A TWO-TIERED ECONOMY

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Introduction

On its fiftieth anniversary, September 1979, Business Week magazine paused to recall some of the nation's economic history. The year 1929, according to the editors, was the watershed year of the 20th century — the year in which an era of economic innocence would come to an end. A predominately market oriented economy would in the future be monitored and "managed" through an active public sector wedded to the ideals of Keynesian economics. By 2029, these same editors predict, we will look back on the year 1979 as a similar turning point. Our economic landscape in 2029 will be dotted by the so-called "super-industries," those multinational conglomerates that successfully exploit a particular raw material base or a broad service market. Small businesses, on the other hand, will be found only in clusters of small "cottage" industries which act as feeders to the corporate giants, supplying them with parts, capital equipment, and minor support services. Such is the past and future of our economy according to Business Week.¹

This type of scenario, even modified by the fascinating context of the next 50 years, is nonetheless a traditional exercise in American economic thought. For in this scenario, we see again a blind spot that has characterized the conventional wisdom of economic organizations in the 20th century. In essence, the small business sector is seen as
little more than a stepchild of the mega-organizations of the corporate world. As such, its problems are either seen as mere spin-offs of those facing the giant firms or, increasingly, they are ignored altogether. When one tries to raise the level of economic awareness regarding issues facing the small business sector, one is faced with the fact that the public perceives this sector to consist of quaint little boutiques, mom and pop retailers, or interesting entrepreneurial ventures — the street vendors of Berkeley or Austin, for example. Conventional wisdom aside, however, a different reality does indeed exist.

This paper examines a phenomenon that has emerged over time, that has a structural identity with its own unique problems and challenges, yet one which is only now beginning to exercise the energies and wit of those concerned with our economic future. Our thesis is simple. We believe that our economy can best be characterized as a two-tiered system in which the economic realities for the small business community differ significantly from those of big business. We do not endorse this position merely to give greater emphasis to the long standing differences between small businesses and large enterprises. Indeed this long tradition of confrontation may serve further to inhibit our understanding of the problems of small businesses. (It often rings of a populist litany which only translates into anti-big business foolery.) Our purpose here will be rather to identify the nature of the two-tiered economy and then to discuss the unique challenges facing this nation if we are to continue to develop a market economy in which diverse economic organizations serve our national goals. After sketching this scenario, we will conclude by discussing some caveats about the formalizations of a two-tiered economy via the mechanism of public policy. First, then, the structure of the two-tiered economy.
The Tiers

In order to define the concept of a two-tiered economy, we must have some notion of the difference between small and large businesses. Since we must be somewhat arbitrary here, we shall accept the working definition of a small business endorsed by the Small Business Administration — namely, any firm with fewer than 500 employees. Such a population of firms is obviously diverse, ranging in scope from a local hot dog stand to a multi-million dollar national or even multinational firm. Yet even the large firms within this group bear little resemblance to the corporate giants that dominate our oligopolized markets. Further, since the SBA definition has wide acceptance in both the academic community and the world of the small business practitioner, we judge it appropriate for delineating the tiers of economic activity. Assuming this definition, Table I provides a first glimpse into the meaning of a two-tiered system.

