

Economic Growth, Income Trends, And Prospects for Black-Owned Businesses

Andrew F. Brimmer*

Businesses owned and operated by blacks appear to be expanding slightly their relative position in the Nation's economy. However, behind this modest improvement are several trends which may pose a challenge to black businessmen in the years ahead. These underlying changes can be seen in the pattern of income trends in the black community compared with gross receipts of black-owned firms. Moreover, the distribution of black businesses with respect to the expected pattern of growth of different segments of the economy may also intensify the problems which these firms already face.

These are the main conclusions which emerge from a careful analysis of the status and prospects of black-owned businesses in the United States. Before presenting more fully the evidence on which the conclusions rest, the main results can be summarized briefly:

- The black community as a whole has been slowly increasing its share of total money income in the United States.
- With rising incomes, an increasing proportion of the better-paid black families are migrating out from the central-city neighborhoods (which are the principal service areas of black-owned firms) to suburban areas.
- Partly reflecting this trend, black firms are encountering growing competition for the black consumer's dollar. In this competition, black businessmen are barely holding on to their share of the black community's total income.
- While black businesses are diversifying their activities, they are still concentrated mainly in traditional lines — such as retail trade and personal business services.
- Moreover, lines in which blacks are heavily represented are projected to grow more slowly than the economy as a whole over the next decade.
- Nevertheless — with greater diversification, increased efficiency, greater investment of equity capital, and improvements in

*President, Brimmer & Company, Inc. From March 1966 to August 1974 Dr. Brimmer was a member of the Board of Governors of the Federal Reserve System.

managerial skills — blacks do have an opportunity to strengthen their position in the Nation's economy in the years ahead.

Long-Term Economic Outlook

Before turning to an assessment of income trends in the black community and their implications for black-owned businesses, it might be helpful to sketch in broad outline the main contours of the American economy over the next decade. The figures in Table 1 are useful for this purpose. These data show trends for the period 1955-72 and projections for the years 1968-85 for U.S. population; labor force, employment, and unemployment; and gross national product (GNP) and its principal components. The figures are from the U.S. Bureau of Labor Statistics.

A number of highlights should be emphasized. By 1985, the population of the United States may be in the neighborhood of 241 million — about 15 percent above the 1972 level (and roughly 12.6 percent higher than the U.S. Census Bureau's estimate of 214 million for 1975). During the next decade, the country's population may rise at an average annual rate of just under 1.0 percent — or about two-thirds the rate recorded in 1955-68. However, the black population is projected to advance at an average annual rate of just under 1.5 percent over the same period — more than 1½ times the rate projected for whites. So by 1985, blacks should number 29.1 million (vs. 23.4 million in 1972 and 24.6 million in 1975). They would represent 12.1 percent of the total population by 1985 — about the same fraction as in 1972.

By 1985, there may be 105.7 million persons in the civilian labor force — that is, holding jobs or looking for work. In 1972, the number was 86.5 million. Thus, by the mid-1980s, the country's work force may have increased by 22 percent. However, the projected rate of growth in 1968-80 is considerably above that projected for the years of 1980-85. The projected level of employment is derived on the assumption that the unemployment rate would be equal to roughly 4 percent in both 1980 and 1985 (in contrast to 4.8 percent in 1972 and 8.5 percent in 1975).

After correcting for inflation, gross national product (real GNP — measured in 1963 prices) may expand at an average annual rate of 4 percent during 1968-80 and by 3.25 percent in 1980-85. The differential rates reflect the expected slowing in the rate of growth of the civilian labor force in combination with a moderate slackening in productivity advance (with output per hour climbing at an average annual rate of 2.8 percent compared with over 3.0 percent in the last two decades). Nevertheless, over the next decade, a sizable improvement in real per capita income is anticipated.

