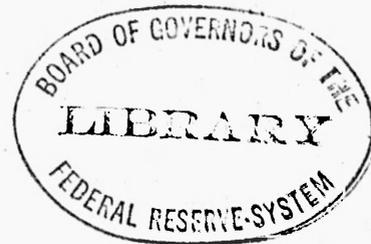


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Economic Progress and
Community Aspirations

Remarks by

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of the

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National Association for the
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Economic Progress and
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I am delighted to have been invited to speak at the Annual Banquet of the Metropolitan Council of NAACP Branches in the Los Angeles area. I am also delighted that I could combine this with the chance to visit at a reception sponsored by the leaders of business and banking who are playing such a vital role through the Management Council to enhance equal employment opportunity.

Although I come to California rather frequently, it is seldom that I can turn away from the technical problems of banking and monetary policy to look at some of the broader issues confronting all of us. Through inviting me here tonight, you have given me such a chance. The central theme of my remarks is not new. In this audience is a number of people who have either already heard whatever message I might bring--or who can anticipate it on the basis of some familiarity with my work in general. Nevertheless, I think we cannot give too much attention to a search for ways to cope with the urban crisis that confronts us--especially when some of the ways we are urged to follow cannot lead to lasting progress.

The main lines of my remarks can be summarized briefly:

- With the widening of job opportunities, the Negro community as a whole is making considerable progress in economic terms.
- However, behind these general improvements, several specific trends are visible which

are far less comforting. This progress is not fully shared: The hard core unemployed are becoming increasingly concentrated among Negroes, and a substantial proportion of those with little or no skills is being left behind.

- With the steady rise in income in the Negro community, more and more large national corporations and financial institutions are being attracted to the Negro market. While the Negro consumer is undoubtedly obtaining access to a wider range of goods and services because of this interest, there is another side to the story: some of these nationwide enterprises (particularly the financial institutions) may be withdrawing more savings from the Negro community than they are returning because of excessively restrictive investment policies.
- In the light of this possibility, there is a pressing need for industrial corporations and financial institutions to search for ways to help fulfill the rising aspirations in the urban community.

With your indulgence, I would like to develop each of these points further.

Improvements in Personal Income

In the last few years, the personal income of the nonwhite community (of which Negroes make up well over 90 per cent) has risen substantially in absolute terms and in comparison with that for the white community. The actual figures showing the median income of families are:

<u>Year</u>	<u>Total</u>	<u>White</u>	<u>Nonwhite</u>	<u>Nonwhite as per cent of White</u>
1960	\$5,620	\$5,835	\$3,233	.55
1961	\$5,737	\$5,981	\$3,191	.53
1962	\$5,956	\$6,237	\$3,330	.53
1963	\$6,249	\$6,548	\$3,465	.53
1964	\$6,569	\$6,858	\$3,839	.56
1965	\$6,882	\$7,170	\$3,971	.55
1966	\$7,436	\$7,722	\$4,628	.60

Several conclusions can be drawn from these figures. During the first three years of the 1960's, the gap between the median income of white and nonwhite families actually widened; the ratio of nonwhite to white income fell from .55 in 1960 to .53 in 1963. This deterioration was a direct reflection of the slow pace of the economy following the 1960-61 recession. Between 1960 and 1963, the median income of white families rose by \$713, or by 12 per cent. The corresponding changes for nonwhites were \$232 or 7 per cent. However, following the general tax reduction of 1964, the national economy expanded much more vigorously

and was further stimulated by the acceleration of the military effort in Vietnam. One result was a sharp climb in personal income. For white families, the gain amounted to \$1,174 (or 18 per cent) between 1963 and 1966. In this same period, however, the gain in the median income of nonwhite families was almost as large in absolute terms--an increase of \$1,163--and represented a rise of 34 per cent, or nearly double that recorded for white families. In these most recent years, nonwhites made substantial gains in employment, and again the gap between white and nonwhite income was narrowed.

These improvements in the income of nonwhite families obviously have meant a further substantial rise in the aggregate purchasing power of the Negro community. In 1963, total money income of families and unrelated individuals amounted to \$371.1 billion, of which \$347.5 billion was earned by whites and \$23.6 billion by nonwhites. Thus nonwhites accounted for 6.4 per cent of the total. By 1965, the total had climbed to \$419.1 billion; the income of whites amounted to \$391.7 billion and that of nonwhites to \$27.4 billion. So, the nonwhites' share had risen to 6.6 per cent. With the large relative gains in family income registered last year, the total purchasing power of the nonwhite community has undoubtedly expanded further. Thus, the Negro market offers an even stronger inducement for merchants selling to the general community.

