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For Release on Delivery
Thursday, October 19, 1972
7:30 p.m. (E.D.T.)

THE ROAD AHEAD: OUTLOOK FOR BLACKS IN BUSINESS

Presidential Address

By

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Board of Governors of the
Federal Reserve System



Before the
57th Annual Meeting
of the
Association for the Study of Negro Life and History

Sheraton-Gibson Hotel
Cincinnati, Ohio

October 19, 1972

THE ROAD AHEAD: OUTLOOK FOR BLACKS IN BUSINESS

By

Andrew F. Brimmer*

I. Introduction

Three years ago, I examined the situation and prospects for black businesses in some detail. I found both the situation and prospects far from promising.^{1/} I have just completed another analysis of the status and outlook for American blacks in the field of business. The conclusions and implications emerging from that assessment are still unpromising -- but the opportunity may also exist for blacks to launch themselves on a course leading to expanded participation in the mainstream of American business.

When the existing pattern and structure of black-owned businesses are unraveled, a graphic -- and disturbing -- picture comes into sharp focus. The fact that black businessmen have traditionally concentrated primarily on small scale retail

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I am grateful to Mr. John Austin and Mrs. Ruth Robinson of the Board's staff for assistance in the preparation of this paper. However, the views expressed here are my own and should not be attributed to the Board's staff nor to my colleagues on the Board.

^{1/} "The Economic Potential of Black Capitalism" (with Henry S. Terrell), paper presented before the 82nd Annual Meeting of the American Economic Association, New York, December 29, 1969. A modified version was subsequently published in Public Policy, Vol. XIX, No. 2, Spring, 1971, pp. 289-308.



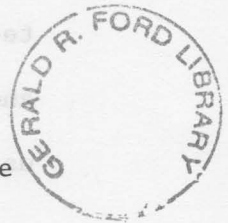
trade and the provision of personal services is widely known. The reasons for this are also widely recognized: racial segregation and discrimination restricted the access of blacks to housing and public accommodations. Under those circumstances, black businessmen came forward to meet most of the limited demand for services which a predominantly low-income population did register in the market place. Moreover, the extent to which traditional black businesses have been adversely affected by the abolition of legally based restraints on access to public accommodations is also generally appreciated.

However, what is less well understood is the degree to which black businessmen are caught on a downhill course: while they are making some progress in expanding their modest share of the nation's business activity, the fields in which they are concentrating are declining relative to the economy as a whole. In one sense, the situation of black-owned businesses today is roughly analogous to that which blacks had to face around the end of the last century. Possessing virtually no land and little skill in farming, they were encouraged to master the know-how then emerging from the publicly-supported scientific research in agriculture and thus make themselves into better farmers. The advice was laudable on its face, but the strategy of black economic development on which it rested suffered from a fatal

flaw: At that juncture, the basic, underlying drift of the economy was toward industry and away from agriculture. Although the latter was yet to achieve the enormous burst of output and productivity that was subsequently recorded in the first third of the 20th Century, the mainsprings of national economic growth were already to be found primarily in the industrial sector.

Consequently, while blacks did make advances in agriculture for a time, they nevertheless were caught on a downhill course. The net result was that they lingered too long in agricultural pursuits and also failed to establish beachheads in industry at a time when barriers to entry were still scalable and an expanding market for factory-produced goods lay ahead.

During the decade of the 1970's, the fields of principal concentration of black businesses -- small scale retail trade and personal services -- will probably grow more slowly than the economy as a whole. So, unless a major diversification occurs in the range and focus of black-owned businesses, blacks will be getting an even smaller share of the nation's business receipts in 1980 than they are currently receiving. Moreover, this spanning out in the pattern of business activity will also have to be accompanied by a significant increase in the size and efficiency of black-owned firms. To achieve this latter goal will require much larger aggregations of equity capital than blacks have been



able to mobilize to date. This, in turn, means that blacks will have to become much more willing to adopt the corporation as a form of business organization -- and to rely far less on individual and personal ownerships. It also means that blacks must be increasingly willing to share in joint-ventures with businessmen of other races and to tap the stream of risk-taking capital flowing through the economy as a whole. Finally, blacks must be prepared to undertake the hard task of acquiring the technical managerial skills increasingly required to survive and prosper in the sophisticated business world unfolding before us.

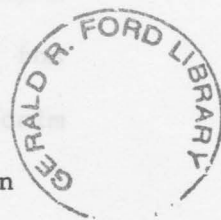
In other words, if blacks want to have a truly meaningful role in the business world of the future, they will have to become a new breed of entrepreneurs. They must be prepared to compete in a variety of new fields against a phalanx of nationwide corporations ever anxious to attract an increasing share of the rising income and expenditures of the black community. Failure on the part of black-owned firms to diversify means stagnation and decline in the years ahead.

These general conclusions are amplified in the sections which follow.

II. Relative Position of Blacks in Business

In 1969, there were 163 thousand black-owned businesses in the United States. (See Table 1, attached.)^{2/} These firms represented about 1.4 per cent of the 12 million firms in the country at large. These black-owned enterprises had gross receipts of \$4.5 billion, accounting for 0.24 per cent of the total. Thus, by either measure, it is obvious that blacks control only a meager share of the nation's business activity.

To put the business situation in perspective, it will be recalled that blacks represent 11.3 per cent of the total population in the United States, and in 1970 they received 6.5 per cent of total money income. However, with respect to income sources, only 0.7 per cent of the income for blacks was derived from property ownership (i.e., from rents, interest, dividends, royalties and inheritances) compared with 4.6 per cent of the income of whites. So, while blacks got 6.5 per cent of total income in 1970, they received less than 1.0 per cent of investment and property income in that year.^{3/}



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- ^{2/} The basic statistics relating to black-owned businesses used in this study are from the U.S. Census Bureau's report, "Minority-Owned Businesses: 1969." (U.S. Department of Commerce, August, 1971.) Appendix Table I attached at the end of the paper contains most of the detailed data used here. A new Census Bureau survey of minority-owned businesses covering 1972 is planned for calendar year 1973. If the planned schedule can be kept, the results should be available about October, 1973.
- ^{3/} See Andrew F. Brimmer, "Income and Wealth in the Black Community," Ebony Magazine, October, 1972, pp. 64-70.

The overall position of blacks in business compared with other minority groups can also be seen in Table 1. In 1969, Spanish-speaking minorities owned 0.8 per cent of all firms, and they accounted for 0.18 per cent of gross receipts. For other minorities (mainly Orientals and American Indians), the corresponding proportions were 0.5 per cent of business firms and 0.14 per cent of gross business receipts. Consequently, with 2.7 per cent of the firms and 0.56 per cent of total receipts, the representation of all minority groups on the nation's business scene was modest indeed.

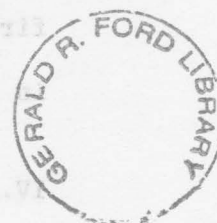
Black firms are predominantly over-managed with no employees. For example, of the 163 thousand firms reported in 1969, only 38 thousand (or less than one-quarter of the total) had any paid employees at all. Collectively they had 152 thousand workers on their payrolls. Since blacks held roughly 8 million jobs in 1969, black-owned firms (virtually all of whose employees are black) provided jobs for only 1.9 per cent of all black workers in the country.

III. Size of Black-Owned Firms

As already indicated, black businesses are mainly small-scale operations. Just how small can also be seen in Tables 1 and 2. For example, in 1969, the typical black firm with paid employees had about 4 workers on its payroll. This was about the same number found in other minority-owned businesses. Among major fields of

activity, however, the average number of employees did differ somewhat. In manufacturing and wholesale trade, the typical black firm had 8 employees; in retail trade the average was 3 paid workers. In contrast, in the economy as a whole, the corresponding figures per firm were: manufacturing, 72 employees; wholesale trade, 15 employees, and retail trade, 6 employees. Thus, measured by number of employees, the typical black-owned manufacturing firm was about one-tenth the size of its counterpart in the economy at large. In both wholesale and retail trade, the average black firm was about half as large as the typical firm in those industries.

An alternative way to measure the size of black firms is in terms of business receipts. In 1969, the average black-owned firm with paid employees had gross receipts of \$95 thousand. In manufacturing, the figure was \$187 thousand, and in wholesale and retail trade it was \$497 thousand and \$96 thousand, respectively. The parallel figures for the typical firm in those industries in the county as a whole were: manufacturing, \$2,068 thousand; wholesale trade, \$1,974 thousand, and retail trade, \$197 thousand. Again, in the factory sector, by this measure, the average black-owned firm was about one-tenth the size of its nationwide counterpart. But in the case of wholesale trade, the average black-owned business was one-quarter that in the nation, and in retail trade it was still in the neighborhood of one-half as large.



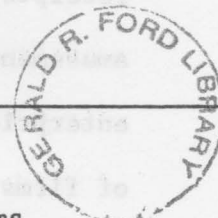
The average black-owned business with paid workers had receipts of about \$24 thousand per employee. In manufacturing, the figure was the same. It was \$66 thousand in wholesale trade and \$30 thousand in the retail sector. Compared with firms in the nation at large, these relative measures were about the same for black firms as for all firms in manufacturing and retail trade. However, in the case of wholesale trade, the typical black-owned firm had sales per worker only half those recorded by its counterpart in the country as a whole.

IV. Industry Pattern of Business Ownership

As mentioned above, the conditions under which blacks have functioned as owners of businesses have been determined to a substantial degree by the legacy of racial segregation and discrimination. The consequences of this historical experience can be traced clearly in the industry distribution of business firms. In Appendix Table I, the main types of activity of black-owned businesses are shown in terms of the percentage of all black firms found in each field along with the proportion of gross receipts accounted for by each industry. The corresponding figures for the economy as a whole are also shown.

Several highlights can be lifted from among the details and summarized in the following table:

<u>Industry</u>	<u>Black-Owned Businesses</u>		<u>All Industry</u>	
	<u>Percentage of all firms</u>	<u>Percentage of Gross Receipts</u>	<u>Percentage of all firms</u>	<u>Percentage of Gross Receipts</u>
<u>Retail Trade</u>	27.73	43.19	18.31	20.41
Auto dealers & service stat.	3.91	14.11	3.19	5.35
Food stores	6.91	9.80	2.45	4.40
Eating & drinking places	8.66	8.04	3.32	1.49
<u>Insurance carriers</u>	0.06	2.98	0.04	3.32
<u>Personal services</u>	20.79	6.43	5.29	0.75
<u>Amusement & rec.</u>	2.09	1.17	1.57	0.32
<u>Real estate</u>	3.38	1.74	6.72	0.87
<u>Hotel, motels</u>	1.23	0.96	1.19	0.43



The extremely heavy concentration of black-owned firms in retail trade is clear. This line accounted for over two-fifths of gross receipts and more than one-quarter of the number of all black-owned businesses -- twice the proportion of receipts and 1-1/2 times the proportion of firms recorded for all American businesses. Within the retail trade sector, automobile dealers and gasoline service station operators (mainly the latter) represented about the same proportion of firms in both groups; but the share of total receipts in this category for black firms (14 per cent) was nearly three times

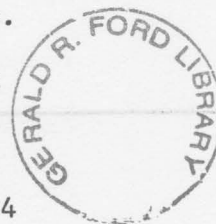
that for all firms (5 per cent). In the case of food stores, the ratios for black-owned firms were more than double those for businesses in general.

The historic discrimination against blacks in terms of access to public accommodations is traceable in the relative positions of black-owned eating and drinking places, of amusement and recreation outlets, and of hotels, motels and other lodging places. Nearly one-tenth of all black businesses were restaurants, bars, and similar establishments, and they accounted for roughly the same proportion of gross receipts. Among businesses at large, 3 per cent were eating and drinking places, and these received 1-1/2 per cent of gross receipts. The fraction of business activity accounted for by amusement and recreation places was also much higher for black-owned enterprises -- whether measured by the proportion of either number of firms or gross receipts. Hotels and motels represented about the same fraction of total businesses in both groups (1.2 per cent), but those owned by blacks accounted for more than double the share of revenue -- 0.96 per cent vs. 0.43 per cent.

The legacy of racial discrimination against blacks in the provision of life insurance coverage is also still evident. It may be recalled that, in the late 19th century, the American life insurance industry concluded that the relatively short life expectancy of blacks

made it too risky to insure them using the same standards applied to whites. As a result, a separate mortality table for blacks was developed which carried considerably higher premiums. Moreover, some companies cut back on sales of insurance in the black community. That double standard survived well into the mid-20th century. While it lasted, black-owned insurance companies provided a substantial part of the coverage available to blacks. It is for this reason that the relative positions of black-owned and white-owned insurance companies were quite similar in 1969. The effects of racial discrimination on the availability of residential housing are reflected in the relative position of black-owned real estate firms. The latter amounted to 3 per cent of all black firms vs. 7 per cent for the economy as a whole. Yet, in the case of blacks, they accounted for a somewhat larger proportion of gross receipts -- 1.74 per cent vs. 0.87 per cent.

On the opposite side of the canvas, one can also see the relative lack of representation of blacks in those lines of business where the perversely protective cloak of racial segregation and discrimination was not so evident--as shown in the following table:



<u>Industry</u>	<u>Black-Owned Businesses</u>		<u>All Industry</u>	
	<u>Percentage of all firms</u>	<u>Percentage of Gross Receipts</u>	<u>Percentage of all firms</u>	<u>Percentage of Gross Receipts</u>
<u>Manufacturing</u>	1.82	6.76	3.40	37.81
Food products	0.10	1.25	0.23	5.17
Lumber & wood	0.79	1.14	0.52	0.81
Printing & publishing	0.31	0.85	0.51	1.38
Chemical products	0.03	0.83	0.12	3.01
<u>Transportation</u>	9.69	4.37	2.87	3.28
Trucking & warehsg.	4.44	2.99	2.01	1.31
Local & sub.	4.47	0.95	0.54	0.17
<u>Wholesale Trade</u>	1.02	8.61	3.90	13.80
Grocery products	0.15	2.13	0.54	2.76

On the basis of these data, the modest participation of blacks in manufacturing is unmistakable. The proportion of black firms operating factories was only one-half that for American industry as a whole. In terms of gross receipts, the black proportion was only one-fifth that for businesses in general. Moreover, where blacks were represented in manufacturing to some extent, the activity was typically related to the blacks' historical situation in this country. For example, their presence in chemical products is mainly a legacy of the black-owned cosmetics companies which developed in response to the special needs of blacks for personal services -- particularly

through black-operated beauty and barber shops. Their presence in printing and publishing, of course, is primarily a mirror of black-oriented newspapers -- although a few magazine and book publishers have also made considerable headway in recent years. Blacks producing lumber and wood products consist almost exclusively of a few small-scale sawmills in the South. A scattering of black-owned food processing firms have been in existence for some years. Yet, it was only in the recent past that at least one of those companies made a breakthrough in the general market on a noticeable scale.