--- Table I Here ---

Table I depicts two ways of gauging the importance of the small business sector. First, we can compare the relative importance of small businesses in generating employment, both at the national level and in Region VI. In the nine standard industry types listed here, small businesses generate well over a majority of the jobs for the work force in these industries. In Region VI, we see a similar pattern, except in four cases — mining, manufacturing, finance and services — where the small business community outperforms its peers at the national level. On the average, as we can see, the small business sector in Region VI generates about 5 percent more employment than these firms do at the national level.
<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>Percentage of Employees</th>
<th></th>
<th>Sales Composition</th>
<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td></td>
<td>United States</td>
<td>Region VI</td>
<td>United States</td>
<td>Region VI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Small Business</td>
<td>Large Business</td>
<td>Small Business</td>
<td>Large Business</td>
<td>Small Business</td>
</tr>
<tr>
<td>Agriculture</td>
<td>94.00%</td>
<td>6.00%</td>
<td>95.57%</td>
<td>4.43%</td>
<td>83.09%</td>
</tr>
<tr>
<td>Mining</td>
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<td>31.64</td>
<td>73.90</td>
<td>26.10</td>
<td>52.50</td>
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<tr>
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<td>93.29</td>
<td>6.71</td>
<td>93.74</td>
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<tr>
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<td>40.63</td>
<td>64.16</td>
<td>35.84</td>
<td>54.31</td>
</tr>
<tr>
<td>Transportation</td>
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<td>70.82</td>
<td>29.18</td>
<td>51.90</td>
</tr>
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<td>5.05</td>
<td>96.39</td>
<td>3.61</td>
<td>70.65</td>
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<tr>
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<td>4.55</td>
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<td>3.85</td>
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<td>80.16</td>
<td>19.84</td>
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<tr>
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<td>38.57</td>
<td>66.66</td>
<td>33.34</td>
<td>75.47</td>
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<tr>
<td>Totals</td>
<td>72.56</td>
<td>27.44</td>
<td>77.93</td>
<td>22.07</td>
<td>69.60</td>
</tr>
</tbody>
</table>

SOURCE: Dunn and Bradstreet data compiled by the Massachusetts Institute of Technology under contract from the Small Business Administration.
Turning to the sales side, we see an equally interesting result. At the national level, small businesses are responsible for a majority of sales revenue in all industry types. As the table indicates, while the sales revenue of small business is slightly below the employment generated by the firms, the small business sector still generates nearly 70% of the sales revenue in these industries. This difference may be explained as a further indication that in some industries -- especially mining, manufacturing and transportation -- economies of scale are indeed critical factors in producing these revenues. In Region VI, we see again that small businesses are playing a more dynamic role in generating sales revenues than they are at the national level. In six industries -- agriculture, manufacturing, transportation, wholesale, retail and finance -- Region VI small businesses significantly outperform their national counterparts. Only in the finance industry do the national firms play a more important role in generating sales revenues. On the average, however, the small business sector in Region VI appears to be once again a more effective agent for generating sales revenues than firms in other regions.

The conclusion we draw from Table I is that in two of the most important indicators of economic performance, the generation of employment and sales revenue, the small business sector has received short shrift, given its importance at the national level and particularly in Region VI. Furthermore, these data graphically illustrate the fact that one tier of our economy is a sector almost hidden from the watchful eyes of those who make economic policies. For what we have seen over the past few decades is a consistent pattern of public policies aimed at coping with the problems of big businesses. Those of us in academia must
shoulder some responsibility for this "hidden sector phenomenon," since most of our research has been directed toward the problems facing the corporate giants. But as we can see, Table I indicates that the small business sector is an extremely viable and dynamic tier in our economy, and myths to the contrary, we are not yet an economy solely dominated by the activities in the tier of big business. In order to appreciate more fully the differences in the economic games being played in these tiers, we now turn our attention to those issues which define the uniqueness of the two-tiered economy.

**Issues Affecting Small Businesses**

We have to this point explained the structure of the two-tiered economy in terms of different patterns of employment and generation of sales revenue. Perhaps a more cogent definition of this structure can be gleaned from identifying those issues which delimit more sharply the burdens shouldered by the small business sector. It is these issues which have essentially turned the traditional distinctions between small and large businesses into clearly delineated, sometimes antagonistic differences, which now form the political base for those who want to institutionalize the two-tiered economy. Some of these issues are market oriented -- such as the impact of certain economic problems -- others originate from nagging social problems such as racial discrimination, while still others can be traced to the uneven impacts of public policies. Whatever their origins, they are deeply embedded in our social fabric and they must be resolved if we are to assure some sense of equity in our two-tiered economy. These issues are fourfold in nature.
Capital Needs

Capital markets in the United States raise two primary issues for the small business community: one is access to diverse forms of capital and one involves the cost of debt financing.