The share of real GNP absorbed by the government sector is expected to diminish somewhat. Gross private domestic investment is projected to rise moderately faster than real GNP as a whole through 1980 — and moderately slower during the subsequent five-year period. Personal con-

TABLE 1. LONG-TERM ECONOMIC OUTLOOK FOR THE UNITED STATES, 1972-1985

CATEGORY	1955	1968	1972	PROJECTED		AVERAGE ANNUAL RATES OF CHANGE ¹		
				1980	1985	1955-68	1968-70	1980-85
U.S. Population (millions)								
Total	165.9	200.7	208.8	225.7	243.3	1.48	0.92	1.01
White	-	176.6	182.8	199.7	206.9	-	0.90	1.00
Black	-	22.3	23.4	26.7	29.1	-	1.50	1.40
Other races	-	1.8	2.6	4.3	5.3	-	7.50	4.20
Labor Force (millions)								
Total	68.1	82.3	89.0	101.8	107.7	1.47	1.79	1.13
Armed Forces	3.0	3.5	2.4	2.0	2.0	1.17	-4.59	.00
Civilian Labor Force	65.0	78.7	86.5	99.8	105.7	1.50	2.00	1.10
Employment	62.2	75.9	81.7	95.8	101.5	1.60	1.90	1.10
Unemployment	2.9	2.8	4.8	4.0	4.2	-.09	2.95	1.16
Gross National Product (bil., 1963 \$)								
Total	468.7	759.2	848.9	1,228.2	1,441.5	3.78	4.09	3.25
Government Output	48.8	74.0	76.1	89.6	100.1	3.25	1.61	2.24
Private GNP	419.9	685.2	772.8	1,138.6	1,341.5	3.84	4.32	3.33
Personal Consumption Expenditures								
Durables	42.8	79.9	102.7	146.0	170.1	4.9	5.2	3.1
Nondurables	136.2	205.1	229.4	316.8	364.0	3.2	3.7	2.8
Services	112.2	196.8	227.4	337.2	407.7	4.4	4.6	3.9
Gross Private Domestic Investment	78.7	109.3	128.0	192.7	224.2	2.6	4.8	3.1
Net Exports of Goods and Services	3.4	1.3	- 1.6	6.3	7.2	-7.1	14.0	2.6
Government Purchases of Goods & Services								
Federal Government	54.7	84.4	65.7	80.1	88.9	3.4	-4	2.1
State & Local Government	40.7	82.3	97.2	149.1	179.3	5.6	5.1	3.8

¹ Compound rates of change between terminal years.Source: U.S. Department of Labor, *The Structure of the U.S. Economy in 1980 and 1985*, Bulletin 1831, 1975.

Population: U.S. Bureau of the Census

sumption expenditures may climb slightly faster than real GNP through the mid-1980s. This is especially so with respect to consumer spending for durable goods through 1980 — and of spending on services throughout the entire period.

Other aspects of the long-term outlook for the Nation's economy could be cited. However, a few key points should be kept in mind: real GNP through the mid-1980s may rise at an average annual rate of about 4 percent, and the government sector will account for a smaller share. The expansion in outlays for services is expected to be especially strong. These prospective developments will pose a number of implications for black-owned businesses in the years ahead.

Trends in Income

Money income received by the black community in 1975 is shown in Table 2. Last year, blacks' income amounted to \$69.9 billion, representing 6.9 percent of the \$1,008.4 billion received in the Nation as a whole. In 1968, blacks' income amounted to \$29.7 billion — representing 6.1 percent of the total of \$488.4 billion. However, the income gap remains quite large. For example, as noted above, the black population was estimated at 24.6 million in 1975 by the U.S. Bureau of the Census — which also put the total population at 214 million. Thus, blacks represented 11.5 percent of the total. If they had also received 11.5 percent of total income, their cash receipts in 1975 would have amounted to \$116.0 billion — or \$46.1 billion more than they actually received. The explanation of this shortfall is widely known: a legacy of racial discrimination and deprivation has limited blacks' ability to acquire marketable skills while barring them from better-paying jobs.

Another dimension of income trends in the black community holds even more significant implications for black-owned businesses: while blacks represent an increasing percentage of the population in central cities of metropolitan areas — where most black-owned firms are also located — the share of total money income received by blacks in central cities is declining. This conclusion is suggested by the figures in Tables 3 through 6, showing money income of families, by residence and race, in 1968 and 1975. A comparison of the figures in Tables 4 and 6 yields the following picture: in 1968, black families in the central-city segment of very large metropolitan areas represented 37.3 percent of all black families, and they received 42.8 percent of the income in the black community. By 1975, central-city black families had grown to represent 37.9 percent of all black families, but their share of total income had shrunk slightly to 41.5 percent. In sharp contrast, blacks in suburban segments of the largest metropolitan areas lifted their share of black population from 8.6 percent to 11.7 percent and their share of income from 11.5 percent to 14.3 percent between 1968 and 1975. A similar pattern is evident with respect to population and income trends in smaller metropolitan areas.

