

BLACK ECONOMIC DEVELOPMENT
AS A STRATEGY FOR
COMMUNITY DEVELOPMENT

by

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ABSTRACT

Title: Black Economic Development as a Strategy for
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Discussion on the current attempts to increase black economic development reveal widely divergent views on the direction the development is expected to take. One view holds that it will lead to a separatist black economy, while another holds that it will produce greater integration. It is anticipated both that traditional capitalistic structures and communal structures will be the dominant form of organization. It predicts that development will be large scale and dominated by large corporations and also that it will be insignificant and petty. The future of black communities will, in part, be shaped by the direction economic development takes, especially as goals being established by ghetto political leaders could either be fostered or destroyed by the path economic development takes. In particular, will future ghetto economic institutions be supportive of attempts to increase a sense of community and interdependence between blacks, or will it run counter to it? The differences in interpretations as to the future of ghetto development are partly based on a lack of sufficient data on black economic enterprises as well as the absence of a systematic way of looking at them.

This thesis, then, attempts to provide a somewhat more rational basis for predicting the future course of development. It examines the historical conditions which are responsible for suppressing the growth of black business and the current constraints which limit it. It looks at the major actors in the arena--government, white businesses, and black self-help groups--focussing on the goals and programs of each. Case studies on the actual operations of three different models of economic development were made, and include EGandG Roxbury Inc., State Enterprises Inc., and Freedom Industries Inc. Each operation is examined in terms of its goals and strategies, the problems it encountered, and the degree to which each served to benefit the rest of the black community. Finally an examination is made of the major issues involved in black economic development and the implications of this development on the future of the black community.

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INTRODUCTION

"When I use a word," Humpty Dumpty said in a rather scornful tone, "it means just what I choose it to mean--neither more nor less."
 "The question is," said Alice, "whether you can make words mean so many different things."
 "The question is," said Humpty Dumpty, "which is to be master--that's all."

Lewis Carroll, Through the Looking Glass

The current passion for "black capitalism" grows in importance as more and more people turn to it in the hope that it contains the answers to the problems of the ghetto. Some see it as the most critical domestic issue, the fate of which can determine the future approach to urban problems. To even begin to evaluate black capitalism one must be clear on what the term conveys, and it is obvious that it means "just what I choose it to mean--neither more nor less."

President Nixon's perception of black capitalism reveals a conservative orientation:

Much of the black militant talk these days is actually in terms far closer to the doctrines of free enterprise than to those of the welfarist '30's--terms of "pride," "ownership," "private enterprise," "capital," "self-assurance," "self-respect"--the same qualities, the same characteristics, the same ideals, the same methods, that for two centuries have been at the heart of American success, and that America has been

exporting to the world. What most of the militants are asking is not separatism, but to be included in--not as supplicants, but as owners, as entrepreneurs--to have a share of the wealth and a piece of the action.

And this is precisely what the federal central target of the new approach ought to be. It ought to be oriented toward more black ownership, for from this can flow the rest--black pride, black jobs, black opportunity, and yes, black power....¹

One of those "black militants," CORE's Roy Innis, indicates that he in fact means something else by "black capitalism."

As for Dick Nixon, I hope he understands that by black capitalism--which he has been discussing--we mean the acquisition of the instruments of black capitalism, the community-owned means of operating shops, factories, stores, and industry. We're not interested in creating 10 or 15 black capitalists. There's a big difference.... We will encompass all types--some individuals, some small partnerships, some cooperatives. What we want is a broad black industrialism, based on community action, ownership and management, in the hands of blacks, all the blacks in the community. ²

To one firm believer and practitioner of capitalism (president of Chase Manhattan Capital Corporation) the very term "black capitalism" is a contradiction.³ For him capitalism is a concept that can be applied universally

¹James Ridgeway, "Urban Bourbons and Blacks," Mayday, No. 2, October 18-25, 1968.

²Milton Moskowitz, ed., "Where It's at: Black Capitalism," Business and Society, December 17, 1968, p. 3.

³Louis L. Allen, "Making Capitalism Work in the Ghetto," Harvard Business Review, (May-June, 1969), p. 84.

and it is misleading to state the color, racial origin, or religion of its practitioners for this suggests that unique varieties of capitalism exist. Capitalism practiced by blacks is, and must be, the same as that practiced by whites and no short cuts or ready-made solutions can be offered to anyone.

The problem here is that "black capitalism" has become a slogan embodying many different assumptions and the failure to identify and state a given set of assumptions has led to much futile discussion on the subject. The lack of a common frame of reference has made much of the criticism or support of black capitalism less than fruitful. For example, to Nixon black capitalism means the rejection of separatism, while the AFL-CIO position is that it is a "dangerous, divisive delusion" fostering "separate economic enclaves" and, as such, is "apartheid, anti-democratic nonsense."⁴ To Cloward and Piven this focus on economic development will almost inevitably result in a mammoth "social-industrial" complex which will control a new corporate imperialism in the ghettos.⁵

⁴AFL-CIO American Federationist, "Economic Progress of Minorities," March, 1969.

⁵Richard Cloward and Frances Piven, "Ghetto Redevelopment: Corporate Imperialism for the Poor," The Nation, October 16, 1967, p. 367.

Irving Howe, on the other hand, criticizes black capitalism for its small-scale effects, which he refers to as "petty-bourgeois tinkering and trivial racketeering."⁶ "Petty bourgeois tinkering will take the form of little businesses--dry cleaning stores, a few small factories--run by blacks....Trivial racketeering will occur as the result of the emergence of a black entrepreneurial-adventurist bureaucracy."

The failure to distinguish the real diversity behind the concept of black capitalism gives a misleading picture of the support available for it. A statement on the broad coalitions behind black capitalism programs seems almost obligatory in articles on the subject. Some note this broad support approvingly:

"Black capitalism" is gaining backers--and financial assistance--among white businessmen, bankers and industrialists. It is winning widespread support among Negroes. Already Government programs are in operation, and privately financed projects are springing up in many cities. 7

Others are critical of the purported new alliance formed by:

...moralistic WASPs, righteous Lindsay-Republicans, selling Nixon's "black capitalism" eyewash, and

⁶Irving Howe, "Nixon's Dream--and Black Reality," Dissent, March-April 1969, p. 105.

⁷U.S. News and World Report, "Black Capitalism--What Is It?," September 30, 1968, p. 64.

aligning themselves with "black militants" and some "radical" intellectuals. 8

However, the following observation made in relation to the reported wide consensus behind the Community Self-Determination Act is even more fitting when applied to the presumed consensus around black capitalism:

I suspect when Mr. Innis and Mr. Tower and Mr. Alperovitz agree on something and even can draw on the two senators of New York, they have also agreed upon motherhood and the country, but they haven't faced the hard obstacles to solving problems. So let's cut out the rhetoric about wide-~~range~~ agreement. If there are such wide-range agreements in something as basic as this kind of social problem, it is suspect before it even gets endorsed. 9

There are a number of reasons for the failure by many spokesmen for black capitalism to more clearly articulate the goals and strategies of their particular form of black capitalism. First, and most importantly, they often don't know precisely what it is they want or expect from a program of black capitalism. All parties involved are, in the words of The Wall Street Journal, moving down "unfamiliar paths toward unfamiliar destinations."¹⁰

⁸Howe, "Nixon's Dream--and Black Reality," p. 104.

⁹Sar Levitan, et al., "Dialogue: Community Self-Determination--Problems and Potential," New Generations, Fall 1968, p. 24.

¹⁰Laurence G. O'Donnell, "In Motown, Caution Proves Successful," The Wall Street Journal, July 11, 1969, p. 8.

While any given actor in this arena may have a clearly defined set of idealized goals, this may differ sharply from the goals that are possible. The necessity or desirability of alliances between various groups will require a readjustment of each group's individual goals as they accommodate, to some degree, to the others' objectives.

No significant expression of goals, or willingness to accommodate, or intention of remaining independent can be made in the abstract; rhetoric can differ greatly from action. While one may be able to make general predictions on the course black capitalism will take based on the past performances or public utterances of various actors involved, only an analysis of actual ventures will support or discredit these predictions. At present the best one can hope for is a framework that facilitates an understanding of this state of change and accommodation that must precede any new and stable coalitions and economic structures.

A second reason for the lack of clarity surrounding black capitalism is that it is tactically useful for many to have the concept muddied in meaning. The less explicitly the term is defined, the less is the potential for opposition; President Nixon benefits from the illusion that

black militants and arch-capitalists have found common ground in a program. Others consciously distort the language they use in discussing "black capitalism" to take advantage of existing biases held by their listeners. For example, a black leader in Roxbury who supports a program of community-owned enterprises rejects the term community-socialism as being unacceptable and refers instead to community-capitalism. Still others are unwilling to place a precise meaning on "black capitalism" until they have developed a sense of what is possible in this area.

A final source of confusion in discussions of black capitalism is the lumping together of tremendously varied ventures under one label. Journalists frequently report any black enterprise as being "ghetto-owned" or "community-controlled" despite the fact that it might be a private venture run by a single black. This is like calling Harvard a community college or saying that Macy's is owned by the white community. Even scholarly approaches utilizing an economic model of a ghetto in which resources and expenditures are aggregated lead to such phrases as "community income;" under such a model no distinction is made between communities where the resources are held by one percent of the people or by ninety percent. While dealing with an

aggregate model of the ghetto can be useful, it must be supplemented with information on the internal distribution of benefits if it is to have any political or social meaning. The goal of "increasing the resources of the ghetto" can encompass practically any economic development program--only when one answers the questions "how?" and "for whom" can one distinguish between programs.

Once one turns from the expected economic benefits to the more diffuse social, political, and psychological benefits that are held to follow black economic development the inadequacy of the concept of "community" as the object of development becomes even greater. It is not this anthropomorphized concept which increases its self dignity, pride, initiative, sense of efficacy, etc., but, again, the individuals within that community. Here too the benefits are almost certain to be unevenly dispensed with the new holder of a job or the part-owner of a store having a much larger share of the psychological or political advantages than the person who only walks by the new store or factory. Thus a rhetoric which speaks of black people developing, acquiring, controlling, etc., as an aggregate further blurs the distinctions between various models of economic development which differ radically in the kind and number of people they are meant to serve.

In this regard the term "black capitalism" is especially inadequate as a cover term for the variety of ventures being carried on in its name. The suggested emphasis on individualistic endeavors excludes a very large and crucial body of thought in this area. For this reason the term black economic development will be used in this paper, and is meant to include any business enterprise in which blacks function in an ownership role.

The general intent of this paper will be to make the current rhetoric, controversy, and activity around black economic development somewhat more comprehensible. This will be done by analyzing the current state of black economic activity and by describing the actors involved as well as the issues that are arising out of development programs. An attempt will be made to relate the role played by economic activity to that of other community development strategies. The first section will be directed at a definition of the problem--what has suppressed black entrepreneurial activity and to what degree has it been curtailed? This section will include an historical summary of black business activity which reveals some of the roots of today's problems. In addition, the present state of black economic development will be discussed--this will include a quantitative statement of the current level of

black business as well as a description of the constraints which continue to limit ghetto development. The second section focuses on the major actors who are involved in black economic development, the types of activity they are entering into, the constraints on their behavior, and the motivations that have led them into this arena.

The third section will, through a series of case studies, provide some empirical data on:

- 1) the problems encountered in building economic enterprises in the ghetto;
- 2) the particular goals and strategies of specific actors and the process of accommodating that occurs between actors;
- 3) the kind and magnitude of benefits that accrue to the community at large from economic development.

The final section will attempt, on the basis of both the case studies and general data, to isolate the main issues that distinguish the major strategies of development from one another, and to suggest possible implications of these strategies.

CHAPTER I

Historical Background

The current widespread faith in economic development as a way out of the ghetto's woes has all the appeal of a new, untried strategy. This appeal dims, however, when one recognizes that the blacks in this country have had a hundred years' experience in trying to use business as a tool for social development. This has been a recurring theme ever since the Civil War, while even earlier some blacks used business as a route to personal advancement. The history of this century-long struggle to make it, individually or collectively, through economic endeavor has left a strong imprint on the current condition and status of blacks. The constraints existing in the 18th century still have an effect today, as do the political and social conditions of the 19th century.

Some of the long-held conditions influencing black economic development are now, in the sixties, beginning to alter, so that the current emphasis on "black capitalism" is not a new strategy, but an old one coming into contact with a new and altered economic and political environment. A brief history of black economic development is included here to provide some perspective and context for reviewing

current activities. It helps explain the relative lack of black entrepreneurs today and suggests some problem areas that are still operative today.

A. Pre-Civil War

The nature of slavery obviously prohibited chattel slaves from owning businesses as well as eliminated the possibility of their acting as consumers for enterprises owned by free blacks, in that their basic needs were provided by their owners. The anti-literacy laws were created to further shackle slaves and limit both their aspirations and their capabilities, thus leaving them more dependent on whites. While the free blacks of the north faced less severe legal restraints, their opportunities to develop as businessmen were reduced as a result of another factor. The black population in the north was sufficiently dispersed to eliminate the clustering that was necessary to provide a market for a black business. In only four southern cities--Charleston, New Orleans, Baltimore and Richmond--were there communities of blacks large enough to support black businesses.¹

It was not mandatory that a black business serve only

¹Robert H. Kinzer and Edward Sagarin, The Negro in American Business, (New York: Greenberg, 1950), p. 35.



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a black market, in fact it was perhaps more common to find a black enterprise serving a white market. To do so, however, meant incurring risks over and above the usual legal and economic ones. One such case--that of a slave, Lunsford Lane, illustrates the harassment from the white community that often faced the successful black.² As a house servant for a wealthy man in North Carolina, Lane earned small sums and tips by running numerous personal errands for house guests, which he expanded to include services for shopkeepers and members of the legislature. Eventually Lane began hiring his own time from his master at a rental of about \$100 per year, and ultimately bought his own freedom, after which he opened a store and woodyard. Grumbling began within a group of poor whites and sons of slave owners, and they began to demand his expulsion from the state, which was accomplished. When Lane attempted to return to North Carolina to make a final settlement of his accounts, he was tarred and feathered and driven from the state.

Another ex-slave in Cincinnati owned a manufacturing venture which employed from 20 to 50 black and white

²Abram L. Harris, The Negro as Capitalist (Philadelphia: American Academy of Political and Social Science, 1936), pp. 14-15, citing W. G. Hawkins, Lunsford Lane.

workmen. The factory was burned down four times and rebuilt each time until the insurance company refused to continue to underwrite the risk.³ Numerous such examples of white hostility indicate that it was not a rare occurrence.

These cases also reveal a common pattern in the development of successful black businessmen in the 18th and 19th centuries. The pattern usually had its origins in the class divisions based on the distinctions between house servants and field hands. The former received special privileges and often had access to influential whites; more importantly, they served as the labor pool from which apprentices in the skilled trades were drawn. The result of efforts to substitute free black labor for paid white labor was that by the middle of the 1800's almost all knowledge of skills was held by free and slave blacks.⁴ The servile connotations that came to be attached to many crafts further deterred the entry of whites into such work. Marketable skills, therefore, did exist among blacks if

³Abram L. Harris, The Negro as Capitalist (Philadelphia: American Academy of Political and Social Science, 1936).

⁴Kinzer and Sagarin, The Negro in American Business, pp. 3-6.

they were able to use these skills as free men.

Two common routes to manumission existed, one through self-bought freedom by a slave who saved a surplus of money and the other was through the granting of freedom by a slave-master. The latter was generally limited to house servants and was often related to incidents of interbreeding between slaves and their owners.⁵ Thus a class existed among blacks which was likely to be skilled, to have connections within white society, and was most likely to be free to use its skills for its own advancement. This formed a potential base for entrepreneurial development among blacks.

The fact that little capitalization was required for most service enterprises made it even more likely that blacks would enter such businesses. As a result barbering, catering, livery service, tailoring, carpentering, shoemaking, etc., provided the backbone for black business ventures, especially in the south. The northern blacks were more likely to be found in personal service and domestic occupations and less likely to be trained in skilled trades like bricklaying or carpentry. This resulted in the free blacks of the south being better off economically than

⁵E. Franklin Frazier, Black Bourgeoisie (New York: Collier Books, 1957) pp. 17-18.

those in the north, especially when European immigration became significant.⁶

These skills also provided the capital that allowed blacks to invest in a variety of assets, primarily working farmland, real estate, and slaves. One conservative estimate of the real and personal wealth of free blacks just prior to the Civil War places it at fifty million dollars, to which can be added an additional ten million representing the cost of self-bought freedom from slave-owners.⁷ The free blacks and mulattos of New Orleans alone were estimated to hold ten to fifteen million dollars in assets.

