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The Human Side of the Federal Reserve—Observation in Retrospect

The Appeal of Black Capitalism

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The Human Side of The Federal Reserve — Observations in Retrospect*

by Karl R. Bopp
President
Federal Reserve Bank
of Philadelphia

Twenty-eight years ago I reversed Horace Greeley's advice and moved *East* from the University of Missouri to the Federal Reserve Bank of Philadelphia. This is the twelfth time I have sat here at the head table and the last time I shall address you in my present capacity. I should like, therefore, to use this opportunity to make some long-run observations about the Federal Reserve System.

Much has happened during my Federal Reserve career. We have been in three wars; we have been served by six Presidents. We have seen fantastic accomplishments in the sciences and in the arts. Among the most exciting have been the astronauts' ventures into space. In reading about reactions of the men who circled the moon some five months ago, I have been impressed by the perspective of the earth that one gets from a quarter of a million miles away. Viewed from that distance, geographical barriers vanish, international divisions fade away. Removed from daily chores, one gets a different perspective of life. Today, as we look together at the Federal Reserve, I shall take an "astronaut's" view.

As I do this, I am struck by how many issues fall away into insignificance. What is left, what stands out as the only thing worthwhile, is people—human beings.

This observation may appear rather obvious, but it is one we tend to forget as we go about our day-to-day activities and face our momentary troubles. When all is said and done, perhaps the greatest advance in my time—greater than all the scientific achievements—has been the increasing affirmation of human values. This is what gives me greatest satisfaction in surveying the past and most hope in assaying the future.

Today, therefore, I should like to center my remarks on some human aspects of the Federal Reserve—the "people side" of the Fed. In par-

*An address given at the 66th Annual Convention of the New Jersey Bankers Association, May 22, 1969.

ticular, I shall look at (1) monetary policy, (2) decision-making in the Federal Reserve, and (3) relationships between the Federal Reserve and commercial banks.

MONETARY POLICY

As you know, the Federal Reserve System, as the nation's central bank, has a manifold task, concerning itself with full employment, price stability, and the balance of payments. From any perspective, this is a most formidable task. It is formidable, for one reason, because the economy consists of over 200 million individuals making their own economic decisions and subject to quickly changing mass psychology.

The difficulty of the Fed's task is compounded by the apparent conflicts, at least in the short run, among its objectives. We must help keep the economy as fully employed as possible without risking runaway conditions which could lead to inflation and, ultimately, depression. We must attempt to achieve favorable conditions on both the domestic and international fronts. We must try to maintain an economic environment in which all people who are willing, able, and seeking work can find jobs, but at the same time maintain the real income of those in retirement.

Often the Fed has to trade-off one objective against another. For example, we may have to be content with less than maximum immediate growth of our domestic economy in order to keep our balance of payments from deteriorating to the point that we cannot play a leading role in the world economy. We may have to accept some inflation to achieve full employment—or some unemployment to contain inflation.

In all these possible trade-offs, human values are uppermost. The damage which inflation can inflict on the growing number of people living on fixed incomes has to be measured against the damage which unemployment can bring to another large sector of our population. It is not just numbers—not just price indices or unemployment rates—that must be minimized or maximized. It is the quality of human life that is of paramount concern. I know the pain of unemployment. During the depression of 1921, my father, who was a carpenter, found himself out of work. The pain of unemployment is not just economic—it is emotional and psychological as well. For the disadvantaged the cost in terms of human achievements foregone is borne by generations.

Although these costs always have existed, they have come to the forefront of public policy in the past twenty-five years. The searing effect of the Great Depression survived the prosperity of World War II and found its expression in the Employment Act of 1946. That piece of legislation is perhaps the most important single affirmation in our lifetime of the concern of this nation for the plight of the economically disadvantaged. It helps to explain much of what has happened since. It helps to explain, for example, why this country, after World War II, and unlike its experience after every other major war in its history, did not suffer a sharp recession. It helps explain why prices did not decline sharply as they had after the Revolutionary, the Civil, and the First World War.

Elevation of human values to a position of top priority, in short, has produced an economy that is more humane. But it has immensely complicated the task of those who are responsible for guiding that economy. It is no longer acceptable to take the view, once prevalent, that depressions are necessary periodically to purge the economy of its "excesses." The difficulty the Federal Reserve faces today in restraining inflation stems partly from its concern for social justice. With 22 per cent of nonwhite teenagers out of work even now when the economy is going at full steam, it is clear who would be first to feel a recession. Yet the costs of continuing inflation, though somewhat less apparent, hit hardest our older citizens who also are ill equipped to meet those costs.