A major problem facing small businesses is that they simply do not have access to capital markets; rather, they depend almost solely on the money markets. In the main, small businesses rely more heavily on debt financing for their sources of capital since the public equity market does not become widely available to firms until they generate sales of about $10 million. This being the case, small businesses necessarily rely on banks as their major source of debt financing. However, when one considers this reality in terms of the overall rate of savings in the United States over the past few years, which has steadily declined, one can easily see the problem of access becoming more critical because small businesses will have access to an ever shrinking resource base. The policies of banks, therefore, become critical factors in resolving the capital problems of small businesses.

When we examine bank lending policies regarding small businesses, we clearly see the nature of the second issue raised here, the cost of debt financing. For the most part, banks are responsive to the needs of the small entrepreneur, but responsive at a higher cost. Bankers retort by noting that their conservatism is a matter of pure market logic. The cost of debt financing is higher to small businesses for reasons of scale (smaller returns on larger corporate loans are obviously more secure and profitable) and for reasons of risk (small businesses simply do not provide the type of security and predictability of the larger customers). To the members of the small business community, this market logic may seem a form of discrimination against them because they are
forced into debt markets at a higher cost. To the lending institution, it's a traditional pattern of conservatism that underlies sound investments, plus it serves as a screening device to keep potentially weak small businesses out of the money markets. In either case, this problem has begun to attract ideas for reform which will at least tilt the balance toward the concerns of the small business community. Some of the more reasonable suggestions along those lines are:

--- Tap the basic logic of the market system through reforms in the tax structure. Examples would be as follows:

1. Continue to reduce the capital gains tax, thus providing a stimulus to capital investments.

2. Make the tax structure more graduated (progressive) thereby increasing profitability.

3. Increase the investment tax credit and faster depreciation rates which would also enhance capital investment. R & D might also be treated as an investment tax credit.

--- In the public sector, go beyond current capital assistance plans of the SBA as well as SBIC's, MESBIC's, etc. In particular, we may need a new type of security that meets the equity needs of small businesses. In any case, public interventions beyond current assistance programs may be necessary to complement market efforts.

It is likely that the operations of capital markets will always be different in the two tiers of our economy. What concerns us here is that we first be aware of these differences, and secondly, show some concern and imagination in reducing the inequities inherent in this
two-tiered system. Addressing these problems is the most important step to take in revitalizing small-scale capitalism in the coming decades.

Economic Problems and Government Programs

The post-war period in the United States has been one in which economic and social problems have triggered non-market responses, primarily in the form of public interventions. The marriage of Keynesian economics to political democracy has led to an enlargement of the public sector in all walks of economic life. From seemingly innocuous roles of regulating markets through antitrust laws and rationalizing rate setting, public interventions today appear to be more obtrusive in nature, particularly to the small business community. Government interventions today have a different impact on the entire management community than they did in the fifties and early sixties, because now they are felt right at the core of the management decision making process. If the business community today seems more strident in its campaign against government intervention, it is because the new pattern of public intervention encroaches upon virtually every arena of decision making in the firm. The impact of this new pattern of intervention is not shared equally in our two-tiered system. In order to illustrate the complexities here, we should like to discuss briefly three significant problems, beginning with inflation.

Inflation may be the great social equalizer because its effects are felt by all, but its charms are particularly anathema to the small business community. Those sanguine days of the past, where government policies would fight inflation with the choices so clearly defined by the
Phillips Curve tradeoffs, now seem gone forever. Nor has the income policy approach served us well since its impact is felt only as it becomes more stringent, which in turn causes market distortions leading to more inflation. Government's inability to muster the wit to cope with inflation is a particular nuisance to small businesses. Again, as we are finding with many problems, there is a matter of scale here. If inflation imposes additional costs on doing business, one must ask a simple question: How can individual businesses adjust to these increased costs? For the most part, the answer is that the business in question either absorbs the increased cost or it passes it along to others, primarily the consumer. To absorb the cost requires a relatively large revenue base which the small business doesn't have. To pass it along requires some control over the market, which large oligopolies have but small businesses don't. Small wonder that the small business community is concerned about the ineptitude of government policies in fighting inflation.