The existence of this level of resources among free blacks led some of them to talk of setting up their own credit and banking associations. In 1851 a group met in New York City to formulate plans for a bank that would extend credit to black homesteaders and men who wished to enter business.⁸ Groups in other cities attempted similar projects but nothing came of these moves. It is difficult

⁶Ibid., pp. 33-34.

⁷Harris, The Negro as Capitalist, p. 18.

⁸Ibid., pp. 22-24.

to determine the degree to which these attempts sprang from the inability of blacks to receive credit and capital from white institutions. While barriers between blacks and the normal sources of capital no doubt existed, there are explicit historical references to blacks obtaining funds from the white community. However the industrial development of the country put greater demands on available capital, which further tightened the money market for blacks. As investors, blacks often faced statutory limitations on their participation in home building associations and savings banks.

The only significant economic organizations which did emerge at this time were the mutual assistance groups which provided sick benefits and death payments to the very poorest blacks. At a monthly cost of anywhere from twenty-five to thirty-seven cents, these societies could provide minimal insurance benefits oftentimes to newly freed slaves.⁹ Mutual assistance groups, the first of which was formed in 1778, became centers of religious, secular, and fraternal activities which reached large numbers of blacks.

In short, the period up to the Civil War was a time of strong legal and social restrictions on the growth of black enterprise. However, the widespread training in

⁹Ibid., p. 21.

skilled trades among them provided a means of support and a route to occasional wealth. It also established the tradition of blacks entering personal service enterprises, especially in the north. Most of the economic activity was of an individual entrepreneurial nature, with the exception of the mutual aid societies founded among the poor blacks. The black leadership of that time was focusing its efforts on the abolition of slavery, and only after the Civil War did it begin to look toward economic development as a strategy for racial development.

B. Post-Civil War

The period of Reconstruction revealed that few of the businesses and little of the assets of blacks had survived the war. The radical Republican philosophy of the day, however, looked on equal citizenship as carrying not only the right to vote and hold office, but also to acquire economic goods. Thus a belief in frugality, saving, and investment was urged on the blacks by many leading white citizens. It was under these circumstances that the Freedman's Bank was established. Founded as a depository for the savings of black soldiers and laborers, it was organized and controlled by whites who led the mass of blacks to believe the bank was a government institution.¹⁰

¹⁰Harris, The Negro as Capitalist, p. 28.

A strong campaign to attract depositors was carried out and the message of thrift and savings as a route to riches was carried to over 70,000 ex-slaves. Fraud, mismanagement and corruption led to the closing of the bank at a time when it held three million dollars in deposit for some of the poorest people in the country. It was at this time that the current pattern of black business ventures began to strongly take shape.

The growth of Jim Crow laws and the increasingly evident unwillingness or inability of government to meet the needs of the black minority provided the impetus for the growth of black economic institutions and segregated businesses. In addition to the form of the economic enterprises changing, the entire focus on business as a basis of racial development increased sharply. Black leadership began to look to economic development as a means to independence, a view best summarized by John Hope, president of Atlanta University, in 1898:

The Negro's status has changed considerably since the Civil War, but he is today to a great extent what he has always been in this country--the laborer, the day hand, the man who works for wages. The great hiring class is the white people. The Negro develops his resources, the white man pays him for his services. To be sure some few Negroes have accumulated a little capital. But the rule has been as I have stated: the white man has converted and reconverted the Negro's labor and the Negro's money into capital

until we find an immense section of developed country owned by whites and worked by colored....

The wage-earner, the man on a salary, may, by rigid self-denial, secure for himself a home, he may besides husband his earnings so carefully as to have a small income, but the wage-earner and man of salary seldom save a competence...at that time of life when men ought to be most able to provide for themselves and others, these men are least able. There is little or no independence in the wage-earner, because there is no practical security....

Now the age in which we are living is an economic one; manufacturing and merchandising claim the world's attention....I was saying, business seems to be not simply the raw material of Anglo-Saxon civilization, but almost the civilization itself. It is at least its mainspring to action. Living among such a people is it not obvious that we cannot escape its most powerful motive and survive? To the finite vision, to say the least, the policy of avoiding entrance in the world's business would be suicide to the Negro. 11

The number in black businesses in that year (1898) appeared to be only 1900, but this increased to 70,000 by 1930.¹²

The largest numbers of these were in the field of personal service where discrimination forced blacks to build a parallel set of enterprises. The major tools needed for large-scale industrial or commercial ventures were almost

¹¹W.E.B. DuBois, "The Negro in Business," Atlanta University Publications, No. 4, quoting John Hope, The Meaning of Business, Proceedings of the Fourth Atlanta University Conference--1898.

¹²Harris, The Negro as Capitalist, p. 53.

entirely beyond the reach of the black population.

One such tool, the availability of capital or credit, was more and more difficult to get through white banks. This fact, coupled with the failure of the Freedman's Bank stimulated blacks to develop their own banks under their own control. The first were organized in 1888 and by 1928 a total of twenty-eight banks had been created.¹³ Almost all of these were designed as depositories for the funds held by the mutual aid societies which expanded tremendously following Emancipation. This also meant a close relationship between the early black banks and the black churches which fostered the aid societies; the ministry was frequently represented on the boards of the banks. By 1934 a total of one hundred and thirty-four banks had been established, including the Eureka Cooperative Bank and the South End Cooperative Bank in Boston. By 1936 the number of banks still in existence had been reduced to twelve.

The failure rate of the black banks was probably no higher than that of white banks of similar capitalization, but the small scale of the typical black business, its non-industrial character, and the non-commercial nature of its

¹³Ibid., p. 46.

assets (primarily depreciated real estate holdings) all contributed to the limited financial capabilities of black banks.

Another group of economic enterprises which resulted from the refusal of white institutions to serve blacks was black insurance companies. Again, these had their roots in the benevolent societies, the leaders of which organized the early insurance companies. By the 40's these had developed into the largest business enterprises owned by blacks, having a combined income of forty-two million dollars in 1945.¹⁴

The only other industry which showed any significant development by black businessmen is that of the black press. In the 40's there were 169 newspapers and their total valuation was around ten million dollars.¹⁵

The picture of black business activity after the Civil War was significantly different from that preceding it. The "training program" component of slavery was abolished with slavery, and the educational institutions of the time failed to provide either adequate skills training or a general education to the majority of blacks. The increase in segregation provided a two-fold thrust to

¹⁴Frazer, Black Bourgeoisie, p. 54.

¹⁵Ibid.

the black businessman's concern for an ethnic market:

1) a white market was often closed to him and, 2) black communities were often unable to get necessary goods or services from white businesses. The exclusion of the black man from supplies of capital at a time of growing industrialization insured his absence today within large-scale economic enterprises. Instead he turned to service, retail trade, amusement and recreational concerns which remained primarily small undertakings. Attempts at organizing parallel capital and credit institutions suffered from the lack of trained, experienced administrators and managers, as well as from the narrow range of black businesses which formed the foundation of the banks' commercial holdings in the ghetto. The educational demands of a career in business were becoming increasingly sophisticated, but the lack of opportunity in small black firms and the exclusion from small or large white firms discouraged blacks from seeking training in business skills. The circle was quite vicious. The government did not focus on this problem as one appropriate for intervention. If any policy among white businesses existed as to black business it was generally a negative one--that is, one of avoidance or neglect.

Cooperative action among blacks around economic

matters was fairly rare, only the most extraordinary need was capable of producing a coordinated effort. Business was still seen primarily as an alternative open to individuals who, by pulling themselves up, could contribute to racial betterment. It is this pattern that has persisted up to the mid-60's and it is this pattern that is the object of attack in the recent spate of black economic development schemes.

CHAPTER II

Current Status of Black Business

A. Statistical Data

While exact information on the numbers of black businesses in the country today is not available, a fairly reliable estimate can be derived. Table I, following, gives the most recent information in this area. Although the category of managers, officials, and proprietors includes more than just the owners of businesses, it is the category which best approximates this. The figures show a 17 percent increase between 1960 and 1967 in the number of non-white managers, officials, and proprietors. This can be compared with a 6 percent increase among whites in the same category. This means that even given this sharp increase among non-whites, only a little over 2 percent of the employed non-whites were managers, officials or proprietors. This can be compared to the 11 percent of the employed whites who functioned in these categories. The Small Business Association reports that 3 percent is the maximum of all U.S. businesses owned by non-whites, although this varies from 2 percent in the Watts area to 10 or 15 percent in Harlem.¹

¹U.S. News and World Report, "Black Capitalism--What Is It?," September 30, 1968, p. 64.

Table 1
Employment by Occupation,* 1967, and Change, 1960-1967²
(Numbers in thousands)

	Employed, 1967		Change, 1960-1967*			
	Non- White	White	Number		Percent	
			Non- White	White	Non- White	White
Total	8,011	66,361	970	6,721	14	11
Professional and technical	592	9,287	263	2,141	80	30
Managers, officials, proprietors	209	7,286	31	396	17	6
Clerical	899	11,434	391	2,158	77	23
Sales	138	4,387	25	99	22	2
Craftsmen and foremen	617	9,228	203	1,083	49	13
Operatives	1,882	12,002	465	1,434	33	14
Service workers, except private household	1,519	6,037	287	1,136	23	23
Private household workers	835	934	-169	-278	-17	-23
Nonfarm laborers	899	2,634	-70	-61	-7	-2
Farmers and famworkers	423	3,131	-453	-1,389	-52	-31

*The 1967 data pertain to persons 16 years of age and over, while in 1960 the age cutoff was 14 years. Since 14-15 year-olds make up less than 2 percent of total nonwhite employment, it can be assumed that they have almost no effect on the 1960-1967 occupational change.

²U.S. Department of Labor, Bureau of Labor Statistics, BLS Report No. 347, July 1968, Recent Trends in Social and Economic Conditions of Negroes in the United States, p. 16.

(The SBA also reports that in 1967 they financed only about 2,200 loans to minority businessmen.) The other estimates hold that the percent of black owned businesses is closer to 1%, which means that only one black in 1,000 is a proprietor as compared with one out of every forty whites.³

Andrew Brimmer, a governor of the Federal Reserve System, points out that the total number of black businessmen shrank by 20 percent between 1950 and 1960, which he attributes to the effects of desegregation and the accompanying invasion of white businesses into a previously black market.⁴ If this is true, it means that the black businessman's market, which was once white or racially mixed, and which was then restricted to a segregated black population, is being reduced even further as the black businessman can no longer expect to benefit from a lack of competition from white businesses. As it is these segregated businesses form the bulk of black enterprises and any serious inroads by white companies would have a large effect on whatever entrepreneurial class now exists in black communities. At present, black businessmen still tend to focus

³Time, "The Birth Pangs of Black Capitalism," October 18, 1968, pp. 98-99.

⁴Milton Moskowitz, ed., "Where it's at: Black Capitalism," Business and Society, December 17, 1968, p. 1.

on the traditional types of business; the top loans of the SBA during 1967-68 went for funeral and nursing homes, dry cleaners, grocery stores, rooming houses, hotels, etc.⁵

Statistics on the present status of black business are somewhat more revealing if one looks at individual industries. The combined assets of the fifty or so black life insurance companies is about 2 percent of the industry's total.⁶ The largest black company, North Carolina Mutual Life Insurance Company, has assets of 94 million dollars as compared to Prudential's 25 billion dollars.⁷ While all U.S. life insurance companies were growing at an average annual compound rate of 9.5 percent between 1963 and 1966, black companies grew at a rate of less than 3 percent. Two years ago none of the 17,500 authorized automobile dealers in the country were black, today seven are.⁸ Of the 6,000 radio stations (108 of which are programmed for black communities), only eight are black owned. The assets of all U.S. banks rose by 9 percent annually between 1963-66, while black banks chartered before 1961 grew by 5.8 percent

⁵Ibid., p. 2.

⁶Ibid.

⁷Time, "Black Capitalism," pp. 98-99.

⁸Moskowitz, p. 1.

annually. The largest black bank, Harlem's Freedom National Bank, has deposits of 30 million dollars, which ranks it 1,733 of the 14,000 commercial banks in the U.S.⁹

Because all of the case studies later discussed in this paper relate to Boston, specific data on this city is included here. In Boston the picture is very much the same as the national one. A survey of black businesses taken in 1966 revealed the following distribution of businesses as a percentage of the total 230 black businesses:

Table 2¹⁰

Type of Business	Number	% of Total
Grocery and variety stores	35	15%
Lawyers	35	15
Restaurants	28	12
Cleaners and tailors	24	11
Gas stations and auto repair	13	6
Doctors	10	4
Dentists	9	4
Record stores	7	3
Funeral parlors	5	2
Dancing schools	4	2
Others	<u>60</u>	<u>26</u>
		100%

Despite the fact that over 60 percent of Roxbury's population is black over 90 percent of the area's businesses were white

⁹Theodore L. Cross, Black Capitalism (New York: Athenaeum, 1969), p. 50.

¹⁰Roxbury Associates, "Who's Black in Boston Business," (booklet).

owned as of 1968. One significant addition to this list is Roxbury's Unity Bank, a bi-racial bank organized in 1968 and already holding over seven million dollars in the accounts of over 6,000 depositors, including some white-owned firms.¹¹

B. Present Limitations on Development

The previous historical description served to indicate the forces which suppressed the development of a black entrepreneurial class. Going beyond this one can look at the present conditions which, in the absence of some of these historical forces, serve to maintain limitations on development. The three most critical impediments to the growth of black business are: 1) the lack of risk capital 2) the lack of adequate debt financing or credit to achieve leverage, and 3) the lack of training and experience among potential black businessmen.

Investment capital is created only where there are savings, that is, a surplus of money over and above that needed to meet living or business expenses which can be used for investment.¹² Among ghetto residents such

¹¹Time, "Banking: Assets for the Ghetto," February 28, 1969, p. 89.

¹²Cross, Black Capitalism, p. 142.

discretionary income rarely exists; income from a job, welfare, or a business is at best adequate only to meet normal expenses. Rarely can friends or relatives be called upon for such money for they generally share the same circumstances. Inadequate and erratic incomes militate against savings in the ghetto. This is illustrated by comparing the size of an average savings account in a predominantly white and a predominantly black bank. In Harlem's Freedom National Bank the average account holds a few hundred dollars, as compared to the \$2,300 city-wide average of the Dollar Bank for Savings.¹³ (The former also includes savings accounts of many of Harlem's black businessmen who use them as a substitute for business checking accounts.) The possibilities for capital-gains opportunities arising from ghetto enterprises are meager, eliminating another potential source of capital investors. The traditional great source of capital--the markets for new security issues--is not, at present, a fruitful means of financing the start-up costs of black ventures. As one investor notes "A lot of time is wasted and needless involvement undertaken looking around for 'front money' to protect the investor's interest. That money is never there."¹⁴ Most sources of investment money

¹³Ibid., p. 56.

¹⁴Louis L. Allen, "Making Capitalism Work in the Ghetto," Harvard Business Review, (May-June, 1969), p. 86.

are closed to ghetto communities because businessmen choose safer, more stable, and more profitable investments. They point to the unreliability and unpredictability of the factors involved in doing business in the ghetto and generally forgo such investment unless external factors persuade them to do otherwise.

