtable: Closing the Wealth Gap: Utilizing Minority Owned Businesses as Vehicles for Job Creation and Economic Recovery](#). 22 September 2011.

Participants discussed HUBZone disaster contracting revenues and size standards. The policy proposal at hand was removing disaster related contract revenue from HUBZone firms' 3-year average income computation. Specifically, HUBZone firms participating in disaster related contracting tend to increase their revenue to the point that exceeds size standard for the HUBZone business status. As a result, HUBZone small businesses can no longer compete for HUBZone related contracts until their 3-year average is within the size standard limit again. Fixing this limitation would allow local companies to rebuild their own communities without having their business status penalized.

Economic Disadvantaged Criteria

The issue of some federal programs revising economically disadvantaged business criteria was discussed. There was a suggestion to use the same criteria for all small business programs: 8(a), Economically Disadvantaged Woman-owned Small Business (EDWOSB), Disadvantaged Business Enterprise (DBE), Woman-Owned Small Business (WOSB), and Small Disadvantaged Business (SDB).

Best Practices

Participants suggested that a "Best Practices" Annual Summit for Federal, State, and Local Governments be held. The idea was to increase communication amongst different levels of government to find and improve the best procedures for minority-owned small business contracting.

Roundtable Discussion: Closing the Wealth Gap with the African-American Entrepreneurial Ecosystem⁶⁹ September 19, 2012

Introduction

According to Chair Landrieu, the purpose of this roundtable discussion was to develop "a strategy [for addressing the wealth and income inequality gaps] that can be adopted by the Administration [and] by Congress that are specific, measurable, and [are able to produce] accountability."

Contracting

During the roundtable discussion, participants discussed how contracting helps: underserved communities generate small business growth, minority-entrepreneurs enter into the larger private market, and the entire economy grow.

8(a) Business Development Program

⁶⁹ United States. Senate Committee on Small Business and Entrepreneurship. Transcript - Roundtable: Closing the Racial Wealth Gap with the African-American Entrepreneurial Ecosystem. Maryland: B&B Reporters, 2012.

According to the SBA, “the 8(a) Business Development Program is a business assistance program for small disadvantaged businesses. The 8(a) Program offers a broad scope of assistance to firms that are owned and controlled at least 51 percent by socially and economically disadvantaged individuals.”

The 8(a) policy issues that were discussed included: 1) program participants not being well transitioned out of the program and 2) the need to adjust the net worth requirements for the program. According to the Congressional Research Service (CRS), the net worth requirements has not been adjusted for inflation since 1989.⁷⁰

Policy proposals that were suggested included: 1) increasing the cap for set-aside small business contracts from 100,000 to 500,000; 2) increase the net worth requirements for the 8(a) program from \$750,000 to \$1,500,000; 3) divide businesses employed by a federal contractor into tiers based off of their industry; 4) add a three-year transition period following the completion of the nine year term limit in the program; and 5) have the net-worth threshold be in correlation with the specific small business industry.

Participants discussed the government’s ability to foster communities open to contracting with underserved small businesses. Mayor Kasim Reed, Dr. Boston, and Congresswoman Yvette Clarke gave examples of underserved small businesses from their communities who have successfully contracted with the federal government. Mayor Reed noted that over the last 40 years, Atlanta has devoted 25 percent of local government contracting to minority small businesses. He mentioned that this initiative has not only helped Atlanta’s entire economy grow, but it has helped underserved communities move to the private sector.

HUBZone Program

Congressman Chaka Fattah suggested an increase in government contracting efforts in Historically Underutilized Business Zone (HUBZone) areas. According to the SBA’s website, “HUBZone program is in line with the efforts of both the Administration and Congress to promote economic development and employment growth in distressed areas by providing access to more federal contracting opportunities.”⁷¹ SBA’s website also details that small businesses are eligible to participate, if they meet the following criteria:⁷²

1) the main office is located in geographically underutilized areas; 2) meet the SBA’s size standard requirement of a small business; 3) at least 51 percent of the ownership must be by American citizens, an agricultural cooperative, a Community Development Corporation, or Native American tribe member; and 4) 35 percent of employees live within the HUBZone area.

⁷⁰ Manuel, Kate, Lunder, Erika. “Congressional Research Report: Federal Contracting and Subcontracting with Small Businesses: Issues in the 112th Congress.” 24 January 2013. Congressional Research Service. July 2013. <<http://www.crs.gov/pages/Reports.aspx?PRODCODE=R42390&Source=search>>

⁷¹ Small Business Administration. “Understanding the HUBZone Program.” Small Business Administration. July 2013 <<http://www.sba.gov/content/understanding-hubzone-program>>

⁷² Small Business Administration. “Understanding the HUBZone Program.” Small Business Administration. July 2013 <<http://www.sba.gov/content/understanding-hubzone-program>>

Government Accountability

Congressman Fattah maintained that America needs to rebuild its economy by contracting with small businesses; she referenced Iraq's reconstruction allotting a certain percentage of work to Iraqi businesses.

Policy proposals discussed to increase government accountability and involvement are as follows: 1) government agencies should become a partner in closing the wealth gap; 2) provide federal government accountability to meet statutory contracting goals; 3) support local government's contracting goals and implementation; 4) use minority small business offices in government agencies, implemented by a measure in the Dodd-Frank Wall Street Reform and Consumer Protection Act, to ensure that minority businesses are included; 5) improve subcontracting by pairing more small businesses with corporate businesses that receive government contracts; and 6) improve access to working capital for small businesses that have been awarded contracts.

Goaling

The federal government has a goal of 23 percent of federal contracts being awarded to small businesses. Within this overall goal are sub-goals, which include: three percent for service disabled and veteran-owned small businesses; three percent for HUBZone small businesses; five percent for women-owned small businesses; and five percent for disadvantaged small businesses.⁷³ However, according to a CRS report, this goal is not usually met.⁷⁴ Mr. Morial suggested that the federal government "increase procurement goals for small and minority-owned businesses." Furthermore, he recommended that contracts requiring a subcontracting plan must include an independent, non-federal monitoring system, ensuring that each agency is working toward achieving these goals.

Bundling

Mr. Morial mentioned the importance of unbundling government contracts.

Counseling

General Counseling

Participants explained the importance of counseling initiatives, such as: Small Business Development Centers (SBDCs), Service Corps of Retired Executives (SCORE), Women's Business Centers (WBCs), Veteran Business Centers, as well as the need for private-public

⁷³"Goaling". U.S. Small Business Administration. July 2013.< <http://www.sba.gov/content/small-business-goaling>>

⁷⁴ Manuel, Kate; Lunder Erika. "Federal Contracting and Subcontracting with Small Businesses: Issues in the 112th Congress." Congressional Research Service. January 2013. Congressional Research Service. July 2013. <<http://www.crs.gov/pages/Reports.aspx?PRODCODE=R42390&Source=search>>

partnerships and technical assistance training. These counseling resources offer established small businesses and new entrepreneurs guidance in finding capital, contracting, access to global markets, information on developing business models, and tax preparation.

