

The Situation As It Stands Today

Most black-owned businesses are small and marginal, providing a meager income for the owners and few jobs for others. Typically, these businesses are barber shops, beauty parlors, funeral parlors, grocery stores, and other small retail or service businesses. There are also a few--very few--banks, insurance companies and manufacturing firms that are owned and operated by Negroes.

Negroes constitute 12% of the population, but:

- Less than 1% of the nearly five million private businesses in the United States are owned and operated by non-whites.
- Less than 3% of the 1.5 million Americans who classify themselves as self-employed are non-white.
- Only 3.5% of the non-white men in the United States labor force are managers, officials or proprietors--compared to 14.2% of the white men in the labor force.
- In the Watts area of Los Angeles, only 2% of all businesses are owned by non-whites. In Harlem, about 10% to 15% of the businesses are owned by non-whites.
- Negro-owned businesses contribute less than 2% to the United States gross national product.
- Of the 31,000 auto dealerships in the United States, six are owned by Negroes. Until recently, there was only one Negro auto dealer.
- Typically, one major United States manufacturing company has 8,000 sub-contractors--not one of them black-owned.

As I said in my speech in Philadelphia on May 2 to the African Methodist Episcopal Church Conference:

"Count 40 white Americans. One is a proprietor. To find one black proprietor, count one thousand. And with rare exceptions, he is in a marginal business . . ."

The Roadblocks to Black Entrepreneurship

The Negro who aspires to entrepreneurship often faces all the predictable handicaps: poverty, poor education, defeatism, prejudice.

But in addition he specifically lacks the three major resources that are needed to become an entrepreneur in Twentieth Century America. They are:

1. Capital
2. Training and technical know-how
3. Markets

Obviously, these are the three things that any program must help provide in order to promote successful black ownership of business.

The inner-city Negro has a particularly difficult time obtaining capital. Money begets money, but he seldom has the collateral to secure a loan. Negro-owned banks are few in number and relatively small in size and, as Federal Reserve Board Governor Andrew Brimmer points out, they tend to be conservative, concentrating on well-secure loans. The big, white-owned banks have few branches in Negro neighborhoods and, in these days of tight and costly money, all bankers are reluctant to risk funds on untried, untested, unsponsored borrowers.

The businessman in the slums also has difficulty in buying insurance. The National Advisory Commission on Civil Disorders surveyed about 1,500 businessmen in the poverty areas of Boston, Cleveland, Detroit, Newark, Oakland, and St. Louis; more than 40% of them complained about serious problems with insurance--it was either unavailable or available only at prohibitive cost--and more than 20% of them did not have basic fire insurance coverage. Without such coverage, it is virtually impossible to obtain credit of any kind.

What Is Being Done

The picture today is more one of promise than performance.

There is no shortage of programs--public, private and combination public-private.

But it appears that the achievements do not measure up to the challenge. That is partly because the challenge is so large and partly because the programs are so new, but mostly because the people who could benefit most from the programs know so little about them. It cannot be emphasized enough that these programs have to be more widely and vigorously publicized and promoted.

There is so little black-owned business today that any real improvement in the picture would be significant. The existing programs have the potential for fostering such improvement--if Government officials, concerned corporate executives and leaders of the inner-city community join to coordinate, publicize and exploit them properly.

A brief review of the major Government and private programs:

Government Programs

--The SBA's Economic Opportunity Loan Program. Under this program, started early in 1965, the SBA can make direct loans up to \$25,000 or, as an incentive for private lenders, guarantee up to 100% of such loans made by banks for up to 15 years.

The great majority of loans go to borrowers who are poor, many of whom come from minority groups. Through May 31, 1968, the SBA had made loans totalling \$75,314,000 to 6,397 borrowers.

--The SBA's Small Business Investment Corporation Program. While the SBICs grant credit to small entrepreneurs of all kinds, there is a new interest in helping Negroes and other minority groups. License applications are pending for five SBICs that will be oriented particularly toward Negroes. Of the applicants, two are in Chicago, two in Los Angeles, and one in Philadelphia.

