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Black Business Trends in the United States

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Black Business Trends in the United States 1/

It is my pleasure and honor to address you today and I thank Professor Moore for his kind invitation to participate in this conference on "Negritude, Ethnicity and Afro-cultures in the Americas." I have tried to key my remarks to the topic for this morning's panel: the dilemma of persistent and pervasive Black poverty in the Americas. This issue has been examined perennially by experts and scholars like you, and amateurs like me, but with minimal change in the economic status of our community.

While the current number of Afro-Americans with average incomes below the poverty level in the United States has dropped from 1984 to 1985, 2/ it is still alarming. According to a 1985 Census Bureau survey, 33,064,000 persons or 14.0% of the total U.S. population was below the poverty level in 1985. Of that 14.4%, 22,860,000 were Whites, 8,926,000 were Blacks and 5,236,000 were Hispanics. These numbers represent 11.4% of the White population, 31.3% of the Black population and 29% of the Hispanic population respectively.

1/ These remarks were prepared by Commissioner Peters with the assistance of Ms. Jacqueline P. Higgs, Counsel to the Commissioner.

2/ The National Census Bureau statistics indicate that the percentage of Blacks at the poverty level has decreased three percentage points from 1984 to 1985.

Unfortunately, statistics on teenage pregnancy are equally disconcerting. Fifty-three out of one thousand girls become pregnant between the ages of fifteen to nineteen. Forty-five out of one thousand Whites will become pregnant while they are teenagers, as compared to eighty-two out of every one thousand Hispanics girls and one hundred out of every one thousand Black girls. Moreover, there appears to be a high correlation between the teenage pregnancy and the school dropout rate among young Blacks.

These statistics reflect pervasive ills in our society which, I believe, have significant economic ramifications for the Black community. Using a practical, albeit unlearned, approach, I have no difficulty positing a causal relationship between a high school drop-out rate and teenage pregnancy rate on the one hand, and persistent Black poverty on the other. It is not particularly difficult for me to conclude that uneducated, untrained teenage mothers and fathers will more than likely be poor. Perhaps you as experts will be in a position to propose solutions to these very basic problems. Unfortunately, I have none to offer at this time.

However, I will offer this observation: whatever the reasons for the persistent poverty among Afro-Americans, the most important question for us today is how to break the cycle. I realize, of course, that trying to identify solutions without completely understanding the nature of the problem is troublesome at best,

and at worst, could be self-defeating. This acknowledgement brings to mind a reported remark by Martin Luther King III who said "People who don't know where they have been, can't know where they are headed." 3/ Notwithstanding my lack of historical perspective on the reasons for Black poverty, I would like to explore with you one significant way in which I believe Blacks may strengthen their economic base, namely entrepreneurship, and how it is reflected in current Black business trends, or rather developments, in the United States.

In my opinion, the formation of Black wealth through increased Black ownership of businesses is an essential ingredient to any solution to Black poverty in the United States. Needless to say, this proposition is not an original idea of mine. It has been expressed by many, 4/ including the Black Enterprise Board of Economists which asserts that one major obstacle to the formation of Black wealth is the low level of entrepreneurship in our community. 5/ These economists contend that individuals who own their own businesses tend to have much higher incomes than the general population and also tend to invest their earnings

3/ Milloy, Lack of Black Historical Perspective, Washington Post, January 13, 1987 at B3.

4/ See, e.g., 2 Issues and Views, No. 5 (November/December 1986).

5/ Dingle, Finding A Prescription For Black Wealth, Black Enterprise, January 1987 at 39.

in income-generating assets: Entrepreneurship has been used by immigrant groups for generations to accumulate wealth and move into mainstream America. However, it is not a path followed to a great extent by Afro-Americans: Of course, there are success stories such as "Essence" magazine and "Soft-Sheen" hair products and others. However, they appear to be the exception rather than the rule. When selecting careers, upwardly mobile Blacks seem to lean toward the professions and salaried positions rather than to embark on the path of self-employment.

The most recent figures available from the U.S. Census Bureau on the business participation rate for Blacks are based on a 1982 survey which showed that Blacks owned 12.1 firms per thousand businesses, an increase from the 1977 rate of 9.2 firms per thousand. Nevertheless, the 1982 rate was significantly lower than the 62.9 firms for Whites, 28.6 for Asians and 19.5 for Hispanics.

