

THE CONTINUING MYTH OF BLACK CAPITALISM

by Earl Ofari Hutchinson

A century ago, Booker T. Washington argued that political rights and social legislation should take a back seat to building black wealth and economic self-sufficiency. Washington's backers, mainly black businessmen, farmers, ministers, and Republican politicians agreed with his view that racial uplift could only come "through thrift, industry, and Christian morality." Washington founded the National Negro Business League in 1900 with the express goal of organizing support for a business-oriented approach to black advancement.

Militant black leaders led by the NAACP's W.E.B. DuBois roundly condemned Washington's philosophy. His critics, largely upwardly mobile, Northern college educated professionals, believed that his approach amounted to little more than a shameful accommodation to segregation and exploitation. DuBois put it bluntly, "Washington's program practically accepts the alleged inferiority of the Negro races."¹

As the NAACP grew in strength and the civil rights movements of the 1950s and 1960s gathered steam, Washington's program was discredited as outdated and reactionary. During the 1960s, Washington's name became an epithet young black militants flung at anyone whom they considered an "Uncle Tom."²

But times have changed and the pendulum has swung back. At its national conference in 1987, NAACP executive director gave the first hint that the political winds had shifted. Benjamin Hooks, NAACP Executive Director, noted: "We know that black America must do much of the work itself for it is our future we must save." Since then, the NAACP has consistently sounded the theme of self-help and "economic empowerment" at its conferences. Dozens of

local and national black organizations have followed the NAACP's lead and made black business development and economic self-help the centerpiece of the black agenda.

Why? There are three reasons. The massive cuts in job programs and social services coupled with the assault on affirmative action and civil rights during the Reagan era left black leaders frustrated and dismayed with government. The conviction grew among black leaders that government had become an enemy rather than an ally of the black poor.

Secondly, there is the spectacular growth of the black middle class since 1980. According to Census Bureau figures, by 1987, 40% of black high school graduates were attending college, 64% of blacks owned homes and 27% of black families earned more than \$25,000 yearly.

The middle class advance has also brought a sharp rise in black purchasing power. Black leaders estimate that black consumers spend an estimated \$150 billion yearly on goods and services. Black leaders believe that these dollars can be "recycled" into thriving businesses and community programs that can provide jobs and social services for the black poor. Black economic strength, black leads say, will ultimately translate into greater political power for blacks.³

Third, black leaders point to the phenomenal economic success of the Korean, Chinese, Vietnamese, and Cuban immigrants. They have prospered in business, finance, real estate, manufacturing, and retail trade. They have built powerful business and trade associations that provide capital, credit, and technical training for their members. Equally important, their political influence particularly in Miami, New York, Los Angeles, San Francisco,

and other cities has grown with their economic clout. At first glance, these are powerful reasons why economic self-help appears to be a vibrant and an attractive goal.⁴ But let's probe deeper. Asian and Hispanic immigrants did not start at the bottom. A study of Korean small businesses in Atlanta in 1984 found that 79% were able to secure loans or credit from banks. Many of the merchants had operated successful businesses in Korea, were highly trained in management and retailing, and had strong family and business ties.

The immigrants got an added boost from the Korean government when it permitted them to take up to \$100,000 from the country to start new businesses. The immigrants also made skillful use of the "kye" system. This operates as a kind of rotating credit association in which Korean entrepreneurs receive loans, subsidies, business training, and investment information.⁵

The pattern was repeated with the Vietnamese immigrants. The public perception of them as impoverished fleeing Communist rule does not completely square with the facts. Many had college degrees and had either owned businesses or were employed in the professions or skilled trades in South Vietnam. Also, as refugees from "Communist terror" the federal government poured millions into a comprehensive and costly resettlement program.⁶

Far from being a model of "bootstrap" uplift, the Cuban refugees who fled Castro during the early 1960s benefited from the largesse of the American government too. They received substantial sums for resettlement, welfare and income subsidies, as well as business loans and grants. Like the Vietnamese business and professionals, many of the Cubans were college educated and were technicians, managers, business or land owners in Cuba.

How important was the political and economic help the immigrants received to their business success? One has only to compare the figures for economic growth between African American, Latinos, and Asians. In 1987, the average black firm averaged \$46,592 in sales. The average for Asian Americans was

\$93,221. The \$2.4 billion in total assets of Republic National and Capital, the two largest Cuban-owned banks in Miami, exceed the combined assets of all 36 black-owned banks in America.⁷

Even if blacks don't enjoy the instant entree to business and government that many immigrants got, black self-help advocates argue that they can still fashion the billions of consumer dollars blacks spend into a formidable power base. But the problem is that black consumer dollars are just that — consumer dollars.

Despite the increased numbers of blacks in managerial, technical, professional positions in corporations, more than 70% of the nearly twelve million black workers in America are still concentrated in clerical, services, and the trades. A sizable proportion of blacks are employed as unskilled laborers. The black median income of \$19,330 is slightly more than half of the white median income.

