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Encouraging Microenterprise as a Workforce Development Strategy for

African American Ex-Offenders

by

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Encouraging Microenterprise as a Workforce Development Strategy for

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This report provides discussion and analysis regarding the viability of microenterprise as a workforce development strategy for African American ex-offenders. The inability of African American ex-offenders to obtain legitimate, living-wage employment in the formal economy is one of the most significant public policy concerns of our time. This report recommends self-employment as an approach for African American ex-offenders who have low-wage employment or a spouse who is employed full-time as a strategy for participation in the U.S. labor market. The research conducted includes an analysis of the conditions that have contributed to the disproportionate representation of African Americans in the nation's growing prison population. Furthermore, the education and training programs that are available to the men and women incarcerated in correctional facilities are identified. The report recognizes training and entrepreneurship programs that improve the skill sets of African American ex-offenders. This report also explores the current field of microenterprise programs that provide training and financing to microentrepreneurs. Additionally, the report explores the unfavorable market conditions experienced by African American entrepreneurs and the implications for black ex-offenders who are strong candidates for microenterprise. Six recommendations are offered to encourage microenterprise as a workforce development strategy for the African American ex-offender population.

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Chapter 1.

Impact of Criminal Justice Policies on African American Labor Market Participation

Introduction

The purpose of this chapter is to identify the criminal justice policies that contribute to the disproportionately large share of African Americans in the nation's prison population and determine how black ex-offenders are excluded from the formal labor market. The civil sanctions that plague many formerly incarcerated individuals following the completion of their prison or jail terms cause many ex-offenders to face barriers to employment in the formal labor market. Consequently, because of the disproportionate number of incarcerated African Americans, conservative crime response policies have weakened the black community economically by displacing and limiting employment opportunities for many African American men and women who have criminal histories.

In many instances, collateral consequences are imposed at the federal and state level as a public policy to restrict the participation of individuals with criminal history in civil society. Collateral consequences impact all aspects of civic life including voting, obtaining employment, marriage, and access to postsecondary education.

Access to good jobs is a major barrier for many formerly incarcerated individuals, particularly African American ex-offenders. Labor market participation is significantly low for members of the black community who do not have a criminal history.

Furthermore, the ability to earn a living-wage in the formal economy is affected by criminal history.

Exclusions from the formal economy among African American ex-offenders results in idleness, underground or illegal economic participation, or involvement in the informal economy. Informal economic participation leaves workers vulnerable to unregulated labor conditions. Unfortunately, it may be the only job opportunity for many ex-offenders who are unable to obtain living-wage employment in the formal sector.

The inability of many African Americans to obtain legitimate formal sector employment is one of the most significant policy concerns of our time. In order to make the nation's economy stronger, lawmakers and policy leaders should invest time and resources in developing innovative solutions to increasing the participation of African American ex-offenders in the U.S. economy.

Impact of Crime Response Strategies on the African American Community

Increases in crime rates during the 1970s resulted in a conservative approach to crime response policy. During this period, public officials experimented with the strategy of incarcerating offenders at high rates in an effort to deter crime. The effects of these policies are still being realized as they have introduced new social problems to American society by weakening communities.¹ Some criminologists have characterized this era of social control using the “theory of the stability of punishment” which suggests that a society develops a comfort level with a culture of punishment and, consciously or not,

conforms to adjust public policies to reflect desired outcomes.² Currently, the United States has the largest prison population of any nation in the world.

Policy strategies that have contributed to the growing prison population include three strikes policies, mandatory minimum sentences, and truth-in-sentencing laws. These policies have increased the average length of prison terms served since the mid 1970s³. The rate of incarceration grew by 500% from 1972 to 1997.⁴ If current trends continue, approximately 5 million people will be incarcerated by 2030, with another 10 million on probation or parole.⁵ State and federal government simply can not sustain that kind of prison growth under current fiscal constraints; the average annual cost of housing one inmate is \$36,000.⁶ In some communities, particularly communities of color, incarceration is a common life experience. Demographic estimates project that 32% of African American men born in the year 2001 will spend time in prison.⁷ America's conservative crime response strategy has created and magnified social injustice.

Over the last thirty years, the discretion of judges at the federal and state level has been minimized by legislative initiatives. During this period, lawmakers dominated sentencing reform policies which are often on the agenda as a part of "get tough" approaches to crime. Strategies during the conservative crime response era resulted in elected officials implementing legislation that impacted sentencing matters and limited approaches that deferred such matters to judicial discretion. The U.S. paradigm of social control has resulted in a tension between the congressional and judicial branches of government.

Responding to public and media frenzy over perceived increasing crime rates, lawmakers established measures that reduced the discretion of judges in an attempt to standardize and toughen sentencing policies such as three strikes, mandatory minimums, and truth in sentencing regulations.⁸ Sentencing reform was influenced by civil rights activists concerned with racial and class bias, social scientists' assertions that rehabilitative corrections programs reduced recidivism, proceduralist belief that the sentencing process should be subject to rules and procedures to improve fairness, and conservative support of tougher prison terms because they believed judges were too lenient.⁹ The crime response approaches were well intentioned efforts to deter crime. However, policymakers implemented these strategies without effective forecasting to determine exactly how they would impact prison resources. Furthermore, no determinations were made regarding the impact of increased incarceration strategies on communities. Consequently, increased incarceration rates necessitated a prison construction boom that has resulted in the largest inmate population in the world.

Crime response policies have largely focused on increasing the rate of incarceration as a strategy to maintain public safety and position lawmakers as "tough on crime". For example in 2003, Attorney General John Ashcroft ordered that federal prosecutors were to go for the maximum sentences in all cases¹⁰. These policy approaches have disproportionately affected the African American community. As in many other aspects of American life, race distinction shapes every aspect of the nation's criminal justice policies.

According to 2002 estimates, African Americans comprised 13% of the population in the United States¹¹. However, at the end of 2003 more than 44% of inmates under federal or state jurisdiction were African American men. Consequently, incarceration has become a common life experience for many African Americans, whether because of personal experience with incarceration or personal relationships with other individuals who have experienced incarceration.¹² Incarceration should not be an expected life course for any individual in the U.S. Additionally, it is clear that policies implemented throughout the criminal justice system contribute to high incarceration rates among African Americans.

Crime response policies disproportionately affect African American communities as a result of the concentration of blacks in low-income, center city neighborhoods. According to studies, arrest rates for black men can explain their large share of the nation's prison population.¹³ The strategies of police in their efforts to maintain public safety often target low-income areas with high crime rates; unfortunately African Americans are concentrated in many of these areas. Policing strategies can be considered as proactive or reactive approaches to crime response. In many instances, drug enforcement is proactive while responses to robbery and murder are reactive. Current crime approaches and sentencing policies contribute to the disproportionate high number of African Americans in prison. For example, large shares of African Americans are in prison because they handled crack, not powdered cocaine. As a result of mandatory sentencing policies at the federal and state level, many of these individuals are serving long prison terms. However, conviction rates are higher for whites who handle powdered

cocaine than for minorities.¹⁴ Convictions for cocaine possession result in short sentences. Crime response strategies are implemented in a manner that contributes to the high incarceration among African Americans. Regardless of intention, policymakers should recognize that their strategies have the potential to impact communities in particular ways.

Currently, one in five or 20% of black men have been in prison.¹⁵ The high incarceration rate among African Americans impacts their participation in the free community following their prison or jail terms. Periods of incarceration displace individuals who could contribute to the economic viability of the community through labor and consumption.

The strategies that have framed the last thirty years of America's criminal justice policies have affected many free communities as the nation's prison and jail populations have grown. Incarceration rates impact communities because offenders who are in prison have roles in their home communities that are not related to criminal behavior. Inmates participated in social networks in the free community as family members and engaged in social and economic relationships with other community members. The displacement of African American inmates from home communities affects social networks; in some minority communities, as many as 25% of young adult men are incarcerated at any given time.¹⁶ Incarceration weakens human capital in the African American community because periods of imprisonment disrupt the acquisition of education and advanced work skills.

Additionally, the policies that have resulted in high African American incarceration rates impact the way blacks participate in civil society.¹⁷ Census figures count prisoners where they are confined in prison, and not their home communities. Displaced prisoners can directly influence the apportionment of legislative districts. Urban voting districts are weakened since residents are relocated to rural districts, increasing the weight of the vote in rural areas although prisoners are not allowed to vote in many states; 48 states and Washington D.C. do not allow prison inmates to vote.¹⁸ The inability to vote among inmates despite their numbers being included in population counts that determine legislative representation is hypocritical and indicative of the inequity prevalent in the criminal justice system.

Furthermore, the distribution of federal funding is often based on population counts. Generally, communities with larger populations are eligible for a larger share of government resources. Also, people in prison tend to be minority, changing the racial demographics of the community they are incarcerated in, and can improve the host community's eligibility for formula grant allocations of government funding for programs intended to assist underrepresented minorities.¹⁹ The inclusion of inmates in the population counts of their host communities results in a situation where the interest of U.S. citizens are not being properly represented by elected officials and serves to further strengthen inequality.

Re-Integration of African American Ex-Inmates into Free Society

Significant increases in the nation's prison and jail populations means that more people than ever before have criminal histories. In 2003, the nation's federal, state, and local adult correctional population, incarcerated or in the community, increased by 130,700 for a total of 6.9 million. At the end of 2003, over 4.8 million men and women in the United States were supervised on probation or parole.²⁰ Additionally, approximately 14 million Americans have a felony conviction on their criminal record.²¹

The attempt of ex-inmates to participate in social, political, and economic events following their prison or jail sentence is called re-entry. Racial identity affects every aspect of re-entry including labor markets, welfare eligibility, and public benefit programs that need to be customized to specific communities depending on race. Criminal history is closely associated with low wages, unemployment, family instability, recidivism, and one's participation in civil society through restrictions on economic and civil rights.²²

Re-entry affects inmates who have completed their prison or jail sentences, and those who remain on probation or parole. It is important to distinguish between the different populations of ex-offenders because their participation in society may be affected by their criminal status.

Parole is defined as a period of conditional supervised release following a prison term. At the end of 2003, the adult parole population was 774,588. A large majority, 87% of adults on parole were male; while only 13% were female²³. Consistent with the

prison population, the number of African Americans on probation or parole is disproportionate to the number of blacks in the general population.

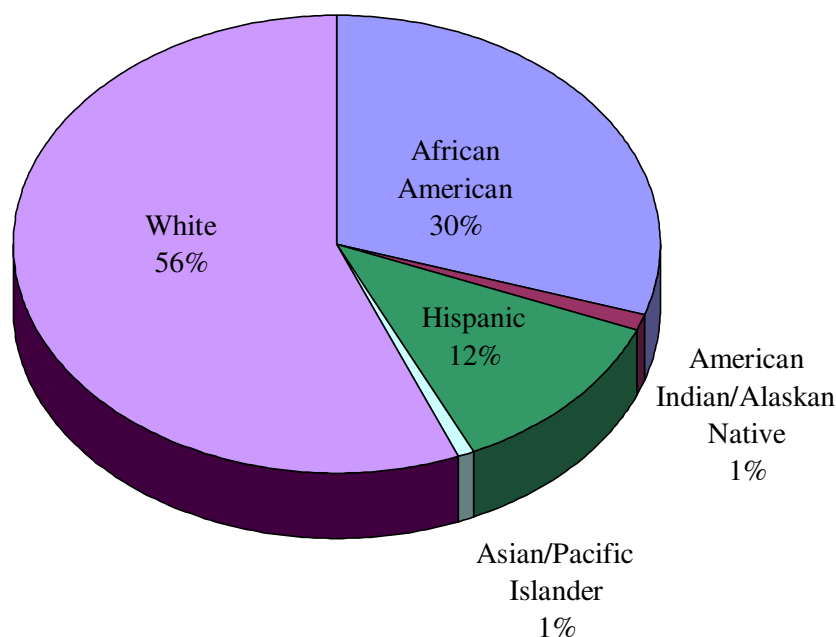
Table 1 Demographics of 2003 Parole Population

Characteristics of Adults on Parole	Shares of 2003 Parole Population
African American	41%
American Indian/Alaska Native	1%
Hispanic	1%
White	40%

Source: U.S. Department of Justice (DOJ), Bureau of Justice Statistics, Lauren Glaze and Seri Palli, Probation and Parole in the United States, 2003. Washington, DC, July 2004, pg.1

Criminal offenders who have been sentenced to a period of conditional supervision in the community are on probation. In 2003, approximately 2.2 million adults were placed on probation supervision; an increase of 100,600 entries to probation since 2002.²⁴

Figure 1 Demographics of 2003 Probation Population



Source: U.S. Department of Justice (DOJ), Bureau of Justice Statistics, Lauren Glaze and Seri Palli, Probation and Parole in the United States, 2003. Washington, DC, July 2004, pg. 4.

Large shares of African Americans under supervision or incarcerated means that a significant part of the black community is unable to fully participate in U.S. civil society by working or participating in the political process.

Participation of African American Ex-Offenders in U.S. Civil Society

The collateral consequences imposed by law make it difficult for African American ex-offenders to participate in civil society. In addition to serving prison or jail terms and complying with the terms of probation or parole countless ex-offenders experience civil punishment. Many civil punishments were adopted as a part of the nation's efforts in its war on crime, Congress and state governments implemented legal restrictions on ex-offenders to make their re-entry into society more difficult.²⁵ Civil

punishment happens outside of the standard sentencing framework and is usually a legal imposition rather than a consequence of criminal status.²⁶

Legal sanctions affect ex-offenders in all aspects of civil society including employment, voting, welfare benefits, and access to education. Many ex-offenders do not have voting rights; in states like Maryland and Mississippi ex-offenders are banned for the remainder of their life from voting even if they have completed their sentence and successfully complied with the terms of supervision.²⁷ Additionally, welfare reform measures implemented in 1996 under the Temporary Assistance for Needy Families Act prevent many ex-offenders from public benefit programs. Access to postsecondary education is limited by the Higher Education Act of 1998 which disallows student loan, grant, or work assistance eligibility for students convicted of drug offenses.²⁸

Consequently, ex-offenders are often in an in between status where they are in the free community but unable to fully participate as citizens because of legal restrictions. Collateral consequences that restrict civic participation produce a permanent underclass. Therefore, it is very difficult for ex-offenders to successfully transition into the free community if they can not obtain living-wage employment or participate in other aspects of society.

Impact of Collateral Consequences on Black Participation in the U.S. Labor Market

African American men with criminal histories experience fewer years of educational attainment, higher unemployment rates, lower wages, and annual earnings.²⁹

Furthermore, criminal history weakens human capital in the African American community because periods of incarceration disrupt education and work skill attainment. One of the most significant barriers that many low-income African American ex-offenders face is the exclusion from the formal labor market. Most states exclude ex-offenders from participating in certain occupations such as barbers, health care workers, and teachers.³⁰

Difficulty in obtaining employment exacerbates economic inequality among the former inmate population. The barriers that formerly incarcerated individuals face when trying to reenter the free community affect all aspects of their participation in the formal economy. The formal economy is defined as economic activities that occur within the regulated economy and comply with official record keeping and transactions.

Exclusion of Ex-Offenders from Formal Economy

An examination of the participation of formerly incarcerated individuals in the U.S. labor market clarifies the inequity and civil rights violations that men and women with criminal history face on a regular basis. Regardless of criminal history, U.S. citizens must have the right to earn a living-wage income in this nation.

The historic racial discrimination that is a part of the American social context further compounds the problems that many of the formerly incarcerated face in attempting to obtain employment since there is a disproportionate number of African Americans who have been incarcerated in the federal and state prison systems. Additionally, of the black men and women who have been incarcerated, many of them

are economically disadvantaged and have limited education and marketable work skills. Criminal history exacerbates the problem of obtaining employment for this population. In order to participate fully in American society, black men and women with criminal histories must be able to contribute as economic consumers and producers through stable employment and earning living-wages. However, exclusion from the formal economy through occupational bars in many states makes economic participation difficult.

African American Labor Market Participation

Imprisonment conceals economic inequality by excluding the large number of poor African Americans from official shares of the formal U.S. labor market.³¹ This is troubling since without considering employment, black men participate in the work force at lower rates than white men. In 2005, black men participated in the civilian labor force at a rate of 63% compared with 66% for white men, although black women participated at a rate of 62%, a higher participation level than white women at 60%. Generally, the unemployment rate is higher among African Americans at 11% than for whites at 5%.³²

Table 2 2005 U.S. Labor Market Characteristics

Demographic Group	Rate among demographic of participation rate in labor force.	Unemployment rate among demographic.
African American	63%	11%
Hispanic	68%	6%
White	66%	5%

Source: U.S. Bureau of Labor Statistics, Employment Situation Summary, (March 4, 2005). Online. Available: <http://www.bls.gov/news.release/empstat.nr0.htm>. Accessed. March 26, 2005.