As these human costs have come to the fore, society has greatly narrowed the margin of error it permits its officials, including the Federal Reserve. We now work within much closer tolerances than even ten years ago. Thus, even though the economy has been performing better, on average, than ever before, we have been criticized—understandably—for overdoing restraint in 1966 and for excessive ease in 1968.

Let me make myself clear. I am not concluding that the Federal Reserve—or anyone else—has tamed the business cycle. I remember too well the widespread complacency of the late 1920's. But I do believe that increasing emphasis on human values has greatly changed the size of the stakes. The public is not willing to tolerate gross errors of the 1929-1933 variety. Federal Reserve and other public officials must perform—or else. This raises the question of the kind of people making decisions in the Federal Reserve and how they go about making them—my second point.

DECISION-MAKING IN THE FEDERAL RESERVE

Decisions are made in the Federal Reserve in an atmosphere of less than perfect information. Over the years we have collected vast amounts of statistics and have learned a great deal about how our economy functions, how financial markets function, and how the impact of monetary policy is transmitted through financial institutions and markets to people who make spending decisions. But the more we learn, the more it is apparent that there is still much more to learn about this exceedingly complex economy. A multitude of factors affects our economic environment. These factors, as well as the relationships among them, are changing constantly. So, pushing out the frontiers of knowledge is an essential, but difficult, task.

The longer I participate in policy-making, the more I am convinced that pat formulas for reaching decisions do not exist. The tasks of policy-makers would be easier if some magic formula were available. But the ever-changing nature of the variables with which the Fed is concerned precludes a simplistic approach to decision-making. We must rely upon judgment—judgment solidly grounded in theory but sensitive to new developments and to new priorities.

In making these judgments, the Federal Reserve System relies heavily on a pluralistic decision-making process. We are convinced that all truth does not reside in one place or in one man. Judgments are based on a free interplay of ideas flowing from the member banks, the boards of directors and staffs at the Reserve Banks, and the Board of Governors in Washington. I have seen this work; and it works well—not perfectly, but well. One advantage of the process, of course, is that it adds stability. Ideas are cross-checked, balanced against other ideas, and compromised. The chances of the Fed going off half-cocked are remote.

I am increasingly impressed, however, by another advantage of this approach, and this is one that is less often recognized. John Gardner has touched on it. He has written: "In an organization with many points of initiative and decision, an innovation stands a better chance of survival; it may be rejected by nine out of ten decision makers and accepted by the tenth. If it then proves its worth, the nine may adopt it later." With the Federal Reserve under such great pressure to perform in this fast-paced economy, it stands much more chance of coming up with a break-through idea under this arrangement than under one in which all authority is centralized.

This is the great strength of the System's structure. I have attended some 179 meetings of the Federal Open Market Committee—meetings in which seven Governors and twelve Presidents and perhaps half a dozen staff members have something to say. Although the spirit of innovation has not been present at every one of these meetings, I have seen it often enough to be convinced of the value of this kind of group participation.

In the course of perhaps 288 meetings of the board of directors of the Federal Reserve Bank of Philadelphia, I have seen this spirit often enough to be convinced that the Reserve Banks and the System as a whole are much better run because of this kind of decision-making.

And, finally, I have seen the same dynamism at work within the staff of the Federal Reserve Bank of Philadelphia. I am sure the same high-quality results would not have been forthcoming had I been making all the decisions—even if it had been physically possible for me to do so.

The process can work, the structure can hold together, however, only so long as we can attract and hold top-notch men. And we can do this only so long as we can offer them opportunities to contribute.

RELATIONS WITH COMMERCIAL BANKS

After much trial and error, I have concluded that one of the essential ingredients for getting along with my fellow man is a mutual understanding of and respect for motivations. This is no less true for institutions.

Recently, Professor Richard A. Falk, Milbank, Professor of International Law at Princeton University, noted that "John Maynard Keynes long ago spoke of the paradox of aggregation—that the definition of rational self-interest is different for the individual than for the community. If one's car is polluting the atmosphere, the addition to the general pollution is so infinitesimal that there is no rational incentive to forebear from driving, or to spend money on anti-pollution filters." This paradox helps to explain the relationship between the Federal Reserve and commercial banks.

