

September 24, 2008

The Honorable William Lacy Clay, Chairman  
Information Policy, Census, and National Archives Subcommittee  
2157 Rayburn House Office Building  
Washington, DC 20515-6143

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

Mr. Chairman and distinguished members of the Information Policy Subcommittee, thank you for allowing me to testify on this important topic. I am a professor of Economics at Georgia Tech where I have worked since 1985. I am also the owner of a consulting company (EuQuant) that specializes in economic and statistical research. One of my primary areas of research is minority business development.

Minority-owned businesses comprise approximately 18% of all US businesses and their numbers are increasing at a rate that is more than four times that of non-minority-owned companies. But there remains a tremendous disparity in the capacity of minority-owned firms in comparison to that of businesses owned by whites.

Recently, I was asked by the Congressional Black Caucus Foundation to examine the policies of the Small Disadvantaged Business program (SDB) administered by US SBA. A primary objective was to determine whether or not the \$750,000 ceiling established for the personal net worth of participating business owners had adversely affected the ability of SDBs to increase their capacity.

As you know, the federal government established the SDB program to mitigate the effects of decades of discrimination against firms owned by minority and disadvantaged business owners. In 1998, the PNW ceiling was established to restrict program eligibility to disadvantaged minorities and other business owners who claimed disadvantaged social and economic status.

In conducting our investigation we examined over 47,000 small businesses that were registered with the federal government. This included about 28,000 non-minority-owned firms and 19,000 minority-owned firms. This also included about 7,000 firms that were active in the SDB program and 3,000 firms that formerly participated in the program.

Our study found the following:

The ability of small firms to secure bonding or gain access to capital is tied closely to the owner's personal net worth. Therefore, by capping personal net worth the SDB program has constrained the ability of firms to secure bonding and finance and therefore to perform large contracts.

Our study found that there is a 40% relationship between changes in SDB revenue and changes in their owners' personal net worth. Therefore, when personal net worth is constrained, the revenue capacity of SDBs is also constrained.

We also found that if SDBs did not have to operate under the current PNW ceiling and if they were treated the same as are non-minority owned firms, their current annual revenue would be higher by almost \$1 million.

The personal net worth ceiling has not been adjusted for inflation since 1998, which means its real inflation-adjusted value in 2007 was \$558,070.

Furthermore, the current ceiling was not based on any empirical study, but was simply a policy decision. That decision did not even take into consideration the fact that different industries require different levels of capitalization. So today, SDBs in manufacturing or heavy construction have the same ceiling as do SDBs in printing.

Mr. Chairman, our study recommended new industry specific ceilings that we believe meet the legal test of strict scrutiny. In construction we recommend a ceiling of \$979,000; in manufacturing, \$1,043,000; and in professional and scientific services, \$1,026,000.

We also recommend that the ceiling be adjusted annually for inflation and that businesses be allowed a two year transition period to remain in the SDB program once their owner's net assets have reached the PNW ceiling.

Finally Mr. Chairman and committee members, we believe ultimately that the PNW ceiling should be replaced with more industry specific and business development criteria. We are currently researching a Business Development Index that incorporates numerous company and industry variables into a single metric that can be used to determine SDB Program eligibility.

For the record, we have provided the Executive Summary of the study we conducted for the Congressional Black Caucus Foundation and we will gladly provide copies of the current research once it is completed.

Thank you.

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