TABLE 2. TOTAL MONEY INCOME IN THE UNITED STATES, FAMILIES AND UNRELATED INDIVIDUALS, BY RACE, 1975 (BILLIONS OF DOLLARS)

CATEGORY	FAMILIES AND UNRELATED INDIVIDUALS		TOTAL INCOME	
	NUMBER	PERCENT DIST.	AMOUNT	PERCENT DIST.
Families				
Total	56,245	73.5	\$874,385	86.7
White	49,873	65.2	803,504	79.7
Black	5,586	7.3	58,100	5.8
Other	786	1.0	12,781	1.2
Unrelated Individuals				
Total	20,234	26.5	\$134,010	13.3
White	17,503	22.9	120,088	11.9
Black	2,402	3.1	11,806	1.1
Other	329	.5	2,116	.3
Families and Unrelated Individuals				
Total	76,479	100.0	\$1,008,395	100.0
White	67,376	88.1	923,592	91.6
Black	7,988	10.4	69,906	6.9
Other	1,115	1.5	14,897	1.5

Source: U.S. Department of Commerce, Bureau of the Census, "Money Income and Poverty Status of Families and Persons in the United States: 1975 and 1974 Revisions" (Consumer Income, Series P-60, No. 103, September, 1976—Advance Report), Tables 1 and 7.

MINORITY BUSINESS DEVELOPMENT

TABLE 3. MONEY INCOME OF FAMILIES, BY RESIDENCE AND RACE, 1968
(NUMBER IN THOUSANDS; AMOUNTS IN MILLIONS OF DOLLARS)

CATEGORY	ALL FAMILIES		BLACK FAMILIES	
	NUMBER	MONEY INCOME	NUMBER	MONEY INCOME
United States	50,510	\$488,432	4,646	\$29,697
Nonfarm	47,880	470,565	4,489	29,192
Farm	2,630	17,867	157	505
In Metropolitan Areas				
Total	32,600	\$343,474	3,403	24,110
1,000,000 or More				
Total	17,599	197,355	2,134	16,118
In Central Cities	7,543	75,596	1,731	12,719
Outside Central Cities	10,055	121,759	403	3,399
Under 1,000,000				
Total	15,001	146,119	1,270	7,992
In Central Cities	7,201	66,782	1,004	6,367
Outside Central Cities	7,800	79,337	265	1,625
Outside Metro. Areas				
Total	17,911	144,958	1,243	5,587

TABLE 4. MONEY INCOME OF FAMILIES, BY RESIDENCE AND RACE, 1968
(PERCENTAGE DISTRIBUTION)

CATEGORY	ALL FAMILIES		BLACK FAMILIES		PERCENT OF TOTAL
	NUMBER	MONEY INCOME	NUMBER	MONEY INCOME	
United States	100.0	100.0	100.0	100.0	6.1
Nonfarm	94.8	96.3	98.3	98.3	6.2
Farm	5.2	3.7	1.7	1.7	2.8
In Metropolitan Areas					
Total	64.5	70.3	73.2	81.2	10.4
1,000,000 or More					7.0
Total	34.8	40.4	45.9	54.3	8.2
Central Cities	14.9	15.5	37.3	42.8	16.8
Outside Central Cities	19.9	24.9	8.6	11.5	2.8
Under 1,000,000					
Total	29.7	29.9	27.3	26.9	8.5
Central Cities	14.3	13.7	21.6	21.4	13.9
Outside Central Cities	15.4	16.2	5.7	5.5	3.4
Outside Metro. Areas	35.5	29.7	26.8	18.8	6.5
					3.1

TABLE 5. MONEY INCOME OF FAMILIES, BY RESIDENCE AND RACE, 1975
(NUMBER IN THOUSANDS; AMOUNTS IN MILLIONS OF DOLLARS)