Increase Technical Assistance/Outreach

Ms. Bridgeja Baker, teen owner of Creative Jewelry by Bridgeja, mentioned how she used small business counseling programs to start and grow her business. These programs included: National Urban League's Entrepreneurship Center, Small Business Development Program, SCORE, Southern University, and Goodwork Network. Ms. Baker stated the importance of developing a strong small business support community and suggested increasing funds to counseling programs that could help foster such ties. Chair Landrieu echoed that more support for small business counseling is needed. The Chair promoted the development of a partnership between the federal, local, and state governments on this initiative. Mr. Kevin Hicks, Partner at Blackman and Associates, also emphasized the importance of fostering a supportive small business community in closing the wealth gap.

Ron Busby, President of the U.S. Black Chamber Inc., noted a lack of counseling program outreach to underserved communities. As a result, underserved communities go to their Chamber of Commerce or church for small business counseling.

Deputy Administrator Johns explained the SBA's initiatives to increase access to counseling and general outreach for underserved communities. These initiatives included programs such as SBA Urban Economic Forums, Historical Black Colleges and Universities (HBCUs), SBA partnerships with Chambers of Commerce and faith based groups, the SBA's young entrepreneurship initiative, the FDIC's financial literacy partnership, and the Advisory Council on Underserved Communities.

Mr. Morial suggested the creation of a Technical Assistance Fund through the Department of Commerce's MBDA. He believed this initiative could provide general counseling as well as contracting guidance.

Miriam Brewer from the International Franchise Association (IFA) mentioned IFA's partnership with Small Business Development Centers (SBDCs) and the National Urban League (NUL) to increase mentorship and outreach. She said these partnerships allowed underserved communities to become more aware of available small business resources. For example, IFA helps small business owners connect with franchisers. Chair Landrieu reiterated the importance of franchises and how they have technical assistance built into their business model.

Private/Public Counseling Partnerships

Private companies have started small business counseling initiatives; such as, the National Urban League Enterprise Centers, the U.S. Black Chamber of Commerce mentoring program, Goldman Sachs' 10,000 small businesses initiative, etc.

The National Urban League suggested looking at a partnership between the SBA and the National Urban League Enterprise Center to reach more underserved communities. NUL's 10 business centers have reached over 6,300 small businesses across the country. Both Mr. Bill Bynum of HOPE CDFI and the National Urban League are working with Goldman Sachs' 10,000 small business initiatives, which gives small business counseling to entrepreneurs with limited resources.

Congressman Fattah advocated for an increase in mentoring between thriving and growing small businesses through local Chambers of Commerce. Deputy Administrator Johns, noted the importance of fostering partnerships to propel small business growth in underserved communities:

We know that working together on the areas of access to capital, access to Federal contracting, and access to counseling and technical assistance is important for helping small businesses use resources most effectively, those are the areas where we are going to see the most benefit to seeing small businesses grow.

Financial Literacy

Mr. Hicks stated that in order for underserved small businesses to thrive the financial literacy gap must be closed. He advocated for an initiative to increase financial literacy and urged that it become a priority in all levels of government.

HBCU Involvement

Participants discussed how Historical Black Colleges and Universities (HBCUs) provide an avenue for underserved communities to gain access to small business and entrepreneurship counseling. Dr. James Llorens, Chancellor of Southern University, mentioned the importance of bringing entrepreneurial education into colleges and increasing technical assistance programs, such as incubators, some of which are housed in HBCUs. Incubators are private-public partnerships that provide entrepreneurs with office space (at a reduced price) to run their business, office supplies, and financial grants. Dr. Llorens cited an example of when he worked for the Mayor of Baton Rouge and how they successfully partnered with Southern University to provide technical assistance for small businesses.

Chair Landrieu noted her visit to incubators across the country and how the help start-up companies thrive. Dr. Leslie Baskerville, President of the National Association of Equal Opportunity in Higher Education, mentioned that HBCUs can be a great resource for providing technical assistance to small business owners in underserved communities. Congressman Fattah echoed by saying more research dollars need to be allotted toward HBCUs in order to increase small businesses development at every stage.

Access to Broadband

Providing all small businesses with access to quality broadband is essential to closing the digital divide and wealth gap. Broadband will increase a small businesses access to capital, contracting, counseling, and trade, which can in turn help close the wealth and income gap. Chair

Landrieu stated that “high-speed internet is critical for all rural communities, but particularly for poor distressed minority communities that find themselves in rural areas.” FCC Commissioner Mignon Clyburn mentioned a way to close the wealth gap is through technology and access to broadband; she mentioned that access to broadband allows small businesses to market and sell their product to millions of people, which in turn increases their company’s growth.

Capital

General Capital

Chair Landrieu and participants agreed that obtaining access to capital is one of the most fundamental, and difficult to attain, means by which minorities and women open small businesses. Congresswoman Eleanor Holmes Norton cited the 2009 mortgage crisis as a factor of the wealth gap.

Mr. Hicks explained that his firm’s purpose is to create wealth preservation and transference via financial literacy and advocating for partnerships between governments and educational institutions. He discussed the non-traditional ways that his firm has helped entrepreneurs obtain 401(k) as well as supplier and equity financing. Specifically, his firm, along with the SBA, Bank of America, and the Initiative for a Competitive Inner City (ICIC), started capital connection meetings. At these meetings, acquaintances are made between various financial institutions and African-American entrepreneurs to learn about angel investing, which is a form of individual private investment. Chair Landrieu said that this is an excellent way for the small business, financial, and investment communities to interact.

Ms. Brewer noted that community banks are essential to providing minority and women-owned small businesses with capital.

Congressman Fattah mentioned that under the Dodd-Frank Wall Street Reform and Consumer Protection Act there are minority-inclusion offices in all government financial agencies. He noted that these offices should be actively used to ensure access to capital for all small businesses.

Community Development Financial Institutions (CDFI)

Both Chair Landrieu and Congresswoman Clarke focused on the important function of Community Development Financial Institutions (CDFIs) creating access to capital for underserved small businesses.

Mr. Bynum noted the juxtaposition of large banks and CDFIs using Troubled Asset Relief Programs (TARP) funds. After receiving TARP funds, CDFIs are required to devote 60 percent of their financial activity to underserved communities, whereas large banks do not have the same requirement. Given that larger banks have greatly benefited from TARP funds, Mr. Bynum argued that they should be required to provide support to underserved communities.