--The SBA's Section 8A Program. To help provide markets, the SBA can assign Government contracts to needy small businesses, provided that those enterprises are owned and operated by members of minority groups or, if not, hire the hard-core unemployed. Since January, the SBA has let six prime contracts and nine sub-contracts with a total value of about \$10,000,000 under Section 8A of the Small Business Act.

A. Government Programs (con't)

--The SBA's Lease Guarantee Program. I first proposed this program early in the 1950's. It was finally approved in 1966 and put into operation in 1967. So far, it has guaranteed approximately 50 leases for business tenants who otherwise would have been turned down because they lacked a sufficiently high credit rating.

The experience of this program in Miami shows the potential of Government programs that are publicized vigorously and managed creatively.

More than 60% of the 50 leases guaranteed so far have been in Miami, because the local administrator got the word around, and developers took advantage of the program. The developer of a shopping center learned about the lease guarantee program, spread the news to members of the Cuban refugee community, and these refugees, in turn, applied for and received lease guarantees for 26 stores that they will operate in the shopping center.

Also in Miami, the developer of children's day care centers propagated the lease guarantee program. Result: lease guarantees have been secured for five operators of day care centers--three Cuban refugees, one Negro, one white Anglo-Saxon Protestant. The centers will cater primarily (at \$3 a day) to lower-income mothers, who will be able to deposit their children and go to work.

--The SBA's Procurement & Management Assistance Program. This offers, among other services, management consulting by SCORE (Service Corps of Retired Executives), which has about 3,200 consultants in some 200 chapters.

--The SBA's Franchise Opportunities Program. Through newsletters and public speeches by the agency's officials, the SBA tries to publicize franchise opportunities to Negroes.

--The Office of Economic Opportunity's Small Business Training & Technical Assistance Program. In this program, the OEO has contracted with the National Business League (which is a Negro Chamber of Commerce) and the Interracial Council for Business Opportunities to provide training to small businessmen.

In sum, the existing Government programs provide opportunities for loans, loan guarantees, lease guarantees, markets, management assistance and management training.

B. The Private Sector

Private businessmen are carrying out several programs on their own.

Usually, these programs are cooperative efforts involving businessmen, inner-city community groups, and the Government. But they tend to fall into certain categories, depending on who is the prime mover.

Examples:

--Groups of Negro businessmen and professional men, who banded together to sponsor black-run companies.

B. The Private Sector (con't)

One such group is the Green Power Foundation, Inc. in Watts.

It was founded by 153 Negroes, many of them aerospace engineers, who raised \$75 each for initial capital. The Foundation then (1) leased 1000,000 square feet of plant space from the Pacific Telephone Company for \$1 a year; (2) negotiated a 60-day, \$50,000 loan from the United California Bank, with 30 blue-ribbon companies acting as loan guarantors, (3) started manufacturing "Watts Walloper" baseball bats, mounted the bats on presentation plaques and sold the plaques to supporters for \$10 a piece, (4) used the proceeds to pay off the \$50,000 loan; (5) applied for-- and I expect will receive--a \$280,000 SBA loan for plant expansion.

Altogether, 72,000 Watts Wallopers have been sold so far. The company has recently secured two major contracts, and intends to diversify soon; it plans to start a bicycle plant, a trucking company and some aerospace sub-contracting companies.

So far, Green Power has 60 employees, pays them a minimum of \$2 an hour, and has a waiting list of 600 job applicants. It has perhaps the world's most unusual work force: Green Power hires only people with arrest records.

The National Economic Growth and Reconstruction Organization (NEGRO), headed by Dr. Thomas W. Matthew of New York, is another example of black-controlled business corporations. Chartered in 1964 as a non-profit corporation to promote "the self-help concept among the Negro people," NEGRO now owns and operates The Interfaith Hospital in Queens, NY., a chemical company, a textile company, two bus lines, a paint manufacturing company, a clothes manufacturing company and two 100-family apartments.