The same factors limit the availability of credit for a black business even if front-money is available. A bank will only provide credit on terms that command a compensating rate of interest, but the risk involved in financing a ghetto businessman is perceived to be so high as to be satisfied only by usurious interest rates--therefore banks rarely lend him money. The poor or non-existent credit history of the black entrepreneur, his frequent lack of experience, and the business conditions of the ghetto make almost any loan to a black businessman a "soft loan."¹⁵ Visions of the publicity following the calling in of a loan to a struggling black adds additional incentive to the banks to steer clear. Running any kind of finance operation in a ghetto is likely to be costlier because: 1) the loans are frequently small loans, and 2) unestablished credit histories mean the undertaking of extensive

¹⁵Cross, Black Capitalism, p. 48.

credit checks on the part of the lender, and 3) the inexperience of the borrower means more time processing the loan. The president of Harlem's Freedom National Bank holds that his loan officers' major problem is in determining the amount a borrower needs to save his business and that this process requires extensive counseling time.¹⁶ Any bank function, because of the smaller scale of each transaction and the higher activity, is costlier in the ghetto. While the Freedom National Bank has only 30 million dollars on deposit, it requires 85 employees; a non-ghetto bank of this size would have half that amount of staff. It is partly for these reasons that the number of banks in the ghetto is so low--Harlem has one commercial bank for every 30,000 residents, while the ratio in Manhattan is one for every 5,000 residents.

As a result of the absence of legitimate capital in the ghetto, loan sharks are frequently used as a source of start-up money and for carrying a businessman through poor times. The tremendously high interest rates charged frequently trap the borrower and guarantee that a near-marginal business will never develop successfully.¹⁷

¹⁶Ibid., p. 52.

¹⁷Ibid., p. 59.

Many who are involved in programs of assistance to incipient black businessmen hold that their greatest handicap is not lack of credit but lack of managerial skills. In one sense this is obvious. The skilled and experienced black whose business judgment is sound can be judged by white business standards and found acceptable. The question for most interested blacks is how can they enter the world of business to achieve the skills and training which would make them acceptable risks. While they may be familiar with the production side of a given enterprise, the requirements made of a proprietor or manager are frequently altogether alien. Some writers raise the possibility that blacks, on the whole, are lacking the necessary ethos or value system required for success in business. This spirit is said to consist of assertiveness, self-confidence, and willingness to risk failure--qualities that white society has worked to eradicate in blacks.¹⁸

While it is not clear that these qualities are relatively absent in the ghettos, it is clear that those holding them have generally decided to forgo the business route to success. The primary motivation of many of those in the ghetto who do enter business appears to be a desire

¹⁸Michael Brower, "The Promotion of Black Ownership and Business," (unpublished draft, December 1968), p. 12.

for independence--needing to get out from under "the man." A level of success that can simply maintain them is often enough to satisfy them. The result is a lack of attractive or persuasive models which in turn stimulate others to enter business. As one Department of Commerce official said:

More often than not, many Negro businessmen are a symbol of frustration and hopelessness rather than an example of achievement, success and leadership. As a result "business" per se is not a polite word in the Negro community and Negro parents as a rule tend to discourage their children from pursuing business careers either as employees or as entrepreneurs. 19

One additional liability faces the black businessman, and that is the greater likelihood of his enterprise being a small business. It is estimated by the Small Business Administration that the one-year failure rate of small businesses is over 50 percent and one can expect the rate for black small businesses to be equal to or higher than this. Small retail stores today, unlike those of the 20's and 30's, have to face competition from large chain stores, be they supermarkets or discount appliance stores. The economies of scale available to the large firm provide very stiff competition for the small shopkeeper. This is reflected in the price of goods, the selection and quality

¹⁹Israel Unterma, "Black Capitalism: Can It Do the Job?," Newsday, January 25, 1969, p. 11.

available and occasionally, the availability of credit.

This also affects the management of the business which, in a large firm, is diverse and specialized. A small firm frequently has only the owner to serve as buyer, bookkeeper, production manager, etc., and can rarely afford to hire professional help. More often he must rely on volunteer help, often student help from nearby business colleges. The ability to support on-job management training is also less in a smaller enterprise. The picture is less bleak in the service enterprises, for many of these--hairdressers, barbers, garages, television repairs, etc., are typically small so that the black enterprise is not at such a great disadvantage.²⁰

C. Thrust of Ghetto Development

The above description of the existing conditions of black entrepreneurial activity implies that the lack of black business constitutes a problem--it may be useful to briefly state why it is regarded as a problem and what expectations are held for it. The most obvious sense in which it is a problem is that it reduces the options available to the average black in his choice of a career

²⁰Ibid., p. 19.

and it lessens the likelihood of his achieving affluence (and the rights and privileges which accrue to affluence). It is also a problem in that entire communities of blacks are frozen into a static economic posture.

At present the residents of ghetto communities rely primarily on their own labor and the wages it produces for their income, or on welfare benefits. Our highly technological and industrialized economy results in a low marginal product accruing to labor, thus wages paid out are not a high proportion of the national income. The balance goes to the owners of assets as profits or rents and in the ghetto the owners of these assets are generally white non-residents.²¹ Thus programs which are directed at reducing poverty in the ghetto through limited income-supplement programs (e.g., Job Corps, welfare) generally produce a somewhat higher standard of living, although this additional income can be expected to flow out of the ghetto as goods and services are purchased. To increase the aggregate income of the ghetto economy any or all of the following must occur:

- 1) the value of goods or services exported from the ghetto (primarily labor at present) must increase

²¹Eli Goldston, "Management and Man in the Computer Age: The Moral Imperative," (unedited transcript of remarks before the National Industrial Conference Board, November 14, 1966), p. 9.

- 2) an increase in the volume of goods and services produced within the ghetto must occur
- 3) there must be increased retention of the profits and rents from the use of capital within the ghetto.

In short, the flow of income into the ghetto should be increased, the flow out decreased, and the flow within the community enhanced. The consequence of doing this through the development of black business has led one businessman to point to an old Chinese saying:

Give a man a fish, and he can feed himself once
Teach a man to fish and he can feed himself the
rest of his life.

The way to multiply the effect of a shift of ownership of an asset into the ghetto is by employing residents, training them for higher paying jobs, selling to the white community, producing major goods and services for ghetto consumption and stimulating investment and sales between ghetto enterprises. In this way black businesses would act as a vehicle for trapping or increasing income in the community and turning it back to the use of the community.

CHAPTER III

Major Actors Involved in Black Economic Ventures

The conditions and constraints which have faced any black man attempting to develop a viable business have altered and shifted over the years, but two things have remained constant. One, there have always been severe legal or social limitations on his activities; and two, he has never been the object of special programs designed to aid him.* The black businessman has always had to go it alone; the scale of his business has typically put him beyond reach of the government subsidies that find their way to larger corporations. A major shift in the area of black business in the last few years has been the entrance of government and private enterprise into the arena. For the first time black business is considered an appropriate object of direct aid and assistance and this has stimulated the breakdown of the long-standing pattern of economic development in the ghetto. The three major actors involved in these changes--government, private enterprise, and black self-help groups--are plunging into the existing vacuum and attempting to define new roles for themselves

*As recently as 1967 the Kerner Report on the riots devoted only a few paragraphs to the problems facing attempts at black economic development.

as well as experimenting with a variety of forms that can serve to link them together. A fourth, and less crucial participant is the academic institutions that are serving primarily as technical assistants or idea formulators at present.

Unfortunately a number of the early responses on the part of these groups have been crisis-produced, short-range in orientation, and pragmatic in nature. In many cases the availability and form of certain resources from government or business have too often determined the shape of a given black enterprise, rather than black needs determining the form of the resources. Few people have really assessed the implications of various economic structures nor related alternative strategies to a given goal.

One beginning in such an analysis would be in clarifying the motivations and forces which bring each actor to the problem. Why, for the first time, is government concerning itself with black business? What do the large corporations stand to gain by entering this area? What difference would a program of economic development make in the relation of black communities and city hall? If one understands more about the way in which the self-interest of each of these major groups is met, one is better able to determine the feasibility of alternative programs and

the limits of commitment to various strategies.

A. Government

The focus of most public programs of ghetto development has either been directed at the immediate goal of increased employment or the goals of improved housing, education, health care, etc. The federal government first directed its attention to the role of black business as an anti-poverty strategy in 1964. At this time a program of assistance to small businessmen was expanded to include Economic Opportunity Loans under Title IV of the War on Poverty legislation. Loans up to \$25,000 along with management training and individual counseling were made available. This program continued under the control of the Office of Economic Opportunity until 1966, when Congress revised the anti-poverty legislation and rescinded the program. As of June 1966, 90 of the 1,686 loans made were delinquent and 43 were in liquidation.¹ Under OEO the intention of the program was to provide assistance in high-risk situations where a man had an undeveloped idea or talent but was lacking in sufficient finances to start or expand an enterprise. The criticism has been made, however, that OEO was never

¹Cross, Black Capitalism.

comfortable with the idea of someone gainfully employing himself as well as others under the poverty program.² Nonetheless control of the program has reverted to the Small Business Administration since 1966. The 1967 hearings before the Clark Senate Subcommittee of the War on Poverty revealed a lack of satisfaction with SBA's handling of the program.

The central criticism was that the SBA was reluctant to alter its traditionally conservative standards to meet the needs of the ghetto businessman. The administrative red-tape discouraged those who might otherwise have been eligible. A former director of an SBA office testified, "Obviously SBA's methods of aid are out of tune with daily realities of our minorities. We must devise more inventive and more forceful methods." Senator Clark's summing up was more blunt, "The Small Business Administration has backed away from loans to the poor."³

Under the brief leadership of Howard Samuels as Administrator of SBA the procedures and loan criteria were liberalized. In regard to the program he said, "These loans are showing a high failure rate--about double

²Ibid.

³Cross, Black Capitalism, pp. 97-99.

the regular rate--and this rate will probably rise.... But that is to be expected as they (blacks) have had less business experience and we are taking a bigger risk."⁴ He also established a goal of 10,000 loans to black businessmen by the end of fiscal 1969 and 20,000 loans by 1970 under the label, Project OWN. He hoped to stretch the SBA's 1.1 billion dollar loan fund by relying more on private investment and emphasizing SBA loan guarantees rather than direct SBA loans.

Samuels also established a Black Advisory Council in October of 1968, a group that has felt ignored by current SBA administrator, Hilary Sandoval, Jr. The Council, which includes such blacks as Mayor Richard Hatcher, Floyd McKissick, and Representative Shirley Chisholm, called for Sandoval's resignation in May of this year, charging that the SBA lacked an earnest commitment towards black enterprise. Phillip Pruitt, the chief of SBA's minority program, resigned in protest over the Administration's lack of support which, he felt, muzzled the SBA administrator. Pruitt told the Council, "If we don't get any money for direct lending, if we don't get Congress to move...if we don't get the President to put

⁴U.S. News and World Report, "Black Capitalism--What Is It?," September 30, 1968, p. 64.

his arms around Sandoval and say I'm committed to SBA and to this minority program then we're not going to move."⁵

The SBA program has been, to date, the major federal program directly focused on the development of black business although other programs (e.g. Labor Department training funds) have been utilized to assist some economic ventures. The programs supported by Nixon in terms of future legislation include: tax incentives for plants locating in ghettos, reinsurance programs to reduce risks to ghetto-based plants, expansion of the loan-guarantee program, and a tax incentive program to encourage businessmen to provide management training for black entrepreneurs.

A major piece of legislation submitted to Congress in 1968 (to be resubmitted in 1969) is the Community Self-Determination Bill.⁷ This act serves as the culmination of two separate approaches which have previously been advocated for the ghetto. One of these, supported in legislation sponsored by Senators Kennedy and Percy, among others, looks to subsidized private entrepreneurial action as the

⁵The Boston Globe, "SBA, Black Advisory Council Taking Dispute to Congress," July 14, 1969.

⁶U. S. News and World Report, "Black Capitalism," p. 65.

⁷U. S. Congress, House, A Bill to Establish A Community Development Corporation Program, H. R. 18460, 90th Cong., 2nd sess., 1968.

key to in-ghetto economic development. A separate stream of activity has developed around the use of a community corporation as the mechanism for citizen control and administration of social services. The community corporation has also served as a focal point for discussion and activity concerning decentralization of government directed at local self rule.⁸

The draftsmen of the Self-Determination Act, Gar Alperovitz and John McCloughry, worked with members of national CORE to develop a model of economic development that is supportive of local self-help activities and self-government. It is intended to achieve three primary goals: one, to promote the economic development of a community; two, to provide services to the community through the use of resources created by the economic activity; and three, to increase the opportunities for meaningful participation by community residents in policy decision-making. The bill would set up community-based corporations which would acquire, create and manage businesses, primarily within a depressed area. Ownership of the corporation would rest with all the residents who buy a share of stock.

To set up such a corporation, a group would notify the National Community Corporation Certification Board of

⁸Milton Kotler, "Two Essays on the Neighborhood Corporation," Urban America: Goals and Problems, U.S. Congress Joint Economic Committee; Subcommittee on Urban Affairs.

their intention of establishing a Community Development Corporation (CDC). The initiating group would define the geographical boundaries of the proposed CDC and demonstrate that the area qualifies for participation along the poverty criteria established in the bill. In addition at least 5 percent of the residents must pledge to buy stock in the future CDC. An elaborate procedure is set forth to assure that all competing groups are given equitable treatment.

All residents sixteen years old and over can be stockholders in a CDC, and a proposed area can include anywhere from 5,000 to 300,000 residents. Any holder of a share (costing five dollars) is eligible to vote on a one man-one vote basis for a board of directors, who, in turn, appoint a Business Management Board (BMB) to staggered three year terms. BMB members are removable only for cause, and this structure is intended to buffer the BMB and its economic functions from direct control by stockholders. A majority of voters can remove the Board of Directors at any time, with or without cause.

The economic endeavors of the CDC are supported by a number of tax benefits which accrue to both the CDC and to outside private investors. To motivate private business to develop plants and facilities in an area, tax incentives

make it profitable to build, purchase equipment, train residents, get a money-making operation going and then sell the operation to the CDC. Additional tax incentives then encourage corporations to reinvest in additional enterprises, given that the CDC chooses to enter into turnkey arrangements with them. The CDC receives a direct subsidy through limitations on the amount of federal income tax it must pay, as well as the amount paid by CDC subsidiary corporations.

The decisions to allocate profits for either reinvestment or social services are to be made by the BMB. The bill limits the share going to services as no less than 20 percent and no more than 80 percent. The degree to which access to the services provided by the CDC are limited to CDC stockholders is a determination made by a local CDC. The bylaws can either make no limitation as to the recipients of benefits or it can specify exclusive or preferential treatment for stockholders. In general CDC profits can be distributed only in the form of services, at least for the first five years of operation. Restrictions on transferability and redemption of shares of stock further diminish the ability of an individual to draw private monetary benefits from a CDC that were not equally shared by other stockholders. What is maximized under the Self-Determination

Bill is the widespread and even distribution of any profits generated by the increased economic activity in the community.

An expanded program of SBA loans and a bill like the Community Self-Determination Act are radically different in intent, yet the current administration has publicly supported both. In order to understand why government has decided to concern itself with black economic development and what, in the disparate approaches offered, is attractive, it seems necessary to make some inferences as to the current political forces bearing on this issue.

An obvious mainspring to government action is the presence of the hostility, disorder, and rebellion which has marked the urban scene for the past few years and which has focused attention and action on ghetto problems. This pressure has been partly responsible for much of the anti-poverty programs, but does not, in itself, explain the focus on the current economic development strategy. Other political currents in the country appear more relevant in the shaping of this policy.

A counter-balance to the pressures of black demands lies in the existence of taxpayers and Congressmen who are reluctant to raise the level of tax expenditures. Within this group a distinction exists between those who primarily

oppose allocations for social legislation directed at the poor, and those who want to see the general level of expenditures by government curtailed. The increasing visibility and boldness of welfare-rights groups exacerbate the anger felt by many taxpayers toward welfare-type programs. This opposition has been most prominently demonstrated by the punitive welfare bills passed by Congress and similar bills being developed at a state level. A spate of taxpayer "revolts" and demonstrations has made vocal the feeling held by many working and middle-class taxpayers that a general increase in economy and efficiency by government should be forthcoming. Requests for additional tax money (as in the administration request for an extension of the income surtax) often faces numerous political obstacles. Thus government is faced with the problem of mediating between the needs and demands of the poor and that portion of the taxpayers who resist higher tax expenditures.

One response to this predicament on the part of the federal government has been to look to the increased use of private enterprise to carry some of the burden. As Robert Weaver pointed out, the

...primary responsibilities for developing and carrying out solutions to urban problems lies in the private sector, since 90 percent of all decisions made about life in our cities are private ones.

