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by

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Washington, D. C.

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Bankers, more and more, are becoming interested and active in what are variously called urban problems, problems of the inner city, minority problems, problems of the poor, the black, the disadvantaged, and so on. Perhaps one reason we have so much trouble agreeing on a nomenclature is that we have greatly differing views of what the problems are. Within the larger framework of "urban problems," I think this is especially true of attempts to characterize efforts to promote the growth of businesses owned and managed by minorities who demand, and deserve, greater opportunities in this area. This has been called "black capitalism," "compensatory capitalism," and "minority enterprise."

While I am not fond of semantic controversies, I would like to repeat a point excellently made in a recent issue of the Harvard Business Review. "Capitalism" is not a term to which an adjective can be satisfactorily prefixed. It is the same thing no matter who is doing it, and if it is different, it is not capitalism. Further, to imply by a prefixed adjective that it is different, is demeaning to those who would practice it.

Anyhow, there are a lot of differing terms for efforts in this area because, in part, there is no collective agreement on what we are -- or should be -- doing, or on the obstacles that we face. I would like to mention today what I think some of the tougher problems are, and, if not what to do about them, at least what might be considered in trying to overcome them. I believe that it is most important that these efforts to promote more minority-owned enterprise succeed, but I am not confident that all of our endeavors today along these lines will further that aim.

My doubts stem first from the nature of small business itself; the inherently higher risks of new and small businesses have always made this a game in which survival is exceedingly difficult. There is nothing we can or should do to change that essential fact. But we can do something about it -- we can make sure that those who do enter the game are better equipped to survive than some of their predecessors have been. This is much easier said than done, in a situation where most would-be entrepreneurs come to the bank without the usual indicators of credit worthiness, such as satisfactory collateral, an equity interest in the venture, or a sound financial statement. However, some recent experience leads us to the hopeful conclusion that these factors in themselves are not the only ones necessary for protecting the bank's interest as we might have assumed in the past. The First Pennsylvania Banking & Trust Co. in Philadelphia now has about three years' loan experience in the ghetto business field; it is remarkably favorable -- the loss rate for loans to minority-owned businesses is lower than for the bank's commercial loans generally, and this does not even take into account the SBA guarantee coverage.

This kind of loan experience suggests that we may be far more capable than we have believed of lending money to minority entrepreneurs and having it repaid. That is not to say that some, perhaps less careful, lenders have not experienced or will not experience sizable losses. But it seems pretty clear that what First Pennsylvania is doing, it is doing right, and I believe any bank that is concerned about its community and wants to "get involved" will do well to take a page from First Pennsylvania's book.

One aspect of First Pennsylvania's efforts, and an indispensable one, I believe, is the provision of management advice and counsel as follow-up to the loan. Administratively this is quite expensive if borne by the bank alone, but in many cases it is the alternative to much higher default rates. It may be, then, that in part the First Pennsylvania story is that of a tradeoff: they have kept the loss ratio down, at the seemingly high price of providing management guidance. In my view, this is a very appropriate tradeoff; an SBA guarantee procedure just picks up the wreckage, whereas if we put the same kind of money into passing entrepreneurial know-how on to those who need it, we avoid the psychological cost of losses, and we increase the general level of competence. And although there are no figures to prove it, I suspect that it is not necessary to devote to this approach the same order of funds that guarantees would require.

Another fact that must be faced in our minority enterprise efforts is that would-be businessmen from low-income backgrounds often tend to gravitate towards the least viable kinds of businesses, and towards the ones which do the least to bring in profits from outside the ghetto communities. Small-scale retailing is a prime example of this.

Frankly, I am not sure what can be done to offset this tendency. A person who has experience as a clothing salesman for a downtown department store, and who now wants to open a haberdashery of his own, probably should not be talked into starting a hardware wholesaling operation instead. But it is worth noting that the studies that have been conducted on the causes of business failure indicate that there is little relationship between success in a venture and previous experience as someone else's

employee in that same type of business. There is, however, a high correlation between survival and previous entrepreneurial experience, even where the previous experience was in a different line altogether.