CATEGORY	ALL FAMILIES		BLACK FAMILIES	
	NUMBER	MONEY INCOME	NUMBER	MONEY INCOME
United States	56,245	\$874,385	5,586	\$58,100
Nonfarm	54,045	845,264	5,497	57,460
Farm	2,200	29,121	89	640
In Metropolitan Areas				
Total	37,801	630,710	4,281	47,451
1,000,000 & More				
Total	21,446	373,632	2,770	32,412
Central Cities	8,225	122,799	2,115	24,109
Outside Central Cities	13,221	250,833	655	8,303
Under 1,000,000				
Total	16,356	257,078	1,511	15,039
Central Cities	7,588	113,501	1,157	11,147
Outside Central Cities	8,768	143,577	354	33,892
Outside Metro. Areas				
Total	18,443	243,675	1,305	10,649

TABLE 6. MONEY INCOME OF FAMILIES, BY RESIDENCE AND RACE, 1975
(PERCENTAGE DISTRIBUTION)

CATEGORY	TOTAL		BLACK	
	NUMBER	MONEY INCOME	MONEY INCOME	PERCENT OF TOTAL FAMILIES
United States	100.0	100.0	100.0	9.9
Nonfarm	96.1	96.7	98.9	10.2
Farm	3.9	3.3	1.1	4.0
In Metropolitan Areas				
Total	67.2	72.1	81.7	11.3
1,000,000 or More				
Total	38.1	42.7	55.8	12.9
Central Cities	14.6	14.0	41.5	25.7
Outside Central Cities	23.5	28.7	14.3	5.0
Under 1,000,000				
Total	29.1	29.4	25.9	9.2
Central Cities	13.5	13.0	19.2	15.2
Outside Central Cities	15.6	16.4	6.7	4.0
Outside Metro. Areas				
Total	32.8	27.9	18.3	7.1
Central Cities				4.2
Outside Central Cities				2.7

Still other features of the data in these tables could be spot-lighted. However, black entrepreneurs ought to be troubled by the overall effects of the general trends: since these businessmen — for the most part — are concentrated in the older neighborhoods of central cities, they are witnessing a gradual (but steady) out-migration of better-paid blacks who could provide an expanding demand for the products and services sold by black businesses.

Trends in Black-Owned Businesses

In 1972, according to the U.S. Bureau of the Census, there were 194 thousand black-owned businesses in the United States — a gain of 19 percent over the 163 thousand black firms reported in 1969 (See Table 7). These firms represented 1.5 percent of all firms in the country in 1972 compared with 1.4 percent three years earlier. Black-owned enterprises had gross receipts of \$7.2 billion in 1972 and \$4.5 billion in 1969 — accounting for 0.29 percent of all business receipts in 1972 and for 0.24 percent in 1969. Thus, while black-owned firms expanded slightly their share of the Nation's business activity over the period, their overall situation remains a modest one.

To sharpen the perspective, one should note that, in 1972, blacks received 6.7 percent of the total money income in the United States — compared with 5.5 percent in 1969. So, over the three-year period, black firms raised their share of total business receipts at a pace that was moderately slower than the black community raised its share of total income.

Still further insight into the status of black-owned businesses is provided by the data on sources of income. In 1974 (the latest year for which figures are available), blacks received 6.8 percent of total money income. However, they got only 2.3 percent of the total earnings from nonfarm self-employment and only 0.9 percent from farming. Moreover, they received only 1.0 percent of the income derived from property ownership (i.e., from rents, interest, dividends, royalties and inheritances). Within the black community, self-employment income accounted for 2.2 percent of the total — in contrast to 7.4 percent in the country at large and 7.8 percent in the white community.

Finally, since black firms still make most of their sales within the black community, one can ask about the extent to which they are capturing the black consumer's dollar. No data are available to test the strength of this competition, but a rough indication is provided by a comparison of black firms' sales with money income in the black community. In 1969, such sales amounted to 13.5 percent of black income, and the fraction rose to 13.9 percent in 1972. Thus, while black-owned businesses appear to be holding on to their share of the black consumer's dollar, the gains remain fairly modest. Again, the situation facing black firms is made more difficult by the increasing tendency of better-paid black families to leave the central city.

TABLE 7. BUSINESS AND INCOME TRENDS IN
THE BLACK COMMUNITY, 1969-72.