NEGRO'S business ventures are financed by the sale of Economic Liberty bonds sold to the general public -- denominations range from \$.25 to \$10,000 -- and the bonds are backed by NEGRO's \$3 million in assets.

NEGRO now employs about 600 people and has an annual payroll of more than \$1 million.

--White-run companies that give financial and or management help to start black-managed enterprises.

(con't)

A partial listing includes Fairchild-Hiller's "Fair-Mecco" Project in the Shaw area of Washington D. C.; Eastern Gas & Fuel Co.'s real estate development project in the Roxbury section of Boston, and the E.G. & G. Company's light-metal fabrication subsidiary, also in Roxbury.

Many are small, rather experimental projects. EGG-Roxbury, for example, has employed 64 workers, also has a Negro training manager and a Negro production manager; E.G. & G. Co. holds 100% ownership of the subsidiary now, expects steadily to reduce that share to 50% in five years, then to 25% in 20 years -- by awarding the stock as options.

Another outstanding example is the newly formed company named FIGHTON, in Rochester, N.Y. It will manufacture light transformers and metal stampings at a plant in the inner city and will employ inner-city residents.

This project is unique and promising for several reasons:

--It is a product of a close degree of co-operation among a local Negro community organization, a local major company, and the Federal Government.

--It will be wholly owned and operated by Negroes.

The company's birth was recently announced by its three patrons: Xerox, the Department of Labor and the city's Negro community organization, FIGHT.

FIGHT will play two roles: 1) it will own and operate the plant, and 2) it will provide life-skills training and other pre-employment training for men and women to enter the labor force.

Xerox will serve two functions: 1) it will provide job training for everyone in the work force -- general managers, sales personnel, administrative personnel, production workers, and 2) it will guarantee a market for the company's products for the next four years -- the tough-to-get-over years for any new business. The plant will manufacture parts for such Xerox products as the new 3600 copier-duplicator.

The Labor Department will help to finance some of the training services conducted by FIGHT and Xerox.

Planners from FIGHT and Xerox believe that FIGHTON will not remain a one-market company, but will develop regional and perhaps national markets with other firms, then will be able to expand to a double-shift production, with about 100 people, by mid-1970.

The extent to which such a company can develop is shown by the success of a similar firm, the Watts Manufacturing Company, a subsidiary of Aerojet General in Watts.

In the aftermath of the Watts riots in August, 1965, I met with industrial leaders in Los Angeles to explore ways to combat severe unemployment. The Aerojet General Corporation decided to attack the problem by establishing a firm in the heart of Watts, a firm that would hire residents and train them on the job.

When the subsidiary started two years ago, its founders set as their goal for mid-1968 a work force of 100 employees and sales of \$2,500,000. Watts Manufacturing has far exceeded those goals. It has 500 employees and expects by this year's end to achieve sales of \$4,500,000 to \$5,000,000.

The company manufactures in four product lines -- textile, wood, electrical and metal products. Its business is 65% military and 35% civilian, and it is working to reverse those proportions.

--Community-sponsored Development Companies.

The prime example of this is Baltimore's Council for Equal Business Opportunity, funded partly by the Ford Foundation, and directed by several dozen local bankers, businessmen and professional men -- Negro and white.

These men: 1) help to identify areas of business opportunity; 2) offer how-to-do-it training and management advice; 3) have helped form an investment company to provide risk capital. The council has started, or is in the process of putting together, 50 small, Negro-managed business enterprises -- tire dealer, general contractor, shoe store, clinical laboratory, shopping center, electronic component producer, investment company, photo shop, fuel oil company, and the like.

Similar development organizations exist in New York City (Interracial Council on Business Opportunity); in Rochester, N.Y. (Rochester Business Development, Inc.); and Columbus, Ohio (East Central Citizens Organization).

