



## NEWS RELEASE

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Bankers' efforts to foster minority enterprise are necessary and commendable, K. A. Randall, Chairman of the Federal Deposit Insurance Corporation, said today in a speech before the annual convention of the New Jersey Bankers Association in Atlantic City. But he called for both more caution and more involvement than has been applied so far. If bankers are not careful in these efforts, he said, the concept of "black capitalism" will backfire. "Yet caution itself carries risks today, because the time for correcting inequalities is short. Our efforts in the cities must achieve the delicate balance of doing the job quickly but properly. We have to learn how to run, rather than walk, this tightrope," Mr. Randall contended. We need to increase the present number of minority-owned businesses, he said, but we must simultaneously avoid putting in business those who have no chance to succeed, because the social effect of disproportionate failures will be severe.

He stated his belief that the chief value of minority enterprise is symbolic. It cannot solve deep-rooted ghetto problems like second-rate schools, poor housing, or crime, he noted, but it can provide numerous examples of the validity of the Yankee ethic that intelligence and hard work produce success. Mr. Randall suggested that this ethic is an alien concept to many in the ghettos because they have never seen it work for anyone but whites. There are few success symbols in the ghetto, he said, but the prospering entrepreneur has the potential to fill this void.

"It still is true of today's marketplace, more than in any other arena of modern endeavor, that brains plus work do yield success," Mr. Randall asserted. "The bachelor's degree or the union card are not a prerequisite to proprietorship, and the black entrepreneur need not carry into the market the excess racial baggage that his soul brothers have to carry when seeking jobs or struggling up the corporate ladder."

Mr. Randall also cautioned against believing that minority-owned businesses can succeed if they are segregated out of the general marketplace. He noted that mere survival in the ghetto economy, with its high "tariffs on profit", would be one measure of a man's ability to compete under more favorable circumstances. Beyond that, he suggested, the willingness of the white community to support minority-owned enterprises may have increased in recent years.

He said also that bankers who have liberalized lending criteria must come to grips more firmly with the problem of providing needed management counseling to new or expanding ventures. This is an expensive undertaking, but it is a need which cannot be ignored. Effective and timely transmittal of entrepreneurial know-how can not only salvage loans, Mr. Randall suggested, but should significantly aid the long-run growth prospects of minority-owned businesses.

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Mr. Randall concluded that the concept of minority enterprise has a "momentum all its own. As a symbol of the white establishment's willingness to share economic power, and as potential proof that our system works for everyone, it is critically important that it succeed."

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I am very pleased to have been invited to address the New Jersey Bankers Association today, not only because you represent some of the most capable bankers in the country, but also because individually and collectively you have demonstrated that you are among the most forward-looking bankers in the industry. In particular I would note your efforts and accomplishments in the urban affairs field. I congratulate you on these efforts, and it is on this general subject--and specifically about minority enterprise--that I would like to speak today.

In the course of these remarks, I shall depart from the conventional patterns of analysis and language of the banker and the bank supervisor. This, perhaps, will help to stress the extent to which the realities of the current situation require a departure from our traditional modes of thinking.

As I will indicate later, I am not an unconditional advocate of efforts to promote minority enterprise, or "compensatory capitalism", as it has been called. I believe that bankers have a particular responsibility to be cautious and discriminating in attempting to end inequalities in lending to minorities. If we are not discriminating, I believe that the concept of "black capitalism" will backfire, and fairly quickly. Yet caution itself carries some risks today, because the time for correcting these inequalities is short. Our efforts in the cities must achieve the delicate balance of doing the job quickly but properly. We have to learn how to run, rather than walk, this tightrope. We must make certain that minority enterprise is successful, not only because a lot of attention is being focused on it today, but because ultimately its chief value is symbolic, and I believe we cannot afford the failure of this symbol.

Now, why do I say the chief value of minority enterprise is symbolic? Is it not, after all, the route by which millions of blacks, Mexican-Americans, Puerto Ricans and Indians will enter the mainstream of American economic life? Well, I certainly don't think so. Maybe five percent of them will; that's about how many whites are self-employed.

Beyond that limitation of the effectiveness of minority enterprise, however, there are others:

- Minority enterprise can do very little, if anything, to upgrade the kind of education that is doled out in slum schools.
- Minority enterprise can do little about the generally low level of health or the availability of health services in our ghettos.
- Minority enterprise is not likely to be very effective in increasing the supply of good, low-cost housing.
- Minority enterprise can do slightly better with respect to employment levels in the ghetto, but not as much as we might expect. Fledgling businesses, for example, cannot afford to do much about the hard-core unemployed. Far less than older, larger, firmly established white corporations, can new, black corporations afford the additional burden of training personnel in basic matters like reading, punctuality, or arithmetic.
- And minority enterprise is poorly equipped to make a meaningful impact on other deep-rooted problems like crime, drug addiction, or the erosion of the family structure.

