

The Problems of Business Operations in the Ghetto

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It seems fitting that on the 200th anniversary or birthday of our country the Federal Reserve Bank of Boston should convene a meeting here to talk about minority business. For over 200 years ago in this city, minority businessmen worked hard at trying to be successful and held such jobs as ship chandlers, bootmakers, and others. They started to prosper until they impinged upon the overall economy. When that happened, they were literally wiped out. We then started another turning and twisting of the so-called idea of capitalism, but in my opinion there is no such thing as black capitalism. There is a game called capitalism and black people would like to get into the game, which has been a kind of historic pattern. We had bankers back in the 1900s up until the 1920s, but the crash wiped them out. Now we have come back with another series of banking and savings and loan operations, but historically we have been denied an opportunity to be in the business mainstream. I would like to thank the Federal Reserve Bank of Boston for sponsoring this conference to get some of the ideas and myths out on the table and maybe disabuse you of some of the things you have heard this morning.

I don't want to go into a lot of history. And since Dr. Brimmer gave you a lot of numbers, I will try to give you just a few to set the parameters of the problem. Then I will go into details and specifics about the problem as I have experienced it, operating a food chain in the South Bronx predominantly and being the Chairman of the Board of one of the largest minority banks in the country for a little over three and a half years. I will speak also from the context of being the first black regional director of the Small Business Administration back in 1964-65 for Region 2, which is the largest region of the Small Business Administration and includes New York State, Puerto Rico, and the Virgin Islands. I have also served as the Deputy Commissioner of Housing for the City of New York.

A statement was made back at the time of the founding of this country right here in Boston in regard to black businessmen in particular, and the statement was: "those Negroes who keep shops, live moderately, and never augment their business beyond a certain point . . ." Now that was in a Boston paper here describing black business of the 1700s. The tragic part of that is that it is still true, and it is still true to a great extent because the barriers and problems that beset black businessmen then continue to beset

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them, no matter what they do. The numbers that you hear about in terms of minority business are horrible. You will read about the top black 100 businesses in *Black Enterprise Magazine*, and I think my company now ranks number five, the number one company being Motown Records doing \$41 million worth of business a year. We do \$36 million a year and next year we will do about \$75 million, but the whole thing put together does not really make any kind of impact. We haven't even become the 500th largest business in Fortune's 500. The reason is that we don't have the leverage to make an impact and make meaningful changes that are really necessary to make a society viable, not just for black people, but for all people. Businessmen historically have set the pace in this country in terms of where we are going and how we are going to get there, but as you heard from Dr. Brimmer, black-owned businesses constitute less than 2 percent of all businesses in the country. And barely 2 percent of them are incorporated. I cite that especially because I am really a lawyer by profession. Of the total aggregate business, 94 percent that blacks own are single proprietorships, 84 percent have average yearly receipts of \$13,000, and less than 20 percent have any paid employees. So when you add all of these numbers up, it turns out to be a real disaster. If we are ever to have any impact, we must achieve some kind of economic muscle.

I have been to South Africa twice, and without a doubt it is one of the most beautiful places on earth and one of the greatest living hells that I have ever seen for black people. To me South Africa represents what this world is all about. There, Indians are considered a minority and black, mixed-blooded are considered colored and black, blacks are considered black, the Chinese are considered a minority, and all of them are relegated to being outside of the city, outside of the mainstream of society except to provide labor for the system. One group of gentlemen walk proudly through South Africa and are considered honorary white men. These gentlemen are businessmen from Japan. If you go to Durban, the third largest seaport in the world, you will see 250,000 ton and 500,000 ton tankers flying the flag with the rising sun, and you will find out that South Africa is one of the world's largest sugar producers and the Japanese economy takes over 65 percent of that sugar. As you drive down the superhighways of South Africa that are just like Interstate 95, it is Datsun Motors that assembles cars and trucks right there in South Africa, and South Africa dares not turn its back on its Japanese trading partners. That's the kind of leverage I am talking about.

I have said all this to tell you about what I consider to be reality. I was the Chairman of one of the largest minority banks in the country for a little over three years. I took over the Freedom National Bank basically at the moment of crisis. The bank had been founded by Jackie Robinson, a very good ball player and a man of good intentions, but a very bad banker. The bank had operated for approximately ten years, and had tried to do something about the problems that are endemic to every ghetto area in this country, namely, a lack of mortgages. The bank was a commercial

bank that was overcommitted to the point of having 55 percent of its assets tied up in long-term mortgages. According to the Comptroller's office, a bank Freedom's size should not have more than 20 percent of its assets tied up in the long-term mortgage market. Then the neighborhood started to turn on us. We had disinvestment on the part of the major institutions, while a little bank like Freedom was trying to ride to the rescue with its miniscule deposits.