The generation of jobs, the construction of housing, the location of industries, the sale and development and purchase of land are private decisions. ⁹

The potential advantages to government of increased utilization of private enterprise could include: 1) reduced governmental expenditures to achieve given ends and 2) programs more compatible to this country's values and ethos.

In the presidential campaign of 1968, Richard Nixon clearly expressed his expectations about policies geared toward involving private enterprise in programs of black economic development:

It costs little or no government money to set in motion many of the programs that would in fact do the most, in a practical sense, to start building a firm structure of Negro economic opportunity. ¹⁰

Hubert Humphrey responded to this by agreeing that the bulk of investment capital must come from private sources but he took issue with Nixon's "little or no government money" stand. "This," he said, "is double talk. Of course it will take money. Talking about black capitalism without capital is just kiting political checks."

⁹Robert C. Weaver, "The Urban Crisis: A National Challenge," The MBA, February 1968, p. 13.

¹⁰U.S. News and World Report, "Black Capitalism," p. 65.

¹¹Ibid.

The focus on private activity as a supplement or alternative to governmental action did not, of course, originate in the current administration. It has been apparent in the past decade in the shifting of certain federal financing programs into the private sector. The Federal National Mortgage Association's secondary market fund became a completely privately owned venture in 1968, as did the credit banks and banks for cooperatives supervised by the Farm Credit Association. Even the T.V.A. began selling bonds to private investors in 1960, which was followed by the Export-Import Bank in 1967. The intention of the Nixon administration is to finance the Post Office operations through private loans. One financial/political analyst holds that the result of this long-range trend will be "to prevent the tax system from being used to pay for public services."¹²

The assumption that programs fostering black entrepreneurial ventures are more in accord with American values than programs fostering welfare is more conjectural. Again it appears from President Nixon's public statements that he, at least, sees black economic development as an affirmation of traditional American ideals and methods (see

¹²David Deitch, "Agency Debt Aid to High Interest," The Boston Globe, June 24, 1969, p. 18.

quote on p. 4). It is less apparent, however, whether Congress or taxpayers in general will be any more willing to fund economic development programs than they are other social programs. The emphasis on the development of entrepreneurial values among blacks and the focus on private enterprise as a mechanism may still be an insufficient sugar-coating if large expenditures are still required of government.

Government on the local level, being closer to ghetto problems, riots and white backlash, is even more sensitive to the state of domestic affairs. However, if the federal administrators are feeling cramped by the insufficiency of tax dollars, city officials are being squeezed to death. The high costs of city services and the limited and over-worked sources of income open to them makes local government even less able to buy off blacks and their demands without causing tremendous hostility among whites. Frequently local police bear the heaviest responsibility for preventing riots or quelling them, and it is local business that suffers most by riots. Adding to this the fact that city hall is almost inevitably white-controlled (in many cases by threatened ethnic groups), the result is that local government often turns to repressive means of keeping peace. Riots and rioters are squashed. Those who attempt

a less repressive method of dealing with the ghettos incur the wrath of the white residents who are too close and too threatened by the blacks to feel any sympathy. The recent primary election in New York City demonstrated the large loss of following Mayor Lindsay suffered in office--in part due to his responses to the city's blacks. Thus local government is both politically and financially constrained from attempting large-scale economic development programs in the ghettos. Local support, at present, has consisted mainly of trying to grease some of the existing channels between blacks and sources of financing. These programs are likely to be supported by local firms, civic leaders, union leaders, etc., often within the framework of a local Urban Coalition.

B. Black Self-Help Groups

During the 1950's the civil rights movement focused on political power for blacks primarily because the movement was centered in the south, where the disenfranchisement of blacks was so obvious. The political and electoral system was seen as the means by which blacks could re-enter the society that had excluded them. The emphasis at this time was on tearing down the institutions and values that obstructed the access of blacks into the white world, and

tactics made heavy use of changing "the hearts and minds of men."

As the movement got older and civil rights workers wiser, the limitations of appeals to conscience became more evident. It became clear that little voluntary action on the part of people and institutions imbedded in racist practices was going to occur. The recalcitrance encountered, the complexity of the problems, and the limited commitment by allies increased the bitterness among blacks and caused a shift in the nature of the movement. Now the focus was on power, rather than persuasion, and on the independence of blacks. This came to form the basis of the major political philosophy of blacks, and was embodied in the cry for "Black Power."

The currency of these ideas is not due to the proselytizing efforts of Stokely Carmichael or Rap Brown; their role has been to popularize and consolidate the ideas that were springing up, independently, in ghettos across the country. It was part of a natural evolution of ideas born of the common experiences and perceptions of many black civil rights workers. The impact that this philosophy has had on other than leadership levels is more difficult to judge. It is obvious, however, that it has reached the majority of blacks (e.g. a Gallup survey noted an increase

in acceptance of the slogan "black power" as well as a greater approval of black partition¹³), and has certainly permeated the political activities of blacks.

While the views of the politically inclined militants are obviously at some odds with those held by the rest of the community (perhaps even a majority), the militant leadership is the most vocal, and it sets the style for political action within the community. One does not have to believe that the leadership is "representative" to know that they must be accommodated to some degree. For this reason the attitudes and values of this leadership often become coterminous with the values of the community, and a broad statement of the goals of this leadership comes to represent the goals and self-defined interest of the black community. Black organizations, being the most ideological of the actors involved in ghetto development, show the most diversity in their analysis of the problems and in the proposal of strategies to meet these problems. However, wide agreement exists as to certain assumptions or values that underlie most of these diverse approaches.

One such value is the need for reversing the negative self-image that had been cultivated in them as a race and

¹³Newsweek, "Angry--But They Still Have a Dream," June 30, 1969, p. 20.

for celebrating the belief that "black is beautiful." The negative conditions associated with blackness now become objects of pride. This increased self-awareness and pride has led black communities to "recognize the need to assert their own definitions, to reclaim their history, their culture, to create their own sense of community and togetherness."¹⁴

A result of this changing perception of an individual's blackness is a changing response to the blackness of others. The value of other black people is enhanced and a growing awareness of a common bond between black people is occurring. A system of verbal and body language has developed which emphasizes the fraternal (often secret fraternal) organization which exists amongst many ghetto residents. It is on this group basis that a significant attack on racism and poverty is expected to be mounted. As more people become involved and activated, and as they more clearly see the injustices surrounding them, their political strength is expected to grow.¹⁵ Solidarity is required--simply as an affirmation of faith in other blacks--but also as a power base from which to confront oppressing institutions.

¹⁴Stokely Carmichael and Charles V. Hamilton, Black Power, (New York: Vintage Books, 1967) p. 37.

¹⁵Ibid., p. 43.

This emphasis on the community as a base of power is fostered by wide acceptance of the view that a ghetto represents a colony controlled by the larger white society. As Carmichael and Hamilton state, "institutional racism has another name: colonialism."¹⁶ They feel the analogy is marred in only two respects--a colony is generally conceived of as a physically separated piece of land, whereas the ghettos are not, and colonies have traditionally been a source of cheaply produced raw materials which is, in the ghetto, replaced by human labor. The influence of Third World politics and thinking and the desire of many ghetto leaders to identify with African and other underdeveloped countries has led to wide acceptance of the colonial analogy and solutions sought by colonialized countries begin to act as models for action by ghetto residents.

Thus the image of truly independent political, economic, social systems within the ghetto is becoming increasingly accepted by black leaders, although the degree of independence thought either desirable or feasible varies greatly. It nonetheless forms the motivation for much of the political activity within ghettos today, particularly in the attempts at decentralizing government services as well as

¹⁶Ibid., p. 56.

transferring capital and ownership of private enterprises into black hands.

The reasons for this are many:

- 1) If one perceives the larger society as racist, one concludes that no decisions made at that level can have the best interests of blacks at heart. Therefore, it is a matter of necessity (if one is to survive and progress) that blacks make such decisions in light of their own experience and goals.
- 2) Hostility to government for its inability and unwillingness to act on behalf of blacks make them seek more effective routes. The precariousness of support by government makes some blacks seek a source of support which is both more secure and which allows independence of action on the part of black leaders. It is assumed that one cannot meet both the needs of black people and placate government, for leaders often feel they must choose between these alternatives.
- 3) Economic improvement achieved through the generosity of white institutions does not disturb the dependency relationship between blacks and whites. Improvement must come through the strength and efforts of the black community, not at the behest of the white community.

If one sees much of the current black activity as being aimed at this "de-colonization" goal then the integrationist approach of incorporating individual blacks into the white society is obviously inadequate. It is inadequate because the scale of the problem requires a more massive response, and inadequate because it undercuts the development of a black community and violates the sense of cultural integrity being fostered. In short, "helping individual black people to solve their problems on an individual basis does little to alleviate the mass of black people."¹⁷ Further one group can only integrate with another group, it assimilates individuals.

This necessity for blacks to get themselves together--to organize themselves and determine their goals and strategies--is, to some, a prerequisite to the forming of coalitions with any white allies. Only after each party of the coalition has its own power base can forces be joined without one group fearing that it will be consumed or swept aside.¹⁸ It is also seen as necessary that the self-interest of each party be served by the coalition, for a reliance on sympathy or moral obligation has been found

¹⁷Ibid., p. 54.

¹⁸Ibid., pp. 77-80.

to be shaky and inadequate. Thus it becomes necessary for black communities to understand clearly where their self-interest lies and to understand where the other parties' interests are served. A strong, sustained relationship can only be built on a mutually satisfying pact. A final condition of any coalition is that it must be built around specific identifiable programs or goals, rather than vague and general goals. A danger here is that agreement on subordinate issues can disguise or belie the fact that the long-term interests of the parties may be incompatible.

This approach toward coalitions is not shared by a major political faction within black communities, the Panthers. Since their analysis starts from a more Marxist position, class and not race is crucial in determining allies. Thus they express a greater willingness to form alliances with broad-purposed white groups whose goals of radical change seem compatible with the goals of the black community.

The object of these various strategies of power building is to supplant old values and institutions with new ones that emphasize a more humanistic approach to life. The "good life" would not be defined simply in material terms; the values that aggrandize material things rather

than the expansion of humanity are among those to be discarded.¹⁹ Essential to this is a broadened base of political participation which fosters an increase in the quality of participation as well as the quantity. The competitive nature of society will, it is hoped, give way to cooperative ventures in the ghetto, which are based on the mutual concern of the community's residents for each other.

It is obvious that the special interests of all individuals or groups in the black community are not going to be met within the goals of any black power ideology. As Milton Kotler says, "Nor is the political interest held in common and expressed in a unity of power in the Negro communities the sum of the interests of particular groups and classes within the community. This additive notion of community does not hold."²⁰ One must separate out, if possible, those actions which serve some segment of the black community and those which serve the power of the black community as an entity. While much controversy can be provoked about what does serve black community power, it should be recognized that is something distinct from that which serves the individual or aggregates of interests

¹⁹Ibid., p. 39.

²⁰Kotler, "The Neighborhood Corporation,"

within the community.

In looking at black economic development one can judge the expected benefits that will accrue to certain groups as well as the effect on the interest of the "black community" per se. The degree to which any given black person identifies his own interests with that of the community varies a great deal--the black political leadership is certainly more sensitive to this and in fact does perceive its interests as being closely related to the well-being of the community. While it might be true that "His blackness is an everpresent fact of this racist society, whether he recognizes it or not,"²¹ the average black man does frequently identify along other lines; he is a postman, he is a father, he is a union steward, and this identification often has priority over his blackness.

The result is an even greater diversity in attitudes among ghetto residents toward economic development than is suggested by the variation in political philosophies. The attitudes shared by men, in their capacity of businessmen, are likely to be much more homogeneous than the attitudes of blacks, as blacks. Thus the role of the black community in the future of ghetto development is the least predictable

²¹Carmichael and Hamilton, Black Power, p. 54.

one, for the self interest served can either be that of general community power, or the special interests of a group within the community.

For example, there are obviously going to be black businessmen who will manipulate the new black awareness to benefit their own businesses. Those businesses which previously relied on enforced segregation to provide a market may now have to substitute a plea for black unity. On the other hand, a desire to serve the needs of the community may supersede the desire of a businessman to meet his company's needs. (One prospective businessman, who was seeking counseling and assistance through a course set up to aid black businessmen, hoped to develop a fleet of taxicabs in Roxbury. There, as in many ghettos, taxi service at the hands of white companies is frequently inadequate, and the developer kept emphasizing the hardships this created for the residents. The business professor teaching the course attempted to drum this concern out of him and to substitute in him a primary emphasis on profits.)²² The degree to which emerging black entrepreneurs share a concern for community power and the effect this has on their businesses is an area of concern on which there is little information.

²²Observed at Northeastern University, course conducted for black businessmen, February 1968.

C. Business

In order to develop any realistic expectation about the capability of private enterprise to contribute to ghetto development, it is necessary to make some assessment of the motivations and constraints acting on business.

a) Forces Encouraging Business Involvement.

Riots and lesser forms of rebellion (e.g. boycotts) are clearly a major factor in encouraging business to involve itself in the ghetto. While some businesses have been the direct target of rioting or hostile blacks most have felt the impact in a more indirect or general fashion. The more concrete and immediate the threat, the greater has been the response on the part of a given corporation.

Those firms with large investments in land or plant facilities in or near a slum have the greatest self interest to preserve by reducing tension and hostility in the ghetto. Those corporations having some vested interest in the central city, if not the ghetto, are also highly motivated to reduce urban disruption. Restrictive charters prevent some of them from moving, while heavy investment in immovable physical assets hinders others. As the president of ATandT reminded stockholders in his 1967 annual report, "the city is where the central offices are located and where 80 percent of your customers live."²³

²³Cross, Black Capitalism, p. 117.

The utilities are in an especially good position to undertake "social programs" since the law guarantees a specified rate of return on invested capital allowing expensive programs to be undertaken with the cost being tossed into the utility rate structure. In addition a long-range view shows that any program which raises incomes in the ghetto is likely to increase utility sales. Other businesses, like hotels, which depend on convention and tourist trade also suffer from riots. More generalized effects, such as the impact of curfews or forfeited wages, are felt by an even wider ring of business concerns. For firms dealing in foreign markets, even a damaged national image can have business repercussions. In short, hard economic facts dictated that business confront some of the ghetto's problems.

More indirect pressure has been brought to bear on business from a variety of governmental and civic sources. Nationally and locally urban coalitions (or some variation) have sprung up. Such coalitions have provided both a forum in which business and government could begin to integrate their separate activities, as well as a means of organizing industry-wide programs. Such coalitions can

also provide some implicit scale or measure to which a given firm can gear its own activities. In a case study of activities in Detroit the observation is made that:

Almost without exception, their (auto-makers) urban-help programs--from hiring and training to loans of staff members--have come only in response to specific requests from government agencies, city and urban coalitions....The auto companies readily admit this reluctance to go it alone to initiate and innovate...²⁴

The frequent tendency of business to seek other business partners in its ghetto-help programs also serves to distribute the cost and benefits of socially useful programs more equitably. The indirect benefits of such programs accrue to society at large, which consists in part of other corporations. Only a portion of those indirect benefits returns to the corporation initiating the program, whereas all of the costs do. By engaging in collective action the cost can be dispersed among more firms.

Governmental pressure becomes somewhat more pointed when the given corporation is heavily dependent on federal contracts or sales, or when an industry is government regulated. Another pressure perceived by businessmen is that of possible federal intervention into areas previously reserved for private enterprise. Termed by one writer

²⁴Lawrence G. O'Donnell, "In Motown, Caution Proves Successful," The Wall Street Journal, July 11, 1969, p. 8.

"the gentle art of the Federal hotfoot," it leads to the argument that "if we businessmen don't start new business ventures in the ghetto the government will."²⁵

A further inducement to industry to engage in any civic project is the publicity such activity evokes. A favorable corporate image can serve as a business asset, and ghetto projects are almost sure-fire publicity generators. Rather perfunctory business operations performed in a ghetto (e.g. opening of a printing plant) become front page news. Not only is a favorable image useful in subsequent dealings with labor, government, etc., but it serves as a source of gratification for high management. The transition of a corporate official from a businessman to a civic leader can provide enormous prestige and satisfaction for an individual.