In saying that the value of minority enterprise is primarily symbolic, I do not mean to downgrade its importance. Indeed, success symbols are desperately needed in the ghetto. The young black on the street corner

has no faith in the Yankee ethic--the American maxim that you can achieve success by combining intelligence and hard work. It should not surprise us that he is cynical about this maxim, because to him it is a myth; to him it appears that the maxim works only for whites. And he is right; it hasn't worked for his people, and it won't until we do whatever is necessary to change the things that prevent it from working for them.

Who are the traditional success symbols in the ghetto? Are they good illustrations of the maxim that brains plus effort equal success?

For the middle aged and older Negroes, the success figures have been the preacher, doctor, teacher, lawyer, athlete and entertainer.

For the young man on the corner, however, these people do not serve as inspiration. In the first place, there are not enough of them, but in addition, they are deficient in themselves as symbols, as examples of what he wants to aspire to.

The preacher is a rural, Southern anomaly in a Northern, urban setting. He does not seem relevant to the life that this young man knows. He got where he is by acting out, in the rhetoric of the militant, a role to which he was relegated by the "honky" power structure. And the acceptance of this role was an act of submission which is hard to forgive. Instead of trying to beat the system, the preacher just bowed to it. I think that's a harsh judgment, but one keenly felt among the young people in our ghettos today.

The doctor, lawyer, and teacher have attained greater financial success than the preacher, but they too have shortcomings as figures worthy of imitation. For one thing, their graduate degrees represent an extraordinary amount of education, considering how far they have gotten-- or not

gotten, to be more precise--in the world. The doctor and lawyer have not and cannot reach the very top of their professions because they serve almost exclusively black clientele, and that's no way to become rich or famous. With all that education, ultimately they are just as limited by their color as anyone else in the ghetto.

Then there are black athletes and entertainers. The young black may admire them; he may identify with them. But he recognizes that they had one additional, indispensable ingredient in their success formula: talent. So he may "dig" them, but he won't usually try to emulate them.

To whom, then, does the new breed of young black relate? Whom does he emulate? I am not sure. But if it is the revolutionary or the hustler who best exemplify to him the attainment of status or financial success, I am sure the temptation to emulate them will be very strong.

Whomever he does follow, I do know that he does not have the opportunity to choose among many effective, constructive symbols of the validity of that Yankee notion about intelligence and hard work producing success. And this is a shortage we must do something about.

The successful entrepreneur, it seems to me, offers the clearest and most effective portrayal of this maxim. If he has a product, he offers it in the general marketplace. It competes and succeeds or fails without regard to the personal characteristics of the entrepreneur. To the extent that is accurate, therefore--and I believe it essentially is accurate--the prospering minority businessman has enormous potential as a positive, constructive kind of symbol for his people. His example can provoke the feeling, "Well, if that cat can make it, so can I." Obviously, such examples are in very short supply today, but I believe that it is within

our power to foster the proliferation of these businesses in the immediate future.

In my opinion it is still true of today's marketplace, more than in any other arena of modern endeavor, that brains plus work do yield success. The bachelor's degree and the union card are not a prerequisite to proprietorship, and the black entrepreneur need not carry into the market the excess racial baggage that his soul brothers have to carry when seeking jobs or struggling up the corporate ladder.

Perhaps the most noteworthy black-owned manufacturing company operating in the general market is H. G. Parks, Inc., which sells sausage and other products and uses the slogan, "More Parks' sausages, Mom!" in its advertising. It is significant that for many years very few people knew that Henry Parks is black. The reason they didn't know is not so much that Parks avoided public exposure as that customers simply don't consider the ownership of a company when they buy its products. There is no reason why they should.

If what I have been saying is correct, it is logical to ask a couple of questions. First, if it is true that judgment and effort translate into success, why has the ghetto businessman not thrived? And if a product does sell itself, why have minority entrepreneurs not been able to break into the general market?

I think the answer to the first question begins with the point that, like everywhere else, success in the ghetto is a relative matter. And in the ghetto marketplace, with its excessive tariffs on profit, survival itself is a major measure of success. Business has survived in the inner

city, but it has not thrived, because the market was both segregated and depressed. So I think the maxim works in the ghetto, but the degree of success it produces is not likely to generate any enthusiasm.

To the second question--why have minority businesses been restricted to minority markets--I would say there are several apparent causes, some of which still exist, and some of which may not. There have been shortages of credit. Also, the high rate of attrition and the low levels of profit have prevented expansion to new markets. And in fields such as retailing and service industries, simple racial discrimination on the part of consumers probably has played a significant part.

Perhaps any one of these factors, by itself, would not have been enough to limit a man's horizons to the edge of the ghetto, but in combination they served as a powerful barrier. There is some cause to hope that today not all of these exist, or at least not in the same degree, that they used to. Certainly, as I have said, the problem of obtaining credit is not as severe any more. There also are indications that white suburbanites today would more readily patronize a retail outlet or, say, a dry cleaning establishment which they knew to be black-owned, if these businesses were competitive in quality and cost with others. The higher costs of operating even part of a business in slum areas may still exist, but it is not, of itself and in all cases, an absolute impediment to success.