Deputy Administrator Johns noted that the SBA opened its lender portfolio to CDFIs, via the Community Advantage Program, so that they can take advantage of SBA loan guarantees. She also mentioned that minority-run equity firms who participate in the SBA’s Small Business

Investment Companies (SBICs) program increased from 11 percent in 2007 to 26 percent in 2011. The SBIC program is an additional avenue for small businesses to have access to capital.

Congresswoman Clarke and Mr. Morial stated that minority small businesses' lack of access to standard business loans often prevents them from obtaining contracts and hinders their growth. Mr. Busby noted that the U.S. Black Chamber facilitates small business lending opportunities between lenders and small businesses around the country, which in turn has allowed African Americans more access to capital. Mr. Busby also noted that the personal relationship between the lender, chamber, and small business allows the bank to look at all aspects of the business [i.e. total receipts, customer base, etc.] instead of only the small business's FICA score.

Hearing: Strengthening the Entrepreneurial Ecosystem for Minority Women⁷⁵
May 8, 2013

Introduction

This hearing focused on the importance of minority women-owned small businesses for the economy and noted their unique barriers to capital, contracting, counseling, and trade.

Importance of Minority Women Owned Small Businesses

Chair Landrieu explained the importance of the Women's Business Ownership Act of 1988, which extended the Equal Credit Opportunity of 1974 to encompass business credit, noting that before 1974 women had to receive personal credit through a male. She highlighted that although minority women small businesses are growing, there are many obstacles to their success; such as a lack of access to capital, credit, contracting, technical assistance, and small business counseling.

The Chair emphasized that minority women owned small businesses help the entire economy grow:

Any time small business owners achieve success, it leads to more job creation, which boosts our overall economy. As President Kennedy once said, a rising tide lifts all boats. We would like to see small businesses grow and expand and accelerate, create the jobs that Americans need and opportunities for entrepreneurship to really boost our economy and push our economy forward. It is critical to the nation's economic future that we create more of these success stories, not less. The more direct way to achieve this goal is to adequately invest in programs that work, that harness [sic] the entrepreneurial potential of minority women that are such a tremendous untapped, unrealized asset in this nation.

Deputy Administrator Johns stated that “[although] women today own 30 percent of businesses, they are still receiving only about ten percent of revenues.” She noted that America's economic recovery has been increasing, but has been “uneven” for underserved communities. She said that the SBA is working to address this issue. For example, in 2011, the SBA created a Council on Underserved Communities, which provided open economic forums across the

⁷⁵ United States. Senate Committee on Small Business and Entrepreneurship. Transcript - Hearing: Strengthening the Entrepreneurial Ecosystem for Minority Women. Maryland: B&B Reporters, 2013.

country to discuss the best solutions for underserved communities. As a result of these forums she noted that the SBA has “tailored programs to improve access and opportunity in underserved communities through our ‘three Cs’: counseling, contracts, and capital.” She mentioned that the SBA has to fill the awareness gap to ensure all small businesses understand the strength of the SBA network.

The MBDA’s National Deputy Director, Alejandra Castillo, noted “minority firms are twice as likely to export their goods and services than non-minority-owned firms. Minority firms are also three times as likely to derive 100 percent of their revenues from export, and also three times as likely to transact business in a language other than English.” Ms. Castillo pointed out that minority women entrepreneurs are generating substantial growth, “According to a recent study commissioned by American Express OPEN, there are nearly three million minority women-owned firms. Minority women-owned firms also generate \$226.8 billion in total revenue and employ 1.4 million Americans.” Ms. Castillo echoed Deputy Administrator Johns’ statement that although minority women-owned small businesses are growing, they still have obstacles, such as “access to capital, access to contracts, as well as the lack of informal networks to assist in the pursuit of business opportunity.” She noted that MBDA tries to thwart these obstacles through MBDA Business Centers that have since 2009 “assisted clients in accessing \$14.6 billion in contracts and capital, while helping them create and retain over 33,000 jobs.”

Ms. Eva Longoria, Founder of the Eva Longoria Foundation, discussed the barriers Hispanic women face in their determination to become small business owners. She mentioned that “with access to capital, financial literacy, and high-quality technical assistance and training, Latinas will continue to revitalize neighborhoods across the country.”

Mr. Morial stated that “one of the most fundamental concepts of economic and social justice and economic self-sufficiency is entrepreneurship.” He continued, “Empowering minority and minority women-owned entrepreneurs and accelerating their levels of growth and productivity is critical to strengthening U.S. competitiveness and overall growth.” Mr. Morial also mentioned that minority women entrepreneurship is a fundamental way in which minority women enter the workforce - either by starting a business themselves or working at a woman-owned firm. He mentioned the importance of African-American women owned small businesses to the economy:

547,000 [African-American women owned] businesses employ 176,000 workers, and the average African-American women-owned enterprise employed the equivalent of 6.5 workers, or one worker for every \$74,000 of revenue. And when we celebrate this important growth, it is important to note that if we simply empowered each of these 500,000 businesses to employ one additional person that [sic] would be 500,000 more people employed in this nation.

Ms. Sophia Parker, Founder and Chief Executive Officer of DSFederal, Inc. further reiterated the importance of minority women entrepreneurship:

The success of minority women like me represents true American success. America's streets are paved with gold, mined by those who work hard and work diligently. Minority women entrepreneurs not only create more jobs for the disadvantaged, we are the ‘Tiger

Moms,' extremely demanding, with high standards, providing a positive role model for others in societies with a passion to fulfill their American dreams.

Partnerships

Deputy Administrator Johns explained how the SBA works to maximize its resources by maintaining partnerships with the private sector and other government agencies. She noted the usefulness of the Interagency Task Force on Veterans Business Development; this is where the SBA works with the U.S. Department of Treasury, U.S. Department of Labor (DOL), U.S. Department of Defense, the U.S. Veterans Administration, and U.S. Office of Management and Budget to ensure that all veterans have the resources they need to start a small business. She also reemphasized the utility of the Start Young Initiative, which is a partnership with Jobs Corps and DOL. In terms of private sector outreach partnerships, she mentioned the National Urban League, the U.S. Hispanic Chamber, the U.S. Black Chamber, and Women Impacting Public Policy – specifically their ChallengeHER initiative – to increase women federal contracting.

Ms. Castillo discussed the importance of MBDA Centers interacting with the public “We understand that the on the-ground operation is really where it is at. This is where the business owners come into contact with the technical assistance that they so desperately need.” Ms. Castillo echoed the importance of private-public partnerships by noting MBDA’s partnerships with the National Minority Supplier Diversity Council, Billion Dollar Roundtable, National Urban League, SBA, Export-Import Bank, and We Bank.

