

1380 ECONOMIC OPPORTUNITY ACT AMENDMENTS OF 1967

What I have discussed serves as a backdrop to the area of your primary interest, which is small business. Given our strong interest in the goal of employment, it was our hope that the Title IV loan program would make a significant contribution to this end.

We must admit, however, that the relationship of the loan program to getting people out of poverty has been of considerable concern to us in OEO. We have sought for 2½ years to establish whether the needs of small business are consistent with the focus of OEO programs on the very poor which I have described.

I would like to say, first, that we are fully aware of the financial needs of small business.

The inability of some potential or present small businessmen to get credit through regular commercial sources is a very real problem, particularly in the ghettos.

Negro and other minority businessmen, unfortunately, have been especially vulnerable to what amounts to discrimination in the money market. It is said that the only color business recognizes is green, but many a Negro businessman will tell you that even having a going concern isn't enough to get a loan.

This has led to a sort of no-man's land in the loan field for a good many small businessmen. They may earn too much to be eligible for the OEO-SBA loan program but not enough for the regular SBA loans, and yet still are unable to get funds from the commercial market.

Add to these problems an argument over the whole concept of small business in poverty areas and you can begin to see the kinds of difficulties we encountered.

On the one hand, there is the argument that small business provides stability to such an area, that it provides some employment, that it is a symbol of "success" to those who would strive for it and that it can fulfill the American dream of being your own boss.

On the other hand, some economists will argue that assisting one small business to start simply drives another out, that in such a highly-competitive fight for a small market the untrained poor simply cannot survive as small businessmen, and that the simple economics and insecurity of many small businesses make a salaried position increasingly attractive.

Despite this dichotomy of philosophies, OEO and SBA sought to effectively implement the Title IV economic loan program.

First, there was the problem of how to administer the program, and to make sure that it was available to the poor. For this purpose, we established the Small Business Development Centers in about 50 selected urban and rural areas. Thirty-eight of these were funded by OEO; the others were funded by the Economic Development Administration or were staffed by volunteers.

These centers usually were closely related to Community Action Agencies and thus had access to the principal poverty areas.

The staff of these centers did the outreach, processed the loan applications and sought to provide management training and counseling for the applicant. SBA, of course, actually made the loans and reserved the right to approve or disapprove the applications processed through the SBDC.

Since applications were restricted to areas served by an SBDC, the loan program was not available on a national basis. OEO funds were insufficient to support more than a handful of SBDCs.

The next problem was to establish criteria for participation in the loan program.

Initially, the criteria set by OEO and SBA envisaged making loans to the very poor, or to those businesses which would hire the poor and thus create jobs.

Experience during the early months of program operation showed that while loans were being made upon the basis of employment of the poor, the evidence available did not indicate that any significant job creation was resulting. Further, requiring loan recipients to hire the poor could simply burden an already-faltering business that much more. Finally, loans at this stage were averaging close to the maximum of \$25,000, and SBA funds for Title IV were being depleted rapidly.

Consequently, in November 1965, the criteria were changed so that specific income limits were prescribed for eligibility. For example, an applicant with a family of four could earn up to \$4,630 and be eligible for consideration. This figure, I should point out, is \$1,500 over the income line we use to define poverty. The change had the effect of changing the emphasis from job creation to providing business opportunities to the poor.

Unfortunately, even then the program did not seem to be making a significant impact, and it came almost to a halt when the SBDCs could not find reasonably sound risks within such a stringent income limit.