Commercial banks exist primarily to make money. True, you want to serve your communities and protect your depositors, but these are subsidiary motivations. The Federal Reserve, on the other hand, exists primarily to further the public welfare. And although it is not motivated by a desire to keep you from making money, it must at times, and in different ways, frustrate your plans and desires. It does this in carrying out its responsibility for monetary policy and frequently as a banking supervisor.

We have in this situation the makings of a first-class confrontation. But this will not result in violence if we understand and respect each other's motivations. Let me give two examples.

The first stems from the ingenuity of the human mind in devising ways to get around controls. Bankers may not always have exhibited this characteristic, but they are now making up for lost time.

Bankers today are an innovative breed. They dream up new services, new approaches to the provision of old services, and the means of satisfying a greater array of the public needs. I am making no moral judgment when I point out that bankers devote considerable resources to devising means of circumventing restrictions on these activities. Recently, a number of ingenious devices have appeared. These devices have enabled banks to secure funds in a time of restrictive monetary policy and despite a ceiling on interest rates on time deposits. Some banks have grouped portions of their loan portfolios and have sold participations in these pools of loans. We have seen one-bank holding companies secure funds through the sale of commercial paper and then channel these funds to the subsidiary commercial bank. We have seen banks attach letters of credit to obligations of their prime customers so that these obligations may be sold in the market.

As bankers have devoted many hours in devising ways of circumventing regulations, monetary and banking authorities have had to devote their energies to considering how to respond. So, we have a cumulative effect in the costs involved in circumventing the restrictive provisions of banking laws and regulations.

I repeat, there is nothing morally reprehensible in all this. But it can be wasteful. My preference, as a matter of principle, is to rely as much as possible on market forces to discipline bank behavior. The Federal Reserve has plenty of power to safeguard the public interest without building a cumulative structure of detailed regulations to close each newly discovered loophole. And in a free market banks can devote their energies more productively to meeting and beating their competition in serving their communities.

Nevertheless, so long as the Federal Reserve is responsible for the public welfare and commercial banks are responsible for making money, the game will go on. So long, however, as commercial banks respect what the Federal Reserve is trying to do and the Fed respects what the banks are trying to do there need be no insoluble problems.

My second example has to do with membership. I am happy to say that this has not been a major issue so far as New Jersey banks are concerned. It *has,* however, been elsewhere, and I feel it is so important that I should like to take this opportunity to make a few observations.

Having studied central banking all of my adult years and having practiced it for many of them, I am convinced of the importance of the job the Federal Reserve is doing. I know, of course, that there are many different ways to go about the job and many different ways in which a central bank may be organized. In the case of this country—for many reasons, historical and other—commercial banks are linked to the central bank by membership and by reserve requirements.

These are a means by which the banks—as private, profit-making institutions—share the burden of the public function which the banking system performs. From my present vantage point, I am convinced that this burden must be shared more equitably if the Federal Reserve is to continue to do its job effectively.

Commercial banks are private, profit-oriented businesses. As such, they have an incentive to leave the System if this will increase profits and give them a competitive edge. But they are also the principal intermediary for the transmission of monetary policy. Therefore, it should be clearly understood that what may be acceptable behavior for one bank or a few banks may be unacceptable for the banking system. Banking is not like other industries and it is worse than useless to pretend that it is. And while I can understand why individual banks find it in their best interests to leave the System, it is more difficult for me to understand why some state banking laws provide incentives for such exits to occur. Should withdrawals proceed to the point where they seriously weaken the ability of the Federal Reserve to carry out its responsibilities as a central bank, the Federal Government will be forced to act. Meanwhile, states still have an opportunity to assume their share of the responsibility for devising a banking system conducive to effective monetary policy.

CONCLUSION

Having looked back over the past, what can I now say about the future? I have limited confidence in my ability as a forecaster. Thus, had I attempted, twenty-eight years ago, to specify what the world would be like today, I would have missed by a wide mark indeed. Events have moved much faster than I would have dreamed. And so there is little I care to say about where events will have taken us twenty-eight years from now.

But on the main subject of today—people—I feel more confident in forecasting. History demonstrates that the individual has become more important. And although I would hesitate to project a straight-line trend into the future, I believe that human values will be given even more attention than they are now.

This message may seem out of place in today's environment of self-guilt, bitterness, and recrimination. This environment, I believe, is itself a reflection of greater concern for people; painful as it is now, we will emerge the better for it.