Black firms have been able to make some headway in transportation, but the net results are both mixed and limited. In some segments of this industry, black firms have been long accepted as part of the existing transportation capacity. This is especially true of trucking and warehousing. Here the experience accumulated by blacks as skilled workers as well as laborers served as a basis for subsequent launching of businesses. On the other hand, the rest of the black firms engaged in transportation activities consist almost exclusively of taxi operators, included under local and suburban transit in the summary statistics.

In the case of wholesale trade, one has to look hard to find black-owned firms outside of food distribution. It will be recalled that the operation of retail trade outlets is the most important form of activity among black businessmen. So the meager participation of blacks in wholesale trade means that blacks are essentially missing in one segment of the distribution network in this country.



V. Imperatives of Growth and Diversification of Black-Owned Businesses

The evidence presented so far leads to an inescapable conclusion: black firms are heavily concentrated in a relatively small number of trade and service activities. Just how narrow is their base of operations can be seen in Table 3. This table shows 25 industries ranked according to the share of gross receipts accounted for by each. The corresponding proportions for all firms are also shown. Sixteen of the industries are in the trade sector, six are services, and only three are components of manufacturing. Collectively, these 25 industries accounted for four-fifths of total business receipts of black-owned firms in 1969. The same group of industries accounted for less than half of the total business receipts in the economy as a whole.

The growth rates^{4/} projected for these industries during the period 1968-1980 are also shown in Table 3. A striking feature stands out in these statistics: half of the 25 industries which are so important to black firms have projected growth rates below that anticipated for the economy as a whole. The annual average rate of growth for the U.S. economy is estimated at 4.3 per cent over the period. Twelve of the 25 key industries for blacks have projected growth rates below that figure. In fact, for nine of them, growth

^{4/} The growth rates used in this analysis are taken mostly from the U.S. Department of Labor, Bureau of Labor Statistics, The U.S. Economy in 1980, 1970. Other growth rates were taken from: McGraw Hill, The American Economy, Prospects for Growth to 1985, 1972; National Planning Association, Revised National Economic Projections to 1980, 1971; U.S. Department of Commerce, Bureau of Domestic Commerce, U.S. Industrial Outlook 1972, with Projections to 1980, 1972.

rates below 4 per cent are anticipated. In contrast, only four of the 25 industries have projected growth rates of 6 per cent or above. Finally, the twelve industries with below-average projected growth rates accounted for 40 per cent of gross receipts of black-owned firms in 1969 -- compared with 21 per cent for all firms in the country.

These data point to consequences of serious proportions for black businesses: because they are heavily represented in industries that are likely to grow rather slowly in the future, they are -- unfortunately -- caught on a downhill course.

How to reverse this situation ought to be a matter of major concern for those interested in expanding business opportunities for blacks in the years ahead. The magnitude of the task which must be confronted ought not to be underestimated. This task has both qualitative and quantitative dimensions -- since it involves the quality of managerial talent available to the black community as well as the size and growth of black firms.

With respect to the quantitative element, one can estimate the rate of growth which will be required if blacks are to make noticeable strides in expanding their share of the nation's businesses during the 1970's. Several alternative paths of expansion for black-owned businesses are shown in Table 4. Again, it will be recalled



that blacks accounted for 0.24 per cent of total business receipts in 1969. It will also be recalled that the rate of growth for the economy as a whole was projected at 4.3 per cent for the years 1968-1980. So, one target might be to achieve a rate of growth in black-owned businesses combined equal to that for the nation at large. This matched expansion would maintain the black share of total business unchanged.

However, it will also be recalled that -- in the absence of diversification -- black businesses will probably decline relative to the total economy. This is so because they are heavily concentrated in industries whose growth will probably fall short of that anticipated for the total economy. Expressed differently, even if blacks succeed in maintaining their share of those industries in which they are presently active, their share of total business will shrink somewhat by 1980. In fact, an unchanged share of key, existing industries in which blacks are concentrated would imply an annual average growth rate of 3.9 per cent in the period 1969-1980. This is well below the 4.3 per cent growth rate projected for the total economy over roughly the same period. This outcome would reduce the blacks' share of total business receipts to 0.227 per cent in 1980--from 0.237 in 1969.

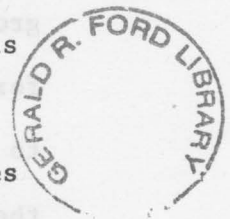
Another alternative target might involve an effort to raise blacks' 1969 share of total industry by one-half in 1980--i.e., from 0.237 per cent to 0.355 per cent. This is by no means a large increase in the magnitude of black business activity. Yet, to

accomplish even this target would require an annual average growth rate of 8.2 per cent. If the aim were somewhat more ambitious, a target might be adopted of doubling the black's share of total business by 1980. This goal would require an annual average growth rate of 11.1 per cent. It will be recalled that none of the 25 key industries in which blacks are currently active have projected growth rates in excess of 8 per cent.

VI. Relative Position of Black-Owned Firms in High-Growth Industries

The above analysis suggests that the hill which black businessmen must climb -- if they wish to prosper as a group -- is high indeed. The effort will be further complicated by the fact that they are represented in only a meager way in those industries for which growth prospects are especially bright. The extent to which this is true can be seen in Table 5. This table shows 34 industries for which projected growth rates are 5 per cent or above -- compared with a growth rate of 4.3 per cent for the economy as a whole -- for the period 1968-1980. More than half of these industries have projected growth rates of 6 per cent or more.

Distressingly, less than one-fifth (17 per cent) of total gross receipts of black-owned businesses was accounted for by these high-growth industries. Because of lack of data, no detailed comparison can be made with the situation among firms in the economy at large. Such figures for all businesses were available for only 13 of the 34



industries shown. The gross receipts for these 13 high-growth industries represented 15 per cent of total business receipts. If receipts for the remaining 21 industries had been included, the proportion of all industry receipts accounted for by high-growth industries would have been well above 15 per cent -- indeed, it would have greatly exceeded the 17 per cent shown for black-owned businesses.

Moreover, while one-third of the 34 high-growth industries represents retail trade lines, another one-third represents finance and manufacturing activities. Only about one-sixth include industry groups providing services. So, if black businessmen are to search for opportunities in these high-growth fields, they must be prepared to confront a number of new and serious challenges which will tax the resources of the black community to a serious degree.

VII. Scaling Barriers to Entry and Diversification in High-Growth Areas

To advance on the road to enhanced growth, black businessmen will have to overcome several obstacles. These include a mastery of the increased technical and managerial requirements of modern industry, the fairly large-scale size of firm required for efficient operation, and greatly increased capital requirements. Of course, this short list by no means exhausts the range of barriers, but it probably covers a major part of the ground. Moreover, no one understands the nature of these obstacles better than the black businessmen already trying to make their way in a frequently inhospitable environment. But for those on the outside--or for those contemplating careers as businessmen--



it may be well to summarize the nature of the problems which must be confronted.

In the case of managerial talents and technical skills, one ought to distinguish among at least three situations: (1) the case of a person considering entering business for the first time, (2) the case of a person already owning his own business who needs to improve his own capabilities; and (3) the case of a person who is currently employed in a technical or managerial capacity by a major white firm.

As far as the first category is concerned, the counsel to be given

is straightforward: such an embryonic businessman ought to study the principles of business administration in college or technical school--

or he should get a job and accumulate the skills required while serving an apprenticeship in someone else's business. For those in the second

category, a number of private and publicly-supported options already

exist, and these need not be catalogued here. They include counseling

by numerous locally-based small business development centers and offices

of the Federal Government's Small Business Administration.

In my own view, the person in the third category is of

particular interest. To date--after nearly a decade of effort by large corporations to attract black college graduates to their organizations--

a substantial number of blacks have developed considerable know-how in

the field of business management. Undoubtedly, quite a few of these

recruits have found life in the modern, large-scale corporation less

than hospitable and have left for more personally promising opportunities. Yet, many have remained -- and some have even made progress on the corporate ladder. Under the appropriate conditions, some members of these corporate cadres could provide the managerial and technical talents required if black-owned businesses are to be diversified. It is my impression that this is already happening in a modest way. I also have the impression that a fair number of other blacks are looking for a chance to follow the same course.

The task of increasing the size of black-owned firms is far more difficult. Some idea of the discrepancy in size between black-owned firms and those in the economy generally can be gotten from the data in Table 6. This table shows the average size of firm (for blacks and the United States as a whole) in 14 high-growth manufacturing industries. Size is measured in three ways: by the number of employees per firm, the value of receipts per firm, and the value of receipts per employee.

Several conclusions emerge from these data: most of the high-growth manufacturing industries are those based on sophisticated technical processes in which major technological advances and substantial increases in productivity can be anticipated. At the same time, measured by employment, the average black-owned firm in the industries with the highest projected growth rates are typically less than one-tenth as large as its counterpart in the economy as a whole. Measured by value of shipments, the same kind of short-fall on the part of black-owned firms is evident. When value of shipments per employee is used as a

standard, the divergence is less sharp, but the relatively small scale of the existing black-owned firms still shows through.

But for the present purpose, the data in Table 6 can also be taken as a rough indication of the magnitude of the capital that will be required if blacks want to diversify into high-growth industries. Ideally, to make such an estimate, one should have figures on capital required to finance a business of optimum size. Alternatively, data showing capital invested per unit of output would be useful. In the absence of either of these, the figures presented in Tables 6 and 8 do provide some insights. These statistics show the following:

Industry	Value of receipts per firm (\$1,000)	
	Black-Owned Firms	United States
All Industry	95	152
Retail Trade	96	163
Wholesale Trade	497	520
Manufacturing	187	1,625
Selected High-Growth Industries:		
Office, computing/acc. machines	159	11,349
Electronic components	356	3,678
Chemicals: plastics & synthetics	946	13,364
Service industry mach.	159	2,963
Rubber & misc. plastics	328	2,269
Radio, TV & comm. equipment	356	8,545

Thus, one can see that receipts per firm in total manufacturing are ten times those for all businesses in the United States. Moreover, in the case of some of the high-growth industries, receipts per firm are



well above those for all manufacturing. The data for black-owned firms show the same pattern, but the divergence among the black firms in the different industries is much less sharp.

In general, the evidence presented here should leave no doubt in anyone's mind that black businessmen will have to expand their scale of operation to a considerable degree if they are to participate in a meaningful way in the high-growth sectors of the American economy. To do so will require substantial aggregations of capital.

VIII. Reorganization of Black-Owned Businesses

Unfortunately, as presently organized, the typical black-owned firm is ill-equipped to raise capital. The form of organization of black-owned businesses is shown in Table 7 and that for all businesses in the United States is shown in Table 8. The highlights are as follows (per cent):

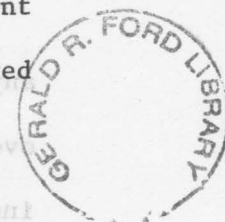
<u>Form of Organization</u>	<u>Black-Owned Firms with Paid Employees (1969)</u>		<u>All Industry (1968)</u>	
	<u>Number of Firms</u>	<u>Gross Receipts</u>	<u>Number of Firms</u>	<u>Gross Receipts</u>
Proprietorships	79	48	79	12
Partnerships	13	16	8	4
Corporations	8	36	13	84
Total	100	100	100	100

These figures indicate that the propensity of blacks to rely on personal ownership as a form of business organization is the same as that for all firms. Blacks make somewhat more use of partnerships. But the dependence of blacks on the corporate form of organization is only three-fifths that among all firms in the country.

However, the really striking comparison is the proportion of gross receipts received by the different forms of business organizations in the two communities. In the case of blacks, proprietorships accounted for 48 per cent of the total vs. only 12 per cent for all firms. For blacks, the share of partnerships was four times as great (16 per cent vs. 4 per cent). On the other hand, black-owned corporations received 36 per cent of the gross receipts--compared with 84 per cent for businesses in the economy as a whole.

Moreover, the relative importance of the corporation as a form of business organization in the country at large has been increasing since the end of World War II. The details documenting this trend are shown in Appendix Table II. The highlights can be summarized here (per cent):

Form of Organization	No. of Businesses			Total Receipts			Net Profits (Less Loss)		
	1945	1960	1968	1945	1960	1968	1945	1960	1968
Proprietorships	85	81	79	21	16	12	30	29	25
Partnerships	9	9	8	12	7	5	18	11	8
Corporations	6	10	13	67	77	83	52	60	67
Total	100	100	100	100	100	100	100	100	100



As one can see, by either measure--share of businesses, total receipts, or net profits--the relative importance of the corporate form of business organization in the United States has been increasing. The rise has been at the expense of both proprietorships and partnerships. Moreover, while the 200 or so largest corporations in the country have continued to play a significant role, the experience charted above is by no means an exclusive reflection of their position. Instead, the corporate form of organization is being adopted increasingly even by business firms of moderate size.

The reasons for this trend to the corporation are to be found in any mysterious sources. On the contrary, the advantages of the corporation over other forms are quite evident. These include limited liability and income tax advantages for the stockholders. But--of equal importance in the present content--the corporate form allows the business to raise from outside sources far more capital than it could get if it had to rely wholly on the personal resources of a single owner or a few partners. This is a lesson which some black businessmen have already learned. It is imperative that others learn it as well--if they are to move into the mainstream of American business.

Several other points with respect to business organization and capital requirements can be made at this juncture. These relate to the question of equity capital--meaning the amount of funds invested in a firm which belong to the owners and thus available as a cushion to absorb losses or otherwise sustain a business during difficult times. Little is

known with any precision about the relative amount of equity capital invested in black businesses. However, the general impression one gets from fragmentary data and discussions with businessmen is that capital in general--and risk capital in particular--is distressingly scarce. Yet, the need for increased availability of equity capital if black businesses are to diversify and grow is unmistakable.

An idea of the relationship between stockholders equity and total capital in corporations in the country at large is provided by the following figures:

<u>Industry</u>	<u>Ratio of Stockholders Equity to Debt</u>
<u>Manufacturing (Second Quarter, 1972) *</u>	
All corporations	2.30
<u>Size of Assets (\$ millions)</u>	
Under 1	1.93
1-05	2.22
5-10	2.77
10-25	2.63
25-50	2.02
50-100	2.21
100-250	2.00
250-1,000	2.11
1,000 and over	2.47
<u>Selected Other Industries (1968) **</u>	
Contract Construction	1.63
Wholesale Trade	1.88
Retail Trade	3.45
Food stores	1.98
General merchandise	0.89
Auto dealers & serv. stations	0.34
Credit Agencies (ex. banks)	0.67
Hotel & Other Lodging Places	

* See Federal Trade Commission, Quarterly Financial Report for Manufacturing Corporations, Second Quarter, 1972, pp. 28-33.

** See Internal Revenue Service, Statement of Income 1968, Corporate Income Tax Returns, pp. 14-19.



These figures suggest that--in general--stockholders have a sizable stake in their firms compared with the amount of debt outstanding. Even in the credit agencies and hotels sectors (which have the lowest ratios), those who own the businesses have themselves supplied a sizable proportion of the capital employed in the enterprise. Of course, these statistics refer to corporations only. However, if parallel data were available for proprietorships and partnerships, the ratio would probably be similar--if not even higher.