Ms. Lancaster cited her small business’ experience with Sikorsky Aircraft of United Technologies was positive because they [Sikorsky] made working with minority-owned firms a priority. She said that more private companies should incorporate working with minority firms into their culture as it helps the overall economy succeed.

Ms. Longoria mentioned “government provides a leadership that we [private sector] emulate.” She noted that government must be a leader in helping minority women owned small businesses succeed. She heralded the 8(a) program for providing equal access to contracting, the mentor-protégé program to propel the transfer of knowledge, and the SBA’s Women Business Centers as a way to counsel small businesses. She noted that we must look at “business as a continuum, you have the start-up, you have the maintenance, and you have the growth.” She noted that small businesses not being aware of available resources is a “barrier itself”. Ms. Longoria explained that her initiative with Warren Buffet requires a small business to go through small business counseling prior to attaining a loan. She has found that counseling along with capital is a critical partnership to “set them [small businesses] up for success.”

Capital

General Access

Deputy Administrator Johns mentioned that the SBA is working to promote micro-loans to help fill the gap of minority women small businesses not attaining conventional loans; she noted that capital access is essential to their [minority-women owned small businesses] success. Specifically, the SBA is focusing on the Small Loan Advantage program and the President’s Budget which would eliminate SBA’s 7(a) loan fees for loans lower than \$150,000. She noted that the SBA has improved access to capital through the Community Advantage initiative, which

is now able to use SBA's loan guarantee, Community Development Financial Institutions, and micro-loan intermediaries.

Ms. Castillo mentioned that Hispanic women owned small businesses face obstacles in education and training, but access to capital is the largest obstacle whether they are starting, maintaining, or growing their companies. She noted that in January of 2010, MBDA released a report, *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: the Troubling Reality of Capital Limitations Faced by MBEs*. Some of the key findings of the report include:

1. Minority-owned firms are less likely to receive loans than non-minority owned firms regardless of firm size. According to an analysis of data from the Survey of Small Business Finances, for firms with gross receipts over \$500,000, 52 percent of nonminority-owned firms received loans compared to 41 percent of minority-owned firms.
2. When minority-owned firms receive financing, it is for less money and at a higher interest rate than non-minority-owned firms, regardless of the size of the firm. Minority-owned firms paid an average of 7.8 percent in interest rates for loans, compared to 6.4 percent for non-minority-owned firms.

Ms. Longoria noted that the lack of access to capital for Latinas prompted her to partner with Howard Buffet to issue \$2 million in micro-loans.

Ms. Lancaster said that she ran into roadblocks to find capital for her business; specifically, it was difficult for her to gain a loan even with her 8(a) and SDB status and 10 years in the business. She continued that this "is a very common story for women minority-owned business. Several of my fellow entrepreneurs had both SDB business, 8(a) contracts, and larger commercial contracts, and banks will not touch them. Even business owners with SBA guarantees struggle to get the banking community to invest in their organizations, an often when they do, at a higher interest rate, much higher than the market." She said that non-minority/non-female small businesses' experience of low capital attainment from the recession is a normal experience for a minority-women owned small business.

Mr. Morial noted that ways to increase access to capital could be through SBA, private-public partnerships and the New Markets Tax Credits program, which could apply to start-up companies that need funds from \$25,000 to \$500,000 in loans. He also noted that the Urban League has started its own CDFI that will help fill access to capital gaps. Mr. Morial added in his closing statement that government should look at the private sector and non-profit sector successes in order to find new ways to help all small businesses prosper.

Wealth Gap

Chair Landrieu mentioned that entrepreneurship is critical to close the wealth gap by saying "what our committee wants to focus on, closing this wealth gap and recognizing women entrepreneurs as really an extraordinary untapped resource for this nation. Women, Asian American women, Hispanic women, African American women, and I am glad that Senator Heitkamp brought up in our Native American community, some women are particularly distressed and disadvantaged and we could unlock that potential."

Senator Heidi Heitkamp noted the importance of entrepreneurship for Native Americans with “We need to build opportunities in Indian Country, which has staggering amounts of poverty, staggering amounts of lack of capacity in both education and business capacity.”

Deputy Administrator Johns spoke about the wealth gap, “You [Chair Landrieu] have held very important conversations about what we know is the very tough challenges of the wealth gap in this country. But I know that small business creation and the jobs that those small businesses create for our economy, that is the answer. And so the more that we can leverage the power of our partnerships, the power of the SBA's network, and bring more underserved communities into job creation, small business creation, that is the answer to building a stronger economy for all of us.”

Ms. Marianne Lancaster, President and CEO of Lancaster Packaging, Inc., noted that her SDB 8(a) firm is on the road to make \$18 million this year, but that lack of access to capital as stopped it from becoming a \$50 million firm. She noted the lack of wealth African-American families have as compared to Caucasians contributes to lack of access to capital. She noted that many entrepreneurs rely on their friends and family for capital, but due to the wealth disparities, this is not always easy for minorities. Ms. Lancaster explained that many minority-owned small businesses get capital for their business through their home equity, but with declining housing prices it has been difficult to attain that capital.

Contracting

Deputy Administrator Johns thanked Chair Landrieu for her “support of the National Defense Authorization Act, which allowed the ceilings on contract opportunities for women-owned small businesses to be eliminated so that there are no more barriers, no more boxes that women businesses have to fit in.”

Ms. Sophia Parker, Chief Executive Officer of DS Federal, spoke about creating the American dream by starting her own company. She noted, “The process of becoming an 8(a) company was arduous, but fair and honest,” she went on to say, “the SBA's strict standards and procedures helped our company.” Ms. Parker noted that the Mentor-Protégé program helped her company grow and in return they have taken pride in mentoring other minority and women owned small businesses to help them prosper.

Mr. Morial recommended unbundling federal contracts and more agency oversight to ensure that they reach their procurement goals. He also said private companies that successfully contract with minority small businesses should be looked at as examples for other private companies.

Ms. Castillo suggested unbundling contracts to thwart lack of access.

Counseling

Women’s Business Centers

Chair Landrieu noted the importance of the National Women’s Business Council, which started SBA’s Women’s Business Centers. She acknowledged that after Women’s Business

Centers were created, the Census found women small business grew by 55 percent between 1997 and 2004.

Deputy Administrator Johns noted that the SBA's Women's Business Centers have helped over 500,000 entrepreneurs. She mentioned a particularly successful initiative with the SBA and Jobs Corps' Start Young program, which helps young women see small business ownership as a career option. She continued, "the SBA has also learned that intensive entrepreneurship education for existing business owners, especially in underserved communities, has a powerful positive impact, filling gaps in training and access."

Deputy Administrator Johns said what makes Women Business Center's unique from Small Business Development Centers and SCORE is that they are usually located in underserved areas and are usually non-profit. She said that job creation grows when entrepreneurship training reaches entrepreneurs that need it.