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III. With regard to markets:

The Small Business Administration's "Section 8A" program provides for the assigning of Federal Government contracts and sub-contracts to businesses owned and operated by minority groups or businesses that hire the hard-core unemployed. I recommend the substantial enlargement of this program.

I recommend that the procurement officers in the Federal agencies be instructed to take the necessary steps to assure that minority firms which bid competitively be guaranteed full and equal consideration in the awarding of government contracts.

IV. With regard to administration:

My review of this situation discloses an extensive overlapping of the present authority of several federal agencies in this area.

I recommend the designation of a lead agency -- either the Department of Commerce or the Small Business Administration -- to exercise principal authority in promoting minority entrepreneurship. This agency should also function as the single place in the Federal Government where the prospective minority entrepreneur could obtain information about the available sources of assistance. It could disseminate information about the kinds of projects that are proving successful.

The lead agency should also develop working relationships with the private foundations which are now entering this area of experimental entrepreneurial development. It is an increasingly common situation that an inner-city enterprise is funded partly by Government, partly by private business, and partly by private foundation funds.

This lead agency can be designated immediately. In the longer-term, however, and as part of America's total offensive to rescue our cities, new administrative mechanisms and technique must be developed to deliver the full resources of society in the most efficient and effective way possible. These mechanisms for techniques should draw from our growing capability for systems analysis and they must necessarily move beyond traditional categories of government, business, or foundations. As President, I would give priority attention to developing these mechanisms with the full participation of the people and institutions involved.

There is also need for the kind of joint public and private participation in this program which the National Alliance of Businessmen provides in the JOBS program.

Here, however, there must be full and effective -- and probably controlling -- participation by representatives of the minority groups. For the expressed concern about "industrial colonialism" is a very real one.

I recommend, therefore, the establishment of a National Committee on Minority Business. There is a rapidly growing "know-how" in this virtually new area of private -- and human -- enterprise. It is the kind of know-how that develops in the nation's inner cities before it does in Washington. The National Committee on Minority Business would be responsible for bringing these ideas and concepts to the Federal Government's attention -- so that the Government can tailor its assistance to the real -- not imagined -- needs of minority businessmen.

The National Committee on Minority Business should also encourage members to participate in starting new inner-city businesses -- often in partnership with neighborhood development corporations -- and in providing technical assistance and managerial training for minority-owned businesses.

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We are beginning to realize that the basic answer to the problem we created for ourselves and each other over the centuries lies in the simple idea of self-help -- self-responsibility.

This does not mean any lessening of the common obligation -- our obligation as a people, as a country, as a government -- to join in doing what needs to be done, and to share the cost.

It does mean that we ought to seize every opportunity to promote full participation by those most directly involved -- those with the most immediate stake -- in working things out right.

It means respecting a way of doing things that makes sense to those participants...instead of insisting always on the majority's norms.

Finally, we must recognize that the growth of black and other minority businesses will proceed apace with the rebirth of metropolitan areas generally. As suburbs continue to grow economically -- particularly as markets for inner-city businesses -- such factors as transportation become crucial. Education and housing opportunities likewise can affect in great degree the long-term outlook for inner-city business establishments. No one can seriously believe that black development corporations, cooperatives or businesses can flourish in a racially divided society -- one which is separate and unequal. Our efforts to promote the healthy expansion of black entrepreneurship must be seen as part of a larger strategy to rescue the American city -- part of a larger "Marshall Plan for the Cities."

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THE RIGHT TO SUCCEED: MINORITY ENTREPRENEURSHIP

Statement by Vice President Hubert H. Humphrey
Washington, D. C.
July 20, 1968

Twenty years ago, the measure of a belief in "civil rights" was whether you stood up for "fair employment practices."

I led that fight. We won it. An American born black has an equal right now, under the law, to work for an American born white.