These employment statistics do not take incarceration rates into consideration, thus labor market counts overstate the actual rate of employment.³³ The unemployment

rate among ex-offenders is estimated to be between 25% to 40%.³⁴ Consequently, the rate of unemployment among African Americans is probably higher than the reported 11% since blacks are disproportionately incarcerated.

Without considering incarceration the employment ratio among young African American men is very low compared to young white men. In 2003, men aged 20 to 24 participated in the U.S. labor market at a rate of 56.2%.³⁵ Historically, African Americans have experienced significant declines in participation in the U.S. labor market compared to other demographic groups.

**Table 3 Percent Change in Employment Participation
16 Years and Over³⁶**

Demographic	2000	2005	Percent Point Change
Black	60.0%	56.8%	-3.2%
Hispanic	66.3%	63.5%	-2.8%
White	65.2%	63.3%	-1.9%

Source: U.S. Department of Labor, "Access to historical data for the "A" tables of the Employment Situation News Release," (February 7, 2003) Online. Available at <http://www.bls.gov/cps/cpsatabs.htm>. Accessed March 30, 2005.

At all age groups, African Americans experience lower rates of labor market participation than Hispanic or white communities. Additionally, there are a significant number of young African American men who do not participate in the work force at all and are considered idle. Individuals who were not employed at any point during the calendar year are defined as year-round idle.³⁷ These figures only consider labor market statistics reported by the U.S. Census Bureau which excludes the incarcerated population. Therefore, if incarceration rates were taken into account, the idleness rate would increase for each demographic group, but more so for African Americans.

**Table 4 Year-Round Idleness Rate for
Nation's 20-64 Year Old Men**

Demographic	2000
African American	21%
Hispanic	12%
White	10%

Source: Center for Labor Market Studies (CLMS), "Trends in Black Male Joblessness and Year-Round Idleness: An Employment Crisis Ignored," prepared by Andrew Sum et al., (Chicago, Illinois, June 2004), pg. 14-15.

Economic Disparity in the U.S. Economy

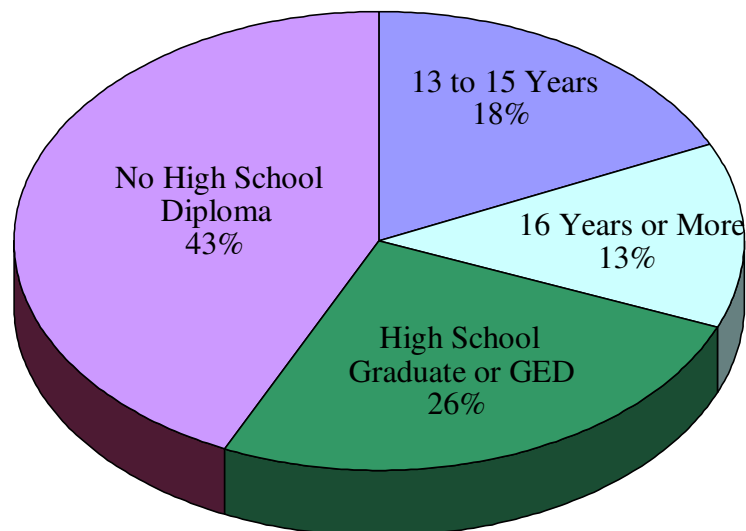
Evaluating the income of African Americans indicates further economic disparity in the formal U.S. economy. High rates of incarceration and idleness among African Americans means that significant segments of the population are not contributing to reported income. In 2001, 33% of black families had annual incomes greater than \$50,000, compared with 57% of white families.³⁸

The high rate of participation among African Americans in the prison population compared with the demographic characteristics of the free community strengthens labor and economic inequality in the U.S. and reinforces income disparities between black and white men because more black men have criminal histories.³⁹ Under the current system, men and women with criminal histories are likely to be adversely impacted in all attempts at labor market participation in the U.S. economy. Even if formerly incarcerated individuals do find employment, there is a significant impact on future earnings which has been found to be as much as 30% lower than colleagues in the same sector with similar work histories. Businesses that are willing to hire formerly incarcerated persons usually offer low-wage employment and few benefits such as health insurance or child care.⁴⁰ Currently, a strategy among policymakers is to improve educational attainment among the ex-offender population as an approach to increase participation in living-wage employment in the formal economy.

Education as a Strategy for Workforce Development among the Ex-Offender Population

Formerly incarcerated individuals often have limited education and poor work histories that weakens job opportunities. Other barriers to employment include problems with substance abuse, mental health issues, racial background, concentration in poor central city neighborhoods that are removed from job growth, and weak employment histories. Qualifications for job opportunities vary among employment sectors but usually require basic skills such as reading, writing, math, and use of computers.⁴¹ Education is an important factor in reducing the year-round idleness rate among African American men. In 2002, the less education a black man received the more likely he was to be idle.

Figure 2 Percent of Year-Round Idleness of African American Men Age 20-64 by Educational Attainment



Source: Center for Labor Market Studies (CLMS), "Trends in Black Male Joblessness and Year-Round Idleness: An Employment Crisis Ignored," prepared by Andrew Sum et al., (Chicago, Illinois, June 2004), pg. 20.

The collateral consequences that impact the ability of ex-offenders to access postsecondary educational opportunities exacerbate skill and education deficits prevalent in the African American community. Black men with low levels of education are largely concentrated among the nation's federal and state prison populations. As the U.S. economy continues to shift from manufacturing to services, it is even more important that low-income, low-skilled individuals in the ex-offender population have access to education in order to strengthen their employment opportunities. Unfortunately, as state and federal budgets have declined many educational and vocational programs targeted to ex-offenders have been terminated or have limited capacity. The barriers to accessing postsecondary education that many ex-offenders experience means they will find it very difficult to obtain living-wage employment opportunities as the economy changes. It is difficult to imagine how low-income ex-offenders can acquire marketable skills in the shifting workforce if they have limited access to postsecondary education.

Changing Economy will Further Weaken Job Opportunities for Ex-Offenders

Currently, there is a decline in demand for low-skilled labor. Technological advances such as high computer use are displacing unskilled workers and producing job opportunities for workers with high levels of education and advanced skills. Technology has facilitated an internationalization of certain economic activity and increased competition among low-skilled workers in the U.S. among workers in other regions of the world.⁴³ Increased job competition and globalization contributes to the displacement of unskilled jobs available to African American ex-offenders. Furthermore, as the demographics of the U.S. change, new immigrants will compete with African Americans

for low-skilled jobs. The labor force participation of low-skilled African Americans who may or may not have a criminal history is vital to the economic stability of black communities throughout the nation.

Today, U.S. workers are expected to have different skill sets that require education and the mastery of basic cognitive abilities. In order to improve the employability of ex-offenders lawmakers and other stakeholders should develop creative solutions that increase the participation of this population in the nation's work force. Increasing labor market participation ultimately benefits the community by improving public safety and increasing tax revenue for government programs and services.

In order to improve employment opportunities, one must acknowledge the inherent biases and collateral consequences that may prevent an ex-offender from obtaining employment. Improving employment opportunities for formerly incarcerated individuals is paramount for public safety and reducing recidivism. Stable employment helps ex-offenders be productive citizens, take care of their families, develop valuable life skills, strengthen self esteem, and develop social networks that can lead to legitimate employment.⁴⁴

Factors Preventing Living-wage Employment

Many issues prevent formerly incarcerated individuals from obtaining living-wage employment. A person's criminal conviction or even arrest causes many to have a social stigma that they can not easily avoid when attempting to obtain employment.⁴⁵ In most instances, employers are allowed by the law to let their biased views towards ex-

offenders impact whether or not they choose to hire persons with criminal histories. Generalizations are factored into hiring decisions and a job applicant's credentials are often defined by personal qualities such as honesty, reliability, and maintaining a regular work history.⁴⁶ Legal and technological advances give employers access to job applicant's backgrounds and facilitate discriminatory practices in hiring decisions. Most states make criminal history information accessible to the general public.⁴⁷ These barriers are difficult to navigate if a person has a criminal history and limited social capital so that they can avoid discriminatory practices in the job market. Crime response policies influence the African American community to a significant degree. As a result, it is difficult for black ex-offenders to develop and maintain social networks not impacted in some way by the criminal justice system.

In addition to obtaining employment, legal barriers may prevent arrested and formerly incarcerated individuals from obtaining occupational licenses and certifications needed to maintain employment in their career field. Thirty-seven states have laws allowing all employers and occupational licensing agencies to ask about and consider arrests that never led to convictions in making employment decisions.⁴⁸ Additionally, some unions exclude formerly incarcerated individuals from becoming members.⁴⁹ Consequently, ex-offenders may discover career advancement and developing social networks difficult.

Formerly incarcerated individuals may also find it hard to meet certain job requirements such as obtaining bonding insurance which protects the employer against

negligent or criminal activities committed by employees. Ex-offenders may be permanently excluded from a job opportunity if the employer is unable to be bonded against theft or other liabilities.⁵⁰ The exclusion from job opportunities forces many ex-offenders to obtain employment in non-traditional labor markets. Strategies are needed to include formerly incarcerated individuals as economic producers. Criminal history should not prevent ex-offenders from earning a living in the U.S. economy. Indeed, if stakeholders were truly concerned about public safety, they would develop solutions to reduce recidivism by reforming policies that prevent ex-offenders from earning sustainable wages; it is widely recognized that stable employment can reduce recidivism among ex-offenders.

Facilitating the economic participation of African American ex-offenders will strengthen the black community and human capital by allowing these individuals to participate as economic producers and consumers.

African American Ex-Offender Participation in the Informal Economy

Many ex-offenders are idle or employed in the informal economy because they are essentially excluded from the formal labor market. The informal economic sector is broadly defined as economic activities that occur outside of the regulated economy and typically do not comply with official record keeping and regulation.

Large shares of formerly incarcerated individuals participate in this sector because of their inability to obtain formal employment due to criminal history, limited education, or minimal marketable skills. Others value the dependence of working in informal

environments and the ability to control their participation in the economy. Common elements of the informal sector include the exchange of cash rather than paychecks for services, payroll statements, or credits to avoid creating a record of activities.⁵¹

Typically, informal economic transactions are characterized as “off-the-books” or “under-the-table”. It is important to distinguish the informal economy from the underground economy which is illegal and involves distinct economic transactions including criminal activities such as selling drugs and dealing in stolen goods or prostitution.⁵² Lawmakers and stakeholders should undertake measures to reform the systemic and discriminatory practices that force many ex-offenders to obtain employment in the informal sector.

The informal employment sector is typically viewed as an inferior alternative to the formal labor market. The sector is considered inferior because of low wage earnings, unstable job security, and vulnerability to worker exploitation. Additionally, while working in the informal economy ex-offenders are not earning social security benefits, and are ineligible for worker’s compensation or unemployment insurance since there is no official record of employment to file with state or federal authorities.⁵³ Informal economic participation may not be an acceptable form of employment for many ex-offenders who are monitored by supervision and have to comply with the terms of probation or parole. The absence of record keeping makes it difficult for ex-offenders to prove that their income was earned in a legitimate albeit informal manner.

Barriers such as legally sanctioned employer discrimination, limited opportunities to advance education and work skills, and weak social networks impact the ability of formerly incarcerated individuals from obtaining legal employment in the formal sector of the U.S. labor market. Typically, people who are employed in the informal sector experience frequent periods of unemployment compared to individuals employed in the formal work force. According to dual labor market theory, good jobs are usually found in the formal labor market while bad jobs characterize the informal sector. Formal employment has the advantages of sustainable wages, employment benefits, and opportunities for job advancement. The informal sector is characterized by what many consider to be bad jobs that typically offer low wages and no benefits.⁵⁴ In addition to reforms that should be undertaken to improve labor market opportunities for ex-offenders, new and innovative solutions should be developed to allow formerly incarcerated individuals to participate in civil society as economic consumers and producers.

Conclusion

The inability of African American ex-offenders to obtain legitimate, living-wage employment in the formal economy is a systemic public policy problem. Barriers to economic participation do not only affect the ex-offender but the entire African American community and the entire nation. Criminal history weakens human capital in the African American community because periods of incarceration disrupt education and marketable skill attainment. Limited job opportunities and the ability for education and workforce advancement diminish human capital and social networks among African American ex-

offenders. Creative solutions should be developed by lawmakers and public policy officials to correct the systemic barriers that prevent African American ex-offenders from participating in the economy as producers and consumers. One viable solution is the encouragement of self-employment as an avenue for labor market participation among ex-offenders; this solution will be explored in later chapters. Additionally, if informal sector participation is the only opportunity available to some African American ex-offenders, informal sector participation should be recognized as a viable workforce option. In assessing the ability of African American ex-offenders to participate in the formal and informal labor markets, policymakers should recognize what education and training programs are available to ex-offenders.

Notes

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Chapter 2.

Education and Training Programs in Prisons and Jails

Introduction

In many African American communities throughout the nation spending time in prison or jail is an expected life course. In the year 2000, on any given day approximately 10% of all African American men were in prison or jail.¹ Criminal history impacts the ability of ex-offenders to participate in society as economic consumers and producers long after they have completed their prison or jail sentence and paid their debt to society.

The purpose of this chapter is to identify how federal and state level correctional facilities implement programs that prepare inmates for the workforce as a part of prisoner reentry strategies. Identifying these programs raises awareness among stakeholders about the opportunities that actually available to inmates as they prepare to reenter the labor market after release.

The significant numbers of prisoners incarcerated in prison or jail facilities are not being effectively prepared for the workforce following incarceration because of limited resources, lack of standards for education and workforce preparation training, and outdated workforce training approaches.

Facilitating the economic participation of individuals with criminal history in the formal economy is an important strategy to maintaining public safety because there is a

correlation between reducing recidivism among ex-offenders and obtaining stable, living-wage employment.

Incarceration is a federal, state, and local level responsibility. At the federal level, there are a limited number of programs that provide inmates with the necessary skills to obtain employment after incarceration. The largest numbers of inmates are incarcerated in state correctional facilities. States such as New York, Texas, and Washington have developed programs to prepare inmates for the workforce as a part of reentry strategies. Stakeholders recognized that providing offenders with the necessary skills to obtain legitimate employment are effective approaches to reducing recidivism and maintaining public safety. Public policies were implemented both to improve the supply-side of the ex-offender labor population and to increase demand for the services of this subpopulation.

Ex-offenders continue to experience significant barriers to employment because of inadequate social capital, limited education and poor work history, and the accepted and often legally sanctioned bias against this subpopulation.

Workforce Preparation Services for Inmates

Legislators and policymakers concerned with criminal justice issues recognize that a key strategy in reducing recidivism is ensuring that ex-offenders find legitimate, living-wage employment so they do not return to criminal activity. Preparing inmates for reentry into the community is the responsibility of correctional facilities that are also

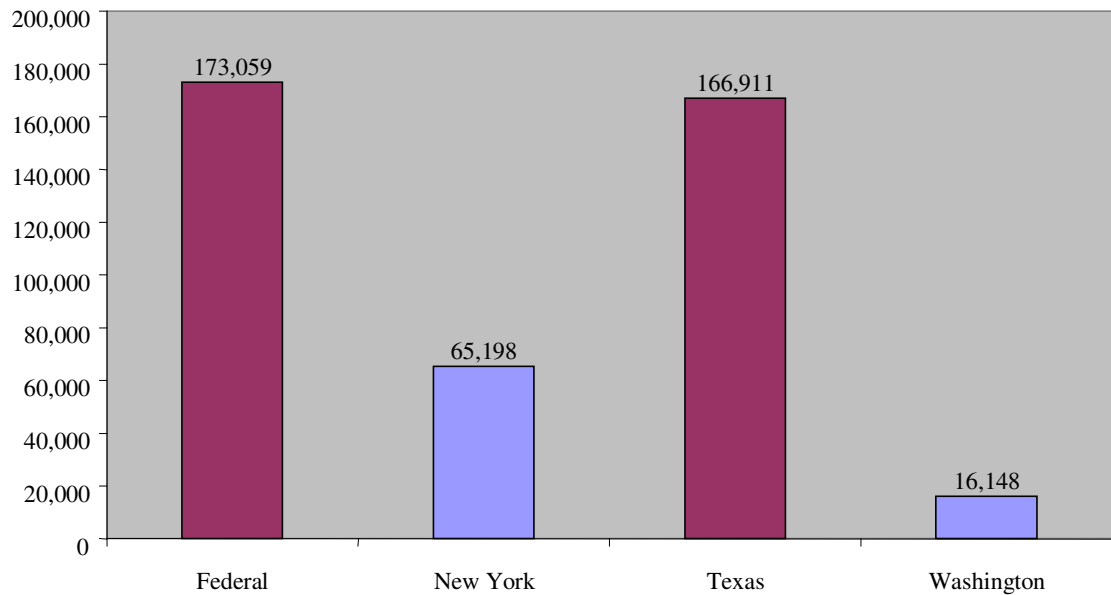
charged with maintaining safety and rehabilitating prisoners of the criminal behavior that caused their imprisonment.