The major efforts of business have been directed at the hiring of blacks, either upon their own initiative or in response to federal action. One effort, initiated after the 1967 riots, began when the White House wrote to 500 major companies requesting cooperation. Only 160 businesses responded and only 600 new jobs were created.²⁶ In March of

²⁵Cross, Black Capitalism, p. 125.

²⁶Ibid., p. 74.

of the same year the Labor Department produced a voluntary concentrated ghetto employment program which resulted in only 6,900 jobs.²⁷ A more ambitious program initiated by the National Alliance of Businessmen (NAB) sought to create 100,000 jobs; within the first 14 months close to 50,000 jobs were pledged due to the promise of Labor Department training subsidy contracts. A central figure in this NAB effort was Henry Ford II, who early became a strong spokesman for the necessity of corporate involvement in urban affairs, and was especially successful in his own city of Detroit.²⁸ General Motors alone hired one out of every five men employed through the NAB program. At the time that hiring was going on in the auto industries the auto-makers "were desparately in need of workers in a hurry and the unemployment rolls were skimpy."²⁹ Earlier this year when Ford had to cut back production it quietly closed its two inner-city hiring centers and laid off some of its hard-core workers.

Beyond the employment plans, in which most industries are engaged individually or collectively, there are hundreds

²⁷Ibid., p. 85.

²⁸O'Donnell, "Motown," p. 8.

²⁹Ibid.

of corporate programs relating to economic development. They include technical assistance, market guarantees, subsidies and grants, and development banks. The structures being experimented with include private black ownership, cooperative ownership, franchises, employee share-holding, industrial turnkey, and community development corporations.

b) Constraints on Business Involvement

The businessman has traditionally found community chest-like projects an acceptable outlet for his civic concern. To turn from pure charity to a hybrid charitable/business venture like ghetto investment places most businessmen on alien ground. Judged on purely economic terms, most ghetto ventures would be found infeasible--if they weren't, more ghetto investment would have occurred as a part of normal economic activity.

To open a plant in a ghetto often means additional costs in the form of real estate taxes, insurance (if it can be gotten), pilferage, transportation, etc. The hiring of unskilled or hard-core unemployed requires extensive training, which can easily reach a cost of 5,000 dollars a trainee. A corporate official involved in developing a ghetto-based plant estimated that 10-20,000 dollars of capital investment per employee is required in a small

plant.³⁰ Thus serious efforts on the part of business entail significant expenditures, especially if any long-term effort is to be sustained. If these expenditures can not be recouped but must be charged off as losses, business will be resistant to incur such costs. As one writer stated:

A traditional prerogative of the American businessman has been his right to buy labor, materials, and capital as economically as possible. This privilege of improving profits through efficiency and control of costs has been jealously guarded....Most businessmen and stockholders are appalled at the suggestion that their companies should pursue a policy of "uneconomic allocation of business resources" for the improvement of conditions in the ghetto. 31

More bluntly stated is the view of a N.Y. Times editorial writer who holds, "A business is not a social agency and cannot be expected to perform tasks that properly belong to government and society. A business is, in the end, a business."³²

What is called into question here are the rights and responsibilities of corporate directors--are they obligated to prudently operate by a rule of profit maximization or do they have the discretion of serving other objectives as well? Harvard's Program on Technology and Society which is directed, in part, at studying the relationship between

³⁰Paul Dorr, private interview held July, 1969.

³¹Cross, Black Capitalism, pp. 75-76.

³²John A. Hamilton, "The Business of Business is Still Business," The New York Times, February 10, 1969.

business and social goals has focused on this question. One of their members, an economist, concluded that within large corporations management can generally choose between profits or growth in the operation of a company, or it can move from one goal to the other.³³ Expectations of higher future dividends may compensate stockholders for lower current dividends in cases where a policy fostering long-term growth is undertaken, but, whatever the goal, no unnecessary sacrifice of profitability must be incurred. Thus:

We are then forced to the practical conclusion that whether a corporation is mainly stockholder-oriented, or whether it is also strongly growth-oriented, under present conditions it is bound to suffer a significant penalty if it diverts a large proportion of its resources to "social" projects which offer a low internal rate of return....The more socially conscious the executives, the more likely they are in the long run to face reduced opportunities for (executive) job expansion quite apart from possible sanctions from the stockholders. [author's emphasis] 34

This theoretical analysis is borne out by one corporate head who states, "There are few firms where management feels free casually to reduce earnings to meet some uncertain and unquantifiable social concern about the impact

³³Robin Marris, "Businesses, Economics and Society," Social Innovation in the City (Cambridge: Harvard University Press, 1969) p. 30.

³⁴Ibid., pp. 30-31.

of a general urban crisis."³⁵ The following characteristics of contemporary big business heighten the concern for profit on the part of management:

- 1) greater disclosure requirements by the SEC and the growth of security analysis greatly increases the amount of data about a company that is available to the public.
- 2) the rise of management takeovers through "overhead tenders" or "forced mergers" makes management more responsive to the influence of stockholders who are intent on profitable performance.
- 3) the increased use of stock options provides a personal financial incentive to management to run a more profitable business.³⁶

One alternative to the dilemma of profit versus social benefit is to make the solution of social problems more profitable in the limited, orthodox sense, and this is the approach being explored by growing numbers of businessmen. This can be pursued in one of two ways-- by opening up new markets among the poor and by engaging

³⁵Eli Goldston, "Management and Man in the Computer Age-- The Moral Imperative," (unedited transcript of remarks before the National Industrial Conference Board, November 14, 1968), p. 4.

³⁶Eli Goldston, "New Prospects for American Business," Daedalus, Winter 1969, pp. 81-84.

in activities previously considered the province of government.

The necessary component which would change previously non-market activities of either of the above types (such as providing low-income housing, or investment capital for black enterprises) into profitable ones is, of course, government incentives in the form of subsidies, tax benefits, guarantees and insurance, contracts or franchises. In this way, government can redirect the allocation of resources without drawing the heavy criticism from business that accompanies other government attempts to intervene in the market.³⁷

Given that policies can be pursued which serve the common good of both government and private enterprise, the question arises as to who, in fact, shapes these policies. Theoretically, the direction and scope of action would be determined by government, which would then provide the incentive for business to implement its policies. Galbraith's contention in his latest book, The New Industrial State, is that the alliance between government and business has led to the adoption by society of the goals and values of business rather than the reverse. Others, like the head

³⁷Richard H. Holton, "Business and Government," Daedalus, Winter 1969, p. 52.

of New Jersey Bell Telephone, hold that corporations are undergoing a significant re-evaluation of their goals and are adopting many of the purely non-materialistic goals of society.³⁸ One test of these statements will lie in the programs and policies which are developing out of the efforts of business and government to aid ghetto development.

In short, the need business has for harmonious relations with blacks and with government officials is an inducement for corporations to enter programs for ghetto development, but these activities will not be engaged in to the detriment of the firm's well-being. The high cost of doing business in the ghetto seems to preclude any significant investments on the part of white business unless adequate compensation is forthcoming through government subsidies.

³⁸Robert D. Lilley, "Heroless Drama Ahead," The MBA, December 1967, p. 17.

CHAPTER IV

EGandG Roxbury Inc., Case Study
Introduction

The following case studies will focus on three operations: EGandG Roxbury, Inc., State Enterprises Inc., and Freedom Industries, Inc. All are based in the Roxbury section of Boston and all started in the early part of 1968. They were chosen to represent three distinct models of development--the first, EGandG Roxbury, is an example of an industrial turnkey operation initiated outside the ghetto by a national corporation. The second, State Enterprises, has been termed a "community conglomerate," and is a self-organized group of ghetto residents (between two and three hundred) who share in the ownership and management of the company. The third, Freedom Industries, is best characterized as a one-man operation controlled by the president, structured to dispense its profits to the community.

These enterprises could be said to represent the new wave of black economic development in that the stated purposes of each include some commitment to broader social goals felt to be important to the black community. The studies, then, will attempt to compare the original objectives of each operation, as defined by its founders, with the structures and operations that have emerged a

year and a half later. Those elements--like sources of funding or technical assistance, type of personnel, hiring and training policies, the decision-making process, etc.--that appear relevant in shaping the emerging operations will be analyzed. The focus of the studies will be on the way each operation has contributed materially to the black population and the degree to which it has promoted, or is likely to promote, the collective political and economic capacities of the black community to achieve further solutions to its problems.

EGandG Roxbury, Inc.

A modest training program directed at hiring the "disadvantaged" blacks was initiated a few years ago by EGandG Inc. (a technical firm involved in research and development in such fields as optics, oceanography, and physics as well as instrument design and some manufacturing), but the program failed. Out of ten beginning trainees, only one survived. The cause of the failure was thought to lie in the poor work habits of the trainees, the problems of transportation from their homes in Roxbury to EGandG's Bedford plant and the psychological isolation of these blacks in the nearly all-white plant. As one EGandG representative said, "It was like a couple of specks of pepper in a handful of salt."

Disappointment over the company's inability to attract and hold blacks led some members of the Industrial Relations Department, particularly its director, Paul Dorr, to attempt to develop a more attractive program.¹ As one executive of EGand G later said:

At first, companies merely talked about hiring people out of the ghetto areas. Then they began setting up plants in the areas to provide employment

¹Interview with Paul Dorr, May 31, 1969.

opportunity. It seemed to us that the next step in this process was not only to provide employment opportunity as an impetus to economic development but also to provide the opportunity for equity ownership. It was a new idea which we saw as a natural evolution of economic development efforts. We decided to try it. ²

One model that looked feasible was that of Watts Manufacturing in the ghetto of Los Angeles. Created by a white firm, Aerojet-General, it was black managed and staffed and Aerojet-General planned to sell 51 percent of the company's stock to the employees. At this same time AVCO was receiving a great deal of publicity on the proposed printing plant it was planning in Roxbury. Dorr and other members of his department took this idea to Ed Finn, Director of Corporate Administration, who responded favorably and carried the discussion on to Bernard O'Keefe, the President of EGandG, who also expressed interest. While the original proposal arose out of a genuine desire to assist blacks, the wide acceptance of it was due to a mixture of motives. Indirect benefits could accrue to the company if such a project were developed, particularly in its relations with the federal government. A large part of EGandG's annual revenue of \$110 million comes from the Atomic Energy Commission where companies must act in accordance with fair

²Stevan Trooboff, "EGandG Roxbury, Inc.," Harvard Business School Case Study (mimeo), p. 4.

employment clauses in the contracts.³ In addition to the usual prohibitions against discrimination, they require companies to develop "affirmative action programs" in seeking out workers from minority groups.

At this stage it was thought that EGandG could undertake the project as a member of a consortium of firms that as a group would develop some enterprise in the ghetto. O'Keefe, who was then serving as the head of the Boston Chamber of Commerce, was thought to be in a position to establish contacts with other interested firms. However, O'Keefe, knowing the difficulty of getting agreement within any given board of directors, felt that the difficulty of getting a consensus between numerous boards was too great and said instead, "We'll do it ourselves."⁴ EGand G's Board of Directors approved the general concept that had evolved and set the management free to develop it. Dorr remembers, "We didn't know where to start."⁵ The EGandG executive who was to carry the main responsibility for the project was Ed Finn and his attitude was "We were determined not to take the white plantation-owner approach and

³Tim Metz, "EGandG in Roxbury: 'Too Much, Too Fast'," The Wall Street Journal, July 3, 1969, p. 10.

⁴Interview with Paul Dorr, May 31, 1969.

⁵Ibid.

come swaggering into Roxbury offering largesse."⁶

Planning Stage.

The decision was made to begin with a planning board which would include both EGandG personnel and community leaders from Roxbury. Through contacts that Paul Dorr had with a member of the community, a tentative list of names was drawn up, though it soon became apparent that "no one spoke for the black community and no matter what we did or who we dealt with we were going to get criticized by someone."⁷ Since EGandG was determined to give blacks a real role in the planning, they wanted ones who understood the needs of business and its way of thinking. The planning board that finally emerged consisted of:

Paul Dorr--Industrial Relations Director at EGand G
(white)

George Gage--Director of Corporate Planning at EGandG
(white)

Ed Finn--Director of Corporate Administration at
EGandG (white)

John Carlie--National Research Corporation (white)

Tom Atkins--Boston City Councilman (black)

Kenneth Guscott--President, Boston Chapter of the
NAACP (black)

⁶Tim Metz, "EGandG in Roxbury."

⁷Interview with Paul Dorr, May 31, 1969.

Curtis Chrisfield--college friend of Ed Finn's
and a schoolteacher (black)

Paul Parks--Administrator of Model Cities Program
(black) 8

Two members of the community who did not accept positions on the board were Archie Williams and Bryant Rollins who, at that time, represented the Grove Hall Development Corporation in Roxbury. Their position was that some community group, like the Grove Hall Corporation, should be given the authority to do all the planning and that EGandG's corporate funds for the project should be turned over to a community group without qualification. They appeared before the planning board at its first few meetings to present their viewpoint. While they may have represented an extreme position in this regard, a concern for black control was evidenced by all the blacks on the board. While EGandG was aware of strong currents towards self-determination and ownership, they had not realized how strong it was.⁹ The first planning session, which was to have covered a number of other questions, never got beyond the ownership problem. In the eyes of EGandG people this was a question to be settled only after a determination had been made on

⁸Stevan Trooboff, "EGandG Roxbury, Inc."

⁹Interview with Paul Dorr, May 31, 1969.

such problems as what business was to be entered, or where it was to be located, but it was clear that no planning could begin until the blacks had gotten a clear commitment on the ownership question. EGandG officials returned to O'Keefe who took a stand that some form of community ownership was fine as long as EGandG got its investment out. While they didn't expect to make a bundle on the project they did expect to break even or, at best, make a small return. EGandG's stand was "no one wants charity" to which the black board members apparently agreed. Thus a compromise to the Williams/Rollins stand of complete and immediate control had to be sought, especially as EGandG's Board of Directors would never have approved of an investment over which the corporation had no control.¹⁰ A suggested plan had EGandG gradually divest itself of ownership over a 5-20 year period down to a maximum of 25 percent of the stock. This created a problem as to how and in what form the community would own and hold the stock. Early consideration was given to the possibility that community groups could hold the stock, but black members hastily pointed to the ephemeral nature of community organizations that generally could not provide stability or

¹⁰Ibid.

longevity. Thus it was decided to let employees own and hold stock, and to provide stock options as incentives to management. The schedule that was arrived at was held to be flexible and subject to change as needed.

Finally the board was ready to begin focussing on the type of industry it should consider entering. After some members of the board traveled about the country visiting ghetto industries, the following criteria were set forth for industry selection:

- 1) The industry had to be one in which there was an opportunity for upward mobility in skill for the workers.
- 2) The economic size of the new business should be such as to make it a substantial enterprise employing more than 10 to 12 people. But, on the other hand, the business should not be an unwieldy giant.
- 3) The nature of the industry would have to be labor intensive. The industry entered was expected to have a high payroll to sales ratio.
- 4) If possible, the industry should offer EGandG and/or the blacks who would operate the business some competitive advantage.¹¹

¹¹Stevan Trooboff, "EGandG Roxbury, Inc.," p. 3.

Certain possibilities were, after some consideration, ruled out. Defense work was one of these, and it was opposed for two reasons. First, expectations at that time were that the war would soon be over and that a cut-back in defense spending was going to occur. When this happened contractors would begin pulling sub-contracted work back into their own shops to avoid extensive layoffs of their workers. A small firm like that planned for Roxbury would be very vulnerable if this happened. A second deterrent was the obvious hostility toward the war among black leaders, and it seemed unwise to offend the most vocal groups.¹² It was natural to examine the possibilities EGandG itself offered as a market for products, but it was felt that the complex nature of EGandG's products would require a slow and difficult training process.¹³ It was also a difficult time to talk of expanding EGandG's regular operations because, in general, their business in the Boston area was shrinking. That portion of business that wasn't shrinking was of the highly technical type. It was hoped that the industry finally chosen would draw some competitive advantage in the black community--that is provide a product which many blacks used.

¹²Interview with Paul Dorr, May 31, 1969.

¹³Stevan Trooboff, "EGandG Roxbury, Inc." p. 4.