With respect to manufacturing corporations, it will be noted that stockholders had invested \$2.30 for each \$1.00 of borrowed money. The ratio increased somewhat with respect to size of firm--but only up to a point. Thus, it rose from 1.93 for those with total assets under \$1 million to 2.77 for those in the \$5-10 million class. The ratio then declined steadily as size increased to reach 2.00 in the \$100-250 million size group. Above this category, it again turned upward to reach 2.47 for corporations with assets of \$1 billion and over.

From these statistics a conclusion emerges which is of vital importance for those interested in the future of black-owned businesses. If they are to prosper--even if they expect to concentrate in trade and moderate-scale manufacturing activities--they will need to raise a substantial amount of equity capital. They cannot expect to run their businesses by relying primarily on debt supplied by banks and other

* See Federal Trade Commission, Quarterly Financial Report for Manufacturing Corporations, Second Quarter, 1972, pp. 28-33.
** See Internal Revenue Service, Statement of Income 1968, Corporate Income Tax Returns, pp. 14-15.

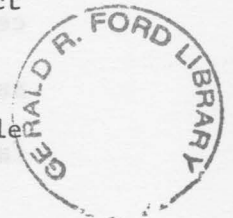
lenders. After all, banks are lending depositors money, and they cannot be expected to take the risk which properly belongs to those who supply equity capital.

IX. Concluding Observations

The main conclusions reached in this paper were summarized in the Introduction and amplified in the preceding sections. Here a key point made previously can be reiterated: blacks will have to look beyond their own community if they wish to expand their participation in business ownership in a meaningful way. This is true with respect to both technical and managerial assistance and equity capital.

In the case of equity capital, blacks have displayed little eagerness to invest their resources in risk-taking ventures. This reluctance is understandable: given the low level of income of the typical black family--and the wide-spread inability to make long-range plans for family security--it is not surprising that blacks have not rushed into the purchase of common stocks. On the other hand, blacks have accumulated a modest amount of wealth, and some of the latter has been invested in equity issues.

For example, in 1966 (the only date for which statistics are available), black families had total asset holdings of \$18.2 billion, of which \$2.3 billion were financial assets. So blacks' holdings of the latter were 0.7 per cent of the \$337.1 billion aggregate amount of financial assets for the nation as a whole. In the same year, all American



families had accumulated assets of \$970.1 billion--including money in banks, Government bonds, stocks in corporations, and equity investment in farms, businesses, and homes. So, blacks owned 1.9 per cent of the accumulated wealth in 1966.

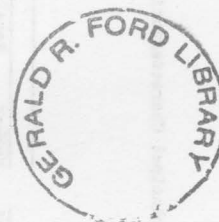
In the same year, blacks had about \$200 million of stocks in corporations. This represented about 8.7 per cent of their financial assets and 1.1 per cent of their total wealth. This amount was equal to about \$38 per family. In contrast, all families in the country had stock holdings of about \$145.4 billion. This represented around 15.0 per cent of their aggregate wealth and 43.1 per cent of their total financial assets. This amount was equal to about \$2,603 of stockholdings per family.

So, while blacks received about 6.3 per cent of the nation's personal income in 1966, they owned less than 2 per cent of the accumulated wealth. Their share of total financial assets was 0.7 per cent, and they held 0.14 per cent of the stocks owned by all families.

Thus, black businessmen would be unwise to look to the black community as the exclusive source of the equity capital they will need in the future. Instead, I am convinced that they will have to rely on joint ventures with businessmen and investors in the economy at large to meet their requirements. The exact form these joint participations may take cannot be anticipated. However, a few years ago, I suggested that large commercial banks might form subsidiaries through which they could acquire reasonable amounts of equity securities issued by predominantly black-owned

firms. The model for this type of institution are the Edge Corporations owned by U.S. banks through which they do much of their business abroad.^{5/} Under the 1970 amendments to the Bank Holding Company Act, it is now possible for U.S. banks--through holding company subsidiaries--to form similar corporations to finance community improvement projects in this country. Under certain circumstances, such corporations would be able to take equity participations in black-owned businesses. I still believe this approach is a promising one.

But, whatever approach one may prefer, the need for blacks to diversify their business activity--and the need for a vehicle to raise equity capital--cannot be disputed. If they fail in this effort, the outlook is bleak indeed.



^{5/} See Andrew F. Brimmer, "The Black Banks: An Assessment of Performance and Prospects", The Journal of Finance, Vol. XXVI, No. 2, May, 1971, pp. 379-405, particularly pp. 399-401.

Table 1. Principal Characteristics of Minority-Owned Business in the U.S., 1969

Category	Minority-Owned Firms											
	Number of Firms		Gross Receipts		Firms with Paid Employees						Firms with No Paid Employees	
	Number	Per cent of total	Amount	Per cent of total	Number	Receipts (\$ millions)	Receipts per firm (\$ 1,000)	Number of paid employees	Average number of employees per firm	Receipts per employee (\$1,000)	Number	Receipts (\$ mill.)
			(\$ mill.)									Receipts per firm (\$ 1,000)
All U.S. Industry	12,021	100.0	1,889,639	100.0	--	--	--	--	--	--	--	--
All Minority-Owned Firms	322	2.7	10,639	0.56	90	8,934	99	370,064	4	24,142	232	1,705
Black-Owned Firms	163	1.4	4,474	0.24	38	3,653	95	151,996	4	24,034	125	821
Spanish-speaking minorities	100	0.8	3,360	0.18	33	2,814	86	126,296	4	22,281	67	546
Other minorities	59	0.5	2,805	0.14	19	2,467	131	91,772	5	26,882	40	338

Source: U.S. Industry: U.S. Internal Revenue Service, Statistics on Income 1969 (Preliminary) Business Income Tax Returns, and Statistics on Income, 1969 (Preliminary) Corporate Income Tax Returns. Minority-Owned Firms: U.S. Department of Commerce, Bureau of the Census, "Minority-Owned Businesses, 1969."

Table 2. Average Size of Black-Owned Firms in Major Fields of Activity

	Black-Owned Firms, 1969			United States: Total, 1967		
	Manufacturing	Wholesale Trade	Retail Trade	Manufacturing	Wholesale Trade	Retail Trade
Number of firms with paid employees	1,566	742	17,208	269,471	232,783	1,577,302
Number of employees	12,306	5,601	55,159	19,322,900	3,518,969	9,380,616
Value of shipments or sales (\$1,000)	292,448	368,711	1,651,899	557,397,800	459,475,967	310,214,393
Average number of employees per firm	8	8	3	72	15	6
Average value of shipments or sales per firm (\$1,000)	187	497	96	2,068	1,974	197
Average value of shipments or sales per employee (\$1,000)	24	66	30	29	131	33

Sources: Black-Owned Firms, U.S. Department of Commerce, Bureau of the Census, "Minority-Owned Businesses: 1969."

U.S. Total: U.S. Department of Commerce, Bureau of the Census, "Census of Manufactures, 1967," and "Census of Business, 1967."



Table 3. Principal Fields of Concentration of Black-Owned Businesses, 1969

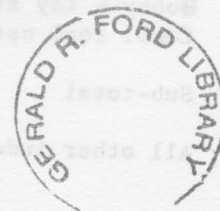
Black-Owned Businesses				All Industry:	
Rank	Industry	Gross Receipts		Per cent of Total Gross Receipts ^{1/}	Projected Annual Average Rate of Growth, 1968/80 (Per cent)
		Amount (\$1,000)	Per Cent of Total		
	All Black Firms: Total	4,474,191	100.00	100.00	4.3
1	Auto dealers & serv.stat.	631,321	14.11	5.35	4.5
2	Food stores: retail	438,492	9.80	4.40	3.5
3	Eating and drink. places	359,975	8.04	1.49	3.4
4	Personal services	287,663	6.42	0.75	3.9
5	Contractors, special trade	283,682	6.34	2.36	5.2
6	Retail trade stores: misc.	277,878	6.21	2.72	4.7
7	Contractors, gen. bldg.	140,476	3.13	2.24	2.5
8	Trucking & warehousing	133,965	2.99	1.31	4.0
9	Insurance carriers	133,314	2.97	3.32	4.3
10	Business services: misc.	103,578	2.31	1.29	6.3
11	Groceries: wholesale	95,247	2.13	2.76	3.2
12	Real estate	77,916	1.74	0.87	5.2
13	Auto repair serv. & garages	76,937	1.71	0.46	4.0
14	Bldg. mat., hardware: retail	61,451	1.37	1.20	4.3
15	Gen. merchandise: retail	56,843	1.27	3.17	6.8
16	Food products: mfg.	56,183	1.25	5.17	3.3
17	Apparel & access.: retail	53,202	1.18	1.04	5.0
18	Furniture & home furn.: retail	53,201	1.18	1.01	7.8
19	Amusement & rec. serv.	52,524	1.17	0.32	3.1
20	Lumber & wood prod.: mfg.	51,098	1.14	0.81	2.9
21	Hotels, motels, etc.	42,970	0.96	0.43	5.1
22	Local & urban transit	42,795	0.95	0.17	1.6
23	Hospitals, med. & dent. labs	42,182	0.94	-	6.9
24	Contractors, heavy const.	38,607	0.86	1.11	4.1
25	Printing & publishing: mfg.	37,978	0.84	1.38	4.4
	Sub-total: 25 Industries	3,629,478	81.01	45.13	-
	All Other Industries	844,713	18.99	54.87	-

Source: Appendix Table I.

^{1/} Data are for 1968

Table 4. Alternative Paths of Expansion for Black-Owned Businesses, 1969-1980
(Amounts in Thousands of Dollars)

		1969	1980
I. Base Position	Gross Receipts		
U.S.: All Industry	1,889,638,823		
Black-owned Firms	4,474,191		
Per Cent of Total	0.237		
II. Alternative Paths	Annual Average Growth Rate 1968-80 (Per Cent)	Gross Receipts	
U.S.: All Industry	4.3	3,002,636,090	
Black-owned Firms:			
A. Matched Expansion	4.3	7,109,489	
Per Cent of Total	0.237		
B. Unchanged share of existing industries	3.9	6,815,267	
Per Cent of Total	0.227		
C. Raise 1969 share of total industry by one-half	8.2	10,664,234	
Per Cent of Total	0.355		
D. Double 1969 share of total industry	11.1	14,218,978	
Per Cent of Total	0.474		



All industry data on receipts at the three and four digit SIC level were available for only 11 of the 36 industries shown. If receipts for the remaining 25 industries had been included, the proportion of all industry receipts accounted for by high-growth industries would have been well above 13 per cent -- indeed, it would have greatly exceeded the 17 per cent shown for black-owned businesses.

Less than 0.002

Withheld to avoid disclosure of figures for individual company.

Table 5. Representation of Black-Owned Businesses in High - Growth Industries
(Projected Annual Average Growth Rates, 1968 - 1980)

SIC	Rank	Industry	Growth Rate (per cent)	Black owned Firms Gross Receipts		U.S. All Industry Gross Receipts	
				Amount (\$1,000)	Per cent of total	Amount (\$1,000)	Per cent of total
		All Industries	4.3	4,474,191	100.00	1,706,136,759 ^{1/}	--
573	1	Radio, TV, music stores	10.3	16,565	0.37	--	--
62	2	Security brokers	10.2	6,765	0.15	4,065,483	0.23
5022	3	Drugs, wholesale	9.7	8,153	0.18	--	--
45	4	Air transport	8.6	342	0.01	8,837,199	0.51
367	5	Electronic comp. & acc., mfg.	8.4	6,746	0.15	--	--
597	6	Jewelry, retail	8.2	4,877	0.11	--	--
28	7	Chemical products, mfg.	7.4	37,080	0.83	51,493,527	3.01
60	8	Banking	7.1	24,445	0.54	3,854,823	0.22
49	9	Electric, gas & san. serv.	6.9	9,399	0.21	33,179,425	1.94
723	9	Beauty shops	6.9	55,291	1.23	--	--
807	9	Medical, dent. labs.	6.9	12,206	0.27	--	--
53	10	General merchandise, retail	6.8	56,843	1.27	54,144,527	3.17
5713	10	Floor covering, retail	6.8	6,890	0.15	--	--
572	10	Household appliances, retail	6.8	7,596	0.17	--	--
30	11	Rubber & plastics	6.3	3,980	0.09	14,766,997	0.86
38	12	Instruments, mfg.	6.2	702	0.01	11,463,937	0.67
5992	13	Florists	6.1	9,254	0.20	--	--
7622	13	Radio, TV repair	6.1	9,643	0.21	--	--
7391	14	Research & devel. labs.	6.0	*	--	--	--
369	15	Misc. elect. equip., mfg.	5.5	7,170	0.16	--	--
5064	16	Elect. appl., TV, wholesale	5.3	954	0.02	--	--
561	16	Men's, boys' furn., retail	5.3	15,082	0.33	--	--
562	16	Women's ready to wear, retail	5.3	12,084	0.27	--	--
564	16	Children's, inf., retail	5.3	425	0.01	--	--
17	17	Spec. trade construction	5.2	283,682	6.34	40,288,108	2.36
47	17	Transportation services	5.2	15,383	0.34	4,003,099	0.23
65	17	Real estate	5.2	77,916	1.74	17,714,613	0.87
261	18	Pulp mills	5.1	*	--	--	--
5712	18	Furniture, retail	5.1	16,386	0.36	--	--
595	18	Sporting goods, retail	5.1	4,641	0.10	--	--
70	18	Hotels, motels, etc.	5.1	42,970	0.96	7,426,441	0.43
264	19	Misc. paper & prod. mfg.	5.0	606	0.01	--	--
5995	19	Hobby & toy stores	5.0	186	^{2/}	--	--
66	19	Comb. real est. & insurance	5.0	5,095	0.11	3,008,929	0.17
		Sub-total		759,375	16.90	254,247,108	14.73 ^{1/}
		All other industries		3,714,834	83.10	1,451,889,651	85.27

^{1/} All industry data on receipts at the three and four digit SIC level were available for only 13 of the 34 industries shown. If receipts for the remaining 21 industries had been included, the proportion of all industry receipts accounted for by high-growth industries would have been well above 13 per cent -- indeed, it would have greatly exceeded the 17 per cent shown for black-owned businesses.

^{2/} Less than 0.005.

* Withheld to avoid disclosure of figures for individual company.