The problem with trying to do good is that you must be able to do justice to those people who invest in your institution. The mother and father and small grandmother in tennis shoes who came in and put their last \$100 in the Freedom National Bank expected to be able to get their money back. The grandmother who bought stock in the institution expected to get a dividend. She did not expect to hear that the bank was taking write-offs on an annual basis because its loans were not being repaid, its housing base was being eroded, and it was having all types of other problems. She wants her money back. She needs her money. So now the bank has begun to be rather hard-lined about where it invests. It still invests in the minority community but it also looks at borrowers in terms of their ability to repay. If the bank cannot be repaid, then it cannot make the loan. Notwithstanding what a lot of people might say, we are not running a social work agency. We are running a profit-making institution. If we don't have profits, we don't have an institution. And if we don't have an institution, then we don't have a community. That's something that a lot of people in our community may have difficulty in understanding. "Profits" is not a dirty word. Profits are the fuel that fires the engines of development, and of accomplishment. Without profits, there will be no accomplishment.

Now that brings me around to some of the problems in the neighborhood areas themselves. Many people think that we should have a coalition of people to try to work in these neighborhoods. The problem is the cost. I operate stores in ghetto areas and I try to provide as up-to-date and modern facilities as possible. Our newer stores have electronic cash registers and will have electronic scanning systems and even mini-computers. The last store that went up cost over a half a million dollars for 14,000 square feet. The costs are prohibitive. Right now I am carrying a payroll of \$5,000 a week for 32 guards and two supervisors to cover all the stores. These are nonproductive costs. They bring no profit to the stores and they are overhead to the customers. Beyond that, we are also paying approximately \$1,500 a week for an armed courier service. It sends an armored car to every store to make pickups from drop safes in the stores that can only be opened by the manager to put the deposits in, and can only be opened by the courier service to take the deposits out and to get them to the bank. We have difficulty getting holdup insurance, and when we do get it, it is prohibitively expensive. It is almost impossible to get plate glass insurance, forcing us to act as a self-insurer for plate glass. And the final blow came about four weeks ago. We had a three-year fire and

comprehensive liability package with a major insurance company, but we were notified that the insurance would not be renewed. The cost of our insurance package until that time was \$180,000 for three years or \$60,000 per year. I tried everywhere to get new coverage. Literally no insurance company would write new coverage. Finally, through a contact, I succeeded in getting an underwriter to come to my office and let me drive him all over the South Bronx and prove to him that all our stores had sprinklers, ultrasonic alarm systems, and a few other things. In the end, he agreed to write the package for \$225,000 for one year. Now if you want to talk about doing business in the ghetto and trying to do the right thing, I want to tell you that you cannot do the right thing if the ghetto won't let you live. Therefore, we must talk about what we can do to turn the ghetto around.

I should tell you we employ about 500 workers, most of whom are youngsters. Most of them are part-time and work after school. We have a very long and stringent test which applicants must pass. We hand them a can of peas marked 3 for \$.29 and we ask what one can costs. I get some of the damndest answers you ever heard in your life. And then finally I hear my people outside getting very, very disturbed as I sit there asking what is half of 50. And many cannot give you half of 50, and I don't mean 1 out of 10, I mean 7 out of 10. I am telling you that the City of New York spends \$1 billion or more for an educational system that is turning out functional illiterates. I don't mean blacks, whites, or Puerto Ricans; I mean all of them, across the board. They cannot function, they are not worth a dime to themselves, their parents, or society. And they are going to cost us dollars, not dimes.

Now, these are some of the inherent problems in the community and when you combine them with the disinvestment process on the part of banking institutions and others, which only accelerates and exacerbates the problems, then you don't really have a fighting chance. The only reason why sales continue to rise is that almost every year some of the major chains have opted to move out. They don't want any part of it. They don't want to have holdups at 5 o'clock on a Saturday afternoon with the store loaded with 200 or 300 women when three fellows with shotguns come walking through the door and everybody starts diving to the rear and the carriages start to fly everywhere. They don't need it. They don't want people, community groups, or others coming in and telling them how to operate their stores — who should be manager, and which area kids should be hired from. We have a policy, for example, that no youngster who lives within five blocks of any store can work in that store. Period. Because we don't want them to be tempted by their friends or what have you, it just doesn't make good sense, and it is better to have them work in another store.