The merits of an acquisition versus a new company were also looked into, and the board decided it would greatly speed development if they could acquire an existing company that met their criteria and could be purchased. This was the manner in which EGandG had grown and they were comfortable with the acquisition process.¹⁴ One of the board members, Ken Guscott, was holding out for a metal working plant and, after much searching they located one that seemed to fit most of their criteria. It was the E. Van Noorden Company, a family-owned operation run by Michael Kantor and his nephew. A metal fabrication firm, it had plants in both Quincy and Roxbury, a strong selling point in that the Roxbury plant would be very accessible to the workers. It produced a diversified line of goods ranging from specialty metal detailing to ventilator hoods for factories and jail cells. The technology required seemed to meet the criteria of the planning group in that a diversity of skills transferable to other operations would be required. The company had an excellent reputation within the construction industry and a review of their financial status indicated they were a profitable operation. As O'Keefe noted "These (fabrication industries) are about

¹⁴Interview with Paul Dorr, May 31, 1969.

the only businesses where you could start with a low level of skills at entry, then build up product sophistication as skills increased. Also, these businesses are generally not subject to the economies of scale, so you're less likely to be bumped out by a General Motors."¹⁵

Unlike EGandG's other acquisitions, the metal fabrication industry was in an area in which EGandG had little experience. Even the type of production and marketing involved in metal forming was alien to EGandG. The company did not get anxious about moving into new ground because of the arrangement under which they bought Van Noorden, that of the "pairing concept." The Van Noorden Company was to be split, with all of the original operation to move to the Quincy plant and to be operated as an EGandG subdivision. The new EGandG Roxbury, Inc. (ERI) was to take over the Roxbury site and operate as a separate EGandG subsidiary. The group at the Quincy plant, however, was to provide any technical and marketing advice that ERI might require. It was also expected that the profits from the Van Noorden operation could offset some of the losses incurred by the ERI until they could establish themselves.

¹⁵Tim Metz, "EGandG in Roxbury."

Staffing and Training Period.

Once the business was bought, EGandG began to look for key executives to run the ERI operation. The advice received while visiting other black subsidiaries was to start with a black management team, something the local blacks also insisted on. The likelihood of locating skilled black executives with experience in metal fabrications was slight and the use of a black employment firm in New York was considered to aid in the search. It was felt that both the Chicago and New Jersey areas, having heavy concentrations of metal fabrication firms, would be fruitful places to look.¹⁶ The black members of the planning board, however, wanted local people if possible, so that the search was limited to the greater Boston area. Both Dorr and Finn, who shared the responsibility for locating a manager for the plant, agreed that they didn't want a subservient, Uncle Tom-type, but rather that an aggressive, independent man was needed. It was Dorr's opinion that, with the exception of one man, the others interviewed showed too much deference to a couple of white businessmen.¹⁷ The exception was Bertram Lee, who

¹⁶Interview with Paul Dorr, May 31, 1969.

¹⁷Ibid.

at that time was Executive Director of O.I.C. (Opportunities Industrialization Center). A graduate of North Central College in Illinois, Lee went on to study Public Administration at Roosevelt University in Chicago. His experience had been primarily in government work in the areas of job training and youth development programs. As general manager of ERI, Lee would have general responsibilities for training, production and sales--in short, the overall development of a business. At the time he was interviewed for the position he expressed reservations about accepting responsibilities for which he had little experience--that is, sales and production. The EGandG people assured him that they had not expected to find experienced personnel and that given both opportunity and back-up support they felt he could do the job.

Subsequent hiring was done by ERI itself, and three additional executives were brought onto the staff.¹⁸ These were James Ware as personnel director, Richard Richardson as operations and sales manager, and William Dilday as public relations director. An accountant, James Hopkins, was hired a short time after. Of the

¹⁸The entire process of setting up operations was done quickly. The Van Noorden Company was acquired in March of 1968. ERI staffing was begun immediately and completed by May, 1968. The training program was ready, filled and ready to go a month later.

managerial staff only Richard Richardson had any experience in actual production work. Previously he had been production manager for metal fabrications at the Digital Equipment Corporation and had nearly eighteen years experience in the manufacturing field. He had earlier made application for the job as general manager of ERI, but did not get the job.

When people in the community saw who had been hired there were some objections raised that the selection of managers did not really represent community people in that most of them did not live in Roxbury and had little contact with community organizations. Even Lee, who had been head of O.I.C., was viewed as something of an outsider because he had only moved to Boston from Chicago a short time ago.¹⁹ The managers appeared at a meeting before some community groups to introduce themselves and to explain ERI's plans, but left feeling that the groups still regarded the hirings as a sign of the operation's indifference to community influence. William Dilday, who was raised in Roxbury, felt that the lack of local people in all the management positions was a mistake and resulted in a lack of identification and interest on the part of community people in ERI.²⁰

¹⁹Interview with Bert Lee, September 10, 1969.

²⁰Interview with William Dilday, August 15, 1969.

The staff, primarily under James Ware and William Dilday, immediately began to recruit trainees. Social agencies were contacted, ads were placed in the local paper, The Bay State Banner, recruiting stations were set up throughout the community.²¹ An attempt was made to reach men who for one reason or another were outside the normal labor pool and who could be considered hard-core unemployed. Dorr commented on this, saying "It might have been better to get a greater mix of 'employables' along with the hard core."²² To one of the black managers, the term "hard-core" wasn't really applicable to the trainees ERI received.²³ In his eyes the real hard core were still out on the corner and you couldn't begin to work with them. The trainees, while they often had poor work histories, were likely to be kids just out of school and lacking in training or men from the south who had poor educational backgrounds. A few, he added, were only one step ahead of the law and some were on probation, but this was common in the community. Trainees fell into one of two groups: the men who had problems in their attitudes toward work and generally

²¹Interview with William Dilday, August 15, 1969.

²²Interview with Paul Dorr, May 31, 1969.

²³Interview with William Dilday, August 15, 1969.

were trying to be too cool and slick, and another group who lacked primarily education and skills. These groups were characterized as the city and the country fellows.²⁴ The complete staffing of ERI, from managers to trainees was accomplished in little over one month.

The haste in getting the trainees on board was the result of constraints set up by a training program that had been developed earlier by EGandG staff. In the hopes of getting the program moving by the summer of 1968, EGandG had applied for federal funds which they received but which carried deadlines that pushed ERI into moving a bit more quickly than was desirable.²⁵ The federal grant provided for reimbursement of training costs up to a level of \$600,000, but in order to be eligible for the funds the program had to include at least 50 employees. This was a larger training group than EGandG had expected to start with, so that the whole operation had to be scaled upwards. The final plan was to complete two six-month training cycles, hiring 70 trainees in each cycle.

The training program consisted of two parts, skills training and remedial academic work. The skills to be

²⁴Ibid.

²⁵Interview with Paul Dorr, May 31, 1969.

focussed on were drafting, welding, and the operation of metal fabrication equipment, to be learned mostly through on-the-job training, and requiring between 660-720 hours of instruction.²⁶ One of the ERI managers felt that the EGandG staff who had devised the program had lower expectations of the remedial education needs of the trainees than was the case.²⁷ The average level of proficiency was somewhere near a 6th grade level and it was anticipated that an 8th grade average level of proficiency in reading and math was required if the plant was to perform adequately. Mathematics was required in the course of a normal job performance setting up various operations and the reading level had to be sufficient so that a worker could cope with written work orders and job instruction sheets. The actual production process could cover anything from a simple metal piece requiring only one or two operations to an intricate product like a skylight requiring a series of precise steps.

It had been planned that ERI would rapidly move from a training facility to a production facility. When this occurred counselors and instructors would begin to phase

²⁶ Steven Trooboff, "EGandG Roxbury, Inc.," pp. 8-9.

²⁷ Interview with William Dilday, August 7, 1969.

into positions in production and trainees would begin working while continuing to build up their level of skills.²⁸ However, in August of 1968, two months after the start of the training program, ERI was still functioning as a training facility though it was hoped that production could begin within a month. If things went well, EGandG's efforts in Roxbury could be expected to result in adequate job and skills for nearly 150 men as well as the ownership, by blacks, of a viable business. However, everything didn't go well, in fact, practically nothing did. Many of the problems that arose sprang from the nature of the industrial-turnkey process that served as a model for ERI and can probably be generalized to other similar endeavors. For this reason it is worthwhile understanding the relationship between EGandG and ERI and the degree to which it affected the actual operation of ERI.

Major Problems.

Nature of the Acquisition: The Van Noorden Company, which had appeared so attractive, turned out to be, in the words of Paul Dorr, "an unmitigated disaster."²⁹ While EGandG's president declines to comment on this

²⁸Stevan Trooboff, "EGandG Roxbury, Inc.," p. 16.

²⁹Interview with Paul Dorr, May 31, 1969.

charge, an anonymous company representative admits that "We found we had bought a lot less than we thought we did."³⁰ The first thing that became apparent was that the Van Noorden operation was far from being profitable and had been in difficulty for some time. The owners of the firm had obviously primed the operation to make it attractive for acquisition. They had dumped most of their expensive skilled help in order to reduce their labor costs. At the same time an effort had been made to develop a backlog of business by selling the work at cost. The result was a prosperous looking business on the surface. In the absence of the skilled labor needed to do some of the more intricate work contracted for, it was not even clear how the work could be done. As an EGandG insider said, "We were going to have to straighten them out and launch a business we knew nothing about all at the same time."³¹

The physical plant that had been acquired in both Quincy and Roxbury was also significantly less than expected. First, it was found that the Quincy plant, which had been expected to absorb the entire existing

³⁰Tim Metz, "EGandG in Roxbury."

³¹Ibid.

Van Noorden operation--men and machines--was smaller than anticipated. The black operation which had expected to have its own plant, found it had to put up with the Van Noorden iron shop in its midst, until other arrangements could be made. Even more troubling was the condition of the Roxbury plant, described by Dorr as "one of the filthiest I've ever seen."³² Bert Lee said it was simply a "shell of a building," but it is questionable if it was even that.³³ Another manager recalls that on a snowy day there would be more snow inside than out, that the elevator had long been condemned, and that the toilet facilities were primitive.³⁴ If one attempted to open a window, the whole thing, frame and all, would fall out. The refurbishing of the building later proved a point of contention between EGandG and ERI management, the former claiming that ERI had spent almost three times the amount they should have. Dorr explains that this refers to the \$30,000 allocated under the federal training grant for renovation and the \$80,000 that was actually spent.³⁵ He admits that

³²Interview with Paul Dorr, May 31, 1969.

³³Interview with Bert Lee, July 18, 1969

³⁴Interview with James Ware, August 22, 1969.

³⁵Interview with Paul Dorr, May 31, 1969.

some of the money could have been better spent, but holds to the position that most of the expenditures were necessary due to the state of the building. The \$30,000 was never intended to do the entire job, being limited to that part of the plant used by the trainees.

The fact that most of the equipment had been moved to Quincy, leaving only a few old pieces of machinery, meant that ERI had to completely equip the plant. Since the machinery was of the type that could generally be gotten only from other production plants, it was a time consuming process to locate the equipment. Misunderstandings between ERI and EGandG as to who was authorized to requisition such equipment, plus the difficulty of determining the type of machinery needed, caused long delays. (Delays up to six months were experienced in waiting for equipment.³⁶) Meanwhile trainees were without the necessary equipment on which to train, and were also without classrooms, lights, teaching aides, etc.³⁷ Due to this and the lack of actual production work, the motivation of the trainees began to diminish. A lot of time was spent doing make-shift work and the men began grumbling and the absentee rate rose.³⁸

³⁶Interview with William Dilday, August 7, 1969.

³⁷Interview with James Ware, August 22, 1969.

³⁸Interview with William Dilday, August 7, 1969.

Most important was the failure of Van Noorden to provide the crucial production and sales expertise that had been counted on. As one EGandG representative said, "Far from providing the start-up help we expected, we found it unwilling, and often unable, to do so."³⁹ It was unable to provide the help because Van Noorden itself was without any management depth. Rather than functioning in the role of operating managers, the two previous owners had actually been the sales force of the firm.⁴⁰ Without them the company had no developed sales personnel experienced in the business. What carried Van Noorden in the period after its acquisition by EGandG was that it received the existing product line. Thus the acquisition which the managers of ERI were left with had a badly deteriorated physical plant, little equipment, no product line, little expertise or experience of its own, and little back-up support on which it was dependent.

This whole acquisition procedure raises serious questions about the business judgments of those at EGandG responsible for the Van Noorden decision. The company was obviously a poor choice of acquisition under any

³⁹Tim Metz, "EGandG in Roxbury."

⁴⁰Interview with Paul Dorr, May 31, 1969.

terms, but when an experiment in black-controlled industry was at stake the choice became appalling. While a good portion of the mistake can be laid to poor judgment, the conditions surrounding the acquisition made a thoughtful decision more difficult. For one thing, the hope existed that the operation could be underway by the summer, so that pressure existed to make the acquisition in a hurry. Further, numerous constraints existed that would not normally be considerations in making an acquisition, for example it had to be very accessible geographically to a pre-determined work force, and had to be an industry conforming to the existing skills of this work force. Also, the non-business members of the planning board were influential in a decision (e.g. Guscott was holding out for a metal fabrication plant) that would normally be made by members of EGandG alone. Thus the Van Noorden decision was only partly the result of economic considerations, and did not represent the usual acquisition process of EGandG, although Dorr admits "They've made a few other bad decisions in this regard." The question can be asked as to whether EGandG's sloppy business judgment in any way represented their realization that ERI was not going to be a long-term holding, and as such did not, perhaps unconsciously, warrant the same attention as a normal acquisition.

The lack of a product line was especially critical to ERI, and they turned to job-shopping instead--taking one-shot orders on a sub-contracting basis. This work was not best suited to an unskilled labor force, for it required a variety of changing skills and specifications. The jobs also tended to be small, and it would require an active sales force to keep the full plant in production. For these reasons ERI requested permission to take over some of the product lines of Van Noorden, but "those guys were fighting for their own lives and weren't going to help the black operation."⁴¹ There had been an expectation within EGandG that the federal government could be counted on to support such efforts as ERI, especially by providing orders for them. However, this support was not forthcoming, and very little work trickled into ERI.

The failure to get work was not attributed solely to the lack of an adequate sales force. Ed Finn relates "Our salesmen meet with very cooperative attitudes from company purchasing departments and even top executives. But when they give us a tentative offer, a survey team usually shows up the next day at ERI and afterward they call back to cancel out, telling us they don't think we have the kind of operation to assure the quality controls

⁴¹Interview with Paul Dorr, May 31, 1969.

they need."⁴² The implication here is that, had ERI been able to do the job, work would have been available, and the suggestion is that production skills were lacking. While the ERI people agree that the level of skills was a problem, they saw the inadequacy of the plant and the lack of equipment as the barrier to orders from interested companies. "Many companies wanted to give us work, but had to ask us to contact them when we got X or Y piece of equipment," says Ware.⁴³

As financial, sales, and production problems mounted and the need for ERI and EGandG to work closely together increased, the relationship between them began to deteriorate instead. When Van Noorden failed to provide the needed technical assistance no one else at EGandG made a move to substitute for them. Bert Lee expressed the most sympathy for their position as he noted that the problems confronting EGandG were not ones they were familiar with, since the only production they engaged in was with printed circuit boards.⁴⁴ Instead of seeking outside marketing help, however, EGandG executives instead maintained that they knew how to sell as a result of their

⁴²Tim Metz, "EGandG in Roxbury."

⁴³Interview with James Ware, August 22, 1969.

⁴⁴Interview with Bert Lee, July 18, 1969.

experience selling to some government agencies.⁴⁵

Even more costly than the lack of special skills or expertise on the part of EGandG was the almost total lack of interface between EGandG and ERI. Everyone interviewed agreed that the poor communications characterized the quality of the relationship between ERI and EGandG. The Wall Street Journal quoted Bert Lee as saying "We just couldn't seem to get across to each other. I know our meetings with Mr. Finn must have been as frustrating for him as they were for us."⁴⁶ The image evoked by this statement is quite different from that presented by others on the scene. James Ware says that a typical meeting would find "Ed Finn and Bert Lee literally screaming at each other across a table."⁴⁷ Soon it reached the point where an "interface was required within the interface"--that is, a special committee was selected to act as go-between with Finn and Lee, especially when they were in the same room. The problems discussed below seem to have been the source of much of the conflict that ultimately arose between ERI and EGandG.