Another serious issue to which more attention should be given is the tendency even today for black-owned businesses to be segregated, to serve only minority customers, and not the larger affluent, mainstream markets. In my opinion, minority enterprise cannot succeed if it is not able to compete outside the ghetto economy. And I think that bankers, in granting credit to minority-owned businesses, should be fully conscious of this need. There will be cases in which it would be quite appropriate for a bank to ask an applicant whether he has considered expanding or shifting his operation to a different part of town, especially where the businessman has demonstrated that he possesses the ability to successfully market his goods, and where the prevailing demand for them outside the ghetto would appear to support an additional supplier.

While it appears to me that today the white community is more prepared than before to support minority-owned businesses, this is not necessarily perceived or believed in the ghetto. Indeed, if it is true, it is unevenly true; not all white commercial areas are prepared to ignore the color of the proprietor to the extent necessary for success. Therefore, we will have to be exceedingly cautious in our attempts to help minority entrepreneurs break out of the confinement of the ghetto, but we cannot use the need for caution as an excuse for shying away from the task.

In a day when new white businesses are proliferating in fields like data processing, electronics, or biomedicine, there is still a tendency to

think of new black businesses in terms of fried chicken franchises and dry cleaners. There are, of course, fortunes to be made in such endeavors, and my point is not that there are no black-owned computer or electronics firms; there are. But they are clearly exceptions to the rule, and the worst part is that we automatically think of the fried chicken emporium when we think of minority business, rather than of the computer firm. Our progress in promoting minority enterprise will in large part be determined by our attitudes. We cannot expect ultimate success if our unconscious tendency is to relegate minorities to types of businesses which are pretty far back in the economic bus.

Now, I do not propose to take people who are better qualified to operate a chicken franchise and put them in charge of a company which manufactures guidance system components for anti-ballistic missiles. It may well be that we have to go through a period characterized by high percentages of blacks in particular kinds of enterprises, just as we have seen other ethnic groups dominate such business fields as restaurants or retailing. But I think we can compress the length of that period and avoid perpetuation of stereotypes. And one essential to finding ways of doing that is to force ourselves to recognize that we solve nothing if old patterns of thinking are allowed to continue.

There is another influence developing which may also work to hinder progress. This is the rise of separatist sentiment. This sentiment involves the belief that the black economy can prosper only if left to itself to develop in the way it sees fit, essentially closed off from everyone else. It is not hard to understand why this sentiment

has developed, but it coincides with a time when white society seems more willing than before to undo many of the barriers to truly equal opportunity. But understanding why, and even having some degree of sympathy with those who assert that whites never would really have let the barriers down, is certainly not the same as believing a separatist scheme could work. There are no examples that such a scheme has succeeded, and given the economic nature of today's world, there is even less reason to believe that it could succeed now.

Fortunately, there are indications that separatist sentiment is gaining ground only slowly, and that we will have time to demonstrate that our approach works. But it also seems likely that lack of success on our part will be a great disillusionment to those who now believe we are sincere. And disillusionment and despair are what have given rise to much of the separatist and revolutionary sentiment in the first place.

In conclusion, then, I am very much in favor of the efforts banks are making to promote minority enterprise. I think there should be more such efforts, and I think they should be vigorous efforts. At the same time, however, this kind of thing cannot be undertaken blindly. It is not enough just to make credit available. There are dangers which cannot be ignored in the name of overcoming inertia or of compensation for past injustices. Ill-considered and poorly implemented efforts can put the wrong people in the wrong businesses, and we will find that marginal profits and bankruptcy have been built even more firmly than ever into what is being called "black capitalism."

We will have locked large blocs of entrepreneurs into the least viable businesses, while our own economy blazed ahead into new, sophisticated and profitable fields. Unwittingly or not, we will have perpetrated a disastrous hoax.

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