In passing, it may be noted that here in the West, nonwhites during the decade of the 1960's have made relatively more progress than nonwhites in the country at large. In 1959, the median income

of nonwhite families in the West was \$4,937; this had risen to \$6,337 by 1965. For all families in the western region, median income was \$6,348 in 1959 and \$7,580 in 1965. For nonwhites in the West, the 6-year increase amounted to 28 per cent, and for all families it was 19 per cent. The corresponding increases in the country at large were 26 per cent for nonwhites and 22 per cent for all families. Thus, nonwhite families in the West made faster progress in income than either all families in the West, or nonwhites or all families in the country as a whole.

The View from the Other Side

Having traced these indicators of general improvement, let me hasten to say that they conceal an awful lot of continuing poverty and stagnation. This is especially true of the situation in our large urban communities, which is clearly illustrated by the situation here in Los Angeles. During the summer of 1965, while I was still Assistant Secretary of Commerce, President Johnson sent me to Los Angeles as a member of his three-man Task Force to investigate the riots in Watts and adjacent areas of South Los Angeles. As part of that assignment, I recommended a special Census Bureau survey of the Watts area and several other sections of the city in which the population is predominately either Negro or Mexican-American.

The results of that Census--which are widely known--are still stunning. The survey uncovered a consistent pattern of high unemployment, low incomes and a high percentage of broken families

and sub-standard housing. The South Los Angeles area has a population of about 250,000 Negroes, and about 1 out of every 10 male Negro worker is unemployed. In fact, between 1960 and 1965, the unemployment rate in the area was essentially unchanged: for males it was 11 per cent in 1960 and 10 per cent in 1965. In contrast, the unemployment rate for nonwhite males in the Nation as a whole declined from 12 per cent in 1960 to 6 per cent in 1965. Moreover, the purchasing power of the typical nonwhite family in South Los Angeles declined by \$400 over a period in which the typical American family income rose by 14 per cent, and the typical nonwhite family income jumped by 24 per cent. In general, the Mexican-American population in South Los Angeles during the same period fared no better than Negro families and in many cases they fared worse.

Although we do not have similar documentation for other urban areas, the general experience was probably similar. Thus, beneath the continuation of general prosperity, the benefits have been unequal and unevenly shared.

In the nation as a whole, the unemployment problem among Negro youth and young people from other minority groups and among the long-term unemployed, is particularly urgent. You already know the statistics describing their plight: unemployment rates for young nonwhite males averaging 20 per cent, compared with 10 per cent for young white males. For young nonwhite females, the rate jumps to almost one-third, compared with 12 per cent for their white sisters. While all of these unemployment rates are obviously too high, they actually reflect a situation amounting to a permanent, among Negro youth, depression

As far as the long-term unemployed are concerned, Negroes make up an even more disproportionate share of the total. Moreover, there has been steady deterioration in the incidence of long-term unemployments among nonwhites over the last decade. This can be seen clearly in the statistics showing nonwhites as a percentage of the various types of unemployment in selected years.

Share of:	<u>1957</u>	<u>1961</u>	<u>1966</u>
Total unemployment	19.9	20.5	21.8
15 weeks and over	22.6	22.5	23.7
27 weeks and over	24.1	23.6	24.6

Thus, in each category, there has been a persistent climb in the nonwhites' share of hard core unemployment since the recession of 1961. In fact, the proportions are essentially unchanged from those of a decade ago.

Constructive Attack on Poverty

We all know the reasons behind these conditions: a legacy of poverty, lack of skills, and racial discrimination. No one-- certainly not those who are genuinely concerned with true economic progress--expects this legacy to evaporate immediately. But what they do expect--and so should all of us--is that we will make a vigorous effort to eradicate it through enlightened policy--both public and private.

In this connection, I think it is especially important that we attack the obstacles posed by a lack of marketable skills. Here

I am not advocating the enrollment of every unemployed person in a four-year college--nor even in a two-year trade school. Instead, I think it would be far more fruitful to concentrate on the acquisition of skills through on-the-job training.

The U. S. Department of Labor has already made long strides in this direction. Their experience in the last few years clearly demonstrates the efficacy of this approach. Under the existing legislation, the Department is able to negotiate a wide range of contracts with private industry to provide training for low-skilled persons while they are actually employed. Currently, the average outlay is about \$560 per trainee, for whom the period of instruction averages 18 weeks. However, both officials responsible for the program and participating employers are far from happy with the impact they are making. In the first place, the average trainee entering the program today needs much more assistance than was the case five years ago. In 1962, for example, average expenditure per trainee was about \$300 (compared with over \$500 today) and the average training period was much less than 18 weeks currently prevailing. But in those earlier years, the typical trainee was a man already possessing some kind of skill and work experience who was temporarily unemployed. Today, however, the typical trainee is likely to be a young man who requires instruction even in basic education before he can begin to absorb the training relating to the specific job.