If I am right about this, the objectives of the Federal Reserve, its decisions, and its relations with others—including commercial banks—will also increasingly recognize the human component. The Fed, as a public institution, must, after all, *reflect* the society which it serves. I also hope it can at times continue to *lead* it.

The Appeal of Black Capitalism

by Richard W. Epps

Throughout the nation a rapidly growing complex of black-owned and -managed business is heralding a new approach to the economic problems of Negroes—black capitalism. One of the prime examples of this approach is a mushrooming complex of black industries and investments in Philadelphia, spear-headed by the Reverend Leon Sullivan of the Opportunities Industrialization Center. Expanding from a core of capital raised by a group of Negroes saving a mere 10 dollars a month, Sullivan's group has constructed a 16-store shopping center, established an aerospace firm, started a garment manufacturing company, and entered the apartment business. The two manufacturing firms employ nearly 300 Negroes, and the shopping center has provided quality quarters for 10 Negro-owned stores. Although the enterprises and investments are diverse, they all point toward improving economic opportunities for the Negro population.

Black capitalism is embraced by Democratic and Republican parties alike. It is suggested as a solution to many Negro problems by both conservative and liberal black leaders. One of the reasons that black capitalism has such broad appeal is that it means different things to different people. Some view black enterprise primarily as a practical solution to current economic problems plaguing Negroes—as a means of training black workers, providing career employment opportunities, increasing investment in the ghetto, and providing an economic foundation for black civic leadership. Others feel that there are many significant social and psychological values to be gained through black capitalism, and that these are most important. Negroes who have tired of reliance upon aid from mostly white-run government and business, for example, envisage black capitalism as a chance to do it themselves—to avoid asking for either a handout or a hand-up. As a realization of the American ethic of self-help, black capitalism offers respect to a people striving to achieve a sense of pride. The list of psychological and social values goes on. But the essence of black capitalism is economic. Continued existence and expansion of the concept largely depend upon its economic soundness and upon how well it manages to serve current economic needs of black people.

WHAT IS BLACK CAPITALISM?

Black capitalism is an effort to increase Negro control of business. Of course, since ownership is often a prerequisite to control, it is in part an effort to increase Negro ownership of business. Ownership need not be private, however, and on this point *black capitalism* diverges from the traditional interpretation of *capitalism*. Black control may be effective whether business is owned solely by private individuals, by a community group, or even partly by government.

In fact, several different schemes for black capitalism have been developed, each with a different structure of ownership and control. For example, a plan proposed by the Congress of Racial Equality and introduced into the Congress last summer would combine community ownership with major government support.[1] Under this approach a Community Development Corporation (CDC) would be established within a ghetto, and would be owned and run solely by residents of the ghetto it serves. Policies of the CDC would be determined by all of the residents of the ghetto, with each resident having an equal vote in the annual shareholder meetings. In addition to revenue from operations and special tax treatment, a Community Development Bank, supported by earnings of Federal Reserve Banks, would help finance the corporation.[2] The charge to be given the proposed Community Development Corporation (CDC) capsulizes the social character of this approach to black capitalism. According to the proposed legislation, the CDC would have the objective of ". . . expanding . . . economic and educational opportunities, increasing ownership of productive capital and property; improving health, safety and living conditions; enhancing personal dignity and independence; expanding opportunities for meaningful decision-making and self-determination; and generally securing the development, social well-being and stability of the community." In pursuing this goal the CDC would establish businesses within the ghetto, purchase existing businesses, and use at least 20 per cent of its profits to provide social services such as education and housing within the ghetto.

Most current attempts to boost black capitalism lie at the other extreme—encouraging individual, privately held black businesses. The

[1] Senate Bill 3875, 90th Congress, 2nd Session.

[2] Except for relatively small amounts used for payment of dividends on Federal Reserve Bank stock (owned by member banks) and for addition to surplus, all net earnings of Federal Reserve Banks are given to the United States Treasury. In 1968, $2,463,628,983, representing 97.4 per cent of total earnings, were paid to the Treasury by the twelve Federal Reserve Banks.