Ms. Longoria mentioned that if Congress wants to see minority women small business succeed, then it should re-authorize Women Business Centers with higher funding as it has not increased since 1999. She said, "By investing and giving Latinas the tools to unlock their potential, we can create a brighter economic future for our country."

General Counseling

Chair Landrieu acknowledged "the minority community traditionally does not have the same social networks, leveraging, friendships and other things that enable people to access opportunity for capital."

Ms. Lancaster said that her personal success from using the MBDA Center of Boston is a testament to how imperative MBDA Centers are for minority women-owned business throughout their business cycle. She noted that even today, she struggles to get a seat at the table and if she does, to be seen as a legitimate contender to contribute. She said that when potential clients realized that there was no father or husband or better yet a white business man behind her, she felt it took them a long time to see value in her business. She also felt that it took funders even longer to see the viability in a company run by a young black woman.

Ms. Lancaster started selling military spec. bags for the Aerospace Industry out of her house. In her early days, she worked with the Minority Business Development Center of Boston. She heralded them [MBDA Center of Boston] for helping her write a business plan and starting her business.

Trade

Ms. Castillo noted the President's Free Trade Agreement for Latin America as an initiative that needs to continue. She highlighted that some minority women small business owners already have a connection to these areas and can be prosperous due to understanding the language and culture.

Importance of the SBA and MBDA

In her closing statement, Ms. Longoria mentioned that “diversity breeds innovation, and that is what our country needs right now.” She noted that there are only 40 MBDA business centers in 25 states with “way more women that need access to these small business centers,” she continued “let us fight for them and their funding.”

Ms. Parker mentioned the importance of SBA capital, counseling, and contracting programs for minority women owned firms and that the SBA should be the first stop for potential entrepreneurs. She said “the government's investment in SBA is very small and the return is huge.” Specifically, the Mentor-Protégé [program] helps 8(a) companies prosper. Chair Landrieu noted that the SBA’s micro loan to Ms. Parker has helped the economy two-fold because Ms. Parker’s company creates jobs, generates revenues, and does domestic as well as international charity work. In her closing statement, Ms. Parker noted that the SBA is underfunded and that there are not enough Business Opportunity Specialists to handle all of the casework.

Ms. Lancaster said that entrepreneurs’ first stop should be at the MBDA and SBA, because they helped her company. In her closing statement, she echoed other witnesses’ comments about supporting the MBDA and SBA.

Mr. Morial echoed that SBA’s investment into small businesses is small but has a high rate of return for the economy. He noted that starting a business means creating more taxpayers that can boost the financial well-being of the entire country. In his closing statement, Mr. Morial said “protect and defend the SBA and MBDA” specifically he noted “do not allow those agencies, which are already small, to come under more stress when the return on investing in them is quite high. Protect and defend the SBA and the MBDA and the government's infrastructure that supports small businesses.”

IV. Additional Organizations' Policy Recommendations

The majority staff asked for organizations and scholars interested in the wealth gap to submit policy recommendations to close the gap through small business growth. Below are summaries of their responses.

Dr. Lucy Reuben, Duke University, Professor of the Practice of Business Administration

Dr. Lucy Reuben, Professor of the Practice of Business Administration from Duke University, submitted the following policy suggestions to close the wealth and income gap through small business growth. She notes that entrepreneurship spurs substantial economic growth and job creation. First, Dr. Reuben suggests the creation of student loan interest-free deferment programs for entrepreneurs, which could be similar to student loan programs for lawyers, teachers, and nurses. She notes that the large rise in student loan debt thwarts potential entrepreneurs from starting an innovative small business. Second, she recommends the development of entrepreneurial savings accounts, so that potential or new entrepreneurs have more access to capital. Dr. Reuben notes that this endeavor would be a tax-favored savings account for a small business to use within their first five years of their business cycle. Moreover, they could be modeled off of health savings accounts or retirement accounts. Third, Dr. Reuben supports tailoring social security policy so that potential entrepreneurs over the age of 50 are not financially penalized for starting a small business. Specifically, she supports minimizing penalties for early retirement in regards to small business owners. Fourth, she recommends providing funding for Employee Stock Ownership Plans (ESOP) technical assistance for the Small Business Administration and the Minority Business Development Administration. Dr. Reuben also recommends that “tax-favored status of ESOPs should be enhanced by extending the tax-favored status of the proceeds from stock sales to ESOPs to amounts up to 50 percent of proceeds up to \$100,000 when such proceeds are re-invested in cash or cash equivalents.” She notes that ESOPs help small businesses stay afloat and allow for increased wealth accumulation. Fifth, Dr. Reuben recommends a 25 percent tax credit (“up to credits of \$25,000 per year”) be given to angel investors who give money to community development corporations and non-profit organizations that focus on domestic job creation and/or exporting American goods overseas. She notes that there is a “network gap” between angel investors and entrepreneurs in underserved communities.

Dr. Robert Fairlie, University of California Santa Cruz, Professor

Dr. Robert Fairlie, Professor from the University of California Santa Cruz, has submitted the following policy suggestions to help close the wealth and income gap through small business growth. Per Dr. Fairlie's 2008 study, he notes that limited access to capital is a critical factor in the ability of a minority owned small business to survive. He notes that America's wealth inequality contributes to the lack of access to capital for minority small businesses. Specifically, wealth is often used as startup capital or investors require an owner to invest in their own company to demonstrate incentive. First, Dr. Fairlie recommends promoting policy that increases minority bank usage rates and financial literacy. Specifically, he notes that the Census Bureau, Bureau of Labor Statistics, and the FDIC have accounted for more than 20 percent of African-American households not having a bank account and just below 20 percent of Hispanic households not having a bank account. He also notes that more affordable community bank loans could help in creating wealth. Second, Dr. Fairlie highlights that homeownership is a key wealth building tool. He suggests policies that propel "financially responsible homeownership" should be promoted. Third, Dr. Fairlie recommends supporting small business counseling endeavors through the form of internships, mentoring programs, or apprenticeships. Specifically, he recommends that training include "hands-on experience" in an entrepreneur's field in addition to classroom training and one-on-one counseling; Dr. Fairlie also mentions the possibility of prior work experience as a pre-requisite to small business training.

Urban Institute Senior Fellows

The below suggestions to close the wealth gap are the views of Urban Institute Senior Fellows Signe-Mary Mckernan and Caroline Ratcliffe. These policy recommendations do not reflect the views or beliefs of the Urban Institute.