Thus I think it is reasonable to say that we now may have reached the point where minority businesses can not only do somewhat better at home, but face broader opportunities for serving an integrated market. If this is so, I think it important to continue with what we hope are

"enlightened" lending policies, but further to try to encourage black businesses to appeal to the general market, rather than confining themselves to a segregated and depressed ethnic market. You may ask, since when did the role of the lending officer become that of advocating that his client be adventuresome? And I would respond, since when did bankers wrestle with social problems? I think we have to recognize that a new ball game is likely to have new ground rules.

Now certainly I am not saying that every minority business should branch out. But I do say that when a bank's customer has already demonstrated that he has the talent to market a product or service successfully, or to run a retail outlet profitably, it is just narrow thinking to assume that he always must operate within the confines of the ghetto. In the larger sense, it is folly to think that minority enterprise can succeed nationally when it is segregated out of the lucrative mainstream market.

It is a fact that the traditional protection afforded such black businessmen as hotel and restaurant owners has been shattered, ironically, by the passage of public-accommodations civil rights legislation. And it is already apparent that white corporations have "discovered" the Negro market. Established white cosmetic concerns produce special lines for Negro consumers; white food processors are experimenting with "soul food" products; white clothing manufacturers are turning out Afro-style garments. So it is quite clear that black business will have no protection from white competition. Why, then, should not black business have the opportunity to compete in the suburbs and elsewhere?

Now I would like to return to something I asserted earlier--that we cannot afford to have this symbolic effort fail. In my view, there are two ways it can fail. First, symbolism as a concept is separated by a very thin line from tokenism. In trying to solve very complex problems, which this is, it is human nature to inflate limited successes into great victories. And if we manage to get a few healthy and prosperous businesses going, there will be a strong temptation for us to say to ourselves that we've licked the problem, that we can relax and turn our attentions to business as usual. The kind of symbols we need, the kind of numbers I'm talking about, involves something on the order of doubling or tripling the number of minority entrepreneurs in this country. I am reluctant to try to quantify something like this, both for practical and philosophical reasons, but I think doubling or tripling the present number would not be an unreasonable goal. And token efforts won't accomplish that.

The other way this effort can fail as a symbol is by encouraging too many people to go into business for themselves. Undoubtedly that sounds contradictory. But it will be a great mistake for us to go around promoting "compensatory capitalism" to the point where people who really have little chance of succeeding get established in business, or where perhaps the right people are set up in the wrong enterprise at the wrong place or time. The ultimate social cost of disproportionate failures will greatly outweigh the gains realized from a few successes, and certainly will overshadow the dollar costs of the loan defaults that accompany the failures. There is widespread cynicism in the ghettos now about the

sincerity of the so-called white power structure in allowing minorities to have "a piece of the action;" I do not like to contemplate what that cynicism will turn into if our present efforts are a flop.

So we have an excruciatingly difficult task before us. On the one hand we must strive for something enormously more significant than token advances, and on the other we must be careful not to be so indiscriminate in the attempt that we sow the seeds of ultimate failure.

I do not admit that these two aims are mutually exclusive. I do admit that achieving both of them is going to be extraordinarily difficult, much harder than we could have imagined when we decided that bankers have the responsibility and the capability to attack these problems.

I suggest that a special kind of loan follow-up might turn out to be an especially effective technique for surviving this tightrope act. Bankers who have established special lending programs for minority business have found that one of the principal problems of these borrowers is their need for considerable management advice and counseling. This is an expensive proposition and a function which bankers are not always accustomed to performing. However, I submit that it is indispensable, both as a way to offset some of the uncertainties involved in lending money to a person who has less equity and a shorter track record than those to whom bankers are accustomed to lending, and as a way of aiding their long-run growth prospects. In my view, this is an expense we simply will have to bear.

To make it easier to bear, of course, there are ways of spreading the management counseling burden. There are already in existence some privately supported groups which serve as clearing houses for volunteer consultants, and they should be used wherever possible. Where they don't

exist, we could try to get them organized; where they exist but are not wholly effective, we can bolster them. Other white businessmen in our cities, by the way, can do more than they are; bankers are not, after all, the only ones who have a big stake in their communities, and bankers are in a particularly advantageous position to put that point across more forcefully to their customers in other industries.

In conclusion, then, I would suggest that the problem of compensatory capitalism is more complex, more severe, and more troublesome than we may have bargained for. I think that we must recognize certain features of this problem that we may not have perceived at the outset: one, that whether we wish it or not, the concept of minority enterprise has a political momentum all its own. As a symbol of the "white establishment's" willingness to share economic power, and as potential proof that our system works for everyone, it is critically important that it succeed.

Second the prospects for prosperity among minority businesses are not bright unless they can enter the mainstream marketplace with relative ease. And third, we must find an effective way of compensating for the shortage of entrepreneurial experience and know-how among minorities. This, especially, is a feature of the problem with which we must come to grips more firmly than we have. It is a need at least as great as the need for credit. And I believe it is a need which we can find a way to meet.

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