Table 6. Average Size of Firms in Selected High - Growth Industries
(Annual Average Growth Rate: 1968-1980)

SIC	Rank	Industry	Growth Rate (per cent)	Black-Owned Firms			United States: Total		
				Number of employees per firm	Value of Receipts per firm	Value of Receipts per employee	Number of employees per firm	Value of shipments per firm (\$1,000)	Value of shipments per employee (\$1,000)
357	1	Office, computer & acc. machines	10.3	8 <u>1</u> /	159	20	377	11,349	30
3831	2	Optical, ophthalmic & photo equip.	8.8	9 <u>2</u> /	126	14	72	1,418	20
367	3	Electronic components	8.4	10	356	36	199	3,678	19
282	4	Chemicals: plastics & synthetics	6.8	17	946	56	314	13,364	43
358	5	Service industry machinery	6.5	8 <u>1</u> /	159	20	96	2,963	31
30	6	Rubber & misc. plastic products	6.3	12	328	27	92	2,269	25
365 366	7	Radio, TV & communication equip.	6.2	10	356	36	367	8,545	23
369	8	Misc. electrical equip. & supp.	5.5	10	339	34	105	2,725	26
25	9	Furniture & fixture (exc. household)	5.4	10	164	16	36	739	21
28	9	Chemicals & selected products	5.4	17	946	56	98	4,926	50
3811 382	9	Instruments: scientific & control	5.4	9 <u>2</u> /	126	14	113	2,316	20
33	10	Primary metals	5.3	14	363	26	66	2,971	45
363	11	Household appliances	5.1	10 <u>3</u> /	339	34	316	9,941	32
251	12	Household furniture	5.0	11 <u>4</u> /	157	14	50	859	17
		All manufacturing	--	8	187	23	72	2,068	29

1/ Approximated by SIC 359, Miscellaneous machinery, excluding electrical.

2/ Approximated by SIC 38, Instruments and related products.

3/ Approximated by SIC 369, Miscellaneous electrical equipment and supplies.

4/ Approximated by SIC 2511, Wood household furniture.

Source: Black-Owned Firms: U.S. Department of Commerce: Bureau of the Census, "Minority-Owned Businesses, 1969."
United States Total: U.S. Department of Commerce: Bureau of the Census, "Census of Manufactures, 1967."

Table 7. Forms of Business Organization, Black-Owned Firms, 1969

	All Firms		Firms with Paid Employees					Firms without Paid Employees		
	Number of firms	Gross Receipts (\$1,000)	Number of firms	Number of employees	Gross Receipts (\$1,000)	Average Number of employees per firm	Average Receipts per firm	Number of firms	Gross Receipts	Average Receipts per firm (\$1,000)
All Industries: Total	163,073	4,474,191	38,304	151,996	3,653,363	4	95	124,769	820,828	7
Sole Proprietorship	148,135	2,512,024	30,131	88,194	1,752,530	3	58	118,004	759,494	6
Partnership	11,424	646,341	5,149	23,357	591,841	5	115	6,275	54,500	9
Corporation	3,514	1,315,826	3,024	40,445	1,308,992	13	433	490	6,834	14
<u>Percentage Distribution</u>										
All Industries: Total	100.0	100.0	100.0	100.0	100.0	--	--	100.0	100.0	--
Sole Proprietorship	90.8	56.2	78.7	58.0	48.0	--	--	94.6	92.5	--
Partnership	7.0	14.4	13.4	15.4	16.2	--	--	5.0	6.7	--
Corporation	2.2	29.4	7.9	26.6	35.8	--	--	0.4	0.8	--

Source: U.S. Department of Commerce, Bureau of the Census, "Minority-Owned Businesses: 1969," Table 9, Part B, p. 168



Table 8. Forms of Business Organizations in the United States, By Industry Group, 1968
(Number in thousands, total money figures in millions of dollars; money figures per firm in thousands of dollars)

Form of Business Organization	Agriculture, Forestry, and Fisheries	Mining	Construc- tion	Manufac- turing	Transp., Comm., Elec., Gas	Wholesale and Retail Trade			Fin., Ins., and Real Estate	Services	Other Industries	All Industry
						Total	Wholesale	Retail				
Total: All Forms												
Number of Firms	3,358	69	839	397	367	2,566	453	2,113	1,222	2,795	59	11,672
Business Receipts	51,723	15,985	97,530	645,129	116,537	579,385	235,451	343,934	164,062	101,317	4,737	1,776,405
Receipts per firm ('000)	15.4	231.6	116.2	1,625.0	317.5	225.8	519.7	162.7	134.2	36.2	80.3	152.2
Profit (less loss)	4,467	1,750	5,401	45,712	11,593	20,069	6,791	13,278	18,644	21,490	112	129,238
Profit per firm ('000)	1.3	25.3	6.4	115.1	31.6	7.8	15.0	6.3	15.2	7.7	1.9	11.0
Proprietorships												
Number of Firms	3,206	43	663	172	286	1,891	268	1,623	516	2,390	45	9,212
Business Receipts	37,362	1,220	19,334	6,673	6,175	105,922	20,432	85,490	7,760	36,548	1,111	222,105
Receipts per firm ('000)	11.6	28.4	29.1	38.8	21.6	56.0	76.2	52.6	15.0	15.3	24.7	24.1
Profit (less loss)	3,545	74	2,887	757	925	7,534	1,796	5,738	2,501	13,645	3	31,871
Profit per firm ('000)	1.0	1.7	4.3	4.4	3.2	4.0	6.7	3.5	4.8	5.7	0.1	3.4
Partnerships												
Number of Firms	121	13	50	33	15	207	32	175	299	176	4	918
Business Receipts	5,344	970	7,365	5,531	1,230	33,917	10,977	22,940	9,397	16,226	552	80,532
Receipts per firm ('000)	44.1	74.6	147.3	167.6	82.0	163.8	343.0	131.1	31.4	92.2	138.0	87.7
Profit (less loss)	654	73	801	544	152	2,244	556	1,688	1,068	5,823	46	11,405
Profit per firm ('000)	5.4	5.6	16.0	16.5	10.1	10.8	17.3	9.6	3.5	33.1	11.5	12.4
Corporations												
Number of Firms	31	13	126	192	66	468	153	315	407	229	10	1,542
Business Receipts	9,017	13,795	70,831	632,925	109,132	439,546	204,042	235,504	146,905	48,543	3,074	1,473,768
Receipts per firm ('000)	290.8	1,061.1	562.1	3,296.5	1,653.5	939.2	1,333.6	747.6	360.9	212.0	307.4	955.7
Profit (less loss)	268	1,603	1,713	44,411	10,516	10,291	4,439	5,852	15,075	2,022	63	85,962
Profit per firm ('000)	8.6	123.3	13.6	231.3	159.3	22.0	29.0	18.5	37.0	8.8	6.3	55.7

Source: U.S. Department of Commerce: Bureau of the Census, Statistical Abstract of the United States, 1971, Table 711, p. 459.

APPENDIX TABLE I. Black-Owned and Total U.S. Businesses, By Industry, Number, and Gross Receipts

Page 1

SIC 1/	Industry	Black-Owned Firms				United States, All Industry, 1968				Black-Owned Firms as Per cent of Total	
		Number of firms		Gross Receipts		Number of firms		Gross Receipts		Number	Gross Receipts
		Number	Per cent of total	Amount (\$1,000)	Per cent of total	Number	Per cent of total	Amount	Per cent of total		
	All Industry	163,073	100.0	4,474,191	100.0	11,670,950	100.00	1,706,136,759	100.00	1.40	0.26
01	Agriculture	--	--	--	--	3,357,686	27.77	51,722,341	3.01	--	--
	Farms	--	--	--	--	3,172,391	27.18	45,269,480	2.65	--	--
07	Agr. ser., hunting, for. & fisheries	3,367	2.06	63,699	1.43	185,295	1.59	6,452,861	0.37	--	--
08	Agriculture services & hunting	1,337	0.82	30,901	0.69						
09	Forestry	1,051	0.64	14,281	0.32						
	Fisheries	538	0.33	4,814	0.10						
	Other industries	441	0.27	13,703	0.30						
	Mining	--	--	--	--	69,528	0.59	15,985,242	0.93	--	--
	Construction	16,235	9.96	464,343	10.38	838,988	7.19	97,530,126	5.71	1.93	0.47
15	Building construction, gen. cont.	2,359	1.44	140,476	3.14	165,356	1.42	38,253,472	2.24	1.43	0.36
16	Construction, heavy	369	0.22	38,607	0.86	32,476	0.28	18,988,546	1.11	1.14	0.20
17	Special trade construction	13,477	8.26	283,682	6.34	641,156	5.49	40,288,108	2.36	2.10	0.70
	Manufacturing	2,981	1.82	302,648	6.76	396,908	3.40	645,128,726	37.81	0.75	0.05
20	Food & kindred products	104	0.10	56,183	1.25	27,660	0.23	88,356,906	5.17	0.38	0.06
22	Textile mill products	39	0.02	3,233	0.07	7,827	0.06	21,117,335	1.23	0.50	0.02
23	Apparel and other products	163	0.10	21,838	0.49	27,684	0.23	23,834,783	1.39	0.59	0.09
24	Lumber & wood products	1,288	0.79	51,098	1.14	60,642	0.52	13,979,110	0.81	2.12	0.37
25	Furniture & fixtures	90	0.05	7,656	0.17	14,979	0.13	7,518,795	0.44	0.60	0.10
26	Paper & allied products	21	0.01	2,277	0.05	5,763	0.05	24,269,742	1.42	0.36	0.01
27	Printing and publishing	515	0.31	37,978	0.85	59,267	0.51	23,688,641	1.38	0.87	0.16
28	Chemicals & allied products	55	0.03	37,080	0.83	14,319	0.12	51,493,527	3.01	0.38	0.07
30	Rubber & plastic products	21	0.01	3,980	0.09	8,283	0.07	14,766,997	0.86	0.25	0.03
31	Leather & leather products	13	0.01	1,106	0.02	4,491	0.03	5,777,505	0.33	0.29	0.02
32	Stone, clay & glass	75	0.04	9,768	0.22	18,592	0.16	14,787,051	0.86	0.40	0.07
33	Primary metals	29	0.01	4,823	0.10	6,371	0.05	43,811,545	2.56	0.45	0.01
34	Fabricated metal products	93	0.05	16,777	0.37	34,270	0.29	37,152,210	2.17	0.27	0.05
35	Machinery, exc. elect.	98	0.06	12,672	0.28	45,602	0.39	50,019,437	2.93	0.21	0.03
36	Electrical mach. & equip.	64	0.04	17,065	0.38	13,692	0.11	46,546,975	2.72	0.47	0.04
37	Transportation equip.	28	0.01	5,658	0.12	9,214	0.08	92,176,721	5.40	0.30	0.01
38	Instruments, prof., sci & cont.	16	0.01	702	0.01	5,922	0.05	11,463,937	0.67	0.27	*
39	Misc. manufacturing	269	0.16	12,754	0.28	32,330	0.28	74,177,055	4.34	0.83	0.01
	Transp., comm., electric gas & san. serv.	16,733	10.26	210,808	4.71	366,667	3.14	116,537,354	6.83	4.56	0.18
41	Local & suburban transit	7,296	4.47	42,795	0.95	62,707	0.54	3,008,212	0.17	11.64	1.42
42	Trucking & warehousing	7,252	4.44	133,965	2.99	233,275	2.01	22,467,997	1.31	3.13	0.60
44	Water transportation	37	0.02	3,242	0.07	13,653	0.11	4,825,497	0.28	0.27	0.07
45	Air transportation	18	0.01	342	0.01	8,356	0.07	8,837,199	0.51	0.21	*
47	Transportation services	1,198	0.74	15,383	0.34	14,943	0.13	4,003,099	0.24	8.02	0.38
	Other transportation	18	0.01	594	0.01	1,119	0.01	13,177,055	0.77	1.61	*
48	Communication	53	0.03	5,088	0.11	10,084	0.08	27,038,870	1.58	0.52	0.02
49	Electric, gas & san. serv.	861	0.52	9,399	0.21	22,530	0.19	33,179,425	1.94	3.82	0.03
	Wholesale & Retail Trade	46,880	28.74	2,317,402	51.79	2,590,943	22.20	583,828,137	34.21	1.81	0.40
50	Wholesale Trade: Total	1,660	1.02	385,039	8.61	453,664	3.90	235,450,346	13.80	0.37	0.16
501	Motor vehicles & auto equip.	114	0.07	24,773	0.55	27,493	0.23	11,667,214	0.68	0.41	0.21
502	Drugs, chemicals, etc.	83	0.05	9,765	0.22	13,243	0.11	9,877,481	0.58	0.63	0.10
503	Dry goods & apparel	51	0.03	16,246	0.36	20,849	0.18	10,533,926	0.62	0.24	0.15
504	Groceries & related prod.	240	0.15	95,247	2.13	63,403	0.54	47,134,783	2.76	0.38	0.20
505	Farm products-raw materials	77	0.04	24,305	0.54	24,364	0.21	21,279,049	1.25	0.32	0.11
506	Electrical goods	16	0.01	5,407	0.12	15,558	0.13	11,603,160	0.68	0.10	0.05
507	Hardware, plumbing & heat. equip.	33	0.02	12,987	0.29	14,254	0.12	9,926,262	0.58	0.23	0.13
508	Machinery, eq. & supplies	128	0.08	24,516	0.55	50,719	0.43	20,726,086	1.21	0.25	0.12
509	Alcoholic beverages	42	0.03	26,385	0.59	8,148	0.07	13,400,691	0.78	0.52	0.20
	Lumber & const. materials	81	0.05	13,831	0.31	15,031	0.13	10,494,451	0.62	0.54	0.13
	Other wholesale trade	795	0.49	131,577	2.94	200,602	1.72	68,807,243	4.03	0.40	0.19