The consequence is a greatly increased need for more investment in the program. Even by next year, some officials estimate the

average cost per trainee may climb to over \$900--especially if the program is to reach out toward more meaningful occupations.

In my judgment, this is a target worth pursuing. At the same time, I realize that such a program will require more public investment if it is to achieve its objectives. After all, when we ask a private business to take on and train a group of unskilled youth or adult members of the long-term, hard core unemployed, we essentially are asking that firm to become somewhat less efficient (at least in the short-run) in its operations. Yet, many companies--recognizing their responsibility to help reduce the backlog of unemployment which is a burden to the community as a whole--have chosen to participate in the program. Since they are taking on a good share of what is clearly a public responsibility, I think we should be willing to compensate them from public funds to a greater extent than we do now.

This approach may be of particular interest to companies here in Los Angeles, where a number of firms (especially those active in the Management Council) are making an effort to widen job opportunities for the disadvantaged unemployed minority groups and to provide training opportunities for those who need pre-job training in order to qualify for employment.

Creation of New Job Opportunities

But beyond the opportunity to acquire skills and greater access to existing jobs, there is also a need for more job-creating

enterprises in the ghetto. This need is probably more pressing in Los Angeles (because of the great distances to outlying commercial and industrial areas) than in most other cities. This is clearly a task for the business and corporate community--a task which remains urgent--despite the successes of the few new plants which have already been located in Watts and other central areas in the last few years.

We know that this task is not easy. However, evidence is accumulating rapidly which suggests that profit opportunities can be found in the location of plants in the ghetto. One example, which may already be known to many in this audience, illustrates the possibilities:

Just outside the boundary of one of our large midwest cities is an all-Negro community with a population of about 10,000, and a labor force of roughly 5,000--of whom 20 per cent to 25 per cent are unemployed. The reasons for the high unemployment rate are the usual ones, of which a lack of skills is the most important. The municipal officials have drawn up a development plan and are actively trying to attract industry. A moderate-size machinery manufacturing firm has responded with an offer to establish a plant in the community which would have approximately 300 employees when it reached full strength in about two years. The capital outlay would be about \$300 thousand, and the company is prepared to supply \$150 thousand. It has asked the city to find the remaining \$150 thousand. It appears that about \$300 thousand would be required to underwrite the on-the-job training

program necessary to fit most of the local potential employees for the semi-skilled assignments which the plant would provide. It also appears that training funds may be available through existing Federal Government programs. Thus, the net requirement is for \$150 thousand for plant facilities. Here, then, is a natural opportunity for businessmen and bankers in that midwest community to join with a financial institution (a large bank or life insurance company) to translate a plan into a going enterprise offering jobs to ghetto residents. I am confident that similar opportunities exist in every one of our major cities, including Los Angeles.

Role of Financial Institutions

Our large financial institutions can play a particularly important role in rebuilding our cities. This possibility has been recognized by these lenders themselves--especially by our leading life insurance companies.

Working through the Life Insurance Association of America, 348 of these companies announced in the late summer that they would invest initially an additional \$1 billion in the urban ghetto. At the end of 1966, total assets of United States life insurance companies amounted to \$167 billion, having increased by \$8 billion during the year. But during 1966, they acquired a total of about \$37 billion in new investments, an amount more than four times as large as the net gain in total assets--a fact reflecting the reinvestment of loan repayments, exchanges, replacements and short-term security purchases.

Let me hasten to say that I, personally, do not interpret these large flows of life insurance company funds to mean that the diversion of \$1 billion of investments to the urban ghetto (perhaps over a period of several years) is of only minor importance. To the contrary. In the first place, insurance companies are pinched for funds. The cash flow in a typical life insurance corporation is about as fully committed as it has ever been. In my judgment, these corporations would have absolutely no trouble putting the money into investments elsewhere with a higher rate of interest. Of course, insurance companies already have heavy commitments in the city--investments in housing and in industrial and commercial facilities. Therefore, I can see that they would want to share in underwriting the efforts of urban reconstruction.

I think this decision of the life insurance companies is significant in another way. It is my impression, based on a number of conversations with officials of Negro-owned life insurance companies, that the large, nation-wide institutions are collecting substantially more in net premiums in the Negro community than they are re-investing in that community. Of course, one cannot document this statistically, but the indirect evidence seems to support the conclusion. For example, officials in Negro-owned insurance companies say they believe that any one of the largest five or six life insurance companies in the country is now carrying on its books more coverage on the lives of Negro citizens than is carried by all of the Negro-owned companies combined. If this

is true (and there is no reason to doubt that it is), this represents a significant change in itself. Until a few years ago, virtually all of the national companies avoided entirely or were highly selective in the issuance of policies on Negro lives, a practice which they felt was necessitated by excessively high mortality rates in the Negro community. As we know, this practice on the part of the national companies was the main reason that Negro-owned life companies found such promising markets for so many years. With the change in practice, the nation-wide companies are now concentrating on expanding coverage in the Negro community--especially among the members of the growing middle class.

