Do minority businesses face credit market bias?

Do female- or minority-owned businesses face discrimination in credit markets? In their article entitled "Access to Credit by Small Businesses: How Relevant Are Race, Ethnicity, and Gender?" (*American Economic Review*, May 2012, pp. 532–537, **http://dx.doi.org/10.1257/aer.102.3.532**), Elizabeth Asiedu, James A. Freeman, and Akwasi Nti-Addae consider research into this question to be critical because credit markets are crucial to the growth of small businesses. In the United States, 50 percent of all small businesses are owned by women or minorities. According to the Small Business Administration, female- and minority-owned businesses generated 5.9 million and 7.6 million jobs, respectively, in 2007.

The study, which looked at 1998 and 2003 Survey of Small Business Finances data for firms whose owners were Black, Hispanic, Asian/Native American/Pacific Islander (ANP), White women, and White men, contains a literature review and the results of a survey-based estimation technique. Noting that the denial rate for loans to minority-owned firms was substantially higher than it was for firms owned by White men—41.6 percent versus 11.5 percent in 1998, and 37.0 percent versus 8.8 percent in 2003—the authors seek to determine whether the denial-rate differences, as well as differences in interest rates charged on approved loans, can be explained exclusively by a firm's creditworthiness and viability.

The key findings regarding access to credit were the following: Black-owned firms faced increasing discrimination in obtaining credit during the 1998–2003 period. Hispanic-owned firms had a different experience; they faced discrimination in 1998 but not in 2003. ANP-owned firms faced significantly less discrimination in access to credit than either the Black or Hispanic owners during the same time period. The study found no evidence that White-female-owned firms faced discrimination in access to credit.

Regarding interest paid on approved loans, the authors determined that Black-owned firms paid rates comparable to those paid by White-male-owned firms in both 1998 and 2003. Hispanic-owned firms had made progress in obtaining credit (relative to White men), but Hispanics paid higher interest rates on approved loans, particularly in 2003. Firms owned by White women did not face discrimination in loan rates, and these firms paid lower interest rates in 1998 than did White men.

Do UI extensions increase the unemployment rate?

Is it possible that continuing Unemployment Insurance (UI) benefit extensions could weaken the labor market by providing a disincentive for UI recipients to return to work? The answer, according to the research of labor economist Jesse Rothstein, is a resounding "no."

In a recent study ("Unemployment Insurance and Job Search in the Great Recession," National Bureau of Economic Research, Working Paper 17534, October 2011, **http://www.nber.org/papers/w17534**) on the effects of UI extensions on job searches during and shortly after the 2007–2009 recession, Rothstein finds that recent extensions to the period in which the unemployed can draw unemployment benefits had only a small negative effect on the probability that UI-eligible unemployed people would exit unemployment, and that the effect is mainly concentrated among the long-term unemployed.

Rothstein shows that at least half of the extension-induced increase in the unemployment rate is because workers who receive UI benefits are less likely to give up looking for work. In fact, he notes that extended UI benefits could even contribute to the growth of employment as UI recipients continue to seek a job rather than giving up on finding one and dropping out of the labor force. His estimates suggest that less than 0.2 percentage point of the 4.4-percentage-point increase in the unemployment rate in the 3 years from December 2007 to December 2010 was due to an extension-induced reduction in the rate at which workers get a new job.

Rothstein suggests that a generous extension of UI benefits in deep recessions should last until the labor market is strong again, thus giving displaced workers a realistic chance of finding new employment before their benefits expire. □