	Black-Owned Firms				United States, All Industry, 1968				Black-Owned Firms as per cent of Total	
	Number of firms		Gross Receipts		Number of firms		Gross Receipts		Number	Gross Receipts
	Number	Per cent of total	Amount (\$1,000)	Per cent of total	Number	Per cent of total	Amount (\$1,000)	Per cent of total		
Retail Trade: total	45,220	27.73	1,932,363	43.19	2,137,279	18.31	348,377,791	20.41	2.12	0.55
52 Bldg. mat., hardware, farm equip.	515	0.31	61,451	1.37	96,421	0.83	20,556,457	1.20	0.53	0.30
53 General merchandise	3,959	2.42	56,483	1.27	336,920	2.90	54,144,527	3.17	1.18	0.10
54 Food stores	11,268	6.91	438,492	9.80	285,793	2.45	75,161,720	4.40	3.94	0.58
55 Auto dealers & serv. stations	6,380	3.91	631,321	14.11	372,498	3.19	91,327,923	5.35	1.72	0.69
56 Apparel & accessories	1,315	0.80	53,202	1.19	103,292	0.89	17,901,244	1.04	1.27	0.30
57 Furniture & home furn.	1,246	0.76	53,201	1.19	119,866	1.03	17,259,776	1.01	1.04	0.31
58 Eating and drinking places	14,125	8.66	359,975	8.04	387,880	3.32	25,521,701	1.49	3.64	1.41
59 Miscellaneous retail stores	6,412	3.93	277,878	6.21	434,608	3.72	46,504,443	2.72	1.48	0.60
Finance, insurance and real estate	7,612	4.66	287,471	6.42	1,221,595	10.46	93,793,673	5.49	0.62	0.31
60 Banking	35	0.02	24,445	0.54	14,265	0.12	3,854,823	0.22	0.24	0.63
61 Credit agencies, exc. banks	111	0.07	12,644	0.28	62,640	0.53	4,370,225	0.25	0.18	0.29
62 Security & comm. brokers & dealers	257	0.15	6,765	0.15	36,195	0.31	4,065,483	0.23	0.71	0.17
63 Insurance carriers	104	0.06	133,314	2.98	5,113	0.04	56,812,345	3.32	2.03	0.23
64 Insurance agents, brokers	1,315	0.80	21,839	0.49	219,197	1.89	6,455,137	0.37	0.60	0.34
65 Real estate	5,524	3.38	77,916	1.74	785,365	6.72	14,889,598	0.87	0.70	0.52
66 Comb. real estate, insurance, law	147	0.09	5,095	0.11	64,996	0.56	3,008,929	0.17	0.23	0.17
67 Holding & other investment cos.	119	0.07	5,453	0.12	33,824	0.29	337,133	0.02	0.35	1.62
Services	56,077	34.38	663,236	14.82	2,795,421	23.95	101,316,950	5.93	2.01	0.65
70 Hotels, motels, etc.	2,015	1.23	42,970	0.96	138,921	1.19	7,426,441	0.43	1.45	0.58
72 Personal services	33,906	20.79	287,663	6.43	617,481	5.29	12,900,552	0.75	5.49	2.23
73 Business services	6,497	3.98	103,578	2.31	400,429	3.43	22,092,129	1.29	1.62	0.47
75 Auto repair, serv. & garages	4,549	2.79	76,937	1.72	186,943	1.60	7,970,697	0.46	2.43	0.97
76 Misc., repair services	3,468	2.12	35,953	0.80	205,313	1.77	3,571,398	0.20	1.69	1.01
78 Motion pictures	84	0.05	4,854	0.11	19,854	0.17	4,044,357	0.23	0.42	0.12
79 Amusement & rec. serv.	3,420	2.09	52,524	1.17	183,171	1.57	5,553,015	0.32	1.87	0.95
80 Medical & other health serv.	--	--	--	--	446,130	3.82	20,375,868	1.19	0.31	0.35
Hosp., med. & dental labs.	208	0.13	13,757	0.31	--	--	--	--	--	--
San., conv. & rest homes	591	0.36	28,425	0.63	--	--	--	--	--	--
82 Educational services	1,328	0.81	16,473	0.36	103,455	0.89	1,340,518	0.07	1.28	1.23
89 Miscellaneous services	11	0.01	102	*	437,647	3.74	16,041,975	0.94	0.78	0.40
Industries not classified	13,148	8.06	164,584	3.67	33,014	0.28	294,210	0.02	39.83	55.94

1/ SIC - Standard Industrial Classification Code.

* Less than 0.005 per cent.

Note: Figures may not add to totals because of rounding.

Source: Black-owned Businesses: U.S. Department of Commerce, Bureau of the Census; "Minority-Owned Business: 1969," Part B, U.S. All Industry: Internal Revenue Service: "Statistics of Income-Business Tax Returns, 1968.

Note: The following SIC codes were excluded from coverage in "Minority-Owned Businesses: 1969": 01, agricultural production; 10, metal mining; 11 & 12, coal mining; 13, crude petroleum & natural gas; 14, other mining; 40, railroad transportation; 801, offices of physicians & surgeons; 802, offices of dentists, dental surgeons; 803, offices of osteopathic physicians; 804, offices of chiropractors; 8099, health and allied services n.e.c.; 81, legal services; 86, nonprofit organizations; 89, miscellaneous services; 91, Federal Government; 92, State government; 93, local government; and 94, international government.



APPENDIX TABLE II Forms of Business Organization in the United States, 1939, 1945, 1960, and 1968
(Number in thousands; money figures in billions of dollars)

Form of Business Organization	1939		1945		1960		1968		Change 1939-1945			Change 1945-1960			Change 1960-1968		
	Amount	Per Cent Of Total	Amount	Per Cent Of Total	Amount	Per Cent Of Total	Amount	Per Cent Of Total	Amount	Percentage Change	Annual Ave. Rate of Growth (%)	Per Cent Of Total Change	Amount	Percentage Change	Annual Ave. Rate of Growth (%)	Per Cent Of Total Change	Amount
Total Number: All Forms	1,793	100.0	6,737	100.0	11,172	100.0	11,672	100.0	4,944	275.7	25.0	100.0	4,435	65.8	3.4	100.0	500
Proprietorships	1,052	58.7	5,689	84.4	9,090	81.4	9,212	78.9	4,637	440.8	33.0	93.8	3,401	59.8	3.2	76.7	122
Partnerships	271	15.1	627	9.3	941	8.4	918	7.9	356	131.4	15.0	7.2	314	50.1	2.7	7.1	-23
Corporations	470	26.2	421	6.3	1,141	10.2	1,542	13.2	-49	-10.4	-1.9	-1.0	720	171.0	6.9	16.2	401
Total Receipts	172	100.0	381	100.0	1,094	100.0	1,813	100.0	209	121.5	14.2	100.0	713	187.1	7.3	100.0	719
Proprietorships	24	14.0	79	20.7	171	15.6	222	12.2	55	229.2	22.0	26.3	92	116.5	5.3	12.9	51
Partnerships	15	8.7	47	12.3	74	6.8	83	4.6	32	213.3	21.0	15.3	27	57.4	3.1	3.8	9
Corporations	133	77.3	255	67.0	849	77.6	1,508	83.2	122	91.7	11.4	58.4	594	232.9	8.3	83.3	659
Net Profits (Less Loss)	11	100.0	40	100.0	73	100.0	129	100.0	29	263.6	24.0	100.0	33	82.5	4.1	100.0	56
Proprietorships	2	18.2	12	30.0	21	28.8	32	24.8	10	500.0	35.0	34.5	9	75.0	3.8	27.3	11
Partnerships	2	18.2	7	17.5	8	11.0	11	8.5	5	250.0	23.0	17.2	1	14.3	.9	3.0	3
Corporations	7	63.6	21	52.5	44	60.3	86	66.7	14	200.0	20.0	48.3	23	109.5	5.1	69.7	42

Source: U.S. Department of Commerce; Bureau of the Census
Statistical Abstract of the United States 1971
Table 710, p. 459

For Release on Delivery
Tuesday, November 19, 1974
8 P.M. (E.S.T.)

ECONOMIC STAGNATION, INFLATION, AND THE BLACK COMMUNITY

Remarks by

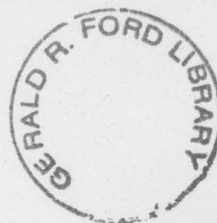
Andrew F. Brimmer
Member of the Faculty

HARVARD UNIVERSITY
Graduate School of Business Administration

Upon Receipt of the
1974 Equal Opportunity Award

Presented by the
National Urban League
New York Hilton Hotel
New York, New York

November 19, 1974



ECONOMIC STAGNATION, INFLATION, AND THE BLACK COMMUNITY

By

Andrew F. Brimmer*

It is with deep appreciation that I accept the 1974 Equal Opportunity Award of the National Urban League. In honoring me tonight, you appear to be saying to the nation at large that you approve of the meager efforts I made to serve the public welfare during my stay of more than eleven years in the Federal Government. I was particularly pleased that--in citing me--you focused on the work I did as part of legislative effort which resulted in the passage of the Civil Rights Bill of 1964. Although the principle thrust of my work in the Federal Government (and especially so after I became a Member of the Federal Reserve Board) was concerned with national economic policy rather than civil rights, I always remained conscious of the ravishes of racial discrimination and the need to broaden economic opportunity for all Americans.

In particular, from time to time, I have attempted to provide a report on the economic status of blacks in the United States which goes beyond the mere recitation of Federal Government statistics. I have just completed such an assessment, and I thought it might be helpful to summarize the highlights here.

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In general, the combination of inflation and economic stagnation have had a proportionately greater adverse impact on blacks than on the nation at large. Blacks are carrying a considerably greater share of the loss in jobs and the rise in unemployment. At the same time, the ravishes of inflation (which has been so heavily concentrated in foods) have created a desperate situation among poor black families.

In terms of the job situation, it appears that blacks may be in the process of re-living the adverse experience they suffered through during the 1970 recession. That slowdown brought a serious interruption to the steady progress which blacks had made during the 1960's. In fact, between blacks as a group and whites as a group, blacks suffered all of the recession---induced decline in jobs in 1970---while whites made further job gains. From the fourth quarter of 1969 through the fourth quarter of 1970, total employment decreased by 66 thousand. This was the net result of a drop of 174 thousand in the number of jobs held by blacks which was partly offset by an increase of 108 thousand jobs held by whites. During the sluggish recovery of 1971, job gains by blacks lagged considerably and unemployment in the black community continued to rise. Only last year did the rate of job improvement among blacks resume the pace recorded during the 1960's.

So far in 1974, as the economy has struggled with the adverse impact of the oil embargo in the early months of the year and also with a decline in real economic activity over the last three quarters, blacks have also been suffering relatively more than their white counterparts.

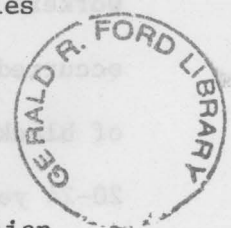
For example, between April and October, the total number of jobs rose by 713 thousand; but the number of jobs held by blacks rose by only 50 thousand. Thus, the blacks' share of the gain was only 7 per cent--although they constitute over 11 per cent of the labor force. During the same period, the total number of unemployed workers rose by 1,023 thousand, but the number of jobless blacks rose by 261 thousand. In this case, blacks represented 26 per cent of the increase.

As we look ahead to the coming year, it is obvious that we will continue to face severe inflation, a stagnant economy, and rising unemployment. Consequently, I believe we--as a nation--must take steps promptly to moderate the worse effects of a deteriorating economy. In the concluding section of these remarks, I suggest some of the main elements which should be in such a program. Before doing that, however, we can review briefly the contours of recent changes in the black labor force, employment, and unemployment. This is followed by an assessment of the broad effects of inflation on low income families--among whom blacks are so heavily represented. I then focus briefly on the growing conflict between the campaign for equal opportunity and seniority rules in American industry.

Civilian Labor Force

Last month, there were 10,479 thousand blacks* in the civilian labor force--which numbered 92,004 thousand. Thus, blacks constituted 11.4 per cent of the total. So far in 1974 (unlike the situation in 1973), the black work force has expanded somewhat more slowly than the labor force for the nation as a whole. For example, between the third

*These figures (from the Bureau of Labor Statistics in the U.S. Department of Labor) refer to "Negroes and other races." Blacks constitute over 92 per cent of the total reported.



quarter of 1973 and the same period this year, the black labor force rose by 2.3 per cent, compared with 2.7 per cent for the total. The slower expansion was particularly noticeable among adult black men--among whom the year-to-year gain was just over 1 per cent compared with over 1-1/2 per cent for all men 20 years of age and over. But the more moderate pace of expansion was also evident among adult black women. The number of the latter rose by 3-1/2 per cent from the third quarter of 1973 through the same period of 1974. In contrast, the rate of expansion for all adult women was just over 4 per cent. For black youths (age 16-19), the number in the civilian labor force rose by 2-1/2 per cent--compared with 4 per cent for all youths--during the same period.

The slower expansion in the civilian labor force was particularly marked during the first half of the year. To a considerable extent, this was probably a reflection of the drop in labor force participation rates during the second quarter of the year. Although total unemployment was rising during the first quarter (mainly due to the adverse impact of the Arab oil embargo), the labor force participation rate for all black workers edged up slightly in the first quarter. However, a sharp reversal occurred during the April-June months. In this period, the participation of black men of all ages declined significantly as youths and young men 20-24 years of age withdrew from the labor market. Adult black men 25 years of age and over (those most likely to have family responsibilities) also experienced a sharp decline in the degree of labor force participation. Young black women aged 16 to 24 years increased their rate of entry into the labor force, but adult women 25 years or older withdrew on balance. These declines in labor force participation may in part have reflected a pessimistic view of job opportunities.

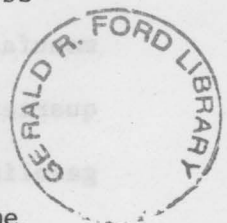
Among white workers, overall participation was little changed, but their civilian labor force continued to grow because of the increase in working age population. The first quarter increase in their civilian labor force was modest, and about half of the advance was among adult men. In contrast, all the increase in the second quarter was attributable to the entry of adult women--among whom the number of those employed or seeking work rose appreciably--more than offsetting the drop in teenage entry. The adult white male labor force was unchanged over the second quarter.

During the third quarter, the black labor force expanded about in line with the national work force. While the extent of participation by adult black men continued to lag somewhat, that for both adult black women and teenagers registered above-average gains. Among white workers as a group (including adult men), a noticeable expansion was registered.

So, as we moved through the year--and as the worse effects of the oil embargo eased--blacks (along with other workers) began to seek jobs much more actively. However, as already noted, the economy as a whole was weakening throughout the year, and the number of blacks without jobs rose significantly.

Employment

In October, 9,335 thousand blacks were employed. In the same month, total employment amounted to 86,462 thousand. Thus, blacks held 10.8 per cent of the total. From the third quarter of 1973 through the same period of 1974, the number of jobs held by blacks rose about 2 per cent--roughly in line with total employment in the nation as a whole. However, for blacks (as for whites) the major share of the gain was made



by women. For both groups, the increase amounted to about 3-1/2 per cent. For all men, the increase was roughly 1 per cent, but for black men it was only 1/2 per cent.

Overall employment advances were modest in the first half of 1974 as real output declined. Job growth was less than 1 per cent (seasonally adjusted annual rate)--following a substantial 3.7 per cent gain during 1973. Again, the employment situation was heavily influenced by the energy shortages early in the year and by reduced demands throughout the first half of the year. Total nonfarm payroll employment, as measured by the Department of Labor's survey of establishments, weakened last winter; it expanded at an annual rate of less than 1 million between January and June--compared with 2.8 million in the preceding year. Much of the slowdown was concentrated in durable goods manufacturing where layoffs were widespread, especially in the automobile and related industries. Service and retail trade industries also reflected the impact of energy shortages during the winter as layoffs were reported by gasoline service stations, automobile dealerships, as well as at hotels, motels, and at certain types of recreational facilities. But, in contrast to manufacturing employment (which remained about unchanged in the second quarter), service-type employment growth resumed in the spring--as the gasoline situation eased.

The impact of the energy shortages and the weakness in real output was evident in the composition of employment changes in the first half of 1974. Employment of adult men showed a net decline, reflecting the sharp drop in industrial production. Teenage employment also dropped off sharply as typically is the case when economic activity is sluggish. In contrast, employment of women continued to expand rapidly in the first

half of 1974, in part, because of the rebound of employment growth in service-type industries in the spring.