Our second problem concerns the energy crisis. Basically, government policies regarding energy use have tried to accomplish two things -- to conserve energy and to shift to sources of energy more available than petroleum products. Worthy goals indeed, but the means to achieve them present another set of headaches to small businesses.

One means of encouraging or enforcing conservation has been to establish priority policies for the use of certain energy sources. As one might expect, recent policies established by the Natural Gas Policy Act and the Federal Energy Regulatory Commission assign a priority to small businesses which puts them nearly at the bottom of the list, well below all other classes of users. In times of curtailed use, they will
suffer the most. Regarding the shift to other sources of energy, there is again a problem of scale. The need to shift to alternative sources of energy is sound in theory, but extremely expensive in practice. Even with special government incentives, the marginal cost for small businesses to shift from oil to coal, for example, may mean the price of staying in business. Without special attention to the needs of small businesses, we risk the possibility that our energy policies will lead to increased market concentrations because small businesses will be unable to absorb the costs of conservation and shifts to alternative fuels.

Our final problem concerns the impact of government assistance and regulations in general. Big business attracts assistance at all levels of government. Whether through contracts at the federal level or special incentives at the state and local level, the political system has responded reasonably well to the needs of big business. Assistance is another matter, however, for small businesses. Below the federal level, where the assistance is most needed, it is least available. The federal government, primarily through the SBA, has begun to respond to the needs of the small business community. At the state and local level, it's another matter. Whether the federal government has pre-empted other levels from acting, or whether these other levels simply direct their limited resources to the bigger payoffs associated with big business, the fact remains that the response of the public sector to the needs of small businesses has been spotty at best, and down right unenthusiastic in some cases.

Government regulation, on the other hand, has worked in just the opposite way. Government regulations work their brand of magic against
all business enterprises, but their overall effect is regressive in nature. There is, once again, a problem of scale. Regulations mean added costs, and those firms with greater revenue bases will be relatively better off. For the small business, this means that it will probably have to hire outside experts to provide the data necessary for compliance procedures. Since the costs of compliance are relatively fixed, those least able to afford them shoulder a greater burden than their more affluent peers. Even among oligopolies, the better-to-do are finding it necessary to share some of the R & D information that has been mandated by new patterns of regulation—witness GM's assistance to American Motors and now Chrysler. Clearly the small business community suffers a form of cost discrimination associated with the trend toward increased regulation of business activities.

As with capital need problems, policies to deal with the burdens of government/business relationships in the small business community are absolutely essential to the continued health of this sector of economic activity. Whether it's special energy policies, or set-aside provisions exempting small businesses from certain regulations, or expanded procurement policies at all levels of government to direct more public resources to small businesses— a new pattern of relationships must emerge. The market system can operate well for small businesses but it does operate differently and a new pattern of government/business relationships must now support this reality.

Small Businesses and International Trade

International economic activity is by all measures overwhelmingly dominated by big business. Whether it's the traditional functions of
exporting and importing, or the more modern activities of international production by multinational corporations, the practice of international business is that of the corporate giants. And this activity is increasing since exporting is now the fastest growing sector in our economy.

The business community in the United States has generally not felt the same pressures to engage in international activities as have their peers in other countries. The United States, with its vast domestic market, has never been forced to depend on foreign trade to the extent that Europeans and Asians have. One result is that our government policies have never been as aggressively concerned with promoting trade. Indeed most administrations have always sought to maintain an environment of free trade by lowering trade barriers, but this is a far cry from the affirmative policies adopted by most of our allies to enhance their own exports. However, since economic interdependence has changed the rules of the game over the past decade, we are now beginning to see a movement toward the shaping of government policy more actively to support the need for international business activity. Still, these policies are understandably oriented toward the problems of promoting exports among big businesses.

Yet small businesses do have certain advantages in foreign trade. As Marye Tharp Hilger points out, these advantages occur in the following areas:

1. Potential personally to serve customers through specialized products and direct channels of communication.
2. Ability to enter small foreign markets where there is little multinational corporate competition.
3. Development of specialized products and technologies that have small but world-wide demand.