When it comes to net wealth, the gap between blacks and whites is even more glaring. The average for white households is \$39,135, for blacks \$3,397. Economist Andrew Brimmer estimates that African Americans own less than 1% of the nation's stock holdings.

The Reagan budget cuts pushed more blacks into the ranks of the unemployed. By 1990, more than 30% of blacks fell below the poverty line. Lacking competitive technical and labor skills, the black underclass became even more marginalized and unemployable. Welfare, minimum wage labor or crime became their only means of survival.⁸

The growing poverty and income disparity means that blacks have very little discretionary income or savings. They spend their paychecks almost exclusively on basic household goods and services. The major corporations exercise near monopoly domination over this consumer market. They control production, supply and transport of all basic food and household items.

This is no accident. The economic infrastructure of African American communities historically has never been designed for capital retention or inflow. The iron-clad control of domestic markets by major corporations is akin to a kind of domestic colonialism. Black

consumers buy the goods from white producers. In turn, the black workers serve as a low wage pool of labor for them. This near permanent "capital flight" from black communities virtually insures that black business stays at the outer fringes of the corporate economy.

A look at the economy of the ghetto today still shows that the traditional business patterns have changed little. The small mom and pop, catering, beauty and barber shops, video and record shops, service enterprises and small grocery stores still make up the bulk of old or start-up businesses in African American communities. They are largely sole proprietorships capable of providing employment only to the owner or family members. They are plagued by the problems of small business — higher prices, limited stocks, and a narrow consumer base. More than 8% will fail within two years.⁹

The expansion in the mid-1980s by black entrepreneurs into petroleum and energy, manufacturing, automotive sales, investment, equity trading, and communications did not provide large-scale employment for the blacks. These are largely finance and capital intensive industries that create few jobs. The top 100 black industrial and service companies that comprised the 1991 *Black Enterprise 100*, for instance, provided employment for only 32,590 blacks. This is less than one percent of the general black work force.¹⁰

The top black firms are subject to the same market fluctuations as white corporations. If inflation-conscious consumers buy fewer cars, new clothes, radios or tapes, the auto dealers, clothing manufacturers, and electronic assembly firms are hurt — no matter what the color of the owner.

Black savings and loans and auto dealers are a good case in point. They directly felt the shock waves from the S&L shakeout. In 1989, twelve out of the thirty-three black S&Ls could not meet the minimum tangible capital requirements established by government regulators. Seven were declared insolvent and placed under direct government supervision.

Since June 1990, more than 20% of all minority auto dealers had failed. To halt the slide, the Minority Automobile Dealers Association demanded that the government provide more low interest loans, training programs, and greater access to foreign car sales.¹¹

While some black firms have prospered, most prospective black entrepreneurs still find the door shut when they seek credit and capital from lending agencies or managerial and technical training from corporations. The result is that black capitalism is still largely a myth. The \$5 billion in sales by the *Black Enterprise 100* in 1991, pales beside the \$2.2 trillion in sales racked up by *Fortune 500* companies the same year.¹²

Overall, the gross revenues for black business hovers at about 3% of the corporate total. The relative strength of black business vis-a-vis the American economy did not change even during the mid-1980s, the so-called go-go years for black business growth.

The immediate prospects for change are hardly much better. The high cost of oil and raw materials, continuing strong market competition from Western Europe and Japan, inflationary pressures, corporate mergers and leveraged buyouts, has sent American business into a deep tailspin. And it can get worse. A Department of Commerce report notes if the present economic trends continue, by the year 2000, Japanese and European firms could surpass United States companies in all areas of advanced research and technologies. This would launch another round of belt-tightening by the major corporations, and make them even less able or willing to assist minority business.¹³

Given the problems of national economic decline, and the continuing impoverishment of African Americans, black leaders will have to do some deep-soul searching and ask themselves: What are the limits of race loyalty? They are asking black consumers to loyally support black businesses because they are black too. Yet they are not saying what black businesses are willing to give in return. They have presented no visible blueprint that shows how black dollars in their hands will be used to provide tangible economic and social benefits.

Black leaders constantly point to the example of the Jews. They say that Jews support Jews and that's why they have advanced. But the Jewish experience is totally different from African Americans. Jewish consumers know that Jewish merchants have a deeply ingrained sense of responsibility and duty to their communities.

This economic bonding is the product of centuries of religious and social persecution suffered in the ghettos of Russia and Eastern Europe. Jewish consumers expect that a portion of the dollars they spend with Jewish merchants will be "recycled" into a wide array of social, cultural, and educational programs and services that benefit Jewish communities. If anything this is the lesson that African Americans must learn when they look at ethnic success.¹⁴

But in the bigger context of changing American capitalism and the global economy, if black businesses are to have any prospect of being competitive, they are going to have to adopt these strategies:

- Pool capital into a development fund to provide loans, credit, resources, training and a contact network for new business development.
- Become more efficient and continue to diversify. Black firms must concentrate more capital in research and development to upgrade products and services. Mergers, joint ventures, stock trading and expansion into international markets are critical mechanisms for growth.
- Expand their consumer base. They must provide efficient service and sell quality goods at competitive prices to generate patronage by all segments of the consumer market — not simply blacks alone.