We cannot operate businesses representing investments of a half a million dollars apiece and have other people dictating our policies. We must protect our investments. For example, I have borrowed a piece of the rock — eight years ago I borrowed \$2,750,000 from Prudential Life In-

urance Company. I have paid back \$1,750,000 in principal and \$2,550,000 in interest. That is a fair and square deal. That's what everybody does and that's what we should do, too. I really appreciate the fact that McNoughton, the Chairman of Prudential, and Ed Honneymeir gave me the loan, and that I have been able to pay it back. That's my job and that's what they should do, and that's what everybody should be looking at in terms of where we are going to go. Instead of talking about disinvestment or exacerbating conditions, they should be talking about how to improve conditions. But by the same token the shoe fits on the other foot as well. There is a concomitant commitment on the part of minority businessmen to do something about what goes on in the communities, and not just to stand there and say my job is to rip them off, or to make money and get out of here as fast as I can.

We have tried in New York City through an organization called the Hundred Black Men, which has over 500 members including the Borough President of Manhattan, Earl Gray who is a publisher, and other businessmen, to get them involved in what goes on in the City and start to place them on every commission and board, and any other institution that brings about material or meaningful changes in our community — whether it be the Blue Cross/Blue Shield, the Legal Aid Society, the Board of Education, or the Mayor's Temporary Commission on Finance, you name it, we have tried to put them there. I think it is most important that we have that kind of input. It is most important, for example, that a man like Ken Guscott is on the Board of the Federal Reserve Bank here in Boston. I recommend that Federal Reserve Banks in all regions have a minority member on their banking boards.

It is not that I think that white people are venal or mean or don't give a damn about us. I believe that, for the most part, white people come with an open and clear heart, but they are concerned with their own business and if they don't come in contact with you and don't understand what your needs or wants are, then it just follows that they are going to do things that fit their own needs and wants. The way to get around some of that is to bring minority people into these decision-making bodies. It is most important. And if we don't do that, then we are failing to live up to our role as citizens in the community. Further, I think that as businessmen in our communities who make profits there, we should be prepared wherever possible to be involved in our own organizations — whether it be the YMCA, the YWCA, the NAACP, or the Urban League. That is also incumbent upon us. But beyond all that, we cannot survive without the proper milieu and climate in which to operate and do business.

I told you that FEDCO Food Corporation will do about \$75 million of business next year because we are going to acquire another chain of stores. I plan to mix the locations of stores and try to mix the clientele, thus lessening the burden of crime and all the other problems. I cannot continue to push every living dime up on top of the volcano where it might just blow up, and blow me out with it. So what I'm trying to tell you is

that the answers to all of these problems can be solved with commitment on the part of everyone, but the commitment begins with the small businessman himself. The commitment begins with the people in our own community. I don't believe white people will ever solve our problems; they haven't solved their own. If you don't believe that, take a ride into West Virginia, take a ride into the Ozark Mountains in Missouri, and you will see that a lot of work has been left undone. So therefore, those who have to pick up the first stone must be our own people. And we're going to have to promote the idea that we are prepared to do our own work. Of course, we need and want all the help and assistance that we can get.

I worked for Jimmy Carter and wrote the Minority Economic Task Force Report. In that paper I asked him to reorganize and redo the Office of Minority Business Enterprise, which has turned out to be a big political boondoggle in which money was placed not so much to aid the recipients as to make a political impact on the area. When that happens, little is accomplished and the needs and overall problems remain. I have also asked for a type of reconstruction finance corporation or bank which would provide some of the new capital necessary in our communities at a lower interest rate than is available in the normal market place. Dr. Brimmer told you this morning about increasing capital and equity positions. If we can't get equity investment, then we will have to borrow and pay for the loans. At this time, \$350,000 is not a large enough loan to achieve what needs to be done. Even building a good supermarket today requires \$500,000 to \$1 million. These are just some of the things I recommended, some of the things we have asked for.

Housing is a big problem. We haven't had any housing programs in our communities for over three years, since Richard Nixon closed them down. We need housing. But if somebody gives me a choice between housing and jobs, I will choose jobs every time. We need people off the unemployment rolls and onto the work rolls. We need people paying taxes. If there is one proposition that I can sell to anybody in this country, it is to say that if you follow my directions for investing in certain areas and making an impact on certain problems, you will lower your own taxes in time. You will lower crime problems. Years ago when I grew up, the drug problem was in the minority areas of New York City. Now, the drug problem is in Scarsdale and in the suburbs. Good middle-class young white kids are hooked on heroin and other things. The drug problem is everywhere and needs to be addressed. That is the essential proposition: to try and talk to people in terms of how to settle things in their own self-interest — not in the righteousness of the cause, but because it is in their own self-interest. Again I would like to thank Mr. Morris, the President of the Federal Reserve Bank of Boston, and Mr. Guscott, a member of its Board of Directors, for giving me the opportunity to address you here today.