State and federal funding is limited for inmate education and workforce preparation initiatives. Funding programs for this population is balanced against other demographic interests and agendas. It is widely agreed among stakeholders that providing the ex-offender population with the necessary workforce skills and education in order to obtain legitimate, living-wage employment is a critical strategy in reducing crime and minimizing the nation's prison population.

Workforce Preparation Strategies for Ex-Offenders

The vast majority of incarcerated offenders are in state prison and jail facilities. In 2003, the total incarcerated population in the United States was 2,212,475 million men, women and juveniles.²

Figure 3 Selected Jurisdiction Prison Populations



Source: U.S. Department of Justice (DOJ), Bureau of Justice Statistics, Paige M. Harrison and Allen J. Beck, *Prisoners in 2003*. Washington, DC, November 2004, pp 1-3.

There are several strategies at the federal level to prepare ex-offenders for the workforce following incarceration. Historically, the objective of the Federal Bureau of Prisons (BOP) is to provide inmates with a sixth grade reading level, high school equivalency for offenders with average intelligence, treatment for undesirable character traits, and marketable skills. It is widely believed that most offenders are not able to function in society if they cannot adequately read or write, possess undesirable character traits, and do not have the skills necessary to obtain employment.³ There is a significant correlation between lack of educational attainment and incarceration. A 1997 report found that 68% of prison inmates had not received a high school diploma. Additionally, by 1999 while 10% of white male dropouts had prison records, 52% of black male dropouts were reported to have a criminal history.⁴ In a nation where secondary

institutions are not effectively preparing students for the workforce, it is difficult to imagine that inadequately funded prison facilities are capable of such preparation.

The resources that are available allow facilities to provide classes in adult basic education, high school equivalency, and college level education. Facilities also provide inmates with selected job training and depending on the facility may offer in vocational training courses, or inmates can be assigned to jobs involving the maintenance and operation of prison facilities.⁵

Typically, job training in federal prison facilities focus on unskilled labor such as manufacturing canvas goods or shoe manufacturing.⁶ Prison training opportunities usually involve activities needed to sustain the facility including assisting in the production inmate clothing, bedding, and facility maintenance. Offenders assigned to work details in prison facilities are not given the opportunity to learn marketable skills because their time is occupied by unskilled chores including food preparation, janitorial services, and grounds and facilities maintenance.⁷ Limited opportunities are available for incarcerated inmates to acquire skilled training because inmate labor is needed to contribute to facility needs.

Many of the programs currently implemented in federal and state prison facilities are work programs rather training programs.⁸ The majority of ex-offenders are only prepared for the labor market through the work experience they gain while incarcerated and certain restrictions, such as preventing computer training because of public safety concerns, stop inmates from learning marketable skills. Additionally, the work opportunities in many prison facilities do not have comparable positions in the private

sector, and facilities often use out dated machinery and manufacturing techniques that are not compatible with those found in the free community.⁹ It is important to recognize that while putting inmates to work in jobs that meet the needs of the prison facility, prisoners are not necessarily prepared for available jobs in the labor market upon release.

An enterprise operating in the federal prison facilities is Federal Prison Industries (FPI), an organization that operated 100 factories in the nation's federal correctional institutions during 2003. The mission of FPI is to employ and provide job skill training to as many inmates as possible to help them prepare for a productive, crime-free return to the community after release, contribute to the safety and security of federal prisons by keeping inmates constructively occupied, produce market-priced quality goods and services for sale to the Federal government, and operate in a self sustaining manner. At the end of 2003, FPI factories employed 20,274 or 19% of all inmates incarcerated in federal facilities.¹⁰

Research suggests that it is extremely difficult for ex-offenders to find employment once these men and women have completed their prison sentence. According to some studies, an inmate's age and education level have little impact on labor market success.¹¹ Ex-offenders are less likely to work in professional occupations and more likely to work in manufacturing, construction, and the informal labor market at lower wages.¹² Job opportunities for ex-offenders are very limited and are typically concentrated in sectors such as manufacturing that the U.S. Department of Labor agrees are losing significant shares in the nation's economy.

The programs that characterize many workforce preparation strategies in federal prison facilities follow current approaches that apply a “work-first” model rather than an emphasis on training. The concentration of many offenders in poverty necessitates a focus on strategies that encourage labor market participation among low-income adults. The strategy requires low-income adults to find employment immediately rather than allowing them first to develop the skills that might lead to better paying jobs that offer living-wages, benefits, and opportunities for stable employment and job advancement. Policymakers apply this approach on the assumption that the path to economic self sufficiency is best pursued by getting low-income adults into jobs as quickly as possible rather than allowing them to develop occupational skills that can help them obtain a living-wage.¹³

The current approaches of work programs are inconsistent with prison administrators and policymakers who agree that effective skills training can increase the earning potential of low-income offenders by improving skill sets that will offer higher wages or jobs that offer more stable employment. According to the U.S. Bureau of Labor Statistics, workers who increase skill level will increase their income earnings. Additionally, the jobs available to low-income workers with advanced skill sets increase worker’s real compensation through employer paid benefits such as health insurance and minimize the reliance on public benefit programs.¹⁴

Education Policies for Inmate/Ex-Offender Population

Currently, it is widely accepted that improving the education level of ex-offenders should improve labor market skills and lead to a path of sustainable employment. However, the inmate population is considered one of the most educationally deprived in the country. Inmates who return to the community following the completion of their prison sentence need basic education, marketable skills, and social skills to obtain employment.¹⁵

In the federal prison system, inmate education and workforce preparation programs are administered by the office of Inmate Programs and Services. The 2004 strategic objective for this office included providing productive work, education, occupational training, and recreational activities to prepare inmates for employment opportunities, facilitate successful reentry upon release and contribute safety in correctional facilities by reducing inmate idleness.¹⁶

An issue of great concern in prison facilities is the lack of standards with regards to appropriately classifying and placing inmates in educational and occupational programs. Classification should allow prison administrators to determine an inmate's education level and prior work history so that an appropriate program of study can be recommended. However, inadequate inmate classification and counseling systems in prison facilities may contribute to the fact that inmates are not completing educational and occupational programs and not gaining skills that will lead to employment in the community. For example, a General Accounting Office (GAO) study of the educational

classification of inmates in federal facilities found that some inmates were not appropriately tested for IQ or aptitude and that the subsequent educational recommendations were not appropriate. Specifically, one inmate who admitted to not completing high school was recommended to enroll in adult basic education and in postsecondary education even though he received no testing to determine his educational aptitude.¹⁷

Despite the acknowledged approach of focusing on education for the inmate population, prison facilities must direct limited resources to maintaining safety through preventing violence and escapes and satisfying the basic needs of inmates.¹⁸ Additionally, the growing prison population over the last thirty years limits the opportunities offenders have for improving their employability and increases the demand for available jobs in prison facilities that are recognized as viable strategies to gain work experience. The availability of vocational and educational programs is typically limited in overcrowded prison facilities.¹⁹

The majority of programs available to inmates in prison facilities are not effectively managed because of disparities in educational curriculum and lack of education standards in the various prison facilities. In many instances, curriculum materials such as student text books and teaching guides vary depending what facility an inmate is housed in. Consequently, if inmates are enrolled in a high school equivalency program and transferred to another facility, there is no guarantee that the inmate will maintain their education with continuity. Additionally, program enrollment and graduation/completion requirements are not standardized in the federal prison system.²⁰

Preparing inmates for reentry into the free community is critical to maintaining public safety. It is widely agreed among stakeholders and confirmed in social science research that stable, living-wage employment reduces recidivism rates among nonviolent offenders. A program based in New York City that provides direct services to ex-offenders including employment has a recidivism rate of 6.6%, while the city wide statistic is reportedly 16%.²¹ Federal prison facilities try to meet this need with the resources available.

In 2003, only 35% of federal inmates were enrolled in one or more education programs on any given day, while the participation rate for female inmates was 46%. Approximately 21,000 inmates were enrolled in the BOP's General Education Development (GED) program during 2003, while more than 5,000 inmates completed their GED. The BOP managed 325 occupational training programs, 514 apprenticeship programs, and 158 advanced skills training programs. Yet, on any day during 2003, only 10,000 inmates are reported to have participated in occupational or apprenticeship training programs.²² It is clear that administrators and policymakers are on some level committed to providing inmates with the necessary skills necessary to reenter the free community and obtain stable, living-wage employment. Yet, limited government revenues, the nation's changing economy, and the ever increasing prison population make it very difficult to meet the demand necessary to regularly and effectively prepare inmates for the labor market.

Strategies to Improve the Employability of Offenders

Currently, there are policies and programs at the federal level meant to improve the employability of ex-offenders and prepare inmates for the workforce following the completion of their sentence. These strategies include tax incentives and insurance policies to encourage the demand for ex-offender labor while inmate programs improve the supply side of formerly incarcerated job seekers.

Strategies to improve the ability of ex-offenders to obtain employment are done through a variety of programs at the federal level. During 2003, the BOP organized 102 job fairs in seventy five federal prisons in an effort to introduce inmates to prospective employers. Approximately, 3,000 inmates and 1,100 company recruiters and local agency staff participated in these fairs. Since beginning in 1996, the Inmate Placement Program has facilitated the participation of more than 12,000 prisoners in mock job fairs as a strategy to develop interview and job search skills.²³ Currently, the number of prisoners housed in federal prison facilities is over 184,000.²⁴ Therefore, only 7% of prisoners participate in the Inmate Placement Program resulting in an overwhelming majority of federal inmates being ineffectively prepared for the labor force upon release.

Prison facilities are limited in their ability to prepare inmates for a labor force that excludes them because of outdated and inefficient workforce and educational strategies, employer bias, and legal restrictions that prohibit ex-offenders from working in certain occupations. Consequently, elected and appointed officials implemented public policies

that serve to encourage the demand for ex-offender labor. These strategies include federal and state tax programs and the federal bonding program.

Two federal tax programs, Welfare-to-Work tax credits and Work Opportunity Tax Credits, were implemented to encourage the hiring of employees with criminal histories as an economic development strategy. Welfare-to-Work tax credits provide employers with \$8,500 per qualified individual.²⁵ Work Opportunity Tax Credits were implemented to encourage private employers to hire eight targeted groups of job seekers including ex-offenders. The maximum credit available is \$2,400 per eligible new workers. Employers who are willing to train and provide work experience to ex-offenders may be eligible to receive funding through the Workforce Investment Act including on the job training.²⁶

In addition to federal tax incentives, there are policies at the state level. Several states – California, Louisiana, Maryland, and Iowa – provide state income tax credits to employers who hire people with criminal records. In California, any employer who hires an ex-offender may be eligible for a state tax credit including 50% of qualified wages in the first year of employment. Additionally, in Louisiana a \$200 per taxable year credit is available per employee for employers who provide fulltime employment (at least 30 hours per week) to an individual who has been convicted of a first time drug offense and who is less than 25-years of age at the time of initial employment.²⁷

Bonding programs at the federal level are meant to encourage the demand for ex-offender labor by minimizing the liability to employers for hiring employees with criminal histories. The Federal Bonding Program was established in 1966 by the U.S.

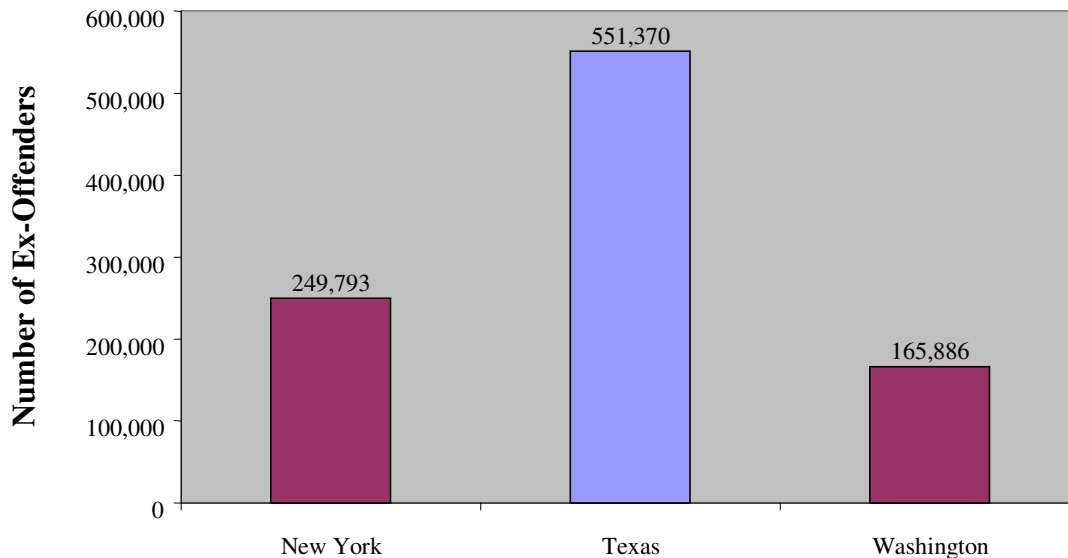
Department of Labor. The program serves as a job placement tool by guaranteeing to employers the job honesty of “at-risk” hard-to-place job applicants. Bond coverage is usually \$5,000 with no deductible amount of liability for the employer. The bond does not cover liability due to poor workmanship or work-related injuries. All jobs are bondable in private and public sectors for full and part-time positions and jobs obtained through temporary agencies.²⁸

Despite public policies meant to encourage demand for ex-offender labor and workforce programs that prepare inmates for working in the free community, tremendous barriers continue leave a significant share of the ex-offender population unemployed. The unemployment rate among ex-offenders is estimated to be between 25% to 40%.²⁹

State Models that Prepare Inmates/Ex-Offenders for the Labor Force

While the BOP manages the care of over 184,000, criminal justice is for the most part a state-level responsibility since the majority of the nation’s 2.2 million prisoners are under the jurisdiction of state prison and jail facilities. It is the responsibility of each state to provide correctional services to inmates in an attempt to maintain public safety. Additionally, many states provide continued job placement services as a means to maintain rehabilitation and prevent recidivism. As a result, state prisons and jails are responsible for preparing the 600,000 inmates released nation-wide into the community each year.³⁰ Three states New York, Texas, and Washington implement programs that are recognized as national models for inmate preparation for working in the free community after release.

Figure 4 Population under Supervision in the Community*, 2002



Source: Lauren Glaze, "Probation and Parole in the United States, 2002," Bureau of Justice Statistics (August 2003,) pg. 3-5.

*2002 statistics for offenders on probation and released on parole.