First, Mckernan and Ratcliffe suggest that low-wealth families have more access to education. They recommend that public policy include education subsidies to give low-wealth families the same opportunity as high-wealth families to attain higher education. They note that since high-wealth families have more assets, they are more able to finance their children's college education. Second, the researchers suggest that homeownership tax subsidies be shared more equitably with low-income families. They noted that homeownership is a key asset for wealth accumulation. Furthermore, they highlight its power comes from making monthly mortgage payments, which are a form of forced savings to build equity - even if the property value does not appreciate. Third, Mckernan and Ratcliffe suggest that access to capital for low-wealth demographics such as African-American and Hispanic small business should improve. They note that owning a small business can help "patch income shortfalls", as well as expand a family's wealth outside retirement and homeownership. Fourth, they suggest creating automatic IRAs as a retirement savings mechanism. Under automatic IRAs, employers who do not provide retirement accounts for their employees would automatically deposit part of the employee's paycheck into an IRA; however, an employee could opt-out should they not want to participate.

They note that automatic enrollment in retirement plans help employees save for retirement. Fifth, the researchers suggest that the Assets for Independence program under the 1998 Assets for Independence Act be re-authorized. They note that Individual Development Accounts (IDAs) are savings accounts directed toward low-income families to help them save for wealth investments in education, small businesses, or homes by “matching earned income deposits.” They cite their joint research (“Weathering the Storm: How Have IDA Homebuyers Fared in the Foreclosure Crisis?” October 2011) to show that IDAs have helped maintain homeownership: foreclosure rates for homebuyers who bought through an IDA program were, “one-half to one-third the rate for other low-income homeowners in the same communities.”

National Urban League

The National Urban League (NUL) makes the following recommendations for closing the wealth and income gaps through small business growth. First, they suggest increasing the cap on set-aside small business contracts from \$100,000 to \$500,000. Second, NUL recommends the unbundling of government contracts to allow minority small businesses an equal opportunity to compete. Third, they support raising federal contracting goals for small as well as minority owned businesses. Furthermore, they suggest an independent monitoring agency screen whether goals were met. Fourth, NUL recommends that the Department of Commerce’s Minority Business Development Agency create a technical and contracting assistance fund. Lastly, they suggest the elimination of SBA guarantee fees on advantage loan initiatives in order to encourage minority small business capital access.

National Association for the Advancement of Colored People (NAACP)

The NAACP’s Economic Department makes the following suggestions to close the wealth and income gap through small business growth. First, they recommend that the SBA’s sequester budget cut be restored. They note that according to the National Association of Government Guaranteed Lenders, \$900 million small business loans are expected to be lost due to this budget cut. Second, NAACP recommends that SBA loan guarantees should be required to focus on micro-lenders that fund micro-businesses, which tend to be minority-owned small businesses. Third, this organization suggests that SBA counseling programs – such as Small Business Development Centers, Service Corps of Retired Executives, and Women Business Centers – provide confirmation of community based organization partnerships. Fourth, NAACP supports incentives for microbusiness lending; including tax free or reduced tax rate interest on 3+ year loans with deferred principal payments. They note that microbusinesses typically need a small dollar loan, but due to their individual lack of wealth and family wealth they cannot ask for a personal loan from a friend or family member. Fifth, they suggest that the Federal government’s commercial and real property attained through foreclosure in high unemployment zones should be made available for purchase lower than market value for minority small businesses and/or minority entrepreneurs. Sixth, NAACP supports strengthening federal policies for contracting and subcontracting with economically disadvantaged small business. Seventh,

they recommend that entrepreneurial training be included in federal funded workforce development programs. Lastly, NAACP recommends that an allotted sum for unemployment payments be given to starting a small business, which they note could help with start-up costs.

The U.S. Black Chambers, Inc.

The U.S. Black Chambers, Inc. (USBC) has issued policy suggestions for addressing the wealth and income inequality gap. USBC maintains that a contributing factor to the overall wealth and income inequality gap is the high percentage of single-parent households within the African-American community. In dual-family households, children have access to more resources due to the contribution of two, separate incomes. Often, this lack of vast resources prevents these children from competing with their counterparts, thus limiting future career options. USBC also maintains that the amount of current and relevant data on small businesses is inadequate and antiquated. For example, the most recent Survey of Business Owners published by the U.S. Census Bureau is from 2007. By the time the next survey is released in 2015, the data will already be outdated. The public and more specifically, the business community, need real-time, actionable data. Other policy recommendations include increasing access to diverse capital sources, such as crowd-funding, private equity, traditional banking, and microfinance; providing procurement opportunities in the public and private sector; initiating entrepreneur training and mentoring programs to promote access to intellectual capital and emerging consumer markets; developing technology in underserved and rural communities, specifically small businesses leveraging the use of smart phone applications, digital media strategies, search engine optimizations, and global e-commerce; and lowering tax burdens to promote small business start-ups and expansions.

Native American Contractors Association

The Native American Contractors Association (NACA) provided the following policy suggestions to close the wealth and income gap. They noted that this gap includes Indian Country, Native Hawaiian Organizations, Tribes, and Alaska Native Corporations. They mention Native Americans have distinctive barriers to wealth creation. Specifically, title to Tribal and individual Native lands are often held in trust by the United States, and thus are not allowed to be used as assets for collateral. In turn, this blocks the ability to gain capital via entrepreneurship, homeownership, and other wealth avenues. First, NACA suggests that U.S. Senate Committee on Small Business and Entrepreneurship research and propose broad ways of supporting Native American small businesses owned both by Tribal entities but also individual Indians. They noted that some of these communities have generated wealth through assets owned by the Tribal government or Native communities. Through these assets, Tribes, Alaska Native Corporations and Native Hawaiian Organizations invest in human assets through programs such as: scholarships, training programs, education initiatives, housing assistance etc. Furthermore, NACA highlights that the SBA's 8(a) program has been successful in bringing capital and resources to these communities and the 8(a) program needs to be supported as well as

strengthened to propel economic development. Second, this organization suggests that the U.S. Senate Committee on Small Business and Entrepreneurship hold a hearing specifically on Native American small businesses and barriers to wealth creation in Indian Country. Third, NACA notes that job creation is imperative to building assets; they note that the unemployment rate in Indian country has an average of 25 percent, but is 70-80 percent in some areas. Fourth, this organization notes that improving Native American economies through entrepreneurship, education, home ownership etc. will help close the wealth gap; they highlight that policies should empower Tribal governments to determine how to address these challenges.

National Association for Latino Community Asset Builders

The National Association for Latino Community Asset Builders (NALCAB) recommends the following. First, they suggest that the U.S. Senate Committee on Small Business and Entrepreneurship hold a hearing specifically about Hispanic small businesses and available federal resources. Second, NALCAB recommends growth of the SBA's Women Business Development Center in order to expand the availability of linguistically and culturally relevant materials and services for economically disadvantaged small businesses. Third, they recommend that the Department of Labor's (DOL) Workforce Investment Act (WIA) pilot program allot funding toward the integration of workforce development and small business development services. Lastly, they suggest that the Department of Commerce's Office of International Trade report to Congress regarding the potential for investing in U.S. immigrant small business in order to increase export and import trading.