Several possible reasons for this disparity between the business participation rate for Blacks and others have been articulated by experts who have examined the problem. They suggest that the lack of Black entrepreneurship is due to the absence of positive role models in the Black business community, a lack of business knowledge among our youth and limited access to capital. Assuming there is some validity to these observations, what can we do about them?

We could combat the lack of role models and business knowledge through the education process. Some are doing just that. For example, the International Association of Black Business Educators ("IABBE") 6/ has established a program to present the prospect of business ownership as a viable and desirable option to young Blacks. The program sets up internships on various college campuses whereby students, along with faculty, act as consultants to small businesses in their communities. In the process, the students learn about those businesses and participate in the resolution of their management, accounting and marketing problems. This program not only encourages young Black students to consider entrepreneurship as a career alternative, but gives them valuable hands-on experience in the business world while strengthening Black businesses in the U.S. through their consulting assistance.

As previously mentioned, another reason frequently given for a lack of Black entrepreneurs is their lack of access to capital. Recent studies have shown that among the three minority groups applying for financial assistance, Asians and Hispanics reported a higher bank acceptance rate than Blacks. Reportedly, Black businesses also generally have lower success rates in acquiring debt capital, have to pay much higher interest rates and need much more personal collateral than similar White firms. 7/

6/ Fifty-two of the one hundred and four Black colleges in the U.S. belong to IABBE.

7/ Supra note 5 at 48.

One immediately asks why this is the case. I could offer a few hypotheses, but rather than do that, I would suggest while we look for the answers to this problem, we should also look for alternative financing. There are good examples we could follow.

For instance, other minority groups depend heavily on inter-group support and pool their resources to assist start-up companies. For example, Korean Americans, form temporary lending groups known as "trust banks" to finance each other's businesses. To illustrate, a Korean American needing \$60,000 to open a business will organize twelve people who put up \$5,000 each so there will be \$60,000 available to each member. Whoever needs the money the first month will get it and they determine the order in which the others will receive money by lottery. 8/ The name of the approach signals its essential ingredient -- trust. We know how important trust is to every aspect of our daily lives. It is no less central to capital accumulation. Historically owner-operated businesses have started not with bank loans but with loans from family and friends. 9/ Of course, such an approach works only if the entrepreneurs succeed in their endeavors thus keeping faith with the trust.

8/ Wheeler, Korean Merchants Find Opportunity in D.C., Washington Post, December 14, 1986, at B5.

9/ Supra note 4 at 4.

Once established, Black businesses can gain stronger financial footing and potentially broader economic impact through equity offerings. Indeed, many entrepreneurs have discovered the rewards to be gained by selling shares to the public. A recent Newsweek article noted that more than 700 companies went public during the past year, the biggest new-issues surge in Wall Street history. Insiders raised \$22.4 billion for their companies -- and their pocketbooks -- almost twice the amount raised in 1983. 10/ The article highlighted the rewards that can be had if one is energetic and not averse to taking risks. Tales of a fifteen year old who launched a carpet cleaning business in his parents' garage and went public at age 20 or of a grocer's son with an eighth-grade education who co-founded a trucking business with \$3,000 in savings and then took it public six years later hopefully will inspire Blacks to try the same.

Our businesses, once established, must flourish and grow if they are to have a significant impact on the economy of the Black community. Community support of Black businesses with what has been termed as "Black buying power" will assist that growth. Economist Andrew Brimmer projected that in 1986 Blacks would spend only 7.4% of their \$200 billion income at Black establishments. 11/ In the hair care market, which represents

10/ Miller and Friday, Fast-Cash Express, Newsweek, January 12, 1987, at 36.

11/ Wang and Malone, Targeting Black Dollars, Newsweek, October 13, 1986, at 54.

the largest concentration of capital and financial investment within Black America, Black-owned companies control only 50% of the \$1 billion spent by Blacks on hair care. The American Health and Beauty Aids Institute, a trade association comprised of America's twenty-one major Black hair care manufacturers, encourages Black consumers to support their companies. To that end, the Institute recently launched a \$2 million promotional campaign, to help consumers identify products produced by Black hair care companies. The argument goes that through increased Black consumer support, Black manufacturers will be in an even better position to reinvest the dollars they earn in Black communities across the country in the form of jobs, college scholarships, and support of other Black-owned businesses.