New York's Center for Employment Opportunities

New York City's Center for Employment Opportunities (CEO) was created in 1978 by the Vera Institute of Justice. CEO provides transitional employment immediately after release, and works in collaboration with the New York State Division of Parole, New York State Department of Corrections, and the City Department of Probation for adult and youth.³¹

Government initiatives to encourage ex-offender participation in the labor market began with the passage of the Manpower Demonstration Act of 1962. The legislative

initiative led to the creation of hundreds of employment and training programs for offenders and ex-offenders. CEO operates as a human resources department, screening applicants for prospective employers in the New York City area. CEO's overall mission is to place ex-offenders in permanent, unsubsidized, full-time jobs that provide benefits and compensation above minimum wage.³²

CEO offers its services in seven states. The CEO model is based on providing inmates and ex-offenders with job readiness training, meetings with job counselors, paid transitional employment, job development, job placement, post placement services, and support services for employees and employers.³³ Prior to release, CEO offers the Employee Driven Skill Building Project that is a collaboration between the organization, employers, and community college training providers to develop skill building curriculum then scheduling the delivery of coursework to coincide with immediate paid and transitional work.³⁴

Following release, CEO offers short term minimum wage employment for participants in its Vocational Development Program. CEO crews work in maintenance, repair, and sanitation jobs for dozens of government facilities in the New York City area. CEO currently coordinates about 35 to 40 work crews with 5 to 7 members each. Work crew tasks include polishing floors, emptying trash, clearing debris from construction sites, and highways, and maintenance of city-owned housing facilities. Full time supervisors direct each crew and instruct proper use of tools, equipment, and materials. Supervisors manage work sites as employment labs, helping to prepare participants to join or rejoin the workforce.³⁵

CEO provides customized job coaching and support services to program participants. Job coaches are available for intensive counseling for struggling participants, conflict mediation, obtaining clothing, food vouchers, housing, banking services, childcare and health care referrals. Bilingual services are also offered in Spanish, Russian, and Chinese. Post placement services are provided for a minimum of 12 months following release and subsequent job placement. CEO employment counselors regularly check with employees and employers by phone. According to CEO, close supervision facilitates quick resolution of conflicts or difficulties and reinforces new employee confidence and determination. When necessary, counselors make additional work site visits or meet with participants' assigned correctional officer.³⁶

According to CEO, program graduates typically qualify for starting pay above minimum wage; some graduates earn up to \$15 per hour depending on their experience and education level, although the average rate earned by CEO graduates is \$8 per hour. Approximately 30% of CEO's partner employers provide health insurance. CEO has placed graduates in jobs that include electrician's assistants and furniture assemblers. According to CEO, within two to three months, 60% of participants are placed in full-time jobs. CEO specializes in finding jobs in the industries of customer service, food preparation, and semi-skilled trades. CEO has placed participants with over 150 public and private-sector employers; many are repeat hires.³⁷

Texas' Project Re-Integration of Offenders

The state of Texas established Project Re-Integration of Offenders (RIO) in 1985 with the mission of placing parolees in jobs. The program is one of the state's primary initiatives to reduce recidivism and is collaboration between the Texas Department of Criminal Justice (TDCJ) and the Texas Workforce Commission (TWC). The program provides specialized employment services to ex-offenders in order to facilitate reentry.³⁸

Project RIO provides job preparation services to inmates while they are still incarcerated and after they have completed their prison sentence. Demand for RIO services exceeds the supply of workforce specialists; each averages a caseload of 530 adult inmates. Increasing prison population and declining state revenues have resulted in reductions in Project RIO staffing and resources. Current increases in incarceration and release rates have resulted in increased demand for RIO services. Consequently, RIO targets its resources to inmates 35 years or younger within 36 months of release and all inmates within 18 months of release. During 2003, 27,823 inmates were released from TDCJ facilities after receiving RIO services. A total of 72,666 adults were released from TDCJ prisons in 2003 resulting in 62% of ex-offenders not receiving RIO services.³⁹

The collaboration of TDCJ and TWC increases the amount of services available to the RIO population while leveraging and maximizing federal and state resources. RIO enrollees receive integrated services in employment, education, and training programs through multiple funding sources. Following this strategy leverages and maximizes every federal and state dollar to meet the needs of job seekers with a criminal history and of

employers. Prior to release inmates are eligible to enroll in secondary and vocational training in 88 TDCJ facilities. In 46 correctional institutions RIO enrollees can access postsecondary educational and advanced vocational programs. Vocational programs and certificates received by RIO participants include construction and welding. Enrollees are able to take postsecondary courses in business, drafting, and repair services including air conditioning and refrigerator maintenance.⁴⁰

RIO staff work with eligible inmates to develop an individual employment plan and to identify career paths. RIO reports, that over 35,000 employers have hired ex-offenders. Employment specialists provide information regarding employer needs, latest labor market trends, and industry-driven occupations in the area where the inmate plans to reside. Currently, RIO enrollees are employed in carpentry, sales and customer services, warehouse workers, welders, and janitorial services. Communication is maintained between RIO staff and the one-stop career center where the parolee will be serviced following release to maintain a continuity of service.⁴¹

Despite the many services provided through RIO, 62% of inmates do not receive the benefit of RIO services and are not effectively prepared to obtain employment once released. Additionally, Project RIO only serves parolees. Consequently, a large number of ex-offenders are not eligible for RIO services because they are placed directly on probation, yet because of criminal history, face many of the same barriers to employment as parolees. Many probationers also have limited social capital that makes finding and retaining employment extremely difficult.

Washington State's Corrections Clearing House

Washington's Corrections Clearinghouse (CCH) is a division of the Washington State Employment Security Department. Established in 1976, it uses three strategies to work with former inmates to find employment by providing direct services, brokering other services from other state agencies for ex-offenders, and coordinating services across agencies. Direct services include vocational assessments, job preparation classes, and employment assistance. Brokered services include collaboration between community college and the State Department of Social and Health Services to establish for credit programs that integrates job search assistance with substance abuse treatment. An example of coordination services includes the production of a statewide computerized Case Management Resource Directory that inmates participate in developing and distributing. CCH tries to provide a standard array of services that begin with an employability assessment during incarceration and concludes with job placement and ongoing assistance following the completion of a prison term.⁴²

The mission of CCH is to secure legitimate employment for ex-offenders so that they do not have to resume a life of crime. CCH offers an incremental approach to ex-offender workforce training by offering job preparation classes to inmates and job search services to ex-offenders. The program adds other services over time. CCH also helps inmates obtain critical documents often needed for employment including social security cards and state identification cards.⁴³

During incarceration, specific programs managed by CCH, include the women's apprenticeship program and community service work crews. The women's apprenticeship program is collaboration among unions including carpenters, laborers, and iron workers. Women who complete the program are guaranteed membership in one of the participating unions increasing their social capital and ability to navigate local job markets through the increased professional networks that union membership often provides. Community service work crews offer minimum security inmates employment for about \$0.40 an hour on service crews that refurbish low-income elderly housing, collecting toys from donors and wrapping and preparing toys for distribution.⁴⁴ Work crew participation gives inmates the opportunity to gain employment experience prior to release; for many inmates this opportunity may be their only work experience.

In some of Washington's correctional institutions, CCH offers job search assistance for inmates prior to their release. In five prison facilities, CCH instructors register their students with the Employment Security Department enabling them to access the department's computerized job bank so they can take advantage of job leads while still in prison. Following incarceration, CCH offers post-release job search assistance through the ex-offender work orientation program (Ex-O). In this program, seven contractors provide vocational assessments, job counseling, resume writing, interview techniques, job search assistance and ongoing placement assistance. Ex-offenders eligible for CCH services include inmates under community supervision and unemployed ex-offenders released within the previous two years. Ex-offenders typically obtain

minimum wage employment in positions including roofing, landscaping, warehouse jobs, and restaurant and janitorial service.⁴⁵

Persistent Barriers to Employment for Ex-Offenders

Despite inmate workforce preparation and public policies that are meant to encourage the demand for ex-offender labor, this population continues to experience significant barriers to employment. Barriers to employment include welfare laws that restrict ex-offenders with drug convictions from receiving Temporary Assistance for Needy Families (TANF) assistance and Foodstamps and employment laws that sometimes mandate employers to consider a person's criminal records.⁴⁶

Ex-offenders face a socially accepted bias that makes it extremely difficult to find legitimate employment in the formal labor market. Ex-offenders experience this prejudice despite findings by the Federal Equal Employment Opportunity Commission (EEOC) that excluding ex-offenders may violate Title VII of the Civil Rights Act of 1964, because such policies disproportionately exclude minorities due to statistics showing they are arrested and convicted at rates significantly in excess of their representation in the general population. According to the EEOC, not hiring someone because of criminal history violates Title VII unless there is a business necessity for the employment decision. Business necessity is defined by the nature and gravity of offense, the time that has elapsed since the conviction and/or completion of the sentence, and if the applicant has a fairly recent conviction for a serious offense that is job related.⁴⁷

Despite the findings of the EEOC it is a widely accepted practice to deny applicants employment based on criminal history. Legal standards that apply to hiring decisions involving ex-offenders vary from state to state and from case. Some states like New York have passed legislation forbidding most employers from considering arrest information when making an employment decision and from asking whether an applicant has ever been arrested.⁴⁸ Yet, despite EEOC findings it is doubtful that ex-offenders are aware of their legal rights and have the capacity to seek a legal course of action if they believe their civil rights have been violated.

Conclusion

Elected officials and stakeholders recognize the importance of enabling employment among the ex-offender population as a strategy to reduce recidivism and maintain public safety. It is socially acceptable in the United States to have a significant share of the population with a criminal history. Public policies including tax incentives and insurance programs to encourage hiring have been implemented to stimulate employer demand for ex-offender labor. Yet, the under funding of correctional departments, lack of standards with regards to prison workforce preparation and educational programs, outdated training strategies, and legal restrictions that mandate employers in many states not to hire employees with a criminal history contributes to the pervasive unemployment among this subpopulation.

Unemployment and the inability to obtain economic security means those ex-offenders are not participating in the economy as economic consumers and producers.

Furthermore, the disproportionate concentration of African Americans in the ex-offender population weakens the economic viability of many black communities throughout the nation. The lack of resources available to provide workforce preparation and job placement assistance to inmates and ex-offenders means that creative solutions should be developed to ensure that this subpopulation is engaging in legitimate economic activity that is maintaining public safety. One example of a possible solution is the encouragement of self-employment among African-American ex-offenders with appropriate skill sets; this policy approach will be explored in later chapters.

The assessment of what education and training programs are available to inmates and ex-offenders should also include a discussion of the workforce training programs that are targeted to the working poor because a large share of the ex-offender population are low-income.

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Chapter 3.

Linking Workforce Development Programs and Services to Ex-Offenders under Community Supervision

Introduction

This chapter will address the education and training programs that are available to the ex-offenders who qualify because of their working poor status. There are gaps in the services provided to ex-offenders in their attempts to reenter society following incarceration. Many formerly incarcerated individuals have low levels of education and weak work histories as a result of their involvement with the criminal justice system. Ex-offenders who are incarcerated for long periods of time may choose to enroll in training or education programs in their prison or jail facility. Program participation may improve the opportunities for labor market participation after release. However, legal barriers including accepted discriminatory practices prevent many ex-offenders from obtaining living-wage employment.

Despite the programs offered to inmates and ex-offenders that were previously mentioned, many cannot participate in federal or state level programs because they were placed on probation without spending a long period of time in a prison or jail facility. As a result, these men and women experienced a period of time when they could not work and advance their career history and were not eligible to receive education or job training in order to improve their skill sets.

Consequently, for these individuals workforce development initiatives provided by the public, private, and nonprofit sector are sources of education and training opportunity. The majority of these programs are targeted to low-income individuals who are considered working poor. A significant share of the ex-offender population lives below the official level of poverty and has limited resources. Workforce development programs target the supply side of the labor force by attempting to improve work skills. Additionally, policies encourage demand through tax credits that promote hiring among targeted populations. There is recognition that facilitating entrepreneurship is a viable workforce development strategy for low-income workers and should be particularly noted as a strategy for low-income ex-offenders who may be excluded from the traditional labor force.

For the purpose of this report, various workforce development programs that are targeted to the nation's working poor should be considered by those working with the ex-offender population as an opportunity to deliver training and education programs to this community.

Characteristics of the Working Poor

During 2003, 35.9 million people in the United States lived at or below the official poverty threshold, an increase of 1.3 million since 2002. Poverty is heavily concentrated among the nation's children and unemployed adults. However, 7.4 million men and women are classified as "working poor".¹

The U.S. Department of Labor (DOL) defines the working poor as those who spent at least 27 weeks in the labor force but their income fell below the official level of poverty; labor market participation is defined as working or looking for work. According to the DOL, even though labor market participation reduces an individual's chance of being poor, 60% of the working poor who worked during 2003 typically worked full-time.²

America's working poor population is diverse. More women than men were classified as working poor in 2003; 3.9 million women were working poor as opposed to 3.5 million men. Approximately 70% of the working poor population is white. However, African American and Hispanic workers are more likely than white workers to be among the working poor.³ As mentioned earlier in this report, many of the ex-offenders who find employment in the formal labor market are working in positions that do not provide a living wage and find it difficult to provide for basic needs.

Current Portrait of Workforce Training Programs

Context of U.S. Workforce Development

Currently, public policy leaders at the federal level encourage the work-first approach as a strategy for workforce development among low-income workers. The work-first approach is encouraging low-income workers to obtain employment as soon as possible so that they may become self-sufficient. According to some stakeholders, the work-first approach suggests that any work experience generates job readiness skills and signals readiness to other potential employers.⁴ Supporters of work-first believe that any

job is a good job and that there are no dead end jobs. This workforce development strategy began to gain support following the welfare reform that took place in 1996 and required welfare recipients to join the workforce. Others believe that the work-first approach sacrifices long term job training in favor of immediate job placement and encourages people to take available jobs from which there is no opportunity for advancement.⁵

Workforce development practitioners have responded to the current framework by establishing programs that prepare low-income job seekers for good jobs. Typically, programs identify needs in the local labor market that focus on occupations and industries that offer the best opportunities for advancement. Additionally, workforce development programs help low-income workers access education, community based training programs, and union sponsored programs that collaborate with employers to design curriculum based on the skills that employers actually need.⁶

Furthermore, some workforce training programs provide access to remedial services so that low-income job seekers who have weak basic skills are able to prepare for postsecondary level programs. Many stakeholders believe that career advancement for low-income workers needs to be a collaborative effort by community colleges, economic development leaders, community based organizations, unions, and other workforce training providers who can identify the areas of employment that will be demanded in the future and encourage education and training programs to provide the rights skills to meet that demand.⁷

In addition to workforce training programs that improve the skills of participants and policies that encourage demand for low-skill labor, programs exist to train men and women interested in self-employment and entrepreneurial activities. In the U.S., several microenterprise programs exist that provide technical assistance to entrepreneurs by training them to develop a business plan, apply for a microloan, and train in financial management to apply to the administration of their small enterprise.

During 2005, President George W. Bush designated \$14 billion to help train workers and assist them in finding employment through grants distributed directly to states. Funding was targeted to program areas that designated direct assistance to workers impacted by foreign trade and other grant programs such as Pell Grants. The Bush administration also views student loan funding as workforce training assistance that was funded at \$7.6 billion in 2005. President Bush's three-part federal workforce training strategy includes the Community College Initiative to train workers for jobs in high-growth fields; the personal reemployment account pilot programs; and the reform of federal employment and training programs. The programs are meant to prepare workers for high-demand jobs, give job seekers more control over their return-to-work strategy and eliminate red tape and duplication in the job training system.⁸

The Community College Initiative attempts to strengthen the role of community colleges in the area of workforce development by providing \$125 million for a new employer-focused grant program for training in community and technical colleges. Recipients of funding are required to prepare a training plan with community colleges

and employers. Additionally, they are required to develop a program that focuses on industries with proven labor shortages including health care and advanced manufacturing.⁹

The 2005 White House budget also includes \$50 million for a pilot program of Personal Reemployment Accounts (PRAs) for unemployment insurance recipients who need help in obtaining re-employment. The program provides grants to states to offer accounts of up to \$3,000 to eligibly unemployed workers; PRA recipients would be able to choose various work support services such as childcare or transportation assistance that they believe would get them back to work; recipients would keep the balance of the account as a cash bonus if they find employment within thirteen weeks; and PRAs would be available in addition to regular unemployment insurance benefits. President Bush believes that PRAs set the tone for a new approach to unemployment assistance that promotes individual control and rewards moving quickly from unemployment to work.¹⁰

Additionally, Bush proposed funding in his 2005 budget that facilitates new partnerships with faith-based and community based organizations. Programs include a four-year Prisoner Re-Entry Initiative funded at \$300 million that facilitates a collaboration between the Departments of Justice, Labor and Housing and Urban Development that helps individuals exiting prison make a successful transition to community life and long-term employment. According to the Bush administration, funds supplement existing resources in the Department of Labor's (DOL) budget for prisoner

re-entry. DOL will offer grants to faith-based and community based organizations to help reduce recidivism through mentorship, job training, and services.¹¹

Workforce Investment Act (WIA)

The Workforce Investment Act (WIA) of 1998 replaced the Job Training Partnership Act (JTPA) and changed the approach of federally funded job training and other employment related services for adults, dislocated workers, and youth.

WIA separates services for adult dislocated workers into the three categories of core, intensive, and training. Core services include initial assessments, job search assistance, labor market information, provider performance and program cost information, information about access to supportive services, and follow up services including employment counseling. Services provided under the intensive category include comprehensive assessments, development of individual employment plans, short-term pre-vocational services, work experience activities, and case management for participants seeking training services. Training services include occupational skills training, on-the-job training, skill upgrading and retraining, job readiness training, adult education, literacy activities, and customized training.¹²

WIA services are designed to be provided in sequential order. Core services are available to all adults seeking services through a One-Stop Career Center, and training services are only available after the receipt of core and intensive services and upon approval of a One-Stop Career Center staff member.¹³

During the initial program year from July 2000 to June 2001, 234,778 participants completed WIA intensive or training services.¹⁴ The U.S. government defines the goals of WIA as an effort to increase employment measured by entry into unsubsidized employment, increase retention in unsubsidized employment six months after entry into employment, increase earnings received by unsubsidized employment for dislocated workers, and enhance satisfaction for participants and employers.¹⁵ The implementation of WIA facilitated a fundamental shift in the way the federal government approached workforce development.