4. Potential for rapid response to foreign opportunities.

In short, there is a role for small business in international trade, and government policies should seek to enhance this activity as a means of diversifying U. S. exports and penetrating new foreign markets.²

The small business community is very dependent upon the public sector for assistance in exporting to foreign markets. Since government policies have always been somewhat ambiguous in this area, big businesses were required to develop their own sources of information about international business opportunities. But since these sources are not readily available to small businesses, and since they can't afford to provide this service for themselves, small businesses must rely on the efforts of the public sector. The complexity of the decision making process regarding foreign markets is quite simply too great for most small businesses. Yet a number of government policies, designed again for the interests of big business, contain a blind spot regarding the needs of the small business sector. Consider the following:³

- The "how to" information supplied by the Department of Commerce is not always available to the firms which need it the most.

- Sources of information are confusing. A number of government agencies provide information on all stages of foreign trade, but the dispersion of this information constitutes a roadblock to trade itself. Furthermore, there is a genuine lack of usable information on current economic and industry conditions for potential exporters.
DISCs, designed to promote exports, require financial and technical advice far beyond the capability of most small businesses.

Finally, some government policies, not necessarily related to foreign business opportunities, nevertheless inhibit international trade. U.S. anti-trust laws, environmental regulations, health and safety laws often add delays and increase the costs of export-related activities. Obviously, large firms, with increased flexibility and advantages of scale, are less affected by these barriers.

These barriers to trade are not easily overcome, even for large firms. There are, however, two critical areas of change that we feel must be considered in public policy in order to right the balance of government efforts in promoting trade. One is informational and the other revolves around appropriate incentives.

The mystery of foreign trade is perhaps the greatest barrier to the small business community. Whereas the large corporation may search out foreign markets as a matter of course, and even of survival, the small business sees this opportunity more as an embellishment of its domestic operations. In short, the compelling need to penetrate foreign markets has not been a source of motivation for most small businesses. Without this motivation, such activity has a mystique about it which makes it seem a luxury on the one hand, or an unnecessary complication of life on the other. But pressures to export will probably filter down to the small business sector as will the realization of the benefits to be derived from this activity. Information and educational programs will, consequently, have to be tailored for this sector. For the public
sector, this will mean that agencies be required to address the special informational needs of small businesses, perhaps to develop data banks of information readily accessible to small businesses, to provide training workshops and "how to do it" guides for this sector, etc. The private sector too must play a different role. There is much sophisticated information and know-how in the private sector that has simply not been available to a variety of users. Here is one area in which the private sector, through its own initiatives, can reduce the need for a massive government effort. Through professional associations and other inter-industry forums, the private sector must realize more fully the need to build a stronger base for export-related activities.

With regard to the problem of export incentives, the public sector is, of course, crucial. The purpose of incentives will be to lower existing barriers to trade as well as to reduce the costs of exporting. Logically, incentives will involve changes in the tax structure and in credit policies, particularly as they relate to first attempts to export. These policies can act as market incentives and thus serve naturally to increase foreign trade. In addition, however, many areas of the country will want to look at new patterns of public/private cooperation to promote exports. The MASSPORT (Massachusetts Port Authority Small Business Export Program) effort has been notably successful in this regard since it brings together public agencies and private firms to provide assistance and incentives for penetrating foreign markets -- using the profit motive as the key incentive.

Foreign trade need not be a blind spot in the minds of the small business community. It is unlikely that trade will ever be as important
for this sector as it is for big business, but national goals and priorities have put new emphases on the importance of increasing America's share of world trade. The small business sector again finds itself the unwilling recipient of unintended barriers vis-a-vis big business, but appropriate changes in public policies are reasonable expectations in the near future.

Problems of Minority Businesses

We close this section on important issues facing the small business community by looking briefly at the problems of minority businesses. The other issues we have explored were those that essentially defined the structure of the two-tiered economy. The point of our concern with minority businesses, however, is slightly different. Minority businesses in themselves do not constitute part of the logic of the two-tiered economy. They do create, nevertheless, a special set of problems which tend further to institutionalize the differences we have already discussed. Let us see why.