National Coalition of Asian Pacific Community Development (NCAPCD)

The National Coalition of Asian Pacific Community Development (NCAPCD) suggests the following policy recommendations to close the wealth and income gap through small business growth. First, they support a national technical assistance intermediary between the SBA and minority small businesses that is located in economically disadvantaged areas to ensure minority small businesses have access to small business training. Specifically, NCAPCD would like an intermediary focused solely on Asian Americans and Pacific Islanders (AAPI) small businesses. Second, they recommend a federal racial and ethnic study that analyzes and locates geographic areas that need small business technical assistance and funding. Third, NCAPCD highlights that banks collect SBA loan data via zip code and not by ethnicity; they note that due to this method it is difficult to see what percentage of SBA loans and technical assistance the AAPI community receives. Fourth, NCAPCD suggests that small businesses have access to linguistically and culturally appropriate services and products. Fifth, they recommend that SBA's technical assistance program funding be protected. Sixth, they suggest increasing funding for federal programs that propel access to capital for minority small businesses. They highlight the SBA's Prime and Microloan programs as well as Community Development Financial Institutions (CDFI) Fund as such programs. Seventh, they recommend increasing the number of certified CDFIs and Community Development Enterprises (CDEs) that serve the AAPI community.

Eighth, they recommend that the 8(a) business development program include eligibility for Native Hawaiians. Ninth, they support private sector investment in minority small business. Specifically, they would like the Community Reinvestment Act to be revised so that private companies receive the same tax incentive when they fund technical assistance as they do when they invest capital in small businesses. Tenth, they recommend data transparency between the banking industry and minority small businesses. Specifically, the Consumer Financial Protection Bureau (CFPB) should begin collecting small business data about the AAPI community. Eleventh, they would like banks to issue more lines of small business credit. Twelfth, they recommend that federal small business technical assistance programs be fully funded. Specifically, they support SBA's PRIME and Women's Business Centers; USDA's business development programs; and Department of Labor's Workforce Funds. They also note that tax preparation assistance should be promoted across resources and organizations that aid small businesses.

The National Community Reinvestment Coalition

The National Community Reinvestment Coalition (NCRC) has submitted the following policy suggestions to close the wealth and income gap through small business growth. First, NCRC suggests increasing lending data transparency toward underserved businesses. Specifically, they note that under the Dodd-Frank Wall Street Reform Consumer Protection Act of 2010 the Consumer Financial Protection Bureau is required to collect data on undeserved businesses and has not done so yet. NCRC supports data collection because it will help track the trend of minority small businesses being denied loans more than non-minority small businesses and women owned small businesses not receiving the same loan amount as male owned small business. This organization highlights that banks with less than \$10 billion in assets are fighting to not be included in the before mention data collection, which NCRC notes is unacceptable as they lend the majority of small business loans. Second, this organization supports enhanced technical assistance of small businesses. Third, NCRC recommends an increase in the federal government contracting goal from 23 percent to 25 percent and encourages the adherences to this metric, so that all small businesses have an opportunity to succeed.

The Insight Center for Economic Development

The Insight Center for Economic Development recommends the following to close wealth and income gaps through small business growth. First, Insight recommends that all levels of government encourage the use of a micro and emerging business category for contracting goal programs. They note that micro-businesses are usually companies with less than five employees and that emerging small businesses tend to have less than \$1-2 million in annual sales. Insight highlights that without this change many small businesses will have difficulty participating in Small Business Enterprise (SBE) programs. Second, this organization recommends that federal purchasing goals, which require a percentage to be from SBE program participants and

disadvantaged small businesses, be extended to state and local government grantees. They highlight that currently only two agencies, the U.S. Department of Transportation and the U.S. Environmental Protection Agency utilize this internal requirement. Third, they recommend an expansion of the SBA loan programs in Community Development Financial Institutions (CDFIs). Fourth, Insight suggests establishment of a country-wide loan guarantee fund pool so that CDFIs, SBE banks and credit unions can guarantee more loans targeted to micro and emerging businesses. Lastly, this organization recommends enactment of a business tax credit program focused on micro and emerging businesses. They note that this program could promote job creation, business growth, and owner savings; because it would concentrate on small business owners whose personal net worth drops underneath a predetermined level.

Association for Enterprise Opportunity

The Association for Enterprise Opportunity (AEO) has issued the following policy suggestions to close the wealth and income gap through small business growth. They note from that closing the wealth gap through entrepreneurship is essential, “If one in three microbusinesses hired a single employee the U.S. would be at full employment” [AEO “The Power of One in Three”]. AEO also highlights, “The median net worth of business owners is two and a half times greater than for all non-business owners. For an African-American, the difference is nearly eight times higher for business owners compared to non-business owners. For an African American woman, the difference is more than ten times. For a Latino male, the difference is five-fold” [AEO “The Power of One in Three”]. First, this organization recommends the streamlining of rules and regulations as well as removing barriers to growth. They note that the federal government can be a strong partner in creating and growing small businesses. Second, they support funding for non-profit small business counseling organizations. Specifically, they suggest funding for the SBA’s Women Business Centers and Program for Investment in Micro Entrepreneurs; the U.S. Department of Treasury’s Community Development Financial Institutions (CDFI) Fund; and the U.S. Department of Agriculture’s Rural Micro-Entrepreneur Assistance Program. They note that according to the Aspen Institute’s “Facts about Business Ownership” 88 percent of entrepreneurs who gained small business counseling were still in business after five years, whereas 50 percent of entrepreneurs who did not receive this training were out of business. Third, AEO recommends that lending programs targeted toward microbusinesses be supported as they are essential to success. Specifically, this organization endorses the SBA’s Microloan Program, the U.S. Department of Treasury’s CDFI Fund, and the U.S. Department of Agriculture’s Intermediary Relending Program. According to AEO’s “One in Three” research, “emerging businesses that received adequate training and capital experienced median annual revenue growth of 69 percent.” Fourth, this organization recommends fixing the DOL’s workforce development structure for employment seekers interested in owning a small business. Under the Workforce Investment Act (WIA) this structure is not incentivized to allow entrepreneurial training because being self-employed is not

considered to be re-entering the workforce. If job training locations were allowed to mark entrepreneurship as creating a job, then this issue could be resolved.