The federal government mandates that priority for intensive and training services must be given to recipients of public assistance and other low-income individuals when funds are constrained. Additionally, employed adults are eligible to receive services to obtain or retain employment that facilitates self-sufficiency. State and local governments are responsible for developing and implementing procedures that facilitate the priority and self-sufficiency mandates.¹⁶

Bush's 2005 budget proposed changes to WIA to eliminate redundancies, strengthen resource allocation, improve accountability, enhance the role of employers in the national workforce system, and increase state flexibility. The proposed budget consolidates the WIA, dislocated worker programs, and Employment Service State grants into a single funding stream named the Single Adult Training Grant. According to the Bush administration, the proposed consolidation of programs uses unspent formula grant

balances to maintain or increase service levels and provide more flexibility to the DOL and states to target funding based on identified need.¹⁷

Under WIA, all local workforce areas in the U.S. are required to develop a “one-stop” delivery system that provides various federally funded employment programs available at one location. The purpose of a one-stop delivery system is to make workforce development policy more user friendly for job seekers and employers. The services available at one-stop centers include work support assistance that helps workers find a job, accept a job, and/or keep a job by aiding families to acquire enough financial support when income are not enough. Work support services include child support, transportation assistance, and cash assistance. One-stop centers assist clients in applying for the Earned Income Tax Credit (EITC), subsidized child care, and food stamps.¹⁸ There are 3,590 comprehensive and affiliated DOL One-Stop Centers around the nation.¹⁹

In addition to the three categories of services, additional programs are available under WIA. The programs included the Adult and Dislocated Worker Program, defined supportive services, rapid response services, tax credits, and certain provisions under the Trade Act program.

Lawmakers designed the Adult and Dislocated Worker Program, a provision of WIA, to provide quality employment and training services in order to assist eligible individuals in finding and qualifying for meaningful employment and to help employers find the skilled workers they need to compete and succeed in business.²⁰

The federal government defines supportive services as transportation, child care, dependent care, housing, and needs-related payments are provided under certain circumstances to allow an individual to participate in the program.²¹

Rapid response services are an array of programs designed to respond to major layoffs and plant closings by coordinating services and providing immediate aid to affected workers. Rapid response teams work with employers or firm representatives to leverage all public and private efforts to minimize disruptions associated with job loss for individual workers and communities. Rapid response services are implemented by workforce development agencies at the state and local level, and include career counseling, job search assistance, and unemployment insurance. Services available at the local level include use of computers, telephones and fax machines in addition to financial support for training and income support if a job is lost due to foreign trade. Additional services are available for veterans and disabled adults. Services become available when rapid response teams are informed of impending layoffs. Typically, employers notify the rapid response team and invite them to assist workers who will be laid off.²²

Making Work Work

The Hitachi Foundation established the initiative, Making Work Work, in order to support the retention and advancement of low-wage workers. According to the Hitachi Foundation, current approaches in workforce development do not meet the needs of businesses or of low-wage workers. Consequently, the Foundation directed funding to seven projects in March of 2001 in order to advance initiatives for on job placement for

low-wage workers and to identify the challenges that impact retention and advancement. The initiative's mission is to understand how low-income workers can achieve career advancement while offering a good return on their investment for their employers and the community.²³

High Growth Training Initiative

The High Growth Training Initiative (HGTI) is a presidential program designed to take advantage of job opportunities in high-growth, high-demand sectors identified in the U.S. economy. Targeted sectors include healthcare, information technology, and advanced manufacturing. The initiative targets worker training and career development resources toward helping workers gain the skills they need to establish a career in identified high growth industries. The initiative depends on collaboration at the federal, state, and local level. Initiative partners are defined as economic development leaders, governors, business leaders, and educators who work together to develop solutions to the workforce challenges and identify labor shortages facing targeted industries. The initiative has identified fourteen targeted industries that are expected to add a significant number of new jobs to the economy, impact the growth of other economic sectors, or they are emerging businesses being transformed by technology and innovation requiring new skill sets for workers.²⁴

The proposed White House 2005 budget also provides funding for the initiative through Community Based Job Training grants. The budget designated \$248 million funding for the grant program that seeks to strengthen the role of community colleges in

promoting the training for the U.S. workforce. The grant program is employer focused and supplements the HGTI and is viewed as an example of encouraging workforce development through strategic partnerships between employers, community colleges, and other training providers. Only publicly funded community and technical colleges are eligible to apply for grants. In order to receive grant funding, applicants must propose a combination of capacity building and training activities targeted to high-growth industries in the local economy.²⁵

Temporary Agencies

Many low-income workers who do not have well developed social networks utilize temporary placement agencies as a strategy to find employment. Policymakers recognize that temp agencies improve job placement opportunities for low-income earners by assisting them in gaining early work experience or by improving access to higher wage employers. Temp agencies provide limited access to training in computer skills for clients. Low-income workers and particularly minority workers living in poor neighborhoods typically have incomplete access to firms in their local labor market due to inadequate transportation and information about employer contacts in their area. Temp agency supporters believe that they can be an effective strategy for improving access to good jobs. In some states temp agencies serve as many as 20% of welfare recipients entering the workforce, and an even higher percentage among minorities. Critics of temp agencies say such organizations skim the best qualified workers within the population of low-income workers.²⁶

As mentioned in a previous chapter, a large share of the ex-offender population has limited social capital and training. The opportunities offered by temp agencies can serve to integrate ex-offenders into the formal labor market after incarceration.

Entrepreneurship Programs

Several programs have been established to encourage entrepreneurship in U.S. communities as a strategy of economic development. Various programs were established under the leadership of the private, public, and nonprofit sectors. These programs should be considered in the context of this report because they address the focus on self reliance for America's working poor. A large share of the ex-offender population is members of this subpopulation and can be served by various initiatives.

Urban Entrepreneur Partnership

The Bush Administration in collaboration with the National Urban League (NUL) and the Ewing Marion Kauffman Foundation (Kauffman Foundation) established the Urban Entrepreneur Partnership (the Partnership) in a 2004 initiative in order to encourage minority entrepreneurship and business development throughout the nation. The Partnership initially focused on the five communities of Atlanta, Cincinnati, Cleveland, Jacksonville, and Kansas City in order to establish operational one-stop business centers by 2005. The Partnership combines private, public, and nonprofit sector resources to expand entrepreneurship and jobs in traditionally neglected and economically disadvantaged communities. The initiative will develop one-stop economic empowerment centers to provide business training, counseling, financing, and

procurement opportunities to minority and urban business owners. Currently, the Partnership is trying to meet its long-term goal by establishing fifteen one-stop business centers by the end of 2006.²⁷

Minority Business Development Agency (MBDA)

The Minority Business Development Agency (MBDA), a department within the U.S. Department of Commerce, is responsible for specifically fostering the establishment and growth of minority-owned businesses throughout the nation. MBDA programs focus on entrepreneurship and wealth creation in minority communities. The agency provides funding to a network of Minority Business Development Centers, Native American Business Development Centers, and Business Resource Centers throughout the nation.²⁸

Centers are located around the country in areas that have large concentrations of minority populations and the largest number of minority businesses. The purpose of these centers is to provide one-stop technical assistance to minority entrepreneurs in the form of writing business plans, marketing, management, technical assistance, and financial planning. Center offices are staffed by business specialists that can provide technical assistance to clients.²⁹

Work Skills/Life Skills

The Hitachi Foundation's program, Work Skills/Life Skills targets entrepreneurship as a strategy to advance the life and career skills among underserved youth. The initiative is geared towards achieving the outcomes that facilitate the development of skills for careers or entrepreneurial activity among youth; encourage

youth business development; link community-based organizations focused on entrepreneurship with school-based school-to-career programs; and develop works skills that allow youth to earn a living-wage.³⁰

Project GATE

Growing America Through Entrepreneurship, or Project GATE, is a demonstration project that was established in 2005. Project Gate is a joint collaboration of the Employment and Training Administration (ETA) of the DOL and the Small Business Administration (SBA). The project was implemented by combining DOL microenterprise training and assistance in One-Stop Centers with microloans provided by the SBA. The mission of the initiative is to create a microenterprise program that helps diverse urban and rural communities create, sustain, and expand small business. Funding for the initiative is \$9 million over five years. Funds were allocated for technical assistance and the training of program participants, administration costs including the training of One-Stop Center staff, community outreach and marketing, and data collection and evaluation. Project Gate is a five year project divided into three phases, as shown in Table 5.³¹

Table 5 Phases of Project Gate

Project Phase	Implementation and Timeframe
Phase I	Initial design of project was completed in June of 2003. During this period community outreach and participant screening was completed.
Phase II	Implementation phase of project for two years in individual sites in Minneapolis-St. Paul and Philadelphia.
Phase III	Evaluation and follow-up

Source: Department of Labor (DOL), "Project GATE: Growing America through Entrepreneurship," Online. Website: www.doleta.gov/projectgate/ Date downloaded: August 20, 2005.

The target population of Project Gate includes adult job seekers wanting career advancement and current small business owners who need help expanding or sustaining an already existing business. The number expected to participate in Project Gate totals 700 participants: 400 over two years in Minneapolis-St. Paul and 300 participants in Philadelphia.³²

GATE participants receive entrepreneurial technical assistance and training through One-Stop Centers and microloans through the SBA. Microloans are offered through the SBA as a part of a microenterprise package. Typically, the maximum SBA loan amount is \$35,000; the average size loan distributed by the SBA is \$10,500. It is important to note that GATE does not offer additional loans to microentrepreneurs, but leverages capital available through established government programs. Additionally, GATE participants receive general business training and graduate on to more specific training elements. Participants are assigned to a business counselor and are offered

several individual business counseling sessions. Topics covered during general GATE counseling sessions include marketing, management, and developing a business plan. Specific training topics include discussions on cash flow analysis, financing, legal requirements, insurance, bookkeeping and taxes. According to the DOL, training should give participants the necessary tools to create a sustainable business plan that will provide guidance to implementing and managing a business. The business plan is the primary document considered by the SBA when participants apply for a microloan.³³

Training funds for Project GATE can be accessed in several ways at the local level including the Individual Training Account (ITA) method by which training funds are accessed via the One-Stop Centers. Entrepreneurship education is an allowable form of training under WIA. Additionally, GATE participants are eligible for needs-related payments as their participation in the initiative is viewed as an allowable local employment and training activity. Eligibility for needs-related payments is determined on a case-by-case basis, and payments are subsistence level for GATE participants while in training. Needs-related payments are encouraged for participants who do not qualify or have exhausted unemployment compensation and those who have exhausted unemployment insurance.³⁴

GATE participants are eligible for the Self-Employment Allowance (SEA) program. Program eligibility includes women, low-income workers, minority entrepreneurs, veterans, business owners, and those suffering from lack of credit due to poor economic conditions. Under SEA, states can pay a self-employment allowance

instead of unemployment compensation to help unemployed workers while they are establishing a business and becoming self employed. Participants are eligible to receive weekly stipends while establishing their enterprise. Under SEA, payments are the same as regular UI benefits, but SEA participants can work full-time on starting their business rather than looking for wage and salary jobs. Non-SEA participants are eligible for needs-related payments and ITAs as well.³⁵

FastTrac

The FastTrac program was initially launched at the University of Southern California's Entrepreneurship Program in Los Angeles in 1986. The Kauffman Foundation is the primary source of funding for the program and initiated the effort to launch the program nationally.³⁶

FastTrac is an educational program that focuses on entrepreneurship and providing business owners with insight, leadership skills, and professional networking connections in order to prepare them for establishing a new enterprise or expanding an existing one. The program includes practical business development training and workshops for current entrepreneurs and an entrepreneurship curriculum for college students.³⁷

Currently, the FastTrac workshops and curriculum are being provided by 270 collaborative organizations in 49 states in the U.S., the program is also offered in Australia and Russia.³⁸ More than 95,000 program participants have completed FastTrac classes in the U.S. Many of the microenterprise organizations that offer training provide

the FastTrac program as the foundation for their microentrepreneur training. These organizations include intermediaries that provide loans guaranteed by the Small Business Administration (SBA). The FastTrac office works closely with organizations at the local level to provide its curriculum including small business development centers, minority business centers, universities and colleges, community colleges among others.³⁹

Conclusion

The work training and entrepreneurship programs for low-income men and women provide an opportunity for educational advancement and skill enhancement to ex-offenders who are not eligible for training programs in prison or jail facilities. This is particularly significant since a large majority of men and women are placed directly on probation and are not eligible for training programs that enhance skill sets and may lead to living-wage employment. Policy recommendations will be offered at the end of this report that addresses this issue.

It is also important to note that self-employment is recognized as a viable strategy for low-income workers and that funding is directed to entrepreneurship programs from the federal government. Thus, self-employment is integrated into workforce development programs at the federal and local levels. As a result, stakeholders who are concerned with training ex-offenders with the appropriate skills needed to participate in the labor market should encourage self-employment as a viable option for ex-offenders with the right skill sets.

The programs that encourage and facilitate self-employment in the U.S. vary, but are available to many of the men and women with a criminal history that find it difficult to obtain formal, living wage employment.

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Chapter 4.

The Field of Microenterprise Development

Introduction

The purpose of this chapter is to explore the field of microenterprise and how African American ex-offenders who are good candidates for self-employment may be served by programs and services targeting microentrepreneurs. Self-employment should be encouraged as a strategy for labor market participation among the African American ex-offender population. Many men and women with criminal backgrounds are excluded from living-wage employment due to employer bias or collateral consequences. Microenterprise is not a viable strategy for all ex-offenders, however it should be considered for ex-offenders who have low-wage employment and engage in entrepreneurship as a strategy to supplement household income. Additionally, it is a feasible solution for the families of ex-offenders where one spouse works full-time and the other spouse works part-time while engaging in self-employment.

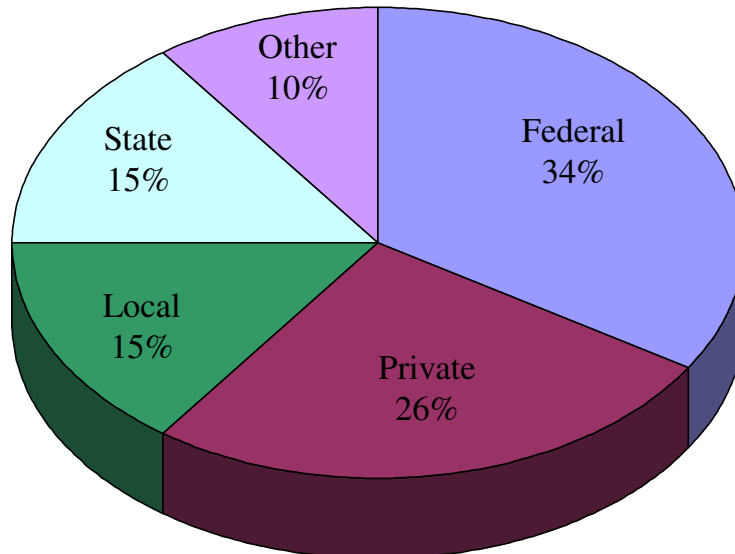
In the United States, microenterprise is defined as a business with five or fewer employees; many have no employees except the self-employed owner. The majority of microenterprises require limited funds in start-up capital, and the owners do not have access to the conventional banking sector. Microenterprise strategy is characterized by loaning entrepreneurs small amounts of capital for business start-up costs, making the loan terms affordable, and giving entrepreneurs business and training support.¹ Discussions around microenterprise involve the self-employed enterprise that only

employs the owner and small businesses that employ more than one worker including the owner.

The Small Business Administration (SBA) categorizes the business sector in three categories: large, medium, and small. The SBA defines a small business as having up to 500 employees. In 1991, the SBA recognized microenterprise as a separate category of business.²

In 2005, the directory of the Association for Enterprise Opportunity (AEO), the national association of microenterprise programs listed 517 microenterprise programs that served clients nationwide. AEO surveyed the field of microenterprise programs and identified that during FY 2002 the annual average budget for these organizations was \$427,027 and the combined annual operating budget of all survey respondents was \$91,810,739.³ Microenterprise organizations receive funding from various sources including private and government sources.

Figure 5 Sources of Funding for Microenterprise Programs FY 2002



Source: Association for Enterprise Opportunity (AEO), "2005 U.S. Directory of Microenterprise Programs," Date downloaded: August 9, 2005. Website: <http://www.microenterpriseworks.org>.