Minority business, as Professor Furino and his colleagues point out, is almost exclusively small business. He notes, for example, that in 1977 the 100 largest black-owned companies generated receipts of only $870 million. This means that if all of the 100 largest black firms had been merged into one company, it would have ranked 271 on the Fortune 500 corporations of that year. With this in mind, it is interesting to note the distribution pattern of minority businesses in the United States. Table II gives us this picture.

- Table II Here -
As we can see, minority businesses are found to be virtually overrepresented in two industries -- retail trade and services -- and probably to some extent in construction as well. This distribution pattern helps to identify some of the special problems faced by minority businesses, of which the most important are as follows:

First of all, from Table II we note that minority businesses are concentrated in two industries whose failure rate is high and whose growth rates and profit margins are low. This is one explanation of the cycle of failure associated with these enterprises. They are small to begin with, often too small ever to grow to the point of realizing economies of scale, and they are concentrated in industries where growth and profit are more difficult to achieve. The fact that they remain small or disappear altogether is not difficult to understand.

Secondly, in line with the scenario described above, the profitability pattern of minority businesses is somewhat different from that of non-minority firms. The average profitability, nation-wide, is virtually the same for these two classes of firms. However, when we look beyond this figure, we find that profits in minority firms tend to be skewed toward the extremes -- some tend to exhibit exceptional performance while others suffer losses greater than their non-minority counterparts. This pattern of variability in profits tends to aggravate the third problem, namely, access to capital.

Access to capital, as we noted, is a problem common to all small businesses. It is more so for minority businesses because their high failure rates, variable profit rates, low collateral offerings, etc., increase the risk factors in capital markets. Hence, the main source of
<table>
<thead>
<tr>
<th>Industry</th>
<th>Number</th>
<th>Percent</th>
<th>Gross Receipts (1000)</th>
<th>Percent</th>
</tr>
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<tbody>
<tr>
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<td>381,935</td>
<td>100.00</td>
<td>16,556,392</td>
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</table>

**SOURCE:** U.S. Bureau of the Census: *1972 Survey of Minority-Owned Business Enterprises*
debt financing to all small businesses, banks, tend to be even more conservative in their lending practices to minority businesses. Thus, we find that minority businesses seek public support for their capital needs through SBA sponsored programs such as SBICs and MESBICs. However, the funds available through these programs don't begin to match the demand for capital in the minority business community. Capital problems for minority businesses are therefore even more acute than those normally associated with the small business community at large.

Finally, certain socio-economic characteristics of the minority communities tend to spill over into entrepreneurial efforts and impede the success of small businesses. On the one hand, many minority businesses are located in geographically depressed or disadvantaged areas, thus providing a very poor market environment for the firm. Since many of these firms are in low profit margin industries to begin with, the problem feeds upon itself. Secondly, the development of managerial skills, a problem in small businesses everywhere, is not as characteristic of minority areas as it is in non-minority areas. The ability to attract capable managers is made more difficult in minority businesses. Finally, traditional patterns of discrimination, particularly as they affect education and career opportunities, still impede the emergence of a strong entrepreneurial group in the minority community.

For the minority business community, these problems tend to re-emphasize the meaning of a two-tiered system. They are not a tier unto themselves, yet they feel the brunt of the subtle differences that exist between the tiers. Most of their problems are mere distortions of those already afflicting the small business community in general, yet they constitute a special case indeed. Public policies to deal with these
problems will probably have to be formulated to meet the special circumstances of minority businesses. Until policies are so formulated, the problems in the minority business community will continue to reinforce many of the negative impacts associated with the two-tiered economy.