⁴⁵Interview with Paul Dorr, May 31, 1969.

⁴⁶Tim Metz, "EGandG in Roxbury."

⁴⁷Interview with James Ware, August 22, 1969.

Interpersonal Problems: Bert Lee has been described as a "tough, very intelligent guy with a great need to achieve, but a tendency to be cocky."⁴⁸ He has also been called a perfectionist who was willing to work hard himself, and did, but who required that others work just as hard.⁴⁹ A criticism of Lee with EGandG was that he wouldn't delegate authority to any of his subordinates, a judgment that is corroborated by a community leader who knew Lee in a previous situation and says, "Bert Lee tends to have an autocratic hand." One of Lee's managers who was aware of Lee's reputation in this regard denied that Lee was this way at ERI; decisions were generally made in conference with the other managers and Lee's views could be challenged by them.⁵⁰ Ed Finn had some of the same characteristics as Lee, proud and quick-tempered.⁵¹ Finn was also felt to be ambitious as was Lee.⁵² Under the best of situations it is doubtful whether these two personalities would have avoided clashes.

Racial Conflicts: What exacerbated the existing

⁴⁸Interview with Paul Dorr, May 31, 1969.

⁴⁹Interview with James Ware, August 22, 1969.

⁵⁰Ibid.

⁵¹Interview with Paul Dorr, May 31, 1969.

⁵²Interview with James Ware, August 22, 1969.

tensions between ERI and EGandG were the racial overtones to much of the conflict, something EGandG does not acknowledge. Lee was hired, in part, on his ability to handle his blackness boldly and without apology and this is a strong characteristic of his personality ("perhaps he's too black" added Ware). He was sensitive to racial slights, tending to "carry a chip on his shoulder."⁵³ Apparently he and the other black managers found plenty of grist for the mill.

The feeling at ERI was that most of the whites tended to be paternalistic in their relationship with the blacks. One of the first meetings the black managers attended at EGandG was called by O'Keefe and consisted of a basic lesson on how a business operates, something that left the ERI staff fuming. Lee says of the EGandG people "They didn't expect us to know anything and were surprised that we did."⁵⁴ Paul Dorr, from his position within EGandG, agrees that the black managers were treated in a way others weren't, and strictures were placed on Lee that were not used on white managers. He described one meeting with various EGandG personnel which Finn opened by asking each person to state why he was uncomfortable

⁵³Interview with Paul Dorr, May 31, 1969.

⁵⁴Interview with Bert Lee, July 18, 1969.

going down to the ERI plant. Such responses as "it's impossible to get a decision from a subordinate" or "can't place any reliance on their financial reports or sales forecasts" were offered which Dorr, at that time, pointed out were conditions common to most of the departments at EGandG.

What the blacks were most sensitive to was their isolation from the rest of EGandG and their inability to enter into the informal network within the corporation. Dorr pointed out that "It's customary, when one has a problem, to call on the help of people in other departments--Lee and the others had no access to this." Lee requested that he be allowed to sit in on EGandG corporate meetings but was informed that managers were not generally in attendance.⁵⁵ ERI management also felt at a disadvantage in business as a result of the personal friendship between EGandG personnel; one man pointed to Finn's ten-year friendship with the manager who took over the Van Noorden plant as being an influence on decisions concerning Van Noorden and ERI.⁵⁶ The result was a growing distrust between the two groups, particularly between Lee and Finn.

⁵⁵Interview with Paul Dorr, May 31, 1969.

⁵⁶Interview with James Ware, August 22, 1969.

Even outsiders to the situation interpreted much of ERI's problems as having a basis in racial conflicts.

Financial Problems: What executives at EGandG were most conscious of in the ERI operation was the size of the losses of ERI in its first few months of operation. While EGandG staff decline to state the size of the losses, most estimates place it in the area of \$300-500,000. Bert Lee maintains they were closer to \$100,000, and holds the figure is inflated by including costs that were reimbursible under the federal training grant.⁵⁷ Whatever the figure, the result was clear. As O'Keefe recounts:

We got a report from our treasurer that ERI's draw on corporate cash was running many times what we thought should have been normal in such a start-up operation. At that point, I felt it was my responsibility to our shareholders to step in and order corporate control of accounting at ERI. 58

The black managers maintain that they were completely in the dark as to the financial performance that was expected from ERI and that little explicit planning went on. No adequate budgets or guidelines were established except for a general understanding between EGandG and ERI that no profit was expected for the first 18 months and

⁵⁷Interview with Bert Lee, July 18, 1969.

⁵⁸Tim Metz, "EGandG in Roxbury."

that from 18-24 months they were expected to break even, and only after that begin turning a profit. In the fall of 1968, however, ERI was informed that its losses were unacceptable and that its overhead would have to be reduced.

ERI management set to work to begin cutting overhead by reducing the number of administrative personnel which EGandG held was higher than necessary. They also revised the procedure of processing their federal funds to speed the intake of money and moved some of the trainees directly into production work.⁵⁹ All of the managers began to act as salesmen, drumming up contacts wherever they could and turning these over to the regular salesmen. By December they had received a number of tentative commitments which, if they materialized, would be worth \$900,000 in sales.⁶⁰ Lee worked to revise the short-range plans and budget of ERI and, armed with the list of tentative contracts and a list of payroll reductions, the managers at ERI went to Bedford to meet with EGandG staff. At this meeting, held in December of 1968, the ERI managers were informed that they were being terminated, along with a dozen or so other ERI employees. The reason put forth

⁵⁹Interview with James Ware, August 22, 1969.

⁶⁰Ibid.

by Ed Finn is,

Our studies showed that metal fabricating overhead should run about 50% of labor content, but ERI's were running 300%. We had to do something and we didn't want to let the trainees take the blow, so we cut from the top. 61

Thus, eight or nine months after coming to ERI, three of the four managers left. Paul Dorr, who learned about the dismissals upon returning from an out-of-town meeting, left the employ of EGandG a short time later, largely because of its handling of ERI.

When questioned as to why the firings and restructuring of ERI were not met with a greater response from the community, one manager claimed, "The community gave up on ERI long ago, starting from when the management was hired."⁶² Bert Lee argued with this, but added, "We made a mistake in not trying to involve the community all along. I thought at the time that we should build ERI into something the community could be proud of before we developed a greater relationship to the community."⁶³ Some of the individual managers were personally involved in community activities (e.g. Lee and the Gibson School problems), but as a corporate body ties to the community were minimal. When local groups like Exodus approached

⁶¹Tim Metz, "EGandG in Roxbury."

⁶²Interview with James Ware, August 22, 1969.

⁶³Interview with Bert Lee, September 13, 1969.

EGandG for contributions, EGandG customarily pointed to ERI--indicating that this was the form of EGandG's contribution to the community. This was often interpreted by the groups to mean that contributions should be sought from ERI, something that ERI could little afford.⁶⁴

Refusals by ERI were, naturally, resented by local groups. In general though, ERI did not attempt to carry itself as a community organization, but rather as a business, and this is the way it was viewed by the community after a while. A few community people questioned on the matter indicated that they did not perceive the firings as an issue in community control (as the hirings had been), but rather a business decision dictated by the losses incurred under the ERI managers. One held that Lee was more of a social service administrator than a businessman and, as such, he made himself dispensible when the management became top-heavy in relation to its productivity. Since ERI was handling itself as a straight-forward business operation, there was little it did to attract attention in the community. Most of the conflicts and tensions of the operation occurred internally and never reached the public's view, so that the nine months that intervened between the opening of ERI and its major

⁶⁴Ibid.

overhauling were ones in which the community had little reason to be involved in ERI.

If the people of the community had been aware of the troubles occurring during this period, they might have perceived that some critical questions were being hammered out between ERI and EGandG. At times it appeared as though the two bodies were working at cross-purposes rather than on a common development, and some probing reveals that it is quite possible that ERI and EGandG were working toward separate and, somewhat incompatible, goals. A look at what these separate goals appear to have been probably explains more about the many self-defeating actions taken by both sets of management than can be explained by personal hostility, poor business judgments, or even racial tensions.

Differing Conception of the Role of ERI: Whites at EG and G, especially the more sympathetic and savvy of them, were very sensitive to the spirit of black self-determination. The brush, early in the planning stages, with some of the more outspoken blacks of Roxbury reinforced the belief that this was a central concern of blacks and had to be a necessary component of the ERI project. Thus, the Roxbury plant was seen, by EGandG, as an indepen-

dent black operation. When they set out to hire a manager, they looked for an aggressive black who could sustain the operation. The fact is that the men they got, while identifying with blacks, did not necessarily hold to an ideology which emphasized the need for self-determination by a collectivity of blacks. The managers of ERI were not civil rights leaders but professional or business men (from firms like IBM) and most of them lived outside the ghetto. If self-determination meant running a 50-man plant, they weren't interested. They were motivated to seek access to greater opportunities and power, either by enlarging the existing ERI operation or by attaching themselves more firmly to the EGand G corporate body. In discussions with EGand G, Bert Lee argued against the development of a black corporation, saying that the kind of skills required precluded an all-black staff. ⁶⁵ The EGandG people were resistant to ERI hiring whites and kept pressure on them to "hire black." Even beyond the benefits such a policy would bring in relation to EGandG's "fair employment" needs, it is understandable why EGandG would take this position. ⁶⁶

⁶⁵Interview with Bert Lee, July 18, 1969.

⁶⁶William Dilday reports that corporate headquarters used to call down nearly every week to get the number of black workers at ERI to include in reports they were preparing for Federal contracts.

The corporate value to EGandG of the Roxbury operation lay in its being a rather unique example of a black industrial turnkey project. It is were simply another subsidiary, even a predominantly black one, it would lose all its punch. Lee feels that the publicity from the operation was especially important to EGandG president Barney O'Keefe who was also serving as president of the Boston Chamber of Commerce in a fairly lack-luster manner while other Boston businessmen were the focus of attention because of their ghetto projects. 67 In addition, some people at EGandG presumed that an all-black staff could work more effectively together; Dorr himself was surprised that ERI hired a white man as one of its counselors, a position thought by EGandG to be "toosensitive" to be filled by a white. 68 Thus, there was little incentive for EGandG to absorb the black operation, especially as it was not a financially desirable business. Even if it had been, EGandG was no doubt aware that any retreat from the position of allowing independence to the black firm would always appear to be the result of a takeover by the white corporation rather than a willing integration by the black one.

⁶⁷ Interview with Bert Lee, July 18, 1969.

⁶⁸ Interview with Paul Dorr, May 31, 1969.

The managers at ERI, nonetheless, made a series of suggestions that they felt would expand the operations at their control. An early one was that they seek to acquire a company with a strong sales base to merge with the production force of ERI to form one larger, stronger company. ⁶⁹ They found some good possibilities, including one in New England and one in the Mid-West, and the enthusiastic managers took their plan to Finn. Finn regarded the idea either as folly or a joke, and the plan was dropped. A month later, Van Noorden, seeking a similar sales base, did acquire one of the companies in which ERI had expressed an interest. ⁷⁰ Finally, ERI suggested a merger with Van Noorden, but this also was turned down.

The career objectives of some of the principals involved also became enmeshed in this conflict. Ed Finn had never handled operations before he was chosen to oversee ERI and it became something of a testing ground with him. Early in the project he and others at EGandG recognized the possibilities of extending the model of ERI into other "disadvantaged" areas like Indian reservations or Appalachia and Finn realized the long-term

⁶⁹Interview with Bert Lee, September 3, 1969.

⁷⁰Interview with James Ware, August, 1969.

career possibilities this opened up. ⁷¹ If Finn were successful in the Roxbury project he would be the natural person in EGandG to head additional efforts. Knowing this, he was reluctant to reveal his own inadequacies--"Ed Finn was unsure of himself and didn't want to bring in outside consultants and be criticized for not knowing what to do. Even the production people in EGandG weren't called in." ⁷² Someone outside the operation noted, "Finn is a weak administrator in that he's too cautious with his job and afraid to stand by his decisions." The logical competition to Finn, if ERI did become permanently imbedded into the parent corporation was Bert Lee, who enjoyed the additional advantage of being black. It is clear that Lee was also aware of the career possibilities with EgandG and saw himself in a competitor's position with Finn. Others report that Finn was jealous of his own authority and was concerned lest Lee go over his head on decisions. The differences between Lee and Finn reached the notice of EGandG's president, who responded by saying, "If I'm forced to choose between the two of you, one of you is going to have to go." As it turned out it was Lee who went and Finn has continued to oversee the ERI operation.

⁷¹Interview with Paul Dorr, May 31, 1969.

⁷²Ibid.

At present, ERI is a subsidiary of Van Noorden rather than a direct subsidiary of EGandG corporate and the remaining black manager, Richard Richardson, is now general manager. All the payroll and accounting functions are carried out by Van Noorden and EGandG is seeking to have ERI classified as a small business to make it eligible for SBA assistance. ⁷³ Although losses have narrowed since the December overhauling, "there's still no black ink yet in sight." ⁷⁴ At present, ERI's production staff includes only 42 people instead of the 140 originally envisioned. When questioned as to the future plans of ERI, a representative there says the goal is still to have "a company owned and operated by the people of the community" and denies that EGandG has any plans to sell ERI. ⁷⁵ The former ERI managers stated that they felt EGandG might make some attempt to put the firm on its feet but it was more likely to dispose of it or shut it down. Information gathered in the course of studying Freedom Industries reveals that this company is presently negotiating with EGandG for the sale of ERI. ⁷⁶

⁷³Interview with Walter Reed (ERI public relations), September 15, 1969.

⁷⁴Tim Metz. "EGandG in Roxbury."

⁷⁵Interview with Walter Reed, September 15, 1969.

⁷⁶Interview with Archie Williams, August 13, 1969.

The head of Freedom Industries says EGandG would like to get rid of the operation but wants to avoid the appearance that it is dumping it. Further, EGandG feels it must recoup its investment (estimated by Williams to be about \$400,000) if it is going to exit gracefully, whereas in any other situation it would probably be willing to sell even at a loss. From Freedom Industries' point of view this means they might have to pay a higher than normal market price to serve EGandG's political needs, something it is reluctant to do. The solution appears to rest in a sales agreement which returns EGandG less than it put in but allows a higher level of return in the future if the ERI, under Freedom Industries' control, develops into a profitable business. In looking back over the short history of ERI and its many problems, the head of EGandG, Barney O'Keefe, could only conclude, "I guess we tried to accomplish too much, too fast." 77

⁷⁷Tim Metz. "EGandG in Roxbury."

CHAPTER V

State Enterprises Inc.

The origins of State Enterprises Inc. can be found in a meeting held in Roxbury on December 4, 1967. At that time, Secretary Robert Weaver dedicated the "nation's largest rehabilitation program," to be carried out under FHA's Rent Supplement Program.¹ In addition, Weaver announced a pilot project, later known as BRP (Boston Rehabilitation Program), of rehabilitation to be carried out under the 221(d)3 program at the cost of over 24 million dollars. The program was a response to criticism, particularly on the part of Senator Edward Brooke, of FHA's failure to adequately serve the needs of low-income families. The BRP program represented an attempt by FHA to drastically modify its bureaucratic procedures and its standards to allow for greater speed and flexibility in inner-city rehabilitation. Processing time was reduced from an average of eighteen months to less than two months, and architectural specifications were reduced to a minimum.

Whatever virtues the program had, the manner in which it was introduced to the community caused an uproar.

¹Press release, "Secretary Weaver to Dedicate Nation's Largest Rehabilitation Program in Roxbury," December 3, 1967, from the Federal Housing Administration (mimeo).

Although the program had been in a planning and negotiation stage for three or four months, nothing had been made public for fear that the acquisition costs of property would soar if word leaked out of the extent of federal funds available. Weaver's announcement, before four hundred local citizens and public officials at Freedom House, was the first formal news release to the community.²

It immediately brought a response by Bryant Rollins, a member of the New Urban League, who denounced the program as "a robbery of the Roxbury people" which did not serve the needs of low-income people and, further, by-passed community developers. A shouting match flared briefly, during which Weaver withdrew his prior agreement to meet with the community groups whose views had been represented by Rollins. Weaver and some local officials did meet later with another group composed of Roxbury's three state representatives, Royal Bolling, Franklin Holgate, and Michael Haynes, as well as Samuel McCoy, a local black realtor.³ This group urged Weaver to allow the community to share in the monetary benefits of such programs as BRP and to take special steps to inform local business

²Bay State Banner, "Rollins Attacks FHA While Weaver Turns Back," December 7, 1967, p. 1.