CATEGORY	1969	1972	PERCENT CHANGE
Business Trends			
All Industry			
Number of firms (thousands)	12,021	12,978	8.0
Gross receipts (\$ billions)	1,889.6	2,494.7	32.0
Black-Owned Firms			
Number of firms (thousands)	163	194	19.0
Gross receipts (\$ millions)	4,474	7,168	60.2
Black as Percent of Total			
Number of firms	1.36	1.49	9.6
Gross receipts	0.24	0.29	20.8
Income Trends			
Total Money Income (\$ billions)	603.3	773.0	28.1
Black Income (\$ billions)	33.2	51.7	55.7
Black as Percent of Total	5.5	6.7	21.8

Source: Business Trends: All Industry, Internal Revenue Service, *Statistics of Income*; black firms, U.S. Bureau of the Census, "Minority-Owned Business: 1969" (August, 1971), and "Minority-Owned Businesses: Black," *1972 Survey of Minority-Owned Business Enterprises*, November, 1974.

Size of Black-Owned Firms

As is generally known, black firms are principally owner-managed with no employees. For instance, of the 194 thousand firms reported in 1972, only 32 thousand (or only 16 percent of the total) had any paid employees. In fact, this represented a drop of 17 percent since 1969 — when 38 thousand (or nearly one-quarter) of the 163 thousand had paid employees. However, among the black firms with paid workers, the average number of employees per firm rose from four to six. In actual numbers, black firms had 196,569 workers on their payrolls in 1972 compared with 151,996 in 1969. Since blacks held roughly 7.7 million jobs in 1969, black-owned firms (virtually all of whose employees are black) provided jobs for only 2.0 percent of all black workers in the country in that year. By 1972 black employment averaged about 7.9 million, so black firms' employees represented about 2.5 percent of the total. Thus, although the number of black firms with employees declined over the three-year period, those that still offered jobs were providing a slightly greater range of opportunities.

Industry Distribution of Black Firms

As is generally recognized, most black-owned businesses grew up behind a wall of racial segregation and discrimination. The legacy of this historical experience can be traced clearly in the industry distribution of business firms. In Table 8, 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.

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 in 1972 — more than twice the proportion of receipts and 1½ times the proportion of firms registered for all American industry. Although not shown separately, 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 (about one-seventh) was nearly three times that for all firms (around 5 percent). In the case of food stores, the ratios for black-owned firms were more than double for those of businesses in general. Also reflecting the historic discrimination against blacks in terms of access to public accommodations, a particularly large fraction of black-owned businesses is still found under the category of bars and restaurants and other eating and drinking places, amusement and recreation outlets, hotels, and motels.

The legacy of racial discrimination against blacks in the provision of life insurance coverage and the effects of residential segregation are still evident in the pattern of black business activity. For this reason, the

TABLE 8. ORGANIZATIONAL FORM AND INDUSTRY DISTRIBUTION OF BLACK-OWNED BUSINESSES, 1972,
AND PROJECTED ANNUAL GROWTH RATES BY INDUSTRY, 1968-80 AND 1980-85

LEGAL FORM OF ORGANIZATION AND INDUSTRY DIVISION	NUMBER OF FIRMS (THOUSANDS)				TOTAL				GROSS RECEIPTS				PROJECTED GROWTH RATES: AVERAGE	
	NUMBER	PERCENT DIST.	NUMBER	PERCENT DIST.	AMOUNT (\$ bil)	PERCENT OF TOTAL	PERCENT DIST.	AMOUNT (\$ bil)	PERCENT OF TOTAL	PERCENT DIST.	AMOUNT (\$ bil)	PERCENT OF TOTAL	1968- 1980	1980- 1985
All Industries	12,978	100.0	195	100.0	2,495	100.0	100.0	7,168	100.0	100.0	0.29	4.3	3.3	
Legal Form of Organization														
Sole proprietorship	10,173	78.4	183	93.8	276	11.1	11.1	4,144	57.8	1.50	—	—	—	
Partnership	992	7.6	8	4.1	104	4.2	4.2	809	11.3	0.78	—	—	—	
Corporation	1,813	14.0	4	2.1	2,114	84.7	84.7	2,215	30.9	0.10	—	—	—	
Industry Division														
Construction	1,010	7.8	20	10.3	143	5.7	5.7	820	11.4	0.57	2.4	1.7		
Manufacturing	436	3.4	4	2.1	855	34.3	34.3	537	7.5	0.06	4.2	3.1		
Transportation and Public Utilities	431	3.3	22	11.3	172	6.9	6.9	425	5.9	0.25	5.9	4.2		
Wholesale trade	558	4.3	2	1.0	349	14.0	14.0	764	10.7	0.22	4.7	2.7		
Retail trade	2,332	18.0	57	29.2	470	18.8	18.8	2,925	40.8	0.62	4.2	2.4		
Finance, insurance and real estate	1,467	11.3	8	4.1	148	5.9	5.9	457	6.4	0.31	4.5	4.0		
Services	3,181	24.5	68	34.9	146	5.9	5.9	1,054	14.7	0.72	5.1	3.8		
Other industries	3,432	26.4	14	7.2	102	4.1	4.1	186	2.6	0.18	—	—		

relative positions of black and white firms were quite similar in 1972 — as shown in the category of finance, insurance, and real estate.