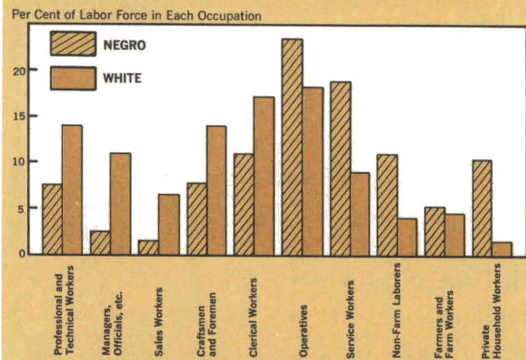
Job Loan Corporation, Greater Philadelphia Enterprise Development Corporation, Small Business Administration and the Greater Philadelphia Community Development Corporation (not a CDC) are examples in Philadelphia of organizations attempting to provide aid to Negro businesses. The Greater Philadelphia Enterprise Development Corporation, for example, brings Negro businessmen together with banks or public sources of funds, such as the Small Business Administration or the Philadelphia Industrial Development Corporation. It helps businessmen apply for funds and then enlists the volunteer aid of accountants, attorneys, and other professionals, when needed, to help businessmen improve management practices.

Early efforts by this corporation have been oriented toward small businesses, with most loans below $10,000 in value. In each case the businesses aided have been completely privately held, depending for support upon their own earning power.

CHART 1

BLACK WORKERS ARE CONCENTRATED IN LOW-WAGE OCCUPATIONS . . .

Bars represent the distribution among occupations of the nation's Negro (shaded bars) and white (lighter bars) labor forces. Workers in occupations toward the right earn generally lower wages, while those in occupations toward the left receive fatter paychecks. Negro workers are concentrated in the low-wage occupations, with relatively few workers in high-wage occupations.



Source: *Recent Trends in Social and Economic Conditions of Negroes in the United States*, United States Department of Labor, Bureau of Labor Statistics, July, 1968

ECONOMIC OBJECTIVES OF BLACK CAPITALISM

Proponents of black enterprise hope that it will lead to economic improvements in three different areas—the job market, the ghetto economy, and the economic base of political and civic leadership. To a large extent, each of these areas dictates a somewhat different type of black business structure. Moreover, the probable success of the self-help approach differs for each of the three sets of problems.

The job market. Negro workers are concentrated in the lower rungs of the job market. There is a wide gap between their average wage and unemployment rates and those of the rest of the population. As shown in Chart 1, a disproportionate number of Negroes work in low-wage jobs. Chart 1 indicates the distribution among occupations of white and Negro workers nationally. Workers in occupations toward the right side of the chart generally earn lower wages while those in occupations toward the left receive fatter pay checks. There is a clear tendency for Negro employment to decrease relative to that of whites as the pay levels of occupations increase. A survey of Negroes in ghettos in Philadelphia carried out two years ago tends to confirm this observation.[3] Nearly two-thirds of the workers were found to belong to the least-skilled occupational groups—service workers, laborers and operatives.

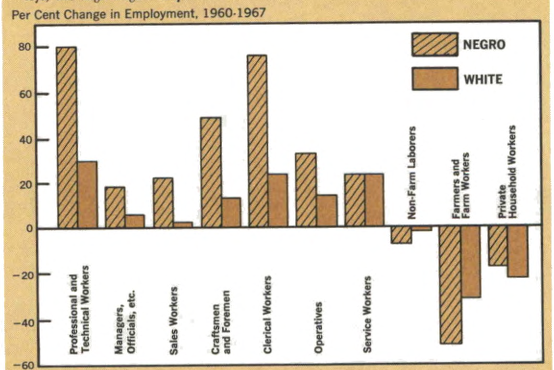
The concentration at the lower end of the occupational ladder means that a disproportionate number of Negroes receive low wages. Also, it means that Negroes are subject to a high rate of unemployment. Unemployment among low-skill workers is both higher than that of other workers and more sensitive to changes in business conditions.

Progress has been made recently in improv-

[3] See, "A Sharper Look at Unemployment in United States Cities and Slums", United States Department of Labor, November 1966.

CHART 2
BUT NEGRO EMPLOYMENT GROWTH IS STRONGEST IN HIGH-WAGE OCCUPATIONS.

Bars represent rates of employment growth between 1960 and 1967. Negro employment growth (shaded bars) has been strongest in occupations toward the left, the high-wage occupations.



Source: *Recent Trends in Social and Economic Conditions of Negroes in the United States*, United States Department of Labor, Bureau of Labor Statistics, July, 1968

ing the adverse occupational distribution of Negroes. As shown in Chart 2, the more rapid rates of employment growth for blacks have been in the higher-paid occupations (toward the left on the chart). Yet, even at these rates of growth, the structure of occupations will continue to be more bottom-heavy for blacks than for the rest of the population for some time to come.