But to say it that way -- plainly -- is to realize that the right to work for somebody else isn't enough. It isn't equal opportunity just to let everybody into the cellar -- if the door going upstairs is open to some, not to others.

Equal employment opportunity -- to work for somebody else -- is only part of it.

The rest of it is equal opportunity to own your own business.

I want to lead this fight too. And it can be won.

* * *

With greater intensity each year, the black American, the Spanish-speaking American, the Indian American, have been demanding from the white majority a chance to help themselves. They have increasingly rejected hand-outs and help which did not involve their own initiative, responsibility and power.

Whatever phrases are used to characterize this demand, it is fully in accord with established American traditions of self-reliance and self-help. American society must now summon the courage--and common sense--to give minority Americans this chance to succeed within the system.

On January 29 of this year, I asked, as Vice President, that representatives of five Federal agencies meet with me to consider the subject of "minority entrepreneurship."

PAGE TWO

(con't)

I said in my Memorandum:

I am convinced that there is a great economic and social potential, often not recognized, in enlarging opportunities for members of minority groups as entrepreneurs. At present, Negroes and Spanish-speaking groups own or control only a minute portion of the business in this country. The businesses they do operate are usually small and uneconomic. The urgent need is to have minority groups own and run more substantial businesses which are fully competitive in the American economy.

A series of meetings followed. There was active participation by top officials of the Department of Commerce, the Department of Labor, the Department of Housing and Urban Development, the Office of Economic Opportunity, and the Small Business Administration. I have received the report of this working group. It provides the basis for this statement and its recommendations.

The Report of the National Advisory Commission on Civil Disorders, issued on March 1, included this statement on "Encouraging Business Ownership in the Ghetto":

We believe it is important to give special encouragement to Negro ownership of business in ghetto areas. The disadvantaged need help in obtaining managerial experience and in creating for themselves a stake in the economic community. The advantages of Negro entrepreneurship also include self-employment and jobs for others.

One of Senator Robert F. Kennedy's most eloquent statement -- at Portland, Oregon, on May 23rd -- included this:

We must encourage the development of businesses owned by residents of poverty areas, providing loans and guarantees as needed, to bring the dignity and fulfillment of ownership to that person. This national rebuilding, I believe, should begin immediately with a national impact project: supported by federal grants to local communities, to hire the unemployed and begin the work. This would be the first step toward a community of purpose for all of us.

He spoke feelingly of the need to build, in the poverty areas, "a community of freedom of private initiative . . . a new community of self-pride and self-determination."

Everything we are trying to do to eliminate inequality is incomplete as long as it depends on somebody doing something for somebody else -- for equality means equality of self-respect -- of pride.

Participation--self-help--economic power--these are essential elements in any process of deprived inner-city residents becoming productive, self-sustaining and involved members of society--and of bringing new economic vitality to inner-city neighborhoods. Business entrepreneurship offers exceptional opportunities to achieve these critical objectives.

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The details of the present picture of restricted business opportunity--so far as Americans who are black are concerned--are set out in the attached statement.

One in a thousand is a proprietor. (The figure for whites is one in 40.)

The situation is the same--in some respects worse--for Mexican-Americans, Spanish-Americans, Puerto Ricans, Indians and others.

I have received, with the assistance of the inter-agency working group, the scope and operation of present programs for providing business opportunities for minority group members.

The conclusions to be drawn from such a review are clear:

--The present demands on these programs far exceed the capacity--and the funds--to meet them. Black America's most insistent demand today is "Let us do it ourselves."

--The experience with the minority entrepreneurship projects which have been authorized and funded is by no means consistent, nor uniformly successful. But it is evident beyond any question that there is more reason for encouragement in these projects--more promise--a higher success rate--than in the case of any other type of minority group assistance program. Every agency has stressed one crucial element in achieving success: full participation and involvement.

--These are improvements that can and should be made in the administration of the present programs.