The microenterprise organization ACCION USA estimated that the number of microentrepreneurs in the U.S. equaled 13.1 million in 1999. Microenterprise businesses create fewer jobs aside from the owner: in a survey conducted by Servon and Doshman, only 29% of 58 microenterprises surveyed had employees, while the remaining share of enterprises employed an average of three workers.⁴ Furthermore, the survey found that 1.2 million African Americans were self-employed with fewer than five employees.⁵

The microenterprise field in the U.S. is relatively young; it has a twenty year history. The term microenterprise was first used during the 1970s in the field of international economic development; it came to commonly be used in the U.S. during the

1980s. In a recent study, 43% of 554 organizations surveyed in a 2001 Aspen Institute study reported that they were established between 1995 and 1999, with 10% saying they were established after 2000.⁶

In the microenterprise field there are two types of organizations that facilitate microenterprise development. Some organizations provide credit and financing, while others provide training for microenterprise development. Additionally, several organizations in the field offer both types of services. According to AEO, in 2005 of the organizations surveyed, the average number of loans disbursed was forty-two, while the available amount of lending capital was \$831,967.⁷

Also, the minimum loan amount was \$3,371, while the maximum amount given was \$19,532. Additionally, of the organizations surveyed, the programs have served a cumulative total of 626,277 participants. Approximately 301,550 participants were reported to have received a significant level of service that includes access to capital or at least 10 hours of training or technical assistance over a given year.⁸

Historical Context of Microenterprise in the United States

According to leaders in the microenterprise field, the strategy of microenterprise became a prominent component of the U.S. policy agenda in 1997 due to an international microcredit summit in Washington, D.C. The conference was attended by over 2,000 people from 110 countries and received a significant amount of international press coverage. The summit resulted in a U.S. commitment to support microenterprise strategy with greater resources at home and abroad.⁹

During the mid 1980s, the success of microenterprise programs in less developed countries (LDCs) caught the attention of U.S. policymakers. Several similarities in the U.S. and among LDCs facilitated microenterprise strategy, including a significant population inadequately served by mainstream financial institutions, women's needs for economic alternatives, and persistent poverty. Microenterprise programs in LDCs influenced U.S. microenterprise strategies significantly. For example, the Grameen Bank of Bangladesh established a microenterprise strategy that influenced economic development policies in the U.S., Asia, Africa, and Latin America.¹⁰

Support for microenterprise programs developed during an era in which efforts to deal with persistent poverty were focused on addressing the individual members of the low-income community and their families. During the 1960s, the War on Poverty programs emphasized job training and education to improve individual employability. These programs established the precedent of combating poverty by trying to reform an individual's characteristics rather than addressing the systemic issues that impact the individual's economic reality.¹¹

Several economic programs were created as a part of the War on Poverty that encouraged self-employment to some degree. During the 1960s, the Model Cities programs attempted to generate businesses that would employ low-income people. Also, the Small Business Administration (SBA) offered equal opportunity loans (EOLs) to low-income people through a program that is recognized by many advocates in the field as the first U.S. microenterprise program sponsored by the federal government. Additionally,

there were the business assistance programs of the 1970s and 1980s funded through the community development grant program through the U.S. Department of Housing and Urban Development (HUD) or through the Job Training Partnership Act (JTPA) managed by the U.S. Department of Labor. Furthermore, microenterprise programs were funded through the Job Opportunities for Low-Income Individuals (JOLI) that was administered through the U.S. Department of Health and Human Services (DHHS), a program that encouraged self-employment as a strategy to generate economic activity and reduce poverty. DHHS also administered the Micro-Enterprise Development Project through the Office of Refugee Resettlement. Additionally, the Small Business Credit and Business Opportunity Enhancement Act of 1992 included \$15 million for a microenterprise demonstration program.¹²

Since the 1980s, microenterprise strategy has received greater support because of the changing nature of the U.S. economy. Self-employment is becoming a more significant part of the economy, particularly for groups whose ability to fully participate in the formal economy is limited.¹³

Three economic trends facilitated support for the strategy of microenterprise since the 1980s. First, political debate over the effectiveness of government entitlement programs to help the poor and disadvantaged escape poverty resulted in welfare reform in the mid 1990s. Second, is the growing income disparity and loss of blue collar jobs; people employed in blue collar jobs with low levels of education or single parent heads of households were most affected. Additionally, the shift from the relatively high-paying

manufacturing sector to the minimum wage service sector has made it more difficult for many families to stay above the poverty line.

Third, there has been a significant change in demographic trends that includes an increasing percentage of women in the workforce, the growth of immigration, and the aging of population. Many women choose self-employment as a workforce strategy to balance work and family. Additionally, documented and undocumented immigrants choose microenterprise due to language and other barriers in the U.S. workforce. There is also a history of older workers turning to self-employment because it is easier to balance work schedules and life interests.¹⁴ Additionally, many workers who are excluded from participation in the formal economy resort to self-employment as a strategy to earn income and provide for basic needs.

Microenterprise Program Models

Microenterprise programs are distinguished between financing and trained programs. Organizations that provide microenterprise training and financing include nonprofits, credit unions, community development corporations, universities, and immigration organizations, among others. Microenterprise programs will develop partnerships to advance their work with institutions that include banks, private sector organizations, foundations, churches, community colleges, and other microenterprise organizations and community based organizations. According to the AEO, the primary mission of microenterprise programs includes job creation, business development, community economic development, and poverty alleviation.¹⁵

The principal product of participation in a financing microenterprise program is credit or a loan, while the principal product of participation in a training program is a business plan. Business plan training helps microentrepreneurs focus their ideas, test the feasibility of their business plan, and may help participants apply for a loan. Additionally, organizations may provide technical assistance in tax preparation, marketing, use of technology, and business finances among other subject areas.¹⁶ Financing programs tend to target a broader client base than training programs, although a primary stakeholder group of both types of organizations are individuals below the poverty line or who are low-to-moderate income. Financing programs offer credit and other financial products to individuals who do not have access to mainstream financial institutions.¹⁷

Microenterprise programs provide other skills to participants who may decide that self-employment is not for them. Training provides a broad range of skills that are transferable to other areas including research, practice of writing skills, and the ability to work with numbers in order to forecast costs and sales. Furthermore, participants learn to present their ideas concisely and clearly to an audience. Even if clients do not establish their own business, microenterprise training allows participants to gain additional skills.¹⁸

Microenterprise programs operate at the local level and have different structures and characteristics based on the needs of the community. Several programs in the U.S. use group lending, where borrowers guarantee the loans of other members of their group,

a method that facilitates security when borrowers have inadequate capital. The group lending approach was pioneered by the Grameen Bank and demonstrates that many non-traditional borrowers can be creditworthy if relatively modest loans are given in highly structured way.¹⁹

ACCION USA

ACCION USA is a community lending organization that provides loans and business referral services to small business owners who lack access to bank credit. ACCION USA was launched in 1991 by ACCION International, a microlending organization that reports over 1.4 million active borrowers in 20 countries in the regions of Latin America, the Caribbean, and sub-Saharan Africa. ACCION USA provides loans ranging from \$500 to \$25,000; loans can be used for many business purposes such as new equipment, inventory, advertising, and business expansion. ACCION USA has disbursed over \$90 million in microenterprise loans to more than 16,800 home-based and storefront business owners. According to ACCION USA, access to capital helps microentrepreneurs expand their businesses, increase their income, and improve the well being of their families. The maximum loan amount for start-up businesses is \$10,000, and ACCION USA requires a business plan and cash flow projection as a part of the loan application.²⁰ ACCION USA has offices throughout the nation including Arizona, New York, and Texas.

Business Investment Growth (BiGAUSTIN)

BiGAUSTIN was established in 1995 in order to meet the unique financial needs of new and existing entrepreneurs. The organization is the only microlending organization that is authorized by the SBA to provide microlending financing in Austin, TX and surrounding counties. BiGAUSTIN is a nonprofit organization that provides a maximum of \$15,000 to start-up of organizations and \$50,000 to existing organizations. Start-ups without a business plan can apply for up to \$2,500. The minimum loan amount that BiGAUSTIN provides for all loan programs is \$500.²¹ Borrowers can use the loan for working capital, supplies, inventory, equipment, and furniture.²² The organization's microlending funding comes from two sources that include the SBA 7(m) loan program and from private banks.²³

Microentrepreneurs who are eligible for BiGAUSTIN loans must own for-profit businesses that comply with SBA size standards at the time of application, and the nature of their business must comply with BiGAUSTIN's mission and values. BiGAUSTIN loan counselors advise applicants who do not meet the minimum criteria so that they may apply for loans in the future.²⁴

BiGAUSTIN requires at minimum 50% of the loan value be guaranteed by the applicant's collateral. Collateral can include all business assets, land, receivables, inventory, CD security, and personal vehicles that the applicant owns. In compliance with Texas law, BiGAUSTIN does not accept homesteads as collateral. The lender also does not accept personal assets as collateral. BiGAUSTIN files a lien on owned vehicles

and business assets that are released once the loan is paid in full. Additionally, borrowers are required to have life insurance with BiGAUSTIN listed as a loss payee throughout the term of the loan.²⁵

BiGAUSTIN is an SBA intermediary lender and, as such, considers the microentrepreneur's character as a part of the loan application process. According to BiGAUSTIN, character is a subjective measure that is difficult to assess consistently. The application evaluates business or landlord references, a clean work place, and business experience, false or unrealistic statements on the loan application, public records, and outstanding legal issues.²⁶

Microenterprise Training for Women in Corrections

The program, Microenterprise Training for Women in Corrections, is a collaborative effort between the Institute for Social and Economic Development (ISED), the Iowa Department of Corrections, and the Iowa Women's Enterprise Center. This may be the only program that offers capital and technical assistance to ex-offenders.

The program focused on a small group of low-income women that were incarcerated in the Iowa Correctional Institution for Women (ICIW). The program was established in July of 2001, and has served 128 participants; 71 inmates completed the program and 4 established microenterprises. Many of the formerly incarcerated women were found to face barriers to employment and participation in society due to their criminal records. Consequently, many of Iowa's formerly incarcerated women have

difficulty finding traditional employment and typically accept jobs with low salaries, few benefits, and limited opportunity for job advancement.²⁷

Self-employment is thought to offer many of these women an additional source of income to patch with traditional wage employment. Participants are required to attend comprehensive business plan training during their incarceration. Following their release from prison, program participants receive one-on-one technical assistance from one of ISED's business consultants upon their reentry into the community.²⁸

According to advocates in the field, microenterprise training fosters social capital where it is needed most, in low-income communities with declining economies, outward flight, decreasing importance of local enterprises, and persistent crime and violence.²⁹

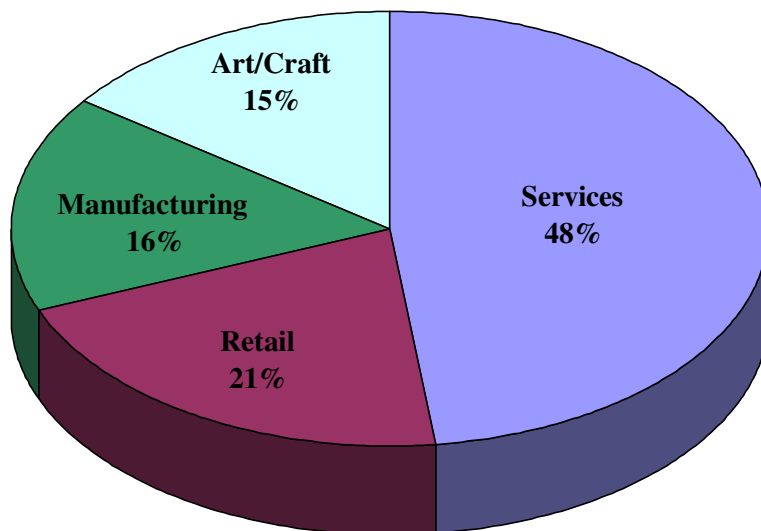
Characteristics of Microentrepreneurs

Most organizations in the field report their clients are low-to-moderate income and are struggling to make ends meet. Furthermore, most program participants are minorities, recent immigrants, women, disabled, or have certain challenges that reduce their ability to access traditional credit and services.³⁰

According to the AEO, during FY 2002 approximately 30,388 female clients were served by microenterprise programs. Furthermore, 68% of surveyed organizations had a client base of more than 50% women. Additionally, during FY 2002 approximately 26,905 minority clients were served, and 50% of survey organizations had a client base of more than 50% minorities.³¹

Minority-owned and women-owned businesses are traditionally concentrated in small-scale retail and personal service firms.³² Microentrepreneurs with limited resources tend to gravitate to businesses in the personal services sector, such as hair salons and childcare, because of low barriers to entry such as small start-up capital requirements. Additionally, service businesses typically require a lower level of skill than other industry sectors. Service and retail enterprises are recognized as the least profitable small business.

Figure 6 Concentration of Microenterprises by Sector



Source: Lisa J. Servon and Jeffrey P. Doshman, "Making Microenterprise Development a Part of the Economic Development Toolkit," Department of Urban Planning and Policy Development, Rutgers University, published by the Department of Commerce.

Microenterprise tends not to generate high income for owners. The mean income of microentrepreneurs interviewed in the Servon and Doshman survey, was \$2,615 per

month, or about \$31,385 per year. The median income for those surveyed was \$1,838 per month; larger numbers of households in the survey had income below \$1,500.³³

Generally, microenterprises only employ the owner. The Clark and Huston survey determined that almost all microentrepreneurs in the sample were sole proprietorships; 61% of the businesses surveyed had one employee, while 23% had two to three employees.³⁴

Self-employment is often used as a strategy to create income for families and move them out of poverty. Typically, microenterprise is not used as the sole source of income, but rather to supplement household income. For example, one member of the family may be employed in a part or full-time job, while the other pursues self-employment. Additionally, one person in the household may begin a self-employment activity while maintaining a part-time or full-time job. This strategy is referred to as “income patching”. In many instances, microentrepreneurs patch income together from several sources including self-employment partnered with wage employment. According to one survey, 30% of microentrepreneurs managed their microbusiness while maintaining wage employment.³⁵ Most microentrepreneurs use the income generated from self-employment to provide for basic needs and not to become rich.

Opinions Regarding Microenterprise Development

Public policy leaders recognize that microenterprise cannot be used as the sole strategy to address persistent poverty in U.S. society because studies show that most microenterprises alone cannot support families. However, studies also show that

microenterprise is a useful strategy to assist poor entrepreneurs in complementing their household income and escaping poverty.

Advocates for microenterprise as a strategy point to many successes in the field since this approach came to be widely used in the U.S. Supporters believe that microenterprise is an appropriate economic development strategy for many regions and that the policy performs best when integrated into a larger plan for economic development.³⁶ Additionally, as a policy strategy, microenterprise development has garnered bipartisan support since the 1980s. Also, there is a record of high payback rates to existing lending programs, providing disenfranchised populations with an entry point into the mainstream economy, and the creation of new business and jobs that may subsequently help revitalize low-income communities.³⁷

Additionally, the field of microenterprise organizations has a limited market penetration. According to estimates, the field is reaching only 150,000 to 170,000 persons. However, a study conducted by ACCION USA determined that there were approximately 13.1 million microentrepreneurs in the U.S. in 1999.³⁸

In addition, there are several barriers in the U.S. that may make further market penetration difficult for microenterprise organizations. In the U.S., entrepreneurs are penalized for managing informal businesses. Many entrepreneurs fear losing their business because they believe the amount they would have to pay in back-taxes would put them out of business. Entrance into the formal economy is impacted by filing tax returns, complying with licensing, certification, and inspection requirements.³⁹

Also, U.S. entrepreneurs require more capital and training than their counterparts in the developing world. For example the average loan per borrower distributed to clients at the Grameen Bank of Bangladesh is \$334.⁴⁰ However, the average loan per borrower distributed to clients at ACCION USA was \$6,328.⁴¹ It is important to note that in the U.S., many programs distribute small amounts of capital. For example, ACCION USA and BiGAUSTIN lend a minimum amount of \$500 to borrowers.