**Formalizing the Two-Tiered Economy**

In this paper we have tried to define the emergence of a two-tiered economy, an economic system we believe already exists. The two tiers are delimited by their patterns of employment and sales revenue generation while their structures are best seen in the nature of the issues and problems which face small businesses and large corporate enterprises. There is a logic to the system that inevitably works to the disadvantage of the small business sector. What concerns us now is that there seems to be increasing pressure to begin the process of formalizing this tiered system via the route of public policy. The forthcoming White House Conference on Small Business will undoubtedly act as a highly visible forum for those concerned with changing the posture of public policy toward small businesses. Indeed we applaud this effort but we also have some concerns about the manner in which we further institutionalize this two-tiered system. From our research, we might expect the following positions to be logical policy changes in the early 1980's:

- The small business community will be represented at the highest levels of government in Washington. This might be a cabinet position or more plausibly a continuing process whereby the small business community is represented in important agencies and councils of government. Representatives on the
Council of Economic Advisers, the Federal Reserve Board, the Office of Management and Budget, would be examples of this level of representation.

- The federal regulatory system would be modified to take special notice of the regulatory impacts on small businesses. Set aside policies, simplified procedures, formal impact statements and the use of small business advocates on regulatory commissions and the Regulatory Council might become common in the near future.

- Special economic policies would be designed to assist small businesses and to remove existing impediments to their success. Special tax exemptions and incentives, a small business minimum wage policy, targeted procurement contracts, trade preferences and incentives, small business prime rates, etc., would be among the many possible economic policies which might be directed toward this sector.

- Finally, a host of special social policies would be a logical follow-on to the above changes. A government social responsibility policy could emerge around the particular problems of minorities, women, the poor and others in the small business sector. Special training programs, investment incentives, employment programs, etc., would be aimed at solving the unique social problems some groups face in the small business community.

None of the policies outlined above are unique to our thoughts since we purposely tried to include only those which are discussed widely among people concerned with the problems of small businesses. In
their context, all have convincing arguments in their favor and indeed we find ourselves supporting the intentions behind these recommendations. We are concerned, however, with the implications of taking these steps to formalize what already exists, even though the steps may be wholly worthwhile and seemingly inevitable. We see both advantages and disadvantages in these policies of which the following are worth mention.

The advantages to this policy response are many. First, it would focus attention and leadership on the problems of a sector where blind-spots have prevailed until now. Secondly, we would no doubt find a more sophisticated approach to directing the efforts of the public sector into this arena of problem solving. The problems of small businesses are not always parallel to those of the corporate giants, and it's time we recognize this in our public philosophy. Thirdly, we would be creating a more viable political force out of the small business community. This might have the effect of decentralizing economic and political power at a time when this seems to be a desirable goal of public policy. Finally, policies aimed at strengthening small businesses would inevitably reinvigorate the market system by which capitalism succeeds or fails. Most of the small business community operates in a highly competitive market system and to strengthen this arena of economic activity would seem also to decentralize economic decision making. All our research suggests that market forces are still viable in this sector and, properly tapped, can help to solve problems outside the public sector. No small achievement in these days when the public sector seems to be atrophied.
Such are the advantages. We find no fault, yet we feel the need to express two caveats. We are concerned about special privilege legislation even though its logic is sound and its purposes clearly understood. In general, those public policies that apply to all have worked better than those which extend only to the few. Whatever its faults, the Social Security system has a more enviable record than the more narrowly defined policies of the Great Society. Those concerned that American democracy has turned into a political supermarket, where all manner of special interests bring their shopping baskets to be filled from the trough of special interest group legislation, would have reason to question this manner of formalizing the two-tiered economy. The range of special privileged legislation concerning the small business sector would be limited only by the imagination of those who championed this cause. We question whether this type of creativity best serves the long-term interests of our political democracy.

Our second concern is a corollary of the first. Suppose we proceed along this legislative path? Would we now have in the making a crazy quilt of public interventions, all structured around the workings of a two-tiered economy, all seeming to create counteractive effects in our economic policy making? Would this create a nightmare for economic management or would it serve the purpose of releasing the forces of the market throughout our economy? We can see both possibilities, and the former is bothersome to say the least. We cannot predict the outcome of these events but we have sought to raise some issues we feel should be a part of the public debate as we head into the eighties and open our eyes to the problems of the small business sector. There is certainly room for caution here, room also for more deliberations before we enact our future.
Notes

1. See Business Week, September 3, 1979, pp. 2-212.


3. Ibid., pp. 11-14.


5. Ibid. We again quote widely from the excellent work of Furino, et al.