While I agree that Black buying power is critically important to the formation of Black wealth in this country, I believe this approach has limited value for our long-term goal of breaking the cycle of poverty. As many as we are, we are nevertheless only 10% of the population, give or take a few percentage points. Therefore, we are too few in number to generate the kind of wealth necessary to build a strong Black economy through purchasing power alone; particularly at present when over 30% of us subsist below the poverty level. When viewed from an historical perspective, the "buying Black" approach has inured to the benefit of a few but, in the greater scheme of things, the strategy has not increased the wealth of Black people

as a whole in this country. A more far-sighted approach to the problem of Black poverty would be to increase the number of Black businesses that provide not only Black-oriented products and services but that also serve the American public as a whole and even the world. The significance of this "beyond the community" attitude struck me rather forcefully a few months ago as I read an article about two Black men who were successfully producing potato chips in Texas. Everybody eats potato chips and they generally don't think to ask about the color of the skin of the person producing them.

Once the Black entrepreneur starts to look beyond the Black community for business opportunities, there is no reason to limit his or her sights to the United States market. A few have realized this fact and as a result, Black entrepreneurship is growing on the international front. To an ever-increasing extent, Black businesses are expanding their operations to Africa and the Caribbean. American Blacks are selling cosmetics in Nigeria, exporting cement to Maui, making shampoo in Jamaica, building villas in Grenada and providing computer services in Cameroun. ^{12/} In our drive to expand our horizons, we should not forget to look northward to Canada or eastward to Europe.

^{12/} Watkins, Venturing Abroad American Blacks Find Business Ties To Africa Profitable, Gratifying, Wall Street Journal, November 17, 1986, at 1.

A lesson our Black entrepreneurs must learn was summed up quite succinctly in an article by Courtland Milloy who stated: 13/

"A major incentive would be to emphasize that the color of money is not black, but green and if a businessman is good at what he does he can get it from anybody, regardless of their color."

Some have learned. For example, minority-owned investment banking firms are aggressively looking beyond the minority community to other financial opportunities. Recent congressional legislation providing for the sale of Conrail to the public included a condition that minority firms be given an "opportunity for significant participation" in the offering which is being managed by Goldman, Sachs & Company and five other top Wall Street firms. 14/ This condition was fought for by the firms themselves. As a result of their efforts and those of Congressman Mickey Leland of Texas, the Department of Transportation named six minority and female-owned investment banking firms to a special underwriting "bracket" that will share the duties -- and the rewards -- of the managers. The designated firms will divide 10% of the management fees, which are expected to total \$70 million to \$80 million. They will also receive some of the stock to place. 15/

13/ Milloy, The Color of Money, Washington Post, December 28, 1986, at C3.

14/ Moffett, Investment Banks Owned By Minorities, Women Will Benefit From Conrail Sale, Wall Street Journal, January 9, 1987, at 6.

15/ Id.

Participation in this offering represents a significant business breakthrough for minority-owned investment banking firms. In the past, these firms depended largely on municipal underwritings sponsored by cities having Black mayors and other Black political officials. Participation in the Conrail offering will allow these firms to expand their operations and hopefully open new avenues in corporate underwritings.

In conclusion, I would like to comment briefly on one other reason frequently offered to explain the paucity of Black entrepreneurs. It is said that Blacks have a cultural bias against business ownership. However, one look at the flourishing businesses established in the United States by West Indians forces one to conclude that if the bias is there, its origin is not racial. If the Guyanese, Barbadians and Jamaicans that come to this country can contend with racism and build successful businesses in an environment clouded with the concept of White supremacy; why can't the Afro-American. One commentator suggests that the difference lies in the fact that our brothers from the West Indies are or were immigrants. 16/ If that is the case, then our search for solutions should include a way to inoculate Black America with the hunger and drive for entrepreneurship that seems to accompany immigrant status. Perhaps then we will be more assured of breaking the cycle of poverty afflicting our community.

16/ Supra note 4 at 7.