Additionally, U.S. programs target a significant amount of their budgets toward training that can be expensive and generally require subzidation from the government, private-for-profit, and nonprofit organizations.⁴²

Financing Options for Microentrepreneurs

For many microentrepreneurs, microloans are the primary financial product. However, organizations will offer other products such as small seed grants, microequity investments, and Individual Development Accounts.⁴³ Microlenders make it their mission to take risks that fall outside of those accepted by mainstream financial institutions. These programs seek to combat the idea that low-income individuals are poor because they are lazy or deserving of their economic status.⁴⁴

The history of partnerships with microenterprise programs and traditional banks can alter norms in the field of traditional banking services. Banks that work with microenterprise programs may begin to lend to diverse populations. Although, some banks enter into partnerships to fulfill their Community Reinvestment Act (CRA)

requirements, these partnerships do not necessarily alter the way they operate or view low-income communities.⁴⁵

A significant share of microentrepreneurs is not receiving financing from microenterprise programs or other sources. The ACCION study that identified 13.1 million small business owners in 1999, further determined that 10.8 million or 83% had never received a bank loan. The study found that 45% never considered a bank loan for their business, while 41.5% considered a bank loan but believed they would be rejected or that the process would require too much information. Additionally, 12.9% of those surveyed had applied for a bank loan but were rejected.⁴⁶ Most microentrepreneurs do not view banks as a viable option to finance their business. The entrepreneurs typically have negative feelings about banks. Many believe that financial institutions will not lend to people like them, some have no credit or bad credit, others have fear of rejection, and some believe that financial institutions have a prejudice against minorities or young business owners. Consequently, many microentrepreneurs secure start-up capital from personal savings, family, friends, credit cards, and other sources, including predatory finance companies, and loan sharks.⁴⁷

Microenterprise organizations that offer financial products are a primary source of capital for microentrepreneurs. According to the AEO, there was a total of \$132,442,546 capital available as of January 1, 2002 from 164 reporting microlending organizations. Reporting agencies disbursed a total 37,883 microloans.⁴⁸

Sources of Capital for Microentrepreneurs

In the U.S. there are several sources of capital for microentrepreneurs from the public and private sector. The federal government, through the Small Business Administration (SBA) provides access to capital through several loan programs. However, government guidelines may prevent lending to men and women with a criminal history who are currently under supervision. The private sector through for-profit and non-profit lending sources has greater flexibility in their lending eligibility criteria. Many non-profit organizations use SBA financing to facilitate access to capital for microentrepreneurs and consequently may be unable to lend to formerly incarcerated men and women because of character clauses.

Small Business Administration (SBA)

Basic 7(a) Loan

The SBA has several loan programs; however the Basic 7(a) Loan Guaranty is the agency's primary business loan program that helps qualified small businesses to obtain financing when they might not be eligible for business loans through customary lending avenues. Target customers for this loan program are start-up, existing businesses, and commercial lending institutions. Borrowers apply for this loan through commercial lending institutions; the SBA and the lender jointly share the responsibility for guaranteeing the borrowers loan. This program is also the most flexible loan program because financing can be used to guarantee several types of business enterprises.⁴⁹

According to the SBA, eligibility for the Basic 7(a) Loan Program is designed to be as broad as possible in order to accommodate the diversity of small business needs. Furthermore, eligibility is based on size, type of business, use of proceeds, and the availability of funds from other sources. Regarding size, the Small Business Act (the Act), defines an eligible small business as a firm that is independently owned and operated and not dominant in its field of operation. Additionally, the Act states that in recognizing what is a small business, the definition may vary from industry to industry to adequately reflect industry differences.⁵⁰ The types of business considered eligible for the 7(a) program are those that operate for profit; are engaged in, or propose to do business in, the United States or its possessions; have reasonable owner equity to invest; and use alternative financial resources first, including personal assets.⁵¹

Proceeds from eligible businesses under the loan program may go to the purchase of land or building to cover new construction or facility expansion, acquisition of new machinery, furniture, or materials, long and short term working capital, refinance existing business indebtedness, and to purchase an existing business.⁵² According to the SBA, the federal government does not extend credit to businesses where the financial strength of the individual owners or the company itself is sufficient to provide all or part of the financing. Consequently, the ability of borrowers to use both the business and personal financial resources is reviewed as part of the eligibility criteria for the 7(a) program.⁵³

A significant component of the eligibility criteria for the SBA loan program is a consideration of character for loan applicants. Consequently, “(the) SBA must determine

if the principals of each applicant firm have historically shown the willingness and ability to pay their debts and whether they abided by the laws of their community.”⁵⁴

According to Glen Bates, an SBA Loan Assistant, no one under community supervision, including pre-trial diversion, deferred adjudication, or any charges, can receive loans guaranteed by the SBA.⁵⁵ Kim Hobogood, SBA Program Support Assistant, stated that applicants who have completed supervision and have a criminal background are required to undergo a criminal background check conducted by the Federal Bureau of Investigation (FBI). Additionally, applicants must sign a sworn affidavit that states that no additional crimes have been committed since they completed the terms of their community supervision.⁵⁶ Bates stated that the SBA’s finance division reviews applications and narratives detailing criminal history and makes determinations on character assessment as a part of the loan application.⁵⁷

The MicroLoan Program, a 7(m) Loan Program

The MicroLoan Program provides very small loans to start-up, newly established, or growing small businesses. Under this program, SBA makes funds available to nonprofit community based lenders (intermediaries) that, in turn make loans to eligible borrowers in amounts up to a maximum of \$35,000. According to the SBA, the average loan size is approximately \$10,500. Applications are submitted to the local intermediary and all credit decisions are made at the local level. Typically, intermediaries require collateral and the personal guarantee of the business owner as a strategy to secure the loan. Additionally, the maximum loan term allowed is six years, although this can vary

depending on the size of the loan, the planned use of funds, the requirements of the intermediary lender, and the needs of the small business borrower.⁵⁸

The Birmingham Business Resource Center (BBRC) in Alabama serves as an intermediary lender between the SBA and borrowers. According to Bob Dickerson, Executive Director of the BBRC, microloan applications request borrowers to acknowledge their criminal history and explain the circumstances. Dickerson says that the BBRC does not perform criminal background checks as a part of the application process; however credit reports are required as a part of the process and may list the applicant's criminal history. However, Dickerson says that at BBRC, criminal history does not immediately result in the denial of an application for a microloan. Rather, BBRC considers the likelihood that a borrower would pay his or her loan back, and uses previous credit history and the amount the applicant wants to borrow in addition to their previous experience as indicators for loan eligibility. BBRC lends up to \$25,000 to borrowers.⁵⁹

Conclusion

Self-employment is an important labor market participation strategy for low-income workers who find themselves marginalized from living-wage employment. Many African American ex-offenders are excluded from the traditional labor market because of their criminal history. The strategy is not a panacea for all low-income workers who are ex-offenders, but for those with a certain skill level. Furthermore, the approach is mostly

viable for low-income entrepreneurs whose self-employment enables them to supplement low-wage income in order to provide for basic needs.

Training and access to capital are offered at the federal and local level. However, capital available at the federal level is not accessible to everyone as a result of a character clause that denies loans to borrowers based on their credit history and criminal record. As a result, ex-offenders who are still under community supervision and are in need of access to capital for microenterprises must seek nongovernmental sources. Consequently, the financing products available to ex-offenders may be more expensive and have unfavorable terms. This report will present policy recommendations in the concluding chapter that addresses these issues.

In analyzing the microenterprise field and the ability of black ex-offenders to be served by microenterprise programs it is important to recognize that there is a long tradition of entrepreneurship in the African American community. This is significant because in the U.S. there is a history of groups who engage in entrepreneurship as a solution to exclusion from the formal labor market.

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Chapter 5.

The Context of African American Business Development

Introduction

There is a history of microentrepreneurship in the African American community. The purpose of this chapter is to analyze the history of African American entrepreneurship in the U.S. and the ability of black ex-offenders to pursue self-employment as a strategy for labor market participation. Self-employment is often used as an approach by individuals who experience hostility in their attempts to participate in the formal labor market. Many African American ex-offenders are excluded from the formal labor market because of legal or civil sanctions that reduce them to an economic underclass within U.S. society.

Many ex-offenders have low levels of education and poor social networks that contribute to their inability to find living-wage employment. Consequently, the strategy of self-employment is not viable for the entire ex-offender African American population. However, many ex-offenders have skill sets that would enable them to be self-employed. For example, hair care providers, electricians, and landscape artists can often manage small enterprises with little overhead that will generate income in order to provide for their basic needs. In a society, where many ex-offenders face tremendous barriers to living-wage employment because of collateral consequences and civil sanctions, self-employment may be the only viable option.

It is imperative to recognize that African American ex-offenders who choose to engage in self-employment become a part of a long tradition of African American entrepreneurs who created economic opportunity for themselves because of the lack of access to the mainstream U.S. labor market.

The Framework of African American Business

The African American community in the United States has a long tradition of entrepreneurship and small enterprise development that predates Emancipation. Today, African Americans are 50% more likely to engage in start-up enterprise activities than whites.¹ In 1997, the last year that Census statistics were available, there were 823,500 businesses owned by African Americans in the United States that employed 718,300 men and women and generated \$71.2 billion in revenues. Approximately 38% of African American businesses were owned by women, therefore black-owned firms are considered more likely to be owned by women than other minority firms.²

Compared to other minority groups, African Americans do not own a large share of U.S. enterprises.

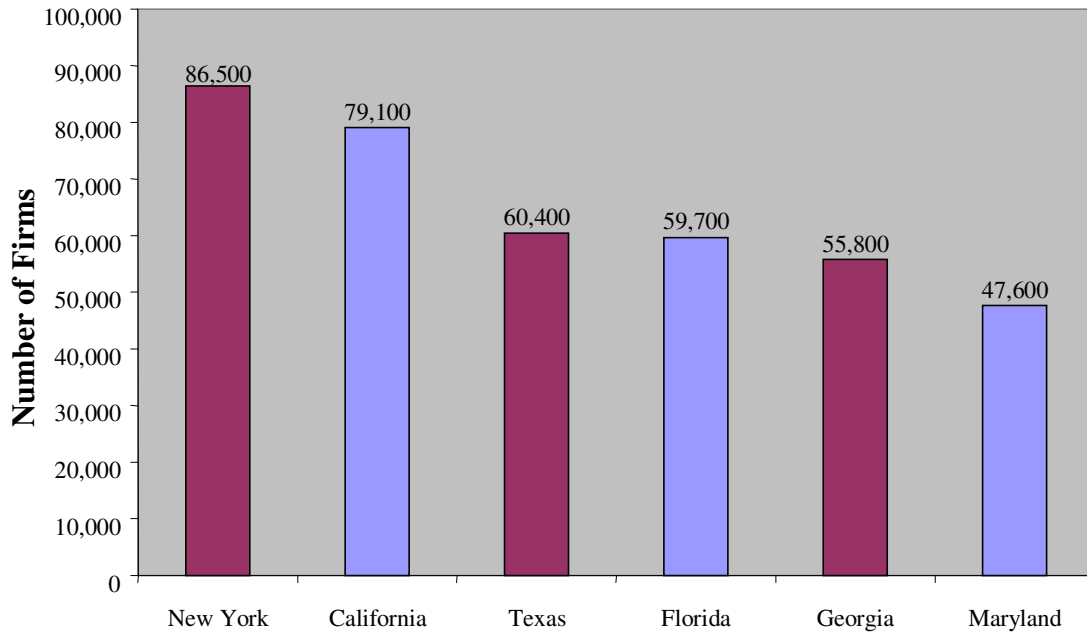
Table 6 U.S. Minority-Owned Businesses, 1997

Demographic	Share of Minority-Owned Businesses
African American-owned	27.1%
Asian-owned	30%
Hispanic-owned	39.5%
Native American-owned	6.5%

Source: U.S. Census Bureau, "Minority-Owned Businesses: 1997," (January 2002)

African American-owned businesses were concentrated heavily in the six states of New York, California, Texas, Florida, Georgia, and Maryland; the states accounted for 47% of all black-owned firms.

Figure 7 Six-States with Largest Numbers of African American Owned Firms, 1997



Source: U.S. Census Bureau, "Black-Owned Businesses: 1997,"

The average revenue generated by African American-owned businesses in 1997 was \$86,500 compared with \$410,000 for all U.S. firms, not including publicly held corporations and firms where race was not identified. More than 70% of African American owned firms generated annual revenues less than \$25,000 in 1997. Additionally, 53% majority of black-owned firms was concentrated in the service sector. The next largest sectors of identified industries were retail trade at 11% and construction at 7%.³

Characteristics of African American Business

In the United States, historically the African American economy has been isolated and typically relies on the consumption of black consumers. A salient characteristic of the black self-employment pool is that the proportion of the black labor force engaging in self-employment is low compared to whites.⁴ A continuing consequence of segregation has been the feeling of obligation of black consumers based on racial loyalty. This dependence results in limiting black business to areas where the African American community is heavily concentrated.⁵

Small and large African American firms continue to be impacted by decades of legalized segregation that resulted in two specific limitations on African American business. First, black business owners relied on black patronage because of segregation. Second, African American business owners located their enterprises in regions with large black populations because of the reliance on black consumption.⁶

Black-owned firms are four times as likely as non-minority firms to have minority customers. Currently, 30% of the largest black-owned businesses continue to cater to African Americans.⁷ This characteristic is particularly true of black businesses in the inner city communities of the nation's largest cities. Additionally, inner city residents typically earn low personal income, have low rates of labor market participation, and experience high rates of unemployment. The economic markets in the nation's inner city communities are internally weak and that disadvantage is reflected in the business community. Furthermore, fewer than 15% of black-owned personal service firms

compete for non-minority customers.⁸ Traditionally, the greatest concentration of African American business enterprises has been in sectors where they do not compete with whites. Typically, these sectors include restaurants, beauty shops, barber shops, grocery stores, dry cleaners, shoe repair shops, and funeral homes among others.⁹

Traditionally, African American business owners of small enterprises have low levels of education and expertise, and limited capital to invest. Small businesses are creating a growing share of new jobs in the U.S., and access to employment in this sector is important to African American economic participation. The structural changes in the urban economy are causing workers of color to rely more than ever before on small business employment due in part to the declining employment opportunities in manufacturing that is offset by a rise in the service producing sector.¹⁰

History of African American Business

The African American business sector developed in this nation before the end of slavery despite barriers to economic participation. According to records, slaves, ex-slaves, and many of the nearly 60,000 free blacks in 1790 contributed to the black business sector before Emancipation. Business owners included ship builders, fur traders, barbers, and restaurant owners.¹¹

However, the reality of slavery was that slaves who had acquired skills could not become true entrepreneurs because of exclusion; slaves lacked capital. The limited number of slaves who accumulated money directed their earnings towards buying their freedom or the freedom of their family members.¹²

Among free blacks, there were African American entrepreneurs. Pennsylvania was one of the early states to experience the development of African American business enterprise. In 1838, a pamphlet was published entitled, “A Register of Trades of Colored People in the City of Philadelphia and Districts,” that listed 656 African Americans involved in 57 different occupations including bakers, blacksmiths, brass founders, cabinetmakers, and carpenters among other enterprises.¹³

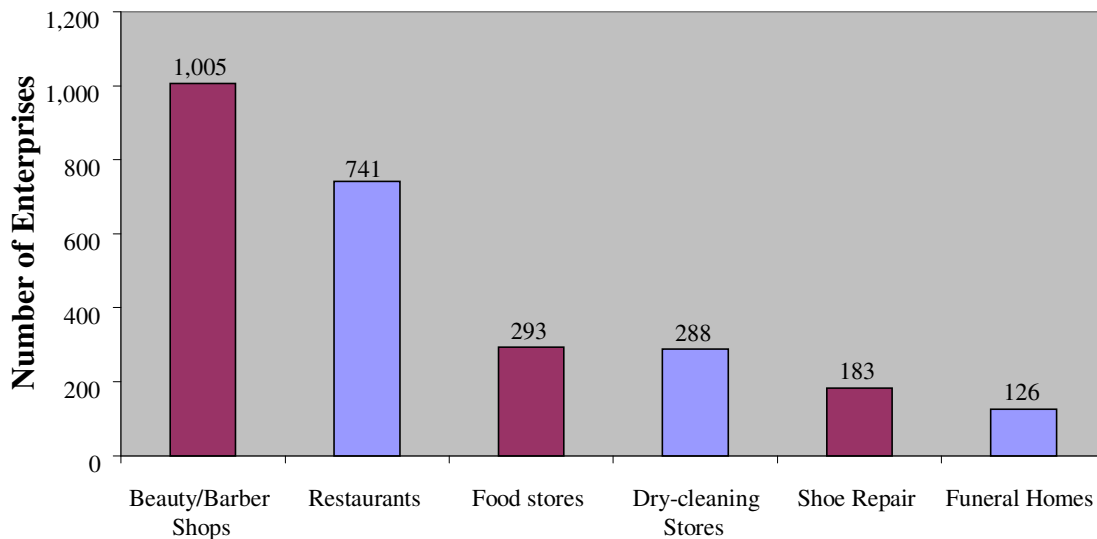
Following Emancipation, the expansion of business was limited by access to capital, credit, and the relatively small and poverty-stricken racial market. Emancipation did not erase the lack of capital, experience, or training brought about through economic exclusion and the impacts of slavery.¹⁴

Various environmental forces led some locations to develop the necessary economic conditions that would facilitate the natural entrepreneurial drive of individuals who could channel their energy and establish an enterprise. Historically, supportive clusters developed in Atlanta, Cincinnati, Charleston, New York City, and Philadelphia.¹⁵

In early America, white entrepreneurs typically avoided trades that were viewed as servile. Consequently, in certain sectors blacks had no competition. Non-competitive sectors for blacks included personal service occupations that were open to anyone who could accumulate enough capital. Those sectors included eating establishments, beauty shops, and barber shops. As a result, low social status was a defining characteristic for most of the entrepreneurial class among African Americans.¹⁶

An important academic study that identified the characteristics of African American business was conducted by scholar Joseph Pierce from 1944 to 1946. The Pierce study presents findings of business and business education among African Americans before 1950, and was jointly sponsored by Atlanta University and the National Urban League. Pierce surveyed 3,866 black firms in 12 cities and determined that six sectors of personal services and retail firms were highly concentrated in beauty/barber shops, restaurants, food stores, dry-cleaning stores, shoe repair, and funeral homes as found in figure 8.¹⁷

Figure 8 Concentrations of Black Enterprises by Sector, 1994-1946



Source: Joseph A. Pierce, "Negro Business and Business Education: Their Present and Prospective Development," (1995, Plenum Press, New York).