The impact of the occupational structure of Negroes upon their employment situation is complicated by geography. Negro communities, particularly the ghettos, tend to be located far from rapidly growing centers of employment in the suburbs. This has a double-barreled impact. First, since incomes of black workers tend to be low, Negroes are ill-equipped to finance transportation to outlying areas. Second, the distance between job openings in outlying areas and the Negro community means that blacks may have only limited knowledge of expanding opportunities. Efforts of state employment services and certain business groups, such as the National Alliance of Businessmen, have helped increase the flow of knowledge. Yet, distance remains a barrier.

The Negro employment picture results largely from three different types of causes—present discrimination in the job market, current discrimination in other markets, and past discrimination and exploitation. By providing jobs in black-owned businesses, black capitalism may help counter current discrimination against Negro workers in the job market. The effects of discrimination in other markets and of past discrimination and exploitation, however, are outside the scope of narrowly defined black enterprise.

In part, the concentration in the low-skill occupations stems from a lack of training of black workers. For example, Negro workers have achieved an average of 20 per cent less schooling than the rest of the labor force. The lag in training reflects a number of historical and institutional factors, such as the agrarian background of many blacks and the often inadequate education facilities which have been provided for Negro children. Resolution of problems left by the history of inadequate training is beyond the scope of most proposals for black capitalism. Rather, major governmental investments in training, similar to the many manpower programs currently being carried out, is required. Black business may take a hand in the training effort. However, some subsidy from government would probably be required if black business were to be able to both train workers and make enough profit to stay in business.

The lack of employment opportunities near major Negro ghettos is a reflection, on the one hand, of cost and discrimination factors in the housing market that restrict many Negroes to older sections of the city, and, on the other hand, of costs involved in industrial location in the city. Negroes cannot easily move to suburban locations where employment opportunities are expanding most rapidly. Moreover, land, tax, insurance, and other costs in the city lead many profit-seeking firms to choose a suburban location. Black business in the ghetto will have to deal with most of the high costs and congestion that other businesses escape in the suburbs. Therefore, if black business is to build factories in the ghetto and still compete in the economy, some sort of government subsidy to make up for high city costs may be required.

Still, some aspects of the employment problem are directly within the scope of black capitalism. It seems likely that part of the disadvantage of black workers stems from current discrimination in the job market. For example, for equal years of schooling, blacks average 25 per cent less income than the rest of the population. Part of this difference may be caused by variation in educational quality. But there is a clear implication that even for equal schooling Negroes receive less pay than whites. In other words, some Negro workers receive less pay than their potential productivity would justify perhaps because of discrimination against black workers. To the extent that this is true, elimination of discrimination in the job market by development of black capitalism might lead to an immediate elevation in the incomes of some black workers. Importantly, this gain could be achieved without adding to the level of government subsidies required to make up for costs of training and operation in the ghetto.

The ghetto economy. The development of black capitalism will lead to more than just jobs; some anticipate a change in the nature of the ghetto economy. In particular, proponents hope to develop a more efficient retail structure, with lower prices for retail goods to make the black dollar worth more. And they hope to find a way to keep profits generated through purchases of goods and services by ghetto residents from leaving the ghetto.

Evidence to date tends to support the contention that prices, at least for durable goods, are higher in the ghetto than elsewhere. A recent study in the nation's capital found prices for consumer durables running nearly twice as high in ghetto stores as in stores located elsewhere.[4] These findings supported the results of an earlier study made in Los Angeles.[5]

At least in the Washington area, however, these higher prices did not translate into higher profits. Measured as a return on equity, net profits after taxes were essentially the same for ghetto stores as for those located elsewhere. For Washington stores, the extra revenue from higher prices was soaked up by higher salary and commission expenses (possibly a result of door-to-door selling) and higher bad-debt losses.

This evidence would suggest that higher retail prices in the ghetto may not be ended by a mere change of ownership from white to black. If expenses of doing business in the ghetto are indeed high, as the Washington study indicated, then prices of goods must be high unless (a) ghetto stores are subsidized, or (b) the method of operating ghetto stores is changed to increase efficiency—perhaps a change from small stores to large ones.

But a change in ownership may have an additional impact upon the economy of the ghetto. Some hope that a shift of business ownership from white to black might lead to increased investment by keeping profits within the ghetto.