While the growth of efficient black business and hopefully socially-responsible black entrepreneurs, is desirable, black leaders must be realistic. Black business and self-help programs can't magically cure the ills of African Americans. Despite the massive assault on government programs and services during the Reagan era, the hard truth is that only the federal government can provide the mass resources to revitalize African American communities.

Beginning with the New Deal Depression programs, the World War II military buildup, and post war recovery, government spending, not private industry, has fueled economic growth and job development in America. Federal entitlement programs, civil rights legislation, equal opportunity statutes, and

affirmative action goals enacted during the Lyndon Johnson administration, broke down the barriers for blacks to universities and corporations.¹⁵

It was hardly coincidental that black business experienced its single biggest period of growth from 1977 to 1980. Sales for the *Black Enterprise 100* nearly doubled from, \$886 million to \$1.53 billion. Why? President Jimmy Carter's administration strengthened federal programs that provided grants, loans, and technical training for minority business.

The centerpiece of the Federal initiative toward minority business during the Carter years was the 8A set-aside program. The plan mandated that national, state and local agencies allocate a fixed percent of their contracts exclusively for minority firms. By the time Carter left the White House in 1980, the government nearly tripled the amount of business — \$1 billion to \$2.7 billion — it did with black firms.

Under Reagan, the federal government backpedaled fast away from its commitment to minority business. Cuts in SBA funds and programs, adverse Supreme Court rulings on minority contracting and affirmative action, knocked many black firms out of the economic box.¹⁶ The economic plans offered by the Bush administration and the Democrats in the wake of the Los Angeles rebellion indicate that the policy of federal withdrawal from direct aid to urban areas will continue.

Both Congress and the White House have touted "enterprise zones" as the answer to the urban economic crisis. In his 1992 State of the Union Address, Bush told Congress that these zones "will empower the poor." Bush and Congress proposed using federal and state tax incentives to induce businesses to locate in designated "enterprise zones."

There is nothing new here. The "enterprise zone" concept was first approved by congress in 1980. The idea was to create special business zones in or near economically depressed, low-income neighborhoods. The businesses would then stimulate the growth of minority business. Do they work?

Evidence of their success is at best spotty. A 1991 study by the National Center for Enterprise Zone Research found that the 155 zones in twenty-eight states created minimal

employment for local residents and few business opportunities for minority firms. From 1987 to 1990, the Watts enterprise zone in Los Angeles generated a meagre 159 jobs, and almost no new black business growth. Eleanor Holmes Norton, District of Columbia Congressional representative, bluntly dismissed enterprise zones as a conservative scheme to evade spending money on the poor and developing "a comprehensive urban policy."¹⁷

The failed economic policies of the Reagan-Bush years are precisely the reason African Americans have no choice but to put government back on their agenda. They must mount a massive black pro-democracy style campaign to pressure the Clinton Administration and Congress to commit resources, and initiate new programs toward the economic rebuilding of African American communities. Black leaders and organizations must spearhead that effort by organizing community task forces, political action groups, and mass protest drives.

The funds are certainly there. The Bush administration had no difficulty in digging up the estimated \$2.5 billion a month required to support American troops in Saudi Arabia during the Gulf War. Also, African Americans need not be ashamed to demand more federal dollars and programs to meet their needs.

They pay billions yearly to the government in taxes and fees. When they insist that the government create job, skills training, business development programs, provide income support, and quality health care, they are not asking for charity. They are only asking for a "fair share" return on their own money.

Nor will these demands encourage dependency as Republican and Democratic conservatives, and some blacks claim. Despite the

rhetoric of many business leaders, corporations are not anti-government. Savvy corporate heads regard government as a necessary arbiter to protect their economic interests.

Chrysler, Lockheed, savings and loans executives, the Russian and Polish leaders, certainly did not consider themselves wards of Uncle Sam when they asked for government bail out funds. Defense contractors don't regard the billions they receive in weapons manufacturing contracts as encroachments on their economic sovereignty and decision-making ability. And Agribusiness certainly doesn't complain that price supports and crop subsidies are stunting their growth.

Public Citizens Watch estimates that this "corporate welfarism" costs the taxpayer more than \$110 billion. If corporations then must look to the Federal government to help them keep their bootstraps up then why shouldn't African Americans who have much less not do the same?¹⁸

Black leaders can even turn the government's own rhetoric about the Cold War thaw to their advantage. They can demand that a specific share of the estimated \$45 billion "peace dividend" be used to tackle the massive problems of the black underclass. "Peace dividend" funds could provide low interest home loans, small business expansion, fund a national health insurance plan, rebuild the crumbling infrastructure of the inner cities, and support art and cultural projects. That alone would create thousands of private and public sector jobs for African Americans.

Self-help and "black capitalism" alone must not be regarded as THE economic rescue plan for African Americans. The problems of crime, drugs, poverty, and institutional racism piled high on the doorsteps of African American communities, demand both economic AND political solutions. African Americans cannot afford to forget that.

NOTES

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