Similar patterns of employment change were evident among both black and white workers--although the impact of the energy crisis and the reduced level of economic activity was apparently greater for black workers than for white workers. Black employment declined by almost 50,000 at an annual rate, (or about .5 per cent) during the first half of 1974. Adult black men were the largest job losers, as their employment levels were reduced about 2-1/2 per cent at an annual rate between the end of 1973 and mid-1974. Black teenage workers also experienced a net job loss during the first half of 1974 following a substantial expansion in 1973. In contrast, employment of adult black women continued to increase at a strong pace--about 3.2 per cent (annual rate), although the second quarter gain was considerably slower than the advance of the first quarter.

Total employment of white workers grew slowly--by less than 1 per cent (annual rate), with nearly all of the net increase among adult women. Employment was little changed among men in the first quarter and declined in the second, although not to the same extent as among adult black men. White teenage employment dropped off in the second quarter (although relatively less than their black counterparts) while white women recorded substantial job gains, primarily in the second quarter as employment in service-type industries picked up.

Over the summer months, employment picked up somewhat, but the pace of expansion remained sluggish. Again, the gains were concentrated in services rather than in the production of durable goods.



Employment opportunities for black adult men and teenagers have been relatively more adversely affected by the current slowdown in economic activity than those of their white counterparts. There are several possible explanations for this: Black men are heavily concentrated in blue collar jobs. For example, more than 40 per cent of all blacks work in these occupations as compared to about one-third of all white workers. As is generally known, the economic slowdown has had much of its impact on these blue collar occupations as their unemployment rate rose substantially while joblessness among white collar workers so far has remained little changed. In addition, about 20 per cent of all black workers are employed in private service occupations--in hotels, motels, and other recreational industries. About 10 per cent of all white workers are similarly employed. Thus, the relatively larger concentration of black workers in these blue collar and service occupations which were most affected by the slowdown may account in part for the relatively weaker employment situation among blacks than among white workers.

Unemployment

In October, there were 1,144 thousand black workers without jobs. Total unemployment amounted to 5,542 thousand, so blacks represented 20.6 per cent of the total. This was almost double the black's share of the civilian labor force and of jobs. The unemployment rate among blacks was 10.9 per cent in October. For all civilian workers, the rate was 6.0 per cent, and for whites it was 5.4 per cent. Thus, the black-white proportion is again 2 to 1.

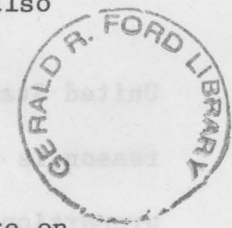
Joblessness among black workers rose substantially during the winter--from 8.6 per cent at the end of 1973 to 9.3 per cent in the first

quarter of 1974. However, with declines in the labor force outpacing the drop in employment in the second quarter, the unemployment rate edged off to 9.0 per cent. Adult black men accounted for a large proportion (nearly three quarters) of the first quarter's increase in joblessness as their unemployment rate rose from 6.7 per cent to 7.1 per cent. Teenagers also experienced increased unemployment, but the number of adult women unemployed declined moderately. In the second quarter, rates for women and teenagers were little changed, and the rate for adult men declined as a result of withdrawals from the labor force. During the third quarter, as the economy continued to weaken, the unemployment rate for the total labor force began to creep up, and the rate for blacks kept pace.

Among white workers, an increase in joblessness among the major groups occurred in the first quarter. Adult men accounted for about 45 per cent of the increase and adult women for about 40 per cent. In the second quarter the jobless rate for both adults and teenagers was unchanged. But during the third quarter, the same pattern observed among blacks prevailed among whites, and their unemployment rate also climbed.

Outlook

In the months ahead there is likely to be upward pressure on the unemployment rate as real economic activity is expected to decline further. In fact, for 1975 as a whole, real output may not register any net gain--and it may decline further. At the same time, the rate of inflation may dampen only moderately. Under these circumstances, the unemployment rate for the labor force as a whole may well reach 7-1/2 per



cent by mid-year. If so, the unemployment rate for blacks--already in the neighborhood of 11 per cent--could climb to 13 per cent or beyond.

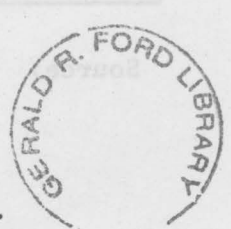
Impact of Inflation

In the meantime, the raging inflation that has plagued this country for the last several years has had a particularly adverse impact on blacks. It might be recalled that the consumer price index (CPI) rose by 3.3 per cent as recently as 1972--not much different from the annual average increase of 3.0 per cent recorded during the period 1960 through 1971. During 1973, reflecting both on over-heated economy and a sharp jump in commodity prices--particularly food, the CPI climbed by 6.2 per cent. During the current year, the degree of excess demand in the economy has moderated noticeably. However, the sharp increase in oil prices and the continued upward pressure on food prices have combined to lift the annual rate of inflation (as measured by the CPI) to the neighborhood of 12 per cent for 1974. Looking ahead to 1975, the pace of inflation may ease somewhat, but the CPI may still increase by more than 9 per cent.

As more and more observers are realizing, inflation in the United States has had a particularly devastating effect on blacks. The reason is not because they are black but because food prices have risen proportionately much more than other prices; blacks are relatively much poorer than whites, and blacks spend a proportionately larger share of their incomes on food. The inflation in food prices has hit the lower income groups relatively harder than the better-off consumer. For instance, among families (four members) with incomes under \$3,000 per year, roughly 40 per cent of their income is spent on food. For families

earning around \$9,000, about 25 per cent of their yearly budget goes toward food. In the higher income group, with an annual income around \$18,000, only some 20 per cent goes toward food. Thus, because food prices rose more rapidly over the last two years than any other component of the CPI (except petroleum products), it follows that the poorer families were the hardest hit.

Further insights into the impact of inflation on different categories of consumers are provided by the figures in Table 1 (page 12), showing the food budget for urban families with four members (including two elementary school children). The figures show the amount of money spent weekly for food according to the type of budget (economy, low, middle, and high). Also shown in the table are the percentage increases in food outlays during the two years June, 1972, through June, 1974. These data indicate that during the first year (June, 1972 to June, 1973) food expenditures as reflected in all four types of budgets rose by the same proportion--16 per cent. But in the second year (June, 1973 to June, 1974), food costs rose relatively more for the economy and low budget families (by 17 per cent) than was the case for either middle income families (13 per cent) or higher income families (12 per cent). Moreover, while the year-to-year absolute dollar outlays rose by about the same proportion for all types of budgets, in relative terms, this put a much heavier burden on the budgets of lower income families.



Competing Objectives: Seniority and Equal Opportunity

Before concluding these remarks, I would like to focus briefly on an issue of major concern to all of us interested in equal opportunity: at this juncture, it appears that the national campaign to broaden job opportunities for blacks and other minorities--as well as for women-- may

Table 1.

Food Budget for Urban Family of Four
(Including Two Elementary School Children),

June, 1972 - June, 1974

Type of Budget	June, 1972	June, 1973		June, 1974	
	Amount	Amount	Per Cent Increase	Amount	Per Cent Increase
Economy	\$26.00	\$30.20	16.2	\$35.30	16.9
Low	32.60	37.80	16.0	44.10	16.7
Middle	41.70	48.60	16.5	55.20	13.6
High	51.40	59.70	16.1	66.90	12.1

Source: U.S. Department of Agriculture.

be an early casualty of the deepening recession. With unemployment mounting, layoffs (especially in the industrial sector) are reaching farther and farther up the seniority ladder. We ordinarily think of employee seniority in terms of trade union agreements which generally require that layoffs be made inversely to the duration of employment. Since blacks are still relatively recent entrants to numerous industrial occupations, they typically have considerably less trade union-related seniority than their white counterparts. (Of course, there are some noticeable exceptions--such as automobiles and steel where blacks have accumulated a significant amount of seniority). But it is also important to recognize that--even in sectors of the private economy in which only a small fraction of the workers are unionized--custom and usage have led to company-employee relationships that are tantamount to seniority rules. Consequently, we should expect private employers to face increasingly the hard choice between pressing on with the task of expanding opportunities for new-comers and adherence to traditional seniority practices.

Already a number of employers have been challenged (including the filing of court cases) by spokesmen for blacks and representatives of women's groups who charge that many co-workers are enjoying seniority--protected positions because of a legacy of discrimination by companies. At the same time, the Federal Government (particularly the Equal Employment Opportunity) is intensifying its drive to induce employers to give more weight to affirmative action--despite the existence of seniority provisions in contracts they have signed with trade unions.

Thus, we see shaping up a serious conflict between two objectives both of which rank high on the nation's human and industrial relations goals.



As the chairman of a leading industrial firm observed to me recently, both sets of claimants have very strong cases, and there is no obvious way to resolve them in the short-run. I share this view. For this reason, leaders of American industry will have to exercise an extraordinary degree of imagination in the quest for ways to foster a continued expansion of equal opportunity for women, blacks, and members of other minority groups--while remaining faithful to the seniority commitments they have made to other employees.

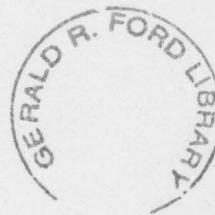
Concluding Observations

But, above all, if the economy is permitted to grind down upon itself, both of these objectives--along with a number of others--will be undermined. A deepening recession is the worse kind of environment in which to seek a broadening of economic opportunity. Therefore, the most important task we face at the present time is the adoption of a set of coherent national policies which would prevent the economy from deteriorating further in the coming year. Because of the limitations of time, I cannot set forth in detail the steps which I believe are necessary to improve the performance of the national economy in the year ahead. However, several elements ought to be included in a revamped program:

- We should immediately broaden the coverage and increase the benefits available under our unemployment compensation system. After all, we know that joblessness will be both widespread and rising during the coming winter.
- We should create a large-scale public service employment program which can provide jobs for at least 800,000 workers. Such a program would be particularly helpful to young people who have few claims to unemployment benefits.

- The Federal Administration should abandon the call for a 5 per cent income surcharge on family and corporate incomes above \$15,000. With the economy drifting more deeply into recession--with the decline in real consumer spending playing a major role--we should not impose an additional burden on consumer incomes.
- Moreover, some modest tax reduction for low income groups should be made. This would help to ease the adverse effect of inflation on those least able to bear it. It will be recalled that such a tax cut was strongly endorsed at the recent White House Conference on Inflation.
- Since inflation will remain a major problem (despite the weakening of economic activity), the Council on Wage and Price Stability should be strengthened. It should have authority to delay proposed wage and price increases which seem clearly to be against the public interest. For the time being, I do not believe we need mandatory wage and price controls.
- There should be some further easing in monetary policy, and less emphasis should be placed on the achievement of a balanced Federal budget. Again, in a declining economy, the Federal Government itself ought not to aggravate the situation by further shrinking aggregate demand.

The foregoing are only some of the main elements I would include in a national program to help check inflation and moderate the adverse effects of a recession that shows signs of becoming increasingly severe. Of course, I recognize that these moves would not stop inflation, and they would not end the recession. It seems quite evident that--through at least the first half of next year--real economic activity will be declining, and the rate of inflation will remain uncomfortably high. Rather, the actions suggested here would ease somewhat the economic burdens of inflation and recession which now fall so unevenly on different groups in the population.



For Release on Delivery
Wednesday, November 20, 1974
12 NOON (E.S.T.)

MONEY AND THE ECONOMIC OUTLOOK

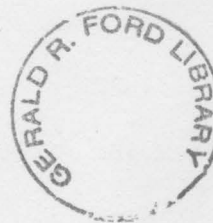
Remarks by

Andrew F. Brimmer
Member of the Faculty

HARVARD UNIVERSITY
Graduate School of Business Administration

Before the
Harvard Business School Association of Boston
Copley Plaza Hotel
Boston, Massachusetts

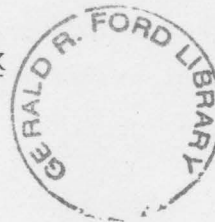
November 20, 1974



MONEY AND THE ECONOMIC OUTLOOK

By

Andrew F. Brimmer*



The American economy is grinding down upon itself, and few forces are at work in the private sector to check the deterioration short of a sizable drop in real output and a sharp climb in unemployment. At the same time, inflation continues as a serious national problem. In fact, the possibility which many observers foresaw last summer--i.e., the emergence of a severe recession while strong inflationary pressures continued to prevail--has now materialized. It now seems certain that--in terms of economic activity--the coming year will be one of the worst we have seen since the severe recession of 1957-58.

Given this prospect, I think the time has come for a change in the overall thrust of national economic policy. We certainly should not abandon our effort to moderate the high rate of inflation which has plagued this country since the late 1960's. After all, the burdens of inflation--especially on many of those in the lower income groups--are heavy and real. At the same time, however, we should not be oblivious to the fact that the economy is weakening more rapidly--and the cutback in output is threatening to go much farther--than most observers (including policymakers in the Federal Government) anticipated during the White House Conference on Inflation held at the end of September. Consequently, I

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believe that our immediate task is to prevent an excessive deterioration in economic activity during 1975.

Of course, a few positive forces seem to be getting underway, and these will lend some strength to the economy in the year ahead. For example, homebuilding activity should pick up somewhat after the turn of the year, and the liquidation of business inventories that is now underway should be over by mid-year. Moreover, as disposable incomes improve and the burden of debt repayments eases somewhat, consumer sentiment--and with it consumer spending--should become less pessimistic.

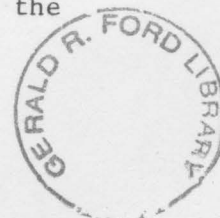
Yet, the mainsprings of domestic economic growth have weakened substantially, and the private sector requires the kind of positive assistance which a modest stimulus from public policy can provide.

In the closing section of these remarks, I suggest some of the main elements which should be included in such a revamping of national economic policy. First, however, we should sketch the general contours of the economic outlook for 1975--with special emphasis on some of the financial prospects for the year ahead.

The Economic Outlook

It is now evident that the current recession will be deeper and will last longer than was anticipated as recently as six weeks ago. In fact, it now appears that little--if any--real economic growth will be registered over the next year. For 1974 as a whole, gross national product (GNP) in current dollars may amount to \$1,395 billion, or 7-1/2 per cent above the 1973 level. But in real terms--i.e., after correcting for the rate of inflation--GNP may decrease by 2.2 per cent.* It will be recalled that real economic activity declined by 7.0 per cent (at a seasonally

*The forecast presented in this paper rests substantially on DRI projections.



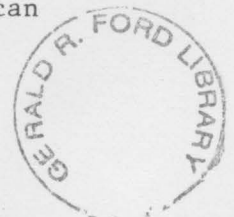
adjusted annual rate--SAAR) during the first quarter of this year. The decline was primarily a reflection of the adverse impact of the Arab oil embargo imposed last fall. With the lifting of the embargo early in the spring, the decline in output moderated to 1.6 per cent in the second quarter. However, the underlying recessionary tendencies re-emerged during the summer, and real GNP decreased by 2.1 per cent in the July-September months. It was expected that, as summer gave way to fall, economic activity would quicken. Instead, the economy has weakened further, and it now appears that real GNP may drop by 7-1/2 per cent (SAAR) during the final quarter of this year.