Institute for College Access & Success

The Institute for College Access & Success (TICAS) suggests the following policy recommendations to close the wealth and income gap through small business growth. They note that lessening the burden of student debt and aiding borrowers to stay in good standing with their repayments will facilitate the creation, maintenance, and growth of small businesses; thus, entrepreneurs will be more able to contribute to their companies and gain access to capital. First, they suggest growing access to need-based student financial aid in order to diminish the need to borrow. This includes protecting and strengthening Pell grants, simplifying the process for federal student aid, and promoting federal “maintenance of effort provisions” that incentivize states to continue investing in higher education. TICAS notes that lowering student debt is important for graduates trying to find startup capital for a small business. Second, they recommend increasing information transparency about the cost of higher education in order for students to make informed decisions about where to attend college and the means to pay for it. This includes promoting and improving tools such as the White House’s College Scorecard, requiring a consistent format for award letters, and increasing the availability, usability and comparability of net price calculators. They also noted the importance of enhancing student loan counseling via improvements in timing, efficiency, and content. Third, this organization suggests improving and promoting awareness of income-driven repayment plans. Specifically, they support the reorganization of current federal income-driven repayment plans into one plan with a simplified application process and better targeted benefits. TICAS notes that basing student loan payments on the borrower’s income allows small business owners the ability to have low monthly payments when they start their business and increase their payment rate once their company starts to grow and create more revenue. Fourth, TICAS recommends supporting consumer protections for private education loans. They note that private loans can burden small business owners with unnecessarily high debt that obstructs entrepreneurship, because they usually have variable interest rates and they are not protected by the income-driven repayment plans and borrower protections that federal student loans have. TICAS also supports creating meaningful modifications for pre-existing high-cost private loans and ensuring that private loans are treated like similar forms of consumer debt in bankruptcy. Furthermore, they recommend that colleges certify all private loans prior to disbursement in order to ensure that borrowers are aware of available federal grants and loans, and to prevent over-borrowing. Fifth, TICAS recommends ensuring career education programs prepare students for employment by eliminating funding for programs that regularly leave students with debt they cannot repay and by barring schools from using taxpayer dollars for recruiting and advertising.

PolicyLink

PolicyLink suggest the following policy recommendations to close the wealth and income gap through small business growth. First, PolicyLink suggests the continuation of government inter-agency partnerships that help low-income entrepreneurs. They cite the Jobs and Innovation Accelerator Challenge as a case of multiple agencies [Department of Commerce, Department of Energy, Department of Labor, and the SBA] facilitating public-private partnerships to ensure economically disadvantaged small businesses have an equal opportunity in the manufacturing sector. PolicyLink recommends that inter-agency partnerships ask grant applicants to include a plan for using minority-owned businesses and also collect data on how these partnerships affect minority communities' quantity and quality of job growth. Second, the organization recommends that the SBA and the Department of Commerce's Minority Business Development Agency be required to report to Congress about their coordination between the agencies for regulatory and statutory small business development requirements. Third, PolicyLink suggests a focus on regional and local community development in order to enhance local small business sectors. They specifically note the Healthy Food Financing Initiative and the Sustainable Communities Initiative as programs that should be funded and supported by all levels of government, because they improve the environment in which minority small businesses are located. PolicyLink notes that the Healthy Food Financing Initiative has a small business component. Community Development Financial Institutions (CDFIs) can provide unique financing for independent food retailers to invest in underserved communities that do not have access to healthy food. These financing packages could help minority-owned firms and minority/disadvantaged farmers gain access to different markets. They can provide small and larger financing packages to allow different sized minority-owned firms the resources they need. Policy Link also cites the inclusion of minority-owned firms in the Sustainable Communities Initiative. They note the inter-agency partnership between the Department of Housing and Urban Development, Environmental Protection Agency, and the Department of Transportation facilitates a grant process in which local communities have input into their economic development. PolicyLink suggests that this partnership involve minority-owned small businesses more.

Associated Black Charities

Associated Black Charities (ABC) makes the following policy suggestions to close the wealth and income gap through small business growth. First, they recommend supporting African-American small businesses through increased access to markets and market opportunities, which will enable them to expand their businesses and employee base. Second, ABC recommends increased access to capital and management tools for African-American small businesses further along in the business life cycle. Third, they suggest that programs designed to help small and/or African-American businesses be held accountable via specific metrics related to how their services help the businesses' bottom line. Lastly, ABC supports technical assistance for small and African-American businesses in order to grow and develop human capital.

National Small Business Advocate

The National Small Business Advocate (NSBA) recommends that the wealth and income inequality gap can best be addressed via the following five areas: lending, health care costs, crowd-funding and general solicitation, small business credit scores, and finders and business brokers. NSBA suggests two changes to the SBA lending programs: (1) temporarily reinstate the 90 percent guarantee on SBA 7(a) loans and (2) eliminate the borrowing fees attached to both 7(a) and 504 loans. NSBA also endorses the extension of the American Recovery and Reinvestment Act's small business provisions, as well as the elimination of restrictions on credit union lending to small businesses. Since rising health care costs have an adverse effect on small businesses, NSBA advocates the controlling of health care costs by strengthening both quality and price competition among health care providers, as well as increasing the role of regular Americans in their consumption of health care services. NSBA also suggests that the crowd-funding and general solicitation provisions of the JOBS Act impose only the minimum necessary costs and regulatory controls on small firms who need to raise capital. NSBA also exposes the enactment of legislation to address banks' credit score reliance. Rather, this organization prefers alternative methods for evaluating small business creditworthiness. Lastly, NSBA recommends the easing of the broker-dealer registration requirements for those who are assisting small businesses in obtaining investors or selling their business.

V. Conclusion

It is imperative that all small business have equal access to capital, contracting, counseling, and trade. That is why Chair Landrieu has promoted and passed legislation to ensure this happens.

Small business data organized by demographic is critical to understanding the needs of all entrepreneurs. The Census does not organize Asian-American data by ethnicity and in turn does not show the broad economic condition of this population. One persistent issue is the lack of Native American data. The Census puts Native American wealth into an “other” category and therefore doesn’t allow for the full economic picture of this population. The U.S Senate Committee on Small Business and Entrepreneurship looks forward to increased data collection; specifically, the Consumer Financial Protection Bureau’s statutory requirement to fulfill section 1071 of the Dodd-Frank Wall Street Reform Act, which requires collection of small business data by demographic.

The wealth gap is a problem for all Americans. If the wealth gap is closed, then the entire country will benefit and the country will be more financially stable. The Declaration of Independence states that “all men are created equal and are endowed by their Creator with certain unalienable rights.” Our founding fathers promoted equality and it is imperative that we as a nation acknowledge and find ways to fix the inequality of wealth because it hinders “the pursuit of happiness”. This report has highlighted a small segment of the gap by focusing on small business, but the issue is much larger and needs further analysis and action. As a nation, we must come together to ensure that all demographics are treated equally in their pursuit of economic prosperity and social equality.