It is true that most new investment by business is heading toward the suburbs. In part, this is a result of congestion and higher operating costs in the city that cut into profits. To the extent that high rates of investment by business in the suburbs are motivated by such

[4] *Installment Credit and Retail Sales Practices of District of Columbia Retailers,* Federal Trade Commission, 1968.

[5] F. D. Sturdivant, "Better Deal for Ghetto Shoppers," *Harvard Business Review,* March-April, 1968, pp. 130-139.

cost considerations, only a very special form of black capitalism, such as the Community Development Corporation, will keep profits in the ghetto. Whether money is invested by black or white enterprises, there is a tendency for it to go where profits are highest. Thus, some kind of institution like the CDC which is not primarily concerned with the rate of return on its investments will be required.

Black business and community leadership. Another objective which proponents of black capitalism seek is a strengthened voice in the public arena. They hope that black business will increase the flow of political and civic leadership as well as increase the economic influence of the black community.

One of the major ironies of recent progress toward integration of Negroes into the economy is that the process of economic integration may have reduced the political effectiveness of black leadership. Andrew Brimmer, a Governor of the Federal Reserve System, has noted that many emerging Negro leaders have been drawn into middle- or lower-management positions in large, mostly white-run corporations as integration has proceeded. With little power inside these corporations, Negroes are removed from the Negro community and from a power base of their own. Development of black capitalism might put these same leaders into a position of power as well as develop more independent decision-makers.

Of course, Negro leaders have many non-business outlets for exercising and building their skills. Increasing involvement in government-sponsored ghetto programs as well as burgeoning community associations, partly supported by foundation grants, provide a number of opportunities. But there is a qualitative difference between the voices of business groups and those of government or community groups as they are heard in the government arena. Businessmen may speak as major taxpayers and campaign contributors, while leaders of smaller government or community groups have little money and often represent only a small constituency. Leadership speaking from a base of black capitalism may have a more effective voice.

ECONOMIC OMENS FOR BLACK CAPITALISM

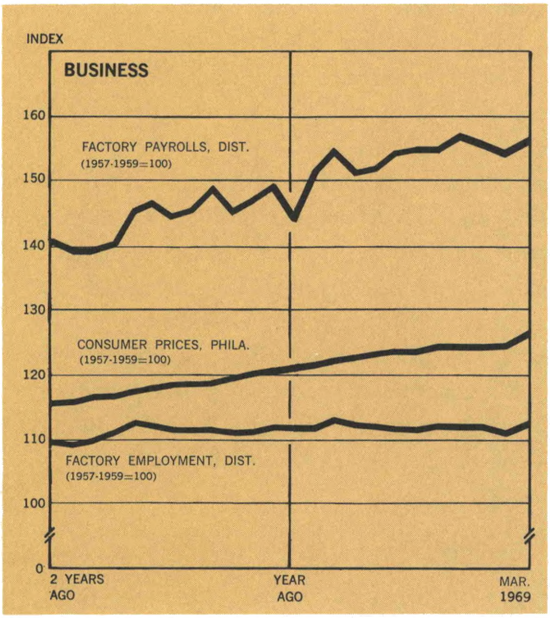
Black capitalism may face several economic impediments. Perhaps the principal stumbling block, at least in the short run, is management talent. Creation of successful new firms requires the highest level of entrepreneurial talent. Yet, the supply of skilled Negro managers is small. For example, in founding the aerospace firm owned by Zion Industries, the Reverend Leon Sullivan found it necessary to draw upon existing corporations for aid. Before the firm was established, General Electric Corporation agreed to purchase early production. Along with the promise to buy, General Electric provided management personnel and substantial counseling in the design and organization of production facilities. Following that experience, the Reverend Sullivan organized a training course for Negro management through the Opportunities Industrialization Center. Development of management talent may require substantial subsidies, particularly if it is to be accomplished quickly.