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. For instance, the modest participation of blacks in manufacturing is unmistakable. The proportion of black firms operating factories was only three-fifths 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 are represented in manufacturing to some extent, the activity is 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 last decade that at least one of those companies made a breakthrough in the general market on a noticeable scale. In the last few years, the range of manufacturing activities by black firms has become somewhat broader (particularly in fabricated metal products and in electrical and electronic equipment), and even more examples of diversification can be expected in coming years.

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.

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.

Economic Growth and the Industry Position of Black-Owned Firms

As indicated above, a disproportion of black firms is concentrated in those lines of business for which long-term growth prospects are below-average. This can be seen clearly in the figures in Table 8. These data show the U.S. Bureau of Labor Statistics' (BLS) projection of average annual

rates of change in real output originating in each broad industry division of the U.S. economy during the periods 1968-80 and 1980-85. The distribution of all firms and black firms among these industry divisions is also shown. Several points stand out in these data. Between 1968 and 1980, the average growth rate for all industry is 4.3 percent; for the 1980-85 period, the figure is 3.3 percent. Among the broad industry divisions, the 1968-80 growth rates range from a low of 2.4 percent for construction to a high of 5.9 percent for transportation and public utilities. Both manufacturing and retail trade have projected 1968-80 growth rates of 4.2 percent. It is in retail trade that the vast majority of black-owned firms are found.

Even further insight into the concentration of black-owned firms in relatively low-growth industries is provided by a much more detailed analysis of data for 1969 that can only be summarized here. Twenty-five major industries were ranked according to the share of gross receipts of black-owned firms accounted for by each industry group. The corresponding proportions for all firms were also calculated. Sixteen of the industries were in the trade sector, six in services, and only three in manufacturing. Collectively, these 25 industries accounted for four-fifths of total business receipts of black-owned firms in 1969—compared with less than half of total business receipts in the economy as a whole. Moreover, half of the 25 industries which are so important to black firms have projected growth rates below the 4.3 percent anticipated for the U.S. economy as a whole during the period 1968-80. Twelve of the 25 key industries for blacks have projected growth rates below that figure.

In fact, for nine of them, growth rates below 4 percent are anticipated. In contrast, only 4 of the 25 industries have projected growth rates of 6 percent or above. Finally, the 12 industries with below-average projected growth rates accounted for 40 percent of gross receipts of black-owned firms in 1969 — compared with 21 percent 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.

Diversification into High-Growth Areas

Yet, black businessmen need not allow themselves to be pulled along on this downward path. Instead, they can reorient themselves onto a new course of enhanced growth. But to do so will require black businessmen 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. A few suggestions about approaches to overcome them may also be helpful.

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 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. With respect to the third category, black-owned firms might find it to their advantage to search much more vigorously among blacks now employed by major corporations for persons who could help strengthen the management of black-owned businesses. After more than 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, some of them might be attracted to careers in black firms — if the terms and prospects are made sufficiently promising.

The task of increasing the size of black-owned firms is more difficult. Most of the high-growth industries require a sizable increase in equity capital. Unfortunately, as shown in Table 8, black-owned firms — far more than in industry generally — still rely predominantly on the proprietorship as a form of legal organization. To raise a significant amount of equity capital, they will have to turn much more frequently to the corporate form.

And above all, 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 widespread inability to make long-range plans for family security — it is not surprising that blacks have not rushed into the purchase of common stocks. But, if black-owned firms are to be expanded and strengthened, both blacks and whites must become increasingly willing to come forward with a much greater volume of equity capital. And given the existing tax

and other obstacles which dampen the incentive to invest in equities, we clearly need some form of tax incentives to encourage investors to supply more equity capital. Black businesses would benefit especially from such a move.