As I look ahead to 1975, I see a continued sluggish performance for the economy as a whole. Real GNP will shrink again in the first quarter (perhaps by as much as 1 per cent SAAR), and little or no net gain may be registered during the second quarter. However, it appears that by mid-year, economic conditions will have improved, and real GNP may expand during the second half at a 5 per cent seasonally adjusted annual rate.

The main elements underlying this outlook can be traced in the developments affecting the principal sectors of the economy. We can now turn briefly to this task.

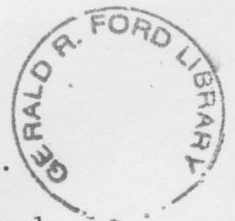
Consumer Spending

Weakness in the household sector has been one of the primary sources of weakness in the American economy during the current year. The reasons are readily evident. While personal income has continued to increase in dollar terms, higher tax payments and the ravishes of inflation have seriously eroded consumer's purchasing power. During 1974, disposable personal income (i.e., after-tax income) may total just under \$980 billion



and represent an increase of 8-1/2 per cent above the 1973 level. But the rise in the consumer price index (CPI) may be roughly 11 per cent in the current year. Consequently, real disposable income may actually decrease by 2-1/2 per cent in 1974. This deterioration is in sharp contrast to the average annual gain of 4.7 per cent in real disposable income over the years 1960-1973. Since the nation's population has continued to expand, the decrease in per capita real disposable income is even larger--amounting to about 3.3 per cent this year in contrast to the long-term average gain of 3-1/2 per cent. Moreover, under the impact of the sharp decline in the market value of financial assets, real household wealth may shrink by as much as 2-1/2 per cent--against an annual average long-term appreciation of 3 per cent. Finally, consumers are heavily burdened with installment debt, and repayments have been a serious drag on their ability to spend. For example, in both 1973 and 1974, installment credit repayments have represented 16 per cent of disposable personal income. It might be remembered that just a few years ago many observers began to worry about the viability of the household sector when debt repayments reached 12 per cent of disposable personal income.

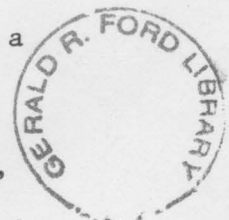
Under these circumstances, spending has been quite sluggish. Total Personal Consumption expenditures (which rose at an average annual rate of 4.4 per cent during the period 1960-73) may decrease by 1-1/2 per cent in 1974 in real terms. Although the decrease is centered in durable goods, the cutbacks have been spread over a wide range of consumer outlays. For all durable goods, the decline in real spending may be as large as 7-1/2 per cent--with the cutback in spending on automobiles and parts exceeding 16-1/2 per cent. Spending on furniture and household equipment



may also record a small decline. For all nondurable goods, the decrease may amount to 1-1/2 per cent. Real outlays for food and beverages may decrease very little (by only 0.1 per cent). But given the dramatic rise in food prices in 1974 (an increase of 15 per cent as measured by the implicit GNP price deflator for food and beverages), spending on food has been maintained partly at the expense of other forms of consumer expenditures. For instance, real spending on clothing and shoes shows a decline of more than 2 per cent, and spending on other nondurable goods (excluding gasoline and oil) is down by almost 2-1/2 per cent. In the case of gasoline and oil--partly because of higher prices and partly because of other conservation efforts--real spending by consumers may drop by 5-1/2 per cent or more during the current year.

The savings rate has been falling throughout the current year--from 8.9 per cent of disposable income in the first quarter to 6.5 per cent in the third quarter. During the final three months of the year, it may average 6.4 per cent, and it may decline further to about 5-3/4 per cent in the first quarter of 1975. The rate may pick up in the April-June months, but it may still average approximately 6 per cent for 1975 as a whole.

In addition to having sharply reduced their actual spending, consumers are extremely pessimistic about the economic outlook. All of the various surveys of consumer sentiment report that consumers are now more pessimistic than at any time since the recession of 1957-58. With unemployment rising rapidly--and in the face of a continued high rate of inflation--one cannot expect the consumer sector to be a major source of strength in the near term. In fact, we should expect some further decline in real consumer spending in the first quarter of 1975. But by mid-year

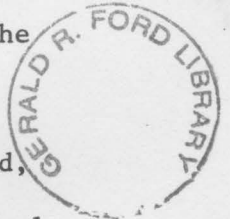


(as real income begins to rise somewhat and the burden of debt repayments becomes somewhat lighter), real consumer spending should pick up. For the second half of 1975, such expenditures may increase by 4-3/4 per cent (SAAR). But taking 1975 as a whole, real consumer spending may not rise by more than 1 per cent compared with the level in the current year. Thus, we must look elsewhere for a source of strength for the national economy in the coming year.

Outlook for Automobiles

Before leaving the household sector, we should consider more closely the prospects for automobiles. As is generally known, the automobile industry is turning in its worst performance in years. Through November 10, the industry had produced 6,707 thousand cars--down 24 per cent from the 8,784 thousand produced in the same period of 1973. The biggest drop (of one-third) occurred at General Motors, followed by Chrysler (18 per cent), and Ford (11 per cent). Over the same period, American Motors' production was just about even with the year-ago level. In recent weeks, (partly because of much higher prices) consumer response to the new 1975 models has continued to be poor. As inventories of unsold cars have mounted, further cutbacks in production have been announced. Reflecting these developments, unemployment in the automobile industry has climbed sharply. By mid-November, about 69,000 workers in the industry had been laid off.

In 1973, retail sales of new automobiles totaled 11.5 million units. Of this total, 9.7 million were domestic cars, and 1.8 million were foreign makes. Thus, the latter accounted for 15.5 per cent of the U.S. market. Estimates made in mid-October put 1974 retail sales at roughly 9.2 million units--consisting of 7.6 million U.S.-produced cars



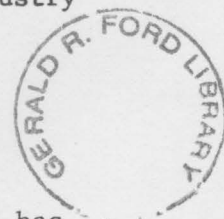
and 1.5 million from abroad. (This would raise the foreign car share to 16.3 per cent of the U.S. market.) Given the cutbacks in domestic production announced during the last few weeks, it appears that new car sales will fall short of the 9.2 million estimated earlier. So the volume of sales this year may be more than 20 per cent below that recorded in 1973.

Currently, industry spokesmen seem to be extremely pessimistic in terms of the outlook for next year. For example, the Chairman of General Motors (Richard H. Gerstenberg) said last week that he now anticipates that new car sales in 1975 will be in a range of 9.0 million to 9.5 million units--against an earlier estimate of about 10 million. A number of private forecasters seem to share this view--although they tend to cluster closer toward the lower end of the range. In fact, a few even put the estimate somewhat below 9 million units.

As far as the household sector is concerned, real expenditures on automobiles and parts may register a further decline--perhaps on the order of 3-1/2 per cent. Thus, on balance, it appears that we should expect little or no net stimulus to be provided by the automobile industry to the economy as a whole in the year ahead.

Business Fixed Investment

Spending by the business sector for new plant and equipment has been one of the few sources of strength in the national economy during 1974. According to the U.S. Department of Commerce, nonresidential fixed investment may amount to \$151.3 billion in 1974--a gain of 10.6 per cent over the year-ago level. However, during the last year, capital goods prices have also risen substantially; for example, the implicit GNP price deflator for business fixed investment may climb by 8.7 per cent in 1974



compared with 3.8 per cent in 1973. So, in real terms--i.e., after allowing for inflation--total business fixed investment may advance by only 1-1/2 per cent in the current year--a sharp moderation from the 12.8 per cent gain recorded in 1973.

Looking ahead to 1975, the economy will not be able to depend on a sizable rise in capital spending by businesses as a whole--again measured in real terms. During the last few months--as the housing sector, automobiles, and retail sales have declined--the business sector has been watching the weakening markets with increasing dismay. Of course, businessmen were already anticipating considerable sluggishness in economic activity in the year ahead, and they had been planning accordingly. But the recent declines have generated a new wave of pessimism, and numerous businesses are re-examining their spending plans. Already many public utilities have pared their capital outlays for this year--partly reflecting the reduced demand for electricity and severe financing difficulties. Further cuts are in the pipeline for the coming year. To these must be added the postponements or reductions in capital spending by other industries induced by the prospect for continued weakness in final sales. Only a handful of industries (in which shortages of capacity are still pressing) can be expected to expand capital spending significantly.

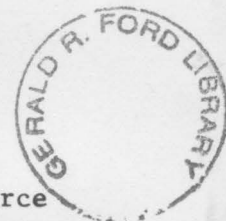
Reinforcing this prospect is an almost certain severe decline in corporate profits in early 1975. The anticipated sharp drop in the volume of sales will occur at the same time that labor costs will be climbing rapidly. During the current year, corporate profits after taxes may amount to about \$85 billion compared with \$73 billion recorded in 1973. This would represent a gain of just over 16 per cent. However,



after-tax profits are already declining. In the third quarter, they were running at \$93 billion (SAAR), and they are now estimated to decline to \$76 billion in the current quarter. A further drop is anticipated in the first half of next year, and after-tax profits may be in the neighborhood of \$67 billion (SAAR) in the April-June months of 1975. A modest recovery is anticipated during the second half of next year. But taking 1975 as a whole, corporate profits after taxes may decline by 15 per cent compared with the 1974 level. The resulting shrinkage in corporate cash flow (which has already been under considerable pressure) in the face of still rising prices will inevitably cramp further the business sector's ability to carry out its investment plans.

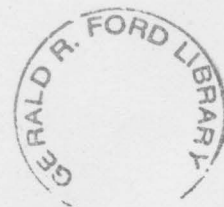
Inventory Accumulation

Businessmen's additions to inventories were a principal source of strength for the national economy in 1973 when the net accumulation amounted to \$15-1/2 billion. This continued to be the case during the first half of this year as businesses added to stocks at a seasonally adjusted annual rate of \$17 billion in the first quarter and more than \$13 billion in the second. These high rates of accumulation were partly a reflection of shortages as well as of efforts to get ahead of rising prices. So, while both real consumer spending and outlays for residential construction were declining sharply, the large additions to inventories provided significant support to industrial activity in the first half of 1974. But, by the third quarter, the situation had changed noticeably. Businesses generally--and retailers in particular--began to shave inventories in the face of sluggish sales. It is now estimated that business inventories rose by less than \$6 billion in the third quarter.



As is generally known, it takes considerable time for a change in the rate of inventory investment at the retail level to be reflected along the rest of the distribution channel and back to the sources of production. But the adjustments in stocks at the retail level is proceeding rather rapidly, and cutbacks are being effected in numerous industries--not only in automobiles but also in textiles, apparel, television sets, and other household appliances. As a consequence, it now appears that business inventories may be liquidated on a sizable scale (perhaps at a seasonally adjusted annual rate in excess of \$4 billion) during the final quarter of this year. Liquidation will continue (perhaps on approximately the same scale) through the first three months of 1975. The run down in stocks may continue through the second quarter--but at a slower rate.

In citing these prospects, I must also express a word of caution: as is generally known, forecasting changes in business inventories is one of the most difficult tasks analysts must face. This difficulty is compounded by the substantial impact inflation has had on the valuation of inventories as well as by the significant modifications that are underway in business accounting practices related to inventories. But putting these difficulties aside, a key point stands out: the sizable accumulation of inventories through the first half of this year will be reversed over the following six to nine months. The net result will be a further significant drag on economic activity in the year ahead.

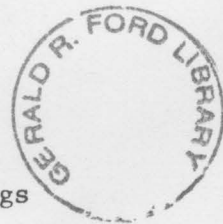


Residential Construction

The housing sector was a major contributor to economic activity in 1973. Last year, 2.05 million private housing units were started, and residential construction expenditures amounted to \$57.2 billion--representing about 4.5 per cent of GNP. Of the total number of starts last year, 1.25 million (or 61 per cent of the total) were one to four family units, and the remaining .80 million consisted of multi-family units. About 568 thousand mobile homes were also shipped. In the current year, the number of housing starts may decline to 1.35 million units--a decline of one-third from the year-ago level. One to four family dwellings may total 943 thousand units (accounting for 70 per cent of the total), and multi-family units may fall to 409 thousand. Shipments of mobile homes may decline to 404 thousand.

The reasons for this severe decline in housing is widely understood: the pull of high market interest rates produced a significant outflow of funds at savings institutions during the summer months. The adverse effects were especially marked at savings and loan associations--which provide a major share of the funds available for residential mortgages. As a result, the housing sector has been in a major recession for a number of months--thus demonstrating again the extreme vulnerability of this sector to monetary restraint.

In the coming year, deposits at thrift institutions should expand somewhat, but the size of the gain may be well below that which many housing industry spokesmen are hopeful of seeing. For example,



in 1973, deposits at savings and loan associations (S & L's) rose by 14-1/2 per cent. In the current year, the rate of increase may be only half as large (perhaps just over 7 per cent). For 1975 as a whole, deposits at S & L's may rise by about 10 per cent--assuming that monetary policy does not become significantly less restrictive than now appears to be likely over the next year. Thus, mortgage interest rates (which rose from an average of 7.95 per cent on new mortgages in 1973 to about 8.92 per cent this year) may ease somewhat in 1975--perhaps to an average of 8.7 per cent.

In such an environment, new housing starts might recover to about 1.49 million units for 1975 as a whole. Of this total, about 978 thousand units (2/3 of the total) may consist of one to four family units, and 513 thousand may be multi-family dwellings. Shipments of mobile homes may total 523 thousand units. Thus, a modest recovery of the housing sector appears to be in store for the coming year. However, construction prices are also expected to register another sizable advance. As a result, residential construction expenditures in real terms may decline by as much as 9 per cent in 1975. This would follow a drop of 27 per cent in 1974 and 4 per cent last year. Nevertheless, the shrinkage should come to an end during the first quarter of 1975, and a significant uptrend in spending on residential construction should occur during the remainder of the year.

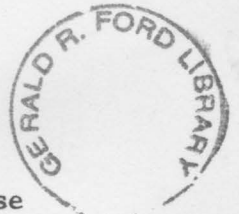
The Public Sector

The government sector is not likely to be a source of strength during the year ahead. State and local governments (which have been a



mainstay of economic expansion for a number of years) in calendar year 1974 may spend approximately \$206 billion--or 12 per cent above the year-earlier figure. While their budget surplus is shrinking, it may still amount to as much as \$2.0 billion for 1974 as a whole. Corrected for price changes, state and local government expenditures have recorded annual increases of about 5 per cent for many years. Now, however, in view of the greatly lessened demand for new schools, real outlays by these governmental units may grow by only 2-3 per cent annually for the foreseeable future. As a consequence, this sector is not likely to be a principal source of overall economic strength in the next year or so.