While the average Negro policy is undoubtedly smaller than the average for white policyholders, in the aggregate the volume of net premiums (and the net savings component) collected in the Negro community is sizable and growing. On the other hand, the return flow of investments to the Negro community, in the judgment of Negro insurance officials, probably falls considerably short of the outflow.

In reporting these observations, let me say immediately that I am not advocating that there should be a one-to-one ratio between the flow of life insurance savings and the re-investment of funds in a particular locality or community. If such a rule were applied across the board, the efficiency of our machinery for mobilizing and channeling funds would be greatly damaged if not essentially destroyed. On the other hand, if extra risk in the urban ghetto has induced life insurance

companies, on balance, to steer investments to other areas, there is much to be said in support of a conscious effort on their part to divert funds into the ghetto--especially if some kind of Federal Government insurance is available to reduce the level of risk. So, in my judgment, this is a good decision in the right direction.

But the life insurance companies are not the only financial institutions that can help. The savings and loan associations can also play a vital role, because they are the primary source of funds to finance residential housing. In the nation as a whole, S&L's have total assets of some \$ 141 billion as of ^{September} /1967. At the end of 1966, they held just under one-quarter of the total savings held by the principal types of savings institutions. Yet, they also held about 40 per cent of the mortgages on residential real estate.

However, my impression is that only a small proportion of these mortgages is on properties located in the urban ghetto. Instead, S&L's (along with most other lenders) are concentrating on financing of homes in suburban communities and in a few areas of central cities--well removed from the ghetto--where the risks are very small.

At the same time, of course, many S&L's do have branches in or near ghetto areas which serve as depositaries for ghetto savings. Just what proportion of these savings is invested in the ghetto obviously cannot be measured statistically. However, comments by those engaged in the S&L business clearly suggest that it is small. For example, at the 24th annual convention of the National League of

Insured Savings Associations meeting in San Francisco this week, one official from a S&L located in an eastern city was reported by the newspapers as having said that 60 per cent of his community was blacked out--meaning that his institution made no loans at all on properties in three-fifths of the territory in his community.

But in the S&L industry also, the winds of change are stirring. Just a few days ago, a leading figure in the S&L business from Southern California (Bart Lytton, Chairman of Lytton Financial Corporation), also speaking at the industry convention in San Francisco, urged his colleagues to invest \$60 billion in the nation's ghettos over the next 12 years. Whether the S&L industry can divert successfully an average of \$5 billion a year to the ghetto is a critical question. Nevertheless, this suggestion does represent an awareness of the rising aspirations in the ghetto and a desire to help meet them.

What about the commercial and savings banks? They, too, are making an effort to expand their financial support of projects in the ghetto. But (like most lenders) they are finding it difficult to translate plans into viable projects. This seems to be one of the over-riding conclusions which has emerged from the experience of the Philadelphia savings banks which launched a home finance program in that city about 18 months ago. Four of these institutions pledged to invest \$20 million in private homes to be insured by FHA and purchased by residents of the ghetto. The amount was to be distributed

among the participating banks on a pro-rata basis according to their assets, and they made it clear that additional funds could be provided. So far they have been able to disburse or firmly commit about \$1-1/2 million, although they originally expected to be much farther along toward their goal by the time 18 months had passed. They have encountered a number of obstacles which are only gradually being overcome. It took quite a bit of time to work out procedures with the regional office of FHA, and it took even more time to devise a system for appraising ghetto homes and establishing criteria of eligibility without compromising on income standards. But above all, it took time to make contact with ghetto residents and to instruct many of the potential buyers about the process--and responsibility--of becoming homeowners. While they worked through a local information center and even employed a young lawyer full-time to help expedite the program, they relied mainly on their own personnel supplemented by local mortgage brokers and others active in real estate.

From the experience of the Philadelphia institutions, it seems clear that Negro bankers, insurance company officials, and others with a specialized knowledge acquired through lending funds against ghetto properties could make a major contribution in helping to translate the efforts of our leading financial institutions into a significant program of urban reconstruction.

In this connection, I would like to commend the special efforts being made here in Los Angeles through the Good Neighbor Program to enhance the ability of the few Negro-owned financial

institutions to extend loans in the central areas of the city. Six of these institutions (five S&L's and one bank), are cooperating to attract deposits from large industrial and commercial corporations, thus enabling them to expand loans to business and homeowners in the area. I understand a number of companies have responded, thus expanding the deposits of the group by over \$600 thousand. I am also told that the campaign will continue--because the savings deficit in the central area continues to be large.

I think this kind of constructive effort is exactly what is required if we are to foster the growth of economic opportunities to meet the rising aspirations of the urban community.