--But the full exploitation of the possibilities of equality by common enterprise--by shared responsibility--depends unquestionably on enlarged Congressional authorization and appropriation, as well as on greatly expanded participation by the private sector itself.

A candidate for the Presidency has spoken recently--in headline terms--of the need to develop "black capitalism" and "black enterprise" and "free enterprise" in the ghettos -- and then has added, in fine print, that "it costs little or no government money" to do this, that "the Federal budget must be cut"-- and that we must stop trying to "buy off the Negro."

This is double-talk. Of course it will take money. Talking about black capitalism without capital is just kiting political checks.

But a country that subsidizes multi-million dollar corporations to explore outer-space won't be "buying off the Negro" if it contributes to his setting up a business in the inner-city. If it makes sense to pay a farmer to stop farming his land, it isn't "buying somebody off" to help start a business that will employ the people who used to work on that farm.

I will propose, if I am elected President, the legislation and appropriations necessary to permit the maximum practicable public investment in private "minority" enterprise--but in ways which rely on self-help and self-reliance.

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More specifically, I propose the development of an integrated program for inner-city entrepreneurship which makes provision for the three basic elements of business success: capital, training, and markets.

I. With regard to working capital:

I have proposed, as part of a "Marshall Plan for the cities," the establishment of a National Urban Development Bank-- to operate through affiliated regional banks in the various metropolitan areas.

Without repeating the details of that previous proposal, I note for its relevance here the recommendation that provision be made for the National Urban Development Banks to finance a wide variety of business enterprises owned and operated by residents of the inner cities. These banks would, more specifically:

--offer loans to inner-city small businessmen whose contribution to the economy of their communities is now limited by lack of financing;

--guarantee loans, made through conventional private lenders, for inner-city business activities;

--fund non-profit neighborhood development corporations which, in turn, could purchase and operate inner-city business enterprises;

--offer loans to inner-city business cooperatives established to strengthen purchasing power and to provide more effective distribution of products.

To make sure that the money is invested in the places where it is needed most and be used best, national and regional bank boards would include representatives of the inner-city community. Further community participation would be encouraged through direct equity investment in the regional banks by the people themselves.

In more immediate terms, and on the basis of my review of present administrative programs, I recommend a significant liberalization of current agency policies regarding loans and allocations for inner-city entrepreneurs.

There is unquestionably a special risk factor involved here--for there is typically much less than usual experience and proven ability on the part of the private contracting party.

This means that there is special reason for administrative care in evaluating these commitments. But this should include a full consideration of the alternative risks--to the community and the country--of not making the investments.

I recommend specifically that the Small Business Administration liberalize its regulations in order to provide loans for a larger number of inner-city projects.

I recommend that the Department of Commerce, the Department of Labor, the Small Business Administration, and the Office of Economic Opportunity expand their present commitments to assist private companies to create inner-city subsidiaries that will be managed by local residents--especially those companies that provide for the gradual acquisition of the subsidiary by the employees or by a neighborhood corporation.

In the final analysis, however, the private sector must generate the bulk of investment capital for inner-city business development. We must, therefore, also consider a system of tax incentives that will generate the maximum degree of private investment at accelerated pace.

II. With regard to training:

The Manpower Development and Training Act program now concentrates particularly on teaching job skills to the unemployed or retraining persons with obsolete job skills.

I recommend that the MDTA program be expanded to provide management training where this will lead to the establishment of new businesses which will be in a position to hire the hard-core unemployed.

The Defense Department's "Project Transition" prepares men for civilian jobs shortly before discharge from the armed services. I recommend that this program be broadened to include training in the techniques of business entrepreneurship and managership.

I recommend that the G.I. Bill be amended to include pay for in-the-shop training in entrepreneurship and managership, in addition to the in-the-school training in academic subjects. This will more fully meet the great debt the nation has to its veterans.

I recommend that programs be developed for assisting private business organizations, such as the National Alliance of Businessmen, to expand their programs in order to provide managerial training to residents of the inner-city.