The Federal Government had receipts of \$259 billion and expenditures of \$264 billion in calendar 1973, leaving a deficit of \$6 billion, as measured in the national income accounts (NIA). Focusing on expenditures alone, the 1973 level represented an increase of 7.9 per cent over that recorded the previous year. Within this category, national defense expenditures declined by 0.7 per cent, and nondefense outlays rose by 11.7 per cent. It should be noted, however, that the rate of growth of Federal nondefense expenditures has moderated steadily since 1970. The annual rate of growth declined from 16.7 per cent in 1970 to 11.7 per cent in 1973. If corrected for price changes, the real volume of Federal spending--on Social Security, welfare payments, unemployment compensation, grants to states and localities and other forms of transfers as well as on purchases of goods and services--so far this year has been running below that recorded for the final quarter of 1972. Moreover, if we



look at Federal Government purchases of goods and services (i.e., exclude transfer payments), an even clearer picture of the economic impact of this sector emerges. For instance, in calendar year 1973, Federal outlays for goods and services amounted to \$106.6 billion, representing 8.2 per cent of GNP. But here, also, the trend of Federal spending in relation to the total economy has been declining in recent years--from 10.5 per cent in 1969 to 8.2 per cent in 1973. Again, in real terms, Federal purchases of goods and services have grown very little. In fact, such real outlays declined by 0.7 per cent in the first quarter, remained unchanged in the second quarter, but declined again by 1.4 per cent in the third quarter of this year (SAAR). For 1974 as a whole real spending by the Federal Government might decline by 6 per cent. For 1975, another decline may be registered--perhaps on the order of 2-1/2 per cent. Thus, the Federal Government sector has not been a source of strength for the national economy in the last two years. Furthermore, it may not be a net contributor in the year ahead.



In conclusion, as I look at the principal sectors of domestic economic activity, I see the continuation of a very sluggish economy with no clearly identifiable sources of growth in the near future. Moreover, the decline of 0.6 per cent in industrial production in October--after several months of stability--lends weight to this pessimistic outlook.

Outlook for Employment and Unemployment

Given these overall prospects, the outlook for jobs is far from promising. In fact, the sluggish pace of economic activity has

already begun to be reflected in a moderation in the growth of employment and in a sharp climb in the unemployment rate in recent months. In October, the unemployment rate was 6.0 per cent of the civilian labor force--which totaled 92 million persons. Of this number, 86.5 million were working and 5.5 million were unemployed. In September, the unemployment rate was 5.8 per cent. During the first half of this year, the rate had lingered in the 5 to 5.2 per cent range. The most recent low point in the unemployment rate (4.6 per cent) was reached in October last year.

As we look ahead to the coming year, the civilian labor force may expand by 2 per cent compared to 2.8 per cent in 1974. If the U.S. economy were to operate fairly close to its long-run potential, the labor force might rise by roughly 2 million during the course of a year. But given the sluggish prospects for 1975, the increase may not exceed 1-3/4 million. On the other hand, the number of new jobs may not rise at all--measured on a year to year basis. Thus, a sizable rise in unemployment appears to be inescapable in the year ahead.

In fact, a number of analysts now believe that unemployment may average close to 7 million persons in 1975--or roughly 7-1/2 per cent of the labor force. Virtually every observer believes the unemployment rate will at least exceed 6-1/2 per cent. A particularly sharp rise in the unemployment rate is expected by some forecasters to occur between the third quarter of this year and the second quarter of 1975--from an average of 5.5 percent to 7-1/2 per cent--where it may linger for the remainder of the year. These figures refer to the



rate for the civilian labor force as a whole. For black workers the unemployment rate may be considerably higher. In October, when the overall unemployment rate was 6.0 per cent, the rate for blacks was 10.9 per cent, and that for whites was 5.4 per cent. Thus, the black-white proportion is again 2 to 1. If the overall rate reaches 7-1/2 per cent next year, the unemployment rate for blacks could climb to 13 per cent or beyond.

Outlook for Inflation

Virtually everyone now agrees that inflation remains one of the central economic problems faced by the United States today. During the current year, consumer prices may rise by 11 per cent, and wholesale prices may jump by more than 18 per cent. In August alone, wholesale prices rose by 2.3 per cent. By all measures, the current inflation is as serious and will probably be more prolonged than any experienced in the post-war era.

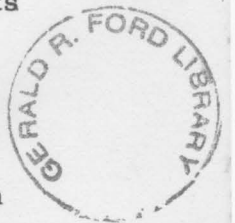
The main elements generating the current inflation are widely known and need not be detailed here. But it should be recalled that they fall into three broad categories: First, in the mid-1960's, the imposition of the requirements of the Vietnam War on an economy already nearing full employment generated a level of aggregate demand exceeding our ability to satisfy it. The failure to raise taxes in a timely fashion to pay for the war effort virtually assured the emergence of a classic inflation. Second, as some progress was finally being made in the effort to check inflation in 1971-72, world-wide shortages of food and materials gave a significant boost to inflation from the supply side. The sizable devaluation of the dollar since 1971 also put upward



pressure on U.S. domestic prices. On top of these adverse factors, the enormous hike in oil prices imposed by the Organization of Petroleum Exporting Countries (OPEC) late last year gave a further boost to an inflation that was already intense. Third, as inflation has eroded the purchasing power of workers' incomes, trade unions have made vigorous efforts to win catch-up wage settlements and to include escalator clauses in contracts to protect their members in the future. Thus, an excess demand-supply constraints inflation has turned into a wage-price-wage spiral.

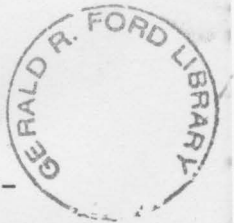
In the summer months, drought in the Midwest led to forecasts of smaller crops of a number of important food and feed grains. Consequently, prices of meat and other foods are expected to rise by as much as 10 per cent in the year ahead. Industrial prices have registered extraordinary rises since the end of last year. During each of the last eleven months, prices of industrial commodities have risen by 2 per cent or more. In the case of retail prices, the pace of advances eased somewhat over the summer in the case of foods--and for energy components of the consumer price index (CPI), such as gas, oil and utilities. Excluding these items, however, the remainder of the CPI (about 70 per cent of the total) has been advancing at an accelerating rate--although the 13 per cent annual rate of increase from April to June reflected in part the surge at the end of controls.

Reflecting these developments, inflation has become a major factor in wage determination. In the third quarter, compensation per



man hour was 11.2 per cent above the level for the same period of 1973. During the first quarter, the annual increase was 8.5 per cent, and in the second quarter it was 10.5 per cent. Thus, the pace of wage advances has been accelerating. The implication of wage inflation on costs and prices is particularly serious in a sluggish economy with little productivity growth. During each of the first three quarters of this year, unit labor costs for the nonfarm sector were up by 13-1/2 to 14-1/2 per cent at an annual rate as the rise in compensation accelerated while productivity declined again. We should expect compensation per man hour to rise at 10 per cent or more for the next year or so.

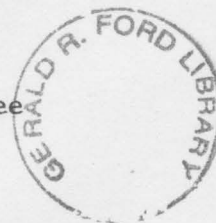
Looking ahead to 1975, it appears that some "slight improvement" in the rate of inflation is in prospect. However, the emphasis ought to be on slight rather than on improvement. It now looks as though the basic rate of inflation in the economy (measured by the CPI) may be running just under 9 per cent in the final months of 1975, and the GNP deflator may be advancing at 11-1/2 per cent (SAAR). But as a greater-than-expected degree of economic sluggishness materializes, we should expect to see some response from some of the more sensitive prices. As slack develops, most of the critical shortages (except energy) on the supply side should also be greatly eased. The net result should be some decline in the rate of inflation. For example, the CPI might rise by 8-1/2 per cent in 1975 compared with 1974. The implicit GNP deflator may climb by roughly the same percentage. Wholesale prices may register a somewhat larger increase in 1975 (perhaps around 9-1/2



per cent). But because of the expected easing in demand for materials, wholesale prices should also rise much more slowly as the new year unfolds.

Recent Money and Credit Developments

During the summer and fall months, the Federal Reserve seems to have made considerable progress toward its publicly stated objective of moderating the rate of growth of money and credit. The evidence to support this conclusion can be found in a number of indicators. For example, total member bank reserves rose at a seasonally adjusted annual rate of 11.0 per cent during the first half of this year--considerably faster than the 7.8 per cent expansion recorded during all of 1973. But during the three months ending November 6, the annual rate of increase was only 1.1 per cent. Moreover, if we set aside the volume of reserves borrowed by member banks (and thus get a measure of reserves supplied at the initiative of the Federal Reserve), an even clearer picture emerges. Nonborrowed reserves rose substantially from early June to mid-July--but then shrank by almost as much through the end of August. Some acceleration occurred in September and October. Bank credit (approximated roughly by the adjusted bank credit proxy) rose at an annual rate of 15 per cent during the first half of 1974--or 1-1/2 times the rate of growth registered in 1973. Yet, in the three months ending November 6, the rate of increase was held to only 2.2 per cent (SAAR). This was achieved despite the persistence of strong demands for bank credit arising from many of the nation's hard-pressed business firms.



Other monetary aggregates also show the extent to which the Federal Reserve has accomplished its objective of restricting the availability of money and credit. For example, during the 13 weeks ending November 6, 1974, the narrowly defined money stock (M_1 , or currency and demand deposits held by the public) expanded at a seasonally adjusted annual rate of 3.0 per cent. This was less than half the rate of growth (7.1 per cent) recorded during the first half of 1974. It was also well below the 5.8 per cent rate of expansion which occurred in the 12 months ending November 6 this year. The broadly based money stock (M_2 , or M_1 plus time deposits at commercial banks other than large denomination certificates of deposit) rose at an annual rate of 6.2 per cent in the last three months--a pace of expansion that was well below the 8.9 per cent registered during the January-June months of this year. The increase in M_2 in the November-to-November period amounted to 8.2 per cent.

This moderation in the expansion of the monetary aggregates in the face of strong credit demands naturally exerted considerable pressure on interest rates. In general, the low point in most market yields for 1974 was set in February, and some rates reached peaks in mid to late summer. If one were to trace the contours of selected interest rates during the course of the year, several features would stand out in the figures: the Federal funds rate (the rate banks charge each other when they lend excess reserves) reached an all-time record of 13.55 per cent in the week of July 3. There is reason to believe that, at this level, the funds rate was outside the range desired by the Federal Reserve. In the following week, the Federal funds rate averaged 13.34 per cent, and it edged down week-by-week

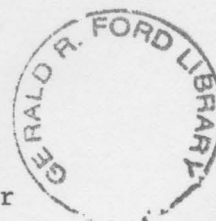


until it averaged 11.34 per cent in the month of September. For October, the rate averaged 10.06 per cent. By November 15, the Federal funds rate was around 9-1/4 per cent.

Last week, the Federal Reserve Board reduced reserve requirements on longer maturities of large denomination certificates of deposits (CD's). The move should release about \$750 million of reserves. In announcing the action, the Board stressed that the step was timed to coincide with the seasonal expansion in the demand for reserves which otherwise would have been met through open market operations. In the money market, however, the cut in reserve requirements is being interpreted as another indication that the Federal Reserve is easing its posture of monetary restraint somewhat further. Moreover, as the economy continues to weaken, many observers expect the move toward ease to be accelerated. But, so far, the Federal Reserve seems to be pacing itself with a great deal of deliberation. In fact, some of the critics of the Federal Reserve have argued that--in view of the rapid deterioration in economic activity--the pace is far too slow.

National Policy to Expand Output and Moderate Inflation

From the foregoing survey, I conclude that there is little prospect of real economic growth in the United States during the year ahead. The unemployment rate may climb from the current rate of 6.0 per cent to the neighborhood of 6-1/2 per cent early next year. By the third quarter of 1975, the unemployment rate may be approximately 7-1/2 per cent. (For blacks it may exceed 13 per cent.) The rate of

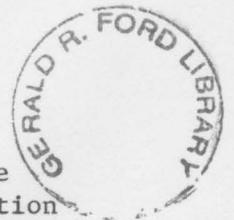


increase in prices may slow down slightly, but the overall rate of inflation may remain unacceptably high. Thus, the economy is caught in the grip of a continuing high rate of inflation at the same time that a severe recession is unfolding--resulting in an unacceptably high rate of unemployment.

So, a major modification in national economic policy is required. The objective of such a policy should be to cut the rate of inflation from the currently prevailing 11 per cent to less than half that figure over the next 2-3 years. We should not seek to restore price stability over a very short period of time--such as one year. The real costs to the economy (sizable losses in output and exceptionally high rates of unemployment) would be too great. At the same time, we ought not allow the growth rate of real output to fall below the growth rate of population (roughly 1-1/2 per cent per year) for very long. But we ought to tolerate some short-fall below the long-run potential growth of output (about 4 per cent). Moreover, we should strive to assure that all sectors of the economy share the burdens involved in the restoration of price stability.

In the meantime, the most immediate task is to prevent the economy from deteriorating excessively in the year ahead. Because of the limitations of time, I cannot set forth in detail the steps which I believe are necessary to improve the performance of the national economy during 1975. However, several elements ought to be included in a revamped program:

- We should immediately broaden the coverage and increase the benefits available under our unemployment compensation system. After all, we know that joblessness will be both widespread and rising during the coming winter.



- We should create a large-scale public service employment program which can provide jobs for at least 800,000 workers. Such a program would be particularly helpful to young people who have few claims to unemployment benefits.
- The Federal Administration should abandon the call for a 5 per cent income tax surcharge on family and corporate incomes above \$15,000. With the economy drifting more deeply into recession--with the decline in real consumer spending playing a major role--we should not impose an additional burden on consumer incomes.
- Moreover, some modest tax reduction for low income groups should be made. This would help to ease the adverse effect of inflation on those least able to bear it. It will be recalled that such a tax cut was strongly endorsed at the recent White House Conference on Inflation.
- Since inflation will remain a major problem (despite the weakening of economic activity), the Council on Wage and Price Stability should be strengthened. It should have authority to delay proposed wage and price increases which seem clearly to be against the public interest. For the time being, I do not believe we need mandatory wage and price controls.
- There should be some further easing in monetary policy, and less emphasis should be placed on the achievement of a balanced Federal budget. Again, in a declining economy, the Federal Government itself ought not to aggravate the situation by further shrinking aggregate demand.

The foregoing are only some of the main elements I would include in a national program to help check inflation and moderate the adverse effects of a recession that shows signs of becoming increasingly severe. Of course, I recognize that these moves would not stop inflation, and they would not end the recession. It seems quite evident that--through at least the first half of next year--real economic activity will be declining, and the rate of inflation will remain uncomfortably high. Rather, the actions suggested here would help to check further deterioration in economic activity and also help ease somewhat the economic burdens of inflation and recession which now fall so unevenly on different groups in the population.