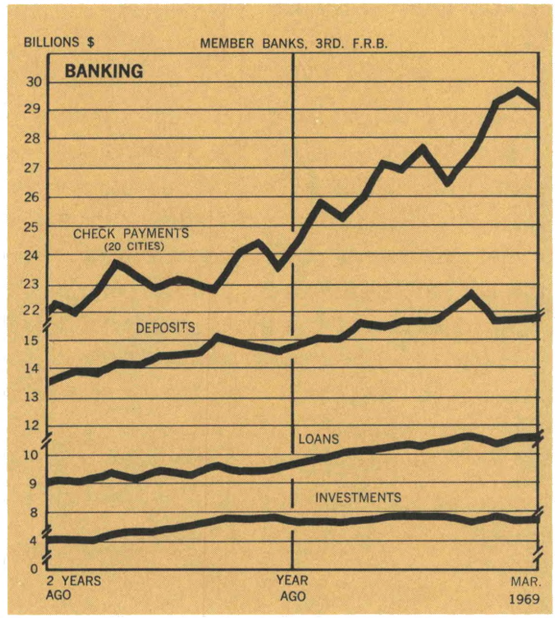
BLACK CAPITALISM ON BALANCE

Development of black business as a solution to economic problems has both strengths and weaknesses. On the plus side black capitalism may, even without aid from government, counter some of the effects of current discrimination in the job market. Also, the development of black-run enterprises may strengthen the voice of the Negro community. In contrast, fundamental improvements in the retail structure in the ghetto may not follow from a mere change of ownership from white to black. Moreover, progress on the important problems of worker training and investment in the ghetto may require substantial government subsidies.

The development of black capitalism provides a business form specially suited to help solve a few of the basic economic problems of the black community. Still, the overwhelming majority of jobs and financial resources are currently concentrated in government and the general business community. Efforts for substantial near-term progress in improving the economic condition of Negroes, therefore, must involve the whole economy—directly by training and employing Negroes and perhaps indirectly by aiding the development of black business.

FOR THE RECORD...





SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	March 1969 from		3 mos. 1969 from	March 1969 from		3 mos. 1969 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
MANUFACTURING						
Production	....	....	....	+ 2	+ 4	+ 4
Electric power consumed	....	....	....	....	....	....
Man-hours, total*	+ 1	0	0	....	....	....
Employment, total	+ 1	0	0	....	....	....
Wage income*	+ 2	+ 6	+ 6	....	....	....
CONSTRUCTION**	+12	− 2	+19	+ 4	− 8	+14
COAL PRODUCTION	− 3	− 6	+ 1	+ 1	− 9	− 3
BANKING						
(All member banks)						
Deposits	0	+ 8	+ 7	0	+ 7	+ 7
Loans	0	+12	+12	+ 1	+13	+12
Investments	0	+ 5	+ 5	0	+ 3	+ 4
U.S. Govt. securities	− 2	− 6	− 5	− 2	− 6	− 5
Other	+ 2	+14	+15	+ 1	+11	+12
Check payments***	− 3†	+23†	+23†	− 1	+21	+20
PRICES						
Wholesale	....	....	....	+ 1	+ 3	+ 3
Consumer	+ 1‡	+ 5‡	+ 5‡	+ 1	+ 5	+ 5

*Production workers only
**Value of contracts
***Adjusted for seasonal variation

†15 SMSA's
‡Philadelphia

LOCAL CHANGES — Standard Metropolitan Statistical Areas*	Manufacturing				Banking			
	Employment		Payrolls		Check Payments**		Total Deposits***	
	Per cent change March 1969 from		Per cent change March 1969 from		Per cent change March 1969 from		Per cent change March 1969 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Wilmington	+ 7	+ 2	+ 8	+ 6	0	+29	0	+12
Atlantic City	....	....	....	....	+ 4	+ 3	+ 1	+11
Trenton	0	+ 4	0	+ 6	+26	+59	− 4	+11
Altoona	− 1	+ 1	+ 2	+12	− 7	+ 9	+ 1	+14
Harrisburg	0	− 2	+ 2	+ 5	+ 2	+19	+ 1	+14
Johnstown	+ 1	− 2	+ 4	+ 3	+ 2	+ 9	+ 1	+10
Lancaster	0	+ 1	+ 1	+ 9	− 2	+12	+ 2	+12
Lehigh Valley	+ 1	0	+ 2	+ 6	0	+10	+ 1	+10
Philadelphia	0	− 1	+ 1	+ 4	− 6	+21	0	+ 7
Reading	0	+ 3	− 1	+ 9	0	+36	+ 1	+15
Scranton	− 1	− 1	0	− 2	− 3	+11	+ 1	+ 9
Wilkes-Barre	0	+ 2	+ 1	+ 8	− 2	+11	0	+ 9
York	+ 2	+ 3	+ 5	+11	+ 3	+10	0	+ 7

*Not restricted to corporate limits of cities but covers areas of one or more counties.
**All commercial banks. Adjusted for seasonal variation.
***Member banks only. Last Wednesday of the month.