After World War II, labor market conditions facilitated the economic participation of African American men as blue-collar workers in manufacturing and contributed to widespread income gains in African American employment after WWII

until 1970. However, job opportunities in the manufacturing sector have declined significantly as the urban economy has shifted to a service-producing economy. Consequently, high-wage jobs in manufacturing have been displaced, and the only categories for black male workers that are recognized for their substantial growth include service employment, unemployment, and labor force nonparticipation.¹⁸

The economic barriers that impacted black business development prior to Emancipation and during the era of legalized segregation continues to influence the establishment and success of African American enterprise today. According to scholars, the major constraint to the formation, growth, and diversification of African American firms in the 1980s was inadequate capitalization, limited holdings of personal wealth, and discriminatory treatment by commercial banks. Many believe that inner-city black communities are being excluded from the process of business development.¹⁹

Barriers to the Expansion of African American Business

Disadvantages to the growth of African American enterprise before Emancipation included a small and scattered black population in northern states, limited access to education of black business owners, lack of capital, segregation, and the existence of few supporting industries. Free market theory did not apply to many African American owned businesses due to the denial of civil and ownership rights.²⁰

Historically, the U.S. government was a significant barrier against the growth of African American business because it upheld unjust statutes that maintained segregation and failed to provide equal protection and economic treatment under the law.²¹ Black

businesses that required large amounts of capital or transportation across state lines were blocked by mainstream American attitudes and laws that made it difficult for blacks to systematically build large businesses.²² The institution of segregation laws implemented by the U.S. government represented a federal program that was based on interference by the government in the normal operation of the market.²³ Consequently, the typical black enterprise that achieved success was small-scale and operated on supply and demand.

Historic periods of discrimination with respect to education limited the development of human capital in the African American community. During the period from 1912 to 1938, 73% of African American college graduates became either ministers or teachers. A select few of African Americans were permitted to enter into advanced degree programs for law, medicine, and dentistry. However, segregation meant that African American advanced degree holders would only serve black consumers. During this period, it was rare to find graduates of engineering, accounting, and general business programs.²⁴ Consequently, the constraints produced a black business community consisting of small firms that concentrated in personal services.

Additionally, labor market discrimination made it difficult for blacks to accumulate the minimum level of wealth required for business investment. For example, the large number of African American owned construction companies in unionized urban areas was in part caused by the historical practice of excluding blacks from participating in apprenticeship programs in building trades.²⁵ The inability of blacks to participate in

unions contributed to their inability to develop the social and financial capital that would facilitate viable enterprises.

The inability to access capital also hindered the development of African American business. Records show that as early as 1789, blacks found it difficult to borrow money in order to establish business enterprises. The developing large banks in the U.S. accepted money from customers of European descent despite ethnicity, and home building associations denied African Americans the opportunity to become investors. Specifically, the Maryland Act of 1852 was designed to limit African American investments.²⁶

To generate capital, African Americans organized mutual-aid societies. These societies were a combination of secular fund raising, insurance, and religious ceremonies. For example, a Philadelphia mutual-aid society in 1838, raised \$18,851 and distributed \$14,172 in capital. The primary responsibility was to facilitate mutual improvement and assistance that included the development of business enterprises in the city of Philadelphia during the period. In addition to mutual-aid societies, there was also a limited tradition of money-lending among African Americans that provided access to capital for African Americans when they were excluded from mainstream financial institutions.²⁷

Opportunities and Economic Benefits of African American Business

Changes in the economic market structure for African American business came with the Civil Rights movement of the 1950s and 1960s through government

intervention, development programs, tax incentives, and procurement programs.

Additionally, increasing economic opportunities for African Americans came with access to education, capital formation, and purchasing power facilitated by the increased growth in black enterprise.²⁸

A shift in the discourse of African American business occurred during the 1968 presidential election when candidate Richard Nixon promoted the idea of black capitalism. According to Nixon, encouraging a sustainable black business class would mitigate the urban riots and violence that took place in many of the nation's cities during the 1960s in response to the lack of social and economic justice for the African American community.²⁹

Following his election, in March of 1969, Nixon issued Executive Order 11458 which had no specific goals but directed the Secretary of Commerce to develop and coordinate activities at the federal, state, and local levels aimed at promoting business development which led to the establishment of the Office of Minority Business Enterprise.³⁰

Following the adoption of the Civil Rights Act of 1964, several laws were implemented that contributed to the expansion of economic opportunity for African American business. Executive Order 11246 was implemented in 1965 and required recipients of federal contracts of more than \$50,000 not to discriminate in employment and to undertake steps to recruit and promote minorities and women. The order was enforced by the Department of Labor which could impose penalties for noncompliance.³¹

The Economic Opportunity Act of 1964 mandated that the Small Business Administration assist small enterprises owned by low-income individuals. In 1967, the federal government amended this legislation and required the first statutory assistance be provided to minority-owned small businesses.³²

The Public Works Employment Act of 1977 and the 1978 Omnibus Small Business Act established percentage goals for procurement for minority owned businesses. The legislation required at least 10% of all federal grants for local public works projects be set aside for minority businesses and directed the Secretary of Commerce with federal departments and agencies to develop comprehensive minority enterprise programs and established specific goals for minority firms in federal procurement.³³

Since the 1970s, the changing character of black-owned businesses mirrored changes in the African American population. The ability to locate in more geographically and racially diverse communities, along with the improved human capital, contributed to the growth of black enterprise. The expansion of social and economic rights to the African American community allowed large numbers of blacks to pursue business education at universities. Additionally, several major corporations implemented affirmative action programs to recruit African Americans into management and professional positions.³⁴

Access to education has expanded the scope of African American enterprise since the 1970s. The profile of black businesses owners that established firms outside of

traditional black business sectors include a college graduate over age 35 but under 60, with an above average income, who establishes an enterprise in an emerging industry such as information technology or financial services.³⁵

Critics of Small Business Development Strategy

Many stakeholders view black businesses as weak because of their location in minority communities and their reliance on African American consumers. Traditional African American firms tend to be small with high failure rates because many of their owners have little education and limited skills. Critics question the viability of the overall African American black business community and often attack government loan assistance and procurement programs as wasteful and ineffective. Recurring criticism is that the heavy concentration of black-owned businesses in small-scale services and retailing activities hold little potential for economic growth.³⁶ Statistics show, the majority of black enterprises only employ the owner and have annual sales below \$25,000.

Furthermore, critics note that most black businesses depend on African American consumption and do not attract investment from other demographic groups, and as such do not contribute significantly to economic growth. According to a study conducted by Andrew Brimmer, an influential African American economist, the potential of black enterprises to create jobs was minimal in the sectors of construction, manufacturing, or transportation.³⁷

Additionally, critics of black business often note the lack of human capital that contributes to the failure rate among African American enterprises. In a study conducted of retail businesses in Harlem in the 1960s, David Caplovitz found that white business owners were better educated than black owners. Additionally, African American business owners were less likely to have had managerial or sales experience before engaging in self-employment activity.³⁸

Conclusion

There is a long tradition of African American small business in the United States despite significant barriers to the market created by government at the federal, state, and local level. The history of segregation and other economic obstructions led to the concentration of personal service enterprises established by African American entrepreneurs. Today, there continues to be a concentration in personal services among black businesses in the U.S.

Self-employment would allow African American ex-offenders to participate in the labor market by transcending the collateral consequences and employer bias that often excludes ex-offenders from traditional employment. Policy recommendations will be presented at the end of this report that addresses this issue. Formerly incarcerated individuals generally face hostile environments in their attempts to obtain employment in the formal labor market.

Notes

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Chapter 6. Recommendations and Conclusions

Policy Recommendations

I have developed several policy recommendations based on the research conducted for this professional report. These recommendations range in their scope from the exclusion of ex-offenders from the traditional labor market, improving access to capital for low-income ex-offenders, and systematically encouraging self-employment as a workforce development strategy among African American ex-offenders. The recommendations are directed to all stakeholders concerned with reducing recidivism among the increasing ex-offender population in the U.S. and facilitating the participation of formerly incarcerated individuals in the U.S. labor market.

Enabling Ex-Offenders to Participate in the U.S. Labor Market

As discussed in chapter one, the men and women who commit crimes should comply with the sanctions required by standard sentencing practices. However, many of the collateral consequences that prevent employment among ex-offenders were implemented outside of the standard sentencing framework and are not part of the criminal code. Changing policies that prevent ex-offenders from obtaining employment in certain sectors would strengthen the opportunity for formerly incarcerated individuals to participate as economic consumers and producers in the U.S. labor market. The laws that facilitate collateral consequences should be repealed at the federal and state level in order to enable the significant population who face significant barriers to employment.

Employers in most states are allowed to deny jobs or fire anyone with a criminal history because of business necessity. Criminal history should not exclude ex-offenders from actively participating as economic consumers and producers in the United States.

Encouraging Self-Employment

Unemployment among ex-offenders is one of the most significant public policy problems of our time. The unemployment rate among ex-offenders is estimated to be between 25% to 40%. Self-employment offers a strategy for participation in the labor market and the opportunity to earn enough income to provide for basic needs among the ex-offender population. As discussed in chapter, microenterprise is not a viable solution for the entire ex-offender population, but rather, should be encouraged for ex-offenders who supplement low-wage employment. Additionally, self-employment is an important strategy to enhance household income for ex-offenders whose spouses are employed full-time.

As low-income workers with limited skills, many ex-offenders would not make good candidates for microentrepreneurs. However, for the formerly incarcerated individuals who do have a marketable skill that would enable self-employment, the strategy of microenterprise should be considered as an option for labor market participation.

Many low-income microentrepreneurs do not depend solely on income from their small businesses to provide for basic needs. Rather, the most common approach for low-

income entrepreneurs who are self-employed is to patch income from various sources including wage employment and microenterprise activity.

Ex-offenders who are strong candidates for self-employment are skilled with the ability to develop productive networks that facilitates their small enterprise. Many of the entrepreneurs engaged in microenterprise experienced hostility and exclusion from the formal labor market. Additionally, good candidates have support networks from family, friends, and colleagues that can assist them in their navigation of the labor market.

The stakeholders who work with issues of employment among the ex-offender population should integrate the concept of self-employment strategies into their work and encourage the option for ex-offenders who are strong candidates for microenterprise. As referenced in chapters three and four, there is funding and training available for microenterprise development at the federal, state, and local level from the government, private, and nonprofit sectors. Many ex-offenders are eligible for programs that train microentrepreneurs and provide access to the resources needed to establish and manage a small business.

Formalizing Self-Employment as an Option among Ex-Offenders

As discussed in chapter one, many ex-offenders participate in the informal labor market because of their inability to obtain formal employment due to criminal history, limited education, or minimal marketable skills. Policies should be created that facilitate the formalization of informal labor market participation among ex-offenders. The informal labor market activity undertaken by ex-offenders should be considered as an

active form of labor market participation and validated by officials who work with individuals under community supervision. Furthermore, if informal sector participation is the only opportunity available to some African American ex-offenders, informal sector participation should be recognized as a viable workforce option and systematically integrated into the work being conducted with the ex-offender population by service providers.

Linking Community Supervision and Workforce Development Programs

The discussion undertaken in chapter three addresses the gap in the services provided to people who have criminal history. A significant number of people with criminal records are sentenced to probation and are not eligible for training and education programs administered in prison and jail facilities at the federal, state, and local level. Consequently, coordination should be undertaken by stakeholders who work with individuals who are on probation and need assistance in improving job and education skills.

Additionally, several workforce training programs available at the federal, state, and local level encourage entrepreneurship. Men and women who are on probation and have entrepreneurial skill sets are eligible for these programs and should be encouraged to participate. Many individuals on probation experience the same employer bias and collateral consequences that face the men and women who served periods of time in prison and jail facilities. Consequently, self-employment should also be considered as a workforce strategy for anyone under community supervision.

Investment in Human Capital among Ex-Offenders

The majority of ex-offenders have low levels of education and limited skills. A large number of these individuals have limited basic skills that should have been acquired during primary education. In many instances the inability to master basic cognitive skills weakens the job opportunities available to ex-offenders with limited education.

Additionally, encouraging ex-offenders to learn a trade in a particular industry will allow them to gain expertise, make them more marketable in the formal labor market, or provide them with the necessary foundation for self-employment. The underinvestment in public education has contributed to the lack of skill acquisition among the majority of ex-offenders. Appropriate government investment in education is necessary in order to successfully prepare individuals for the labor market. Additionally, many ex-offenders are going to have to invest in education in order to gain the skills necessary to obtain wage labor or establish small businesses.

Coordination in the Microenterprise Field

As discussed in chapter four, the majority of the 13 million microenterprises are not being served by microenterprise development and training programs.

Microenterprise programs should undertake a concerted effort to collaborate and coordinate services in order to further penetrate and supply the field of small businesses in the U.S.

A significant share of formerly incarcerated individuals are low-income and do not have the financial resources available to establish start-up small businesses. There are financing products available at the federal, state, and local level for microenterprises. Financing available through the small business administration is unavailable to applicants who are under community supervision and as such excludes a significant share of the ex-offender population. The amount of funding available for ex-offenders can be enhanced by providing access to government guaranteed financial products for non-violent ex-offenders who meet other criteria.

Conclusions

The inability of African American ex-offenders to obtain legitimate, living-wage employment in the formal economy is a systemic public policy problem. Barriers to economic participation do not only affect the ex-offender but the entire African American community and the entire nation. Criminal history weakens human capital in the African American community because periods of incarceration disrupt education and marketable skill attainment. Creative solutions should be developed by lawmakers and public policy officials to correct the systemic barriers that prevent African American ex-offenders from participating in the economy as producers and consumers.

Stakeholders recognize the importance of enabling employment among the ex-offender population as a strategy to reduce recidivism and maintain public safety. It is socially acceptable in the United States to have a significant share of the population with a criminal history. Public policies including tax incentives and insurance programs to

encourage hiring have been implemented to stimulate employer demand for ex-offender labor. Yet, the under funding of correctional departments, lack of standards with regards to prison workforce preparation and educational programs, outdated training strategies, and legal restrictions that mandate employers in many states not to hire employees with a criminal history contributes to the pervasive unemployment among this subpopulation.

The work training and entrepreneurship programs for low-income men and women provide an opportunity for educational advancement and skill enhancement to ex-offenders who are not eligible for training programs in prison or jail facilities. This is particularly significant since a large majority of men and women are placed directly on probation and are not eligible for training programs that enhance skill sets and may lead to living-wage employment.

It is also important to note that self-employment is recognized as a viable strategy for low-income workers and that funding is directed to entrepreneurship programs from the federal government. Thus, self-employment is integrated as an approach into workforce development programs at the federal and local levels.

There is a long tradition of African American business in the United States despite significant barriers to the market created by government at the federal, state, and local level. The history of segregation and other economic obstructions led to the concentration of personal service enterprises established by African American entrepreneurs. Today, there continues to be concentrations in personal services among black businesses in the U.S. African American ex-offenders who are good candidates

for self-employment have some skills that would enable them to manage a small enterprise. Additionally, self-employment would allow them to participate in the labor market by transcending the collateral consequences and employer bias that often excludes ex-offenders from traditional employment.

It is encouraging to note that African American ex-offenders who choose to engage in self-employment are a part of long tradition of entrepreneurship among blacks in the United States. For many, the decision to engage in self-employment is not an attempt to amass personal wealth but to provide for basic needs. Additionally, many continue to participate in wage employment in low-income earning jobs. It is paramount that microenterprise programs and service providers charged with working with ex-offenders begin to reach out to this population and encourage self-employment as a sustainable workforce development strategy for ex-offenders.

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