

Cutting Taxes and Regulation is the Best Way to Help Minority Small Businesses

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Helping Minority Businesses

Now that Initiative 200 has made government racial and gender preferences illegal in Washington, most cities, even liberal Seattle, have ended these programs. The question remains, however, about the best way to help minority small businesses compete for government contracts. Not surprisingly our state is rife with heavy taxes and complex regulations that hold back all businesses, but which fall disproportionately on smaller firms operated by minority citizens.

Seattle recently ended its racial preference program and plans to replace it with one that grants a 10% bidding advantage to businesses located in certain areas of the city. While this approach is in technical compliance with Initiative 200 because it does not explicitly use race as a factor, it is at best a band-aid solution to a much larger problem.

For example, the city rightly concludes that small businesses are held back by Seattle's system of burdensome taxes and complex regulation. City officials readily concede that "businesses located within the city that seek contracting opportunities operate under a competitive disadvantage with businesses located elsewhere because of higher taxes and higher operating and administrative costs."

A Lesson to City Leaders – Reduce Taxes and Regulation

One Seattle city official has remarked that "I-200 has limited the tools available to government to address the effects of historic discrimination." But one could point out that the most effective policy "tool" Seattle can use to help struggling businesses, minority and otherwise, is near at hand: Ease up on confiscatory taxes and regulations that hold back all businesses.

Luz Bazan Gutierrez, President and CEO of the Washington Association of Minority Entrepreneurs, recently commented on the "astonishing array of requirements accompanying any American business: taxes, licenses, registrations and mountains of paperwork." Referring to immigrants who try to start up small businesses, she said, "They find that there are many barriers," but "the hard workers are always willing to do what it takes."

Many small minority-owned businesses are run as "mom-and-pop" operations. Start-up businesses generate little enough cash as it is; certainly not enough to carry the burden of lawyers and accountants needed to penetrate the thickets of municipal licensing requirements.

Getting Government Out of the Way

Given these experiences the best way Washington's counties and cities can help minority small businesses is simply to get out of the way. Municipal leaders are in a unique position to encourage small business development within their own cities, because only they can lighten the burden of local taxes and regulation.

Washington city leaders state can learn from cities like Indianapolis that are already doing what it takes to help minority businesses. Below are six elements Indianapolis used to make its small-business promotion policy a success.

1. Contracting Out

Indianapolis increased the amount of government business to disadvantaged minority enterprises by outsourcing and privatization. The city focused efforts in areas where minority businesses had particular expertise and experience. Simply increasing the amount of business a city contracts out to the private sector helps all businesses, including those owned by minority citizens. As we have previously noted,¹ contracting out street repair, a major success in Indianapolis, improves service to all citizens and expands opportunities for minority businesses that seek the work.

2. Regulatory Reform

Indianapolis cut thousands of permit and license requirements that in many cases acted as de facto barriers against full minority participation in the community's economic life.

3. Streamline the Procurement Process

Indianapolis found it had dozens of ridiculous barriers to minority and/or small business participation. These included unnecessary bidding, bonding and insurance requirements. Also, the city shortened and simplified the notices it used to ask for outside bids. Previously city managers ask for bids and received back contract offers from some companies that were 75 pages long. No small business could afford the lawyers and consultants needed to compete when larger companies were making such elaborate bids. Streamlining the bidding

¹ See "Competing for Highway Maintenance: Lessons for Washington State - Part I," Policy Brief by Dennis Lisk, Washington Institute Foundation, September 1998.

process helps all small businesses make realistic bids for public work.

4. Pay Contractors Promptly

Indianapolis learned from minority business leaders that paying too slowly on a contract can kill any small business. Typically small businesses have limited working capital and need quick turn-around on their bills.

5. Be Aggressive in Recruiting

The city got on the phone and called eligible minority businesses to tell them how important it is for them to show up and compete. "Affirmative action" in its original sense means exactly that: letting minority businesses know they will get a fair shake and that the doors are open to them. This is not done out of charity. The public directly benefits every time the bidding pool is expanded. Wider competition produces the best price and the best company for the job.

6. Avoid Detailed Rules and Regulations

Indianapolis learned that overly-detailed rules and regulations only add unnecessary complication, increase costs to the city and create a significant barrier to small and start-up businesses. Regulations and bidding requirements should be trimmed so local governments can truly open opportunity for all.

Conclusion

With the passage of Initiative 200, Washington's leaders can look to new ways of promoting small business development. While moving away from traditional approaches that grant preferences based on race or gender, they can increase diversity in contracting by enhancing greater opportunity for all. The first step is to realize just how much government regulations, high business taxes and unnecessary licensing rules work to shut small businesses out of the market.

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