³Interview with Samuel McCoy, August 5, 1969.

people and help them participate.⁴ At this meeting John Flynn, the local FHA director, promised future cooperation with local developers. A letter to Weaver from Mel King, the Director of the New Urban League, reemphasized the need for community involvement, to be achieved through training programs for skilled workers, potential developers and contractors, bonding opportunities for local contractors, and development opportunities for local realtors and community groups.⁵

The regional FHA director explained FHA's failure to involve local developers by saying that "it was considered fundamentally necessary to avoid publicity in order to prevent the escalation of prices for the buildings to be rehabilitated. This required us to deal with developers selected because of their experience in the field of rehabilitation and their control of the units necessary to accomplish our goal...."⁶

The end result of pressure from the community was a call from the local FHA office to Samuel McCoy, inviting a number of interested local people involved in housing

⁴Bay State Banner, "Rollins Attacks," December 7, 1967, p. 1.

⁵Correspondence from Mel King to Robert Weaver, undated.

⁶Correspondence from John Flynn to Daniel Richardson, December 19, 1967.

to meet with FHA officials and representatives from Eastern Gas and Fuel (McCoy explains his being chosen as a community liason as being the result of a life-long friendship with Robert Weaver).⁷ A number of real estate people, as well as some developers and civil rights people met and were told that 80-100 units could be committed to a black developer. Sam McCoy, along with Tom Sanders (a Celtic basketball player of prominence), Jack E. Robinson (a local black developer and real estate man) and Lester Clemente (a black contractor) formed a group called Sanders Associates to act as the developer of the rehab project. The units in this package were owned by McCoy and Robinson, who sought to maximize this opportunity by forming another, and larger, group of developers.

Notices were sent out to people in the community inviting them to discuss the formation of a corporation which would pool the "talents, properties, and abilities" within the community toward the goal of improving the real estate picture.⁸ Meetings were held each week at which new members were sought and, sometime in January of 1968, the decision was made to incorporate under the name of State Enterprises Inc.⁹

⁷Interview with Samuel McCoy, August 5, 1969.

⁸Progressive Report from the President, State Enterprises Inc., July 24, 1968, p. 1 (mimeo).

⁹Interview with Royal Bolling, July 7, 1969.

Philosophy of the Corporation.

The press statements relating to State Enterprises consistently describe it as "a personal involvement enterprise giving people from all walks of life a vehicle for participating in various business ventures."¹⁰ As a business entity State Enterprises would allow black people an opportunity to "marshall their skills, abilities, desires and hopes to achieve a higher standard of living."¹¹ An emphasis was placed on the diversity of the membership, the professional men and the blue-collar workers who, together, were to provide the manpower needed to run State Enterprises. In general the image that emerged from the press was of a broadly-based community corporation which personally involved disparate types of people in seeking solutions common to all of them.

The formal statement of State Enterprises' philosophy reveals another, and more accurate, picture of the organization. However diversified the membership might be, the business orientation of the founders of the corporation is evidenced in a number of ways. Rather than emphasizing the need for bringing black people into the mainstream of American life, the stated philosophy asks how the black

¹⁰Anthony Yudis, "Hub Negroes Get Home Loan," The Boston Globe, June 28, 1968.

¹¹Ibid.

businessman can be brought into the mainstream.¹² It also notes Andrew Brimmer's evidence that disappearing segregated markets are causing an attrition of Negro-owned firms. This is especially pertinent since the major force behind State Enterprises is that part of the Roxbury community that represents the traditional black businessman, many of whom have been operating fifteen years and more. Due to the circumstances surrounding its origin, the real estate interests are particularly well represented; one member estimated that 90 percent of the black realtors in the area are associated with State.¹³

The need, as stated in the philosophy, is less to enter business than to enter it on a significant scale, for "the tiny entrepreneurial manifestations of the proprietors of the businesses struggling in the ghetto could hardly be expected to motivate anyone."¹⁴ Although a progress report states that "the creation of a large multi-faceted corporation was the furthest thing from the originators thinking, it very quickly became a

¹²Philosophy: State Enterprises Inc., p. iv (mimeo).

¹³Interview with George Daniels, August 7, 1969.

¹⁴Philosophy: State Enterprises Inc., p. iv (mimeo).

motivating vision for the members.¹⁵ State evidence a tremendous diversity in the interests it pursued, touching on most of the problems confronting the community as well as more traditional business concerns. Within State over a dozen and a half departments were set up to study various problems and to suggest programs for State to undertake--they included such concerns as research and development, youth, sociology, security, human resources, industrial development, military, etc.¹⁶ State's broad perspective was emphasized when after a few months operation, executives from State met with Alioune Kamara, an official of a trade consortium in Africa.¹⁷ Kamara was visiting the U.S. in an attempt to develop the international trade capacities of the Senagalese and explained his reasons for meeting with State: "We are weak in our country as you are in yours. The decision to negotiate with State Enterprises rather than a larger American corporation was quite logically made." The areas State planned to study included construction in Senegal, the tourist

¹⁵Progressive Report of the President, July 24, 1968 (mimeo).

¹⁶Fact Sheet: State Enterprises Inc. (mimeo).

¹⁷Bay State Banner, "State Enterprises Meets with Senagalese Official," July 11, 1968, p. 2.

trade, public relations and industrial development.

Thus not only did State attempt to foster broad diversity in its membership, but it projected the image of an innovative organization seeking to develop business projects within a context of concern for social problems. To clearly distinguish themselves from the many social agencies in the community who were involving themselves in business activities, the organization decided to forgo funding from federal agencies as well as gifts from individuals and institutions. The reason given was "when the governmental bubble bursts and the hundreds of giveaway programs have been exhausted, the majority of groups, individuals and businesses that have come this route will be ill-prepared to compete on an economic basis."¹⁸ It was recognized that progress and growth might be slowed by holding to such a decision, but it was felt that the ultimate strength of State Enterprises would justify this stand.

A final major focus which emerges from State's description of its goals is that of the role the middle class must play in ghetto development. No longer must the Negro middle class turn its back on the Negroes in the

¹⁸Progressive Report of the President, July 24, 1968 (mimeo).

slum, but must help their "less fortunate brothers." The pragmatic reason for doing so is indicated in a quote from the Inter-racial Council for Business Opportunity which notes "violent upheavals will be less likely to occur in communities where the stabilizing influence of a successful black business class exists."¹⁹ The level of financial well-being of the members of State Enterprises is reflected in the cost of their stock which sold for \$100 a share. While press statements held that this could be paid in cash or services, all of the officers of State who were interviewed denied that anything but cash was accepted.

Organization of State Enterprises.

a) Membership: The goals of State proved attractive enough to lead 280-300 residents to invest \$100 each in the venture. The membership of the corporation ranged from teachers, attorneys and auditors to bartenders, machinists, and beauticians; it encompassed more than 85 trades and professions.²⁰ Almost every member interviewed indicated that the vision of a large, viable black corporation able to make a significant impact on the community was a factor that motivated them to join. As one member

¹⁹Philosophy: State Enterprises Inc. (mimeo).

²⁰Fact Sheet: State Enterprises Inc., p. 7 (mimeo).

and officer said, "I've been all over the country speaking to groups about the need for business development in the ghetto and I believed in it."²¹ The same person also suggested that State benefited from the success of Unity Bank, a biracial bank opened six months earlier. The value of Unity's stock almost doubled in that time and residents who had failed to purchase stock did not want to risk missing out again in by-passing State Enterprises. A debate went on early in State's history as to whether a large or a small membership should be sought, and arguments in behalf of wide community involvement and the utilization of many residents' skills tipped the decision in favor of a large membership.²² The sale of stock was abruptly cut off, however, when rumors began circulating that some radical community groups were contemplating buying a controlling share of the ownership.²³ When elections were held by the membership, Jack E. Robinson (one of the founders of both State and Sanders Associates) was elected president, Thomas Simmons was elected clerk and general counsel, and Murphy Gregory, a realtor and businessman, was elected treasurer.

²¹Interview with George Daniels, August 7, 1969.

²²Interview with Royal Bolling, July 7, 1969.

²³Interview with Pietrow Frierson, August 11, 1969.

b) Programs: The format of State Enterprises came to be conceived of as a "community conglomerate" which would act as the parent organization to a number of diverse ventures originally designated as departments, but capable of becoming wholly-owned subsidiaries. The major activities that State focussed on in its first year included:

Real Estate Section

This consists of nineteen black real estate brokers operating under the name of Roxbury Renewal, Inc. As a wholly-owned subsidiary of State, this group is acting as a developer in the rehabilitation program established by FHA.

Contracting Section

Nine black contractors, under the name of Progressive Construction Corp., doing the actual rehabilitation work on the FHA project.

Business--Theatrical Section

A subsidiary of State, Roxbury Cinema Corp. purchased an old theater, rennovated it and opened the city's first black-owned movie theater.

Business--Retail Section

A Merit gas station is the first of a series of retail developments in which State is involved.

Industrial Development

A proposed machine shop, composed initially of fifteen machinists, is under consideration.

Youth Section

State Enterprises Youth, composed of 16-21 year olds, are proposing a record shop and a mod attire shop.²⁴

Progress of State Enterprises.

The progress of the three operations that have actually gotten off the ground--the rehab project, the theater, and the gas station--will be discussed here in greater detail.

A. Rehabilitation Project

Experience of State Enterprises: Since Roxbury Renewal Inc. (headed by Jack Robinson also) developed out of criticism of the lack of black developers in the BRP program, it was natural that the first project it sought was a piece of the rehabbing that was then going on. Negotiations with FHA produced a commitment of funds for 134 units, far less than the 500 units that members of Roxbury Renewal had hoped to get.²⁵ All of State's members who owned property were asked to submit it to FHA for inclusion

²⁴Fact Sheet: State Enterprises (mimeo).

²⁵Interview with Royal Bolling, July 7, 1969.

but much of it was ineligible since FHA was considering only brick buildings and much of the members' holdings were in frame. The property that was finally acquired by State has been described as "junk."²⁶ While those interviewed were in general reluctant to comment on this, most argued that the property was not the best. One real estate man now serving as trouble-shooter for the rehab project felt that the program was used to "unload poor property."²⁷ He went on to say "The problem wasn't that the other developers creamed off all the good stuff, because I'm getting packages together now that are of better quality than State's stuff."

Apparently State not only acquired poor property but it is felt that it acquired it at premium prices. One member stated "The other BRP developers bargained for and got lower prices for their property while State sought the highest acquisition price simply because the members it bought it from stood to benefit."²⁸ (Among the members whose property was included were Jack Robinson, State's

²⁶ Anonymous comment by a member of State Enterprises.

²⁷ Interview with William Weeks, August 15, 1969.

²⁸ Interview with Royal Bolling, July 15, 1969.

president and Murphy Gregory, its treasurer.)²⁹ When questioned as to why FHA appraised the properties at more than their worth, the answer was that State officials felt that FHA could be expected to appraise the property at the price established by the developer as long as it was within the guidelines established for the program.³⁰

While State was still restricted to coming in under the \$12,000 limit set by FHA, it jeopardized its own financial standing by paying inflated acquisition costs and being faced with high rehab costs as well. The uncertainties and trouble inherent in rehabilitation favor properties requiring a minimum of work, by acquiring poor properties State Enterprises opened itself to a number of financial and production difficulties. As the cost of materials increased, as well as the cost of money, it became more difficult for State to keep its head above water.

The cost of labor was also a problem for the operation. The desire of and necessity for the black contractors to hire a black labor force was apparent, but this often meant that unskilled labor had to be used. This necessitated the incorporation of informal training programs

²⁹Interview with William Weeks, September 9, 1969.

³⁰Interview with Royal Bolling, August 15, 1969.

into the cost of labor. Some white labor was employed but the bulk of the workers were black and many learned their skills on the job. The size of the job itself proved a difficulty, for none of the black contractors had ever attempted this big a job. The necessity of coordinating half a dozen previously independent small contractors into one large operation was itself a time-consuming process.³¹ Even banding together the black contractors were unable to get the necessary \$1 million bonding. Finally an arrangement was made with Poley-Abrams, a large white contractor, who, as co-contractor, assumed the responsibility for the successful completion of the job. Poley-Abrams has assisted the black contracting group in general administration and purchasing, and inspects the work as it is completed.³²

Insurance was another problem faced by State in the rehab project. The difficulties of getting insurance were overcome only by using the clout of the white firms involved in the project who interceded in behalf of State. Vandalism insurance proved impossible to get, and, given the nature of scattered sites and the inability of policing all of them,

³¹Interview with Pietrow Frierson, August 11, 1969.

³²Ibid.

vandalism costs have been high.

State's Relationship with Eastern Gas and Fuel:

Eastern Gas and Fuel, a Boston-headquartered holding group with subsidiaries in a number of fuel-related activities became involved in the BRP program at its inception. One of the nation's largest producers and distributors of energy, it has experienced significant growth in the last six years under a policy directed at meeting "new realities" in its "product market and consumer environments."³³ Much of the company's growth has been attributed to its president, Eli Goldston, who stressed the point that ultimate financial success would depend on the company's anticipating and meeting human needs. It was this attitude which led Eastern to involve itself in the rehabilitation programs in Roxbury, particularly the BRP program. A substantial amount of working capital was needed beyond the government mortgages, so Eastern, for \$300,000, acquired a limited partnership with one of the developers.³⁴ By doing this Eastern was able to specify gas heating, gas water heating, gas clothes drying, as well as gas cooking in the rehabbed units.³⁵ All gas facilities in any given

³³Eastern Gas and Fuel Associates, Case Study by Harvard Business School, prepared by Mahlon Apgar, IV, under the direction of David L. Birch, p. 1

³⁴Ibid.

³⁵Eli Goldston, The Businessman's Role in the Urban Crisis, brochure published by Eastern Gas and Fuel Associates.

apartment building would be handled on one meter, the bill being paid by the landlord. Eastern persuaded the State Public Utilities Commission that the BRP project was sufficiently like public housing to warrant application of the low public housing gas rate, the first non-government owned project to be eligible. This provided the greatest single additional gas load in Eastern's history and an annual revenue of \$400,000.³⁶ In addition a substantial depreciation shelter against corporate income was also acquired, along with some cash flow derived from rents.³⁷

While all of this represented good business for Eastern, the whole thing threatened to turn sour following the community outcry with which the BRP program was faced. One community leader held that Eastern Gas and its partner-developer were acting as neo-colonial agents who were ostensibly helping blacks while operating in such a way as to continue to deprive the black community and keep it powerless.³⁸ As a result of this kind of criticism, Eastern was as eager as FHA to assist a black developer

³⁶Eastern Gas and Fuel, Case Study.

³⁷Ibid.

³⁸Correspondence from Mel King to Robert Weaver, undated.

participate in the program. They found an opportunity to do so when Sanders Associates was formed around an 80-unit package. (This group, as noted earlier, consisted of Tom Sanders, Sam McCoy, Jack Robinson and Lester Clemente.) Eastern began assisting Sanders Associates in their application for 221(d)3 funds by providing legal and financial assistance. A call from Eastern to the local FHA office about a rather perfunctory matter resulted in a real surprise for Eastern, the existence of a second black development group. This group, later known as Roxbury Renewal (the subsidiary of State Enterprises), included, among others, Robinson and McCoy. Apparently the black developers decided to take advantage of the opportunity opened to them by creating an even larger rehab package (they were originally seeking 300-500 units). FHA expressed the hope that both the Sanders and the State Enterprises packages could be funded simultaneously to make the total mortgage money look greater. This created some pressure on Eastern, who wanted to make the Sanders deal public as soon as possible, to begin facilitating State's application for funds, and in this way State became involved with Eastern. The problems of working with State may have appeared to be relatively high due to its having over 260 members who shared in the management of

the company. If nothing more, the ease with which rumors could spread in Roxbury made such an operation a little risky. However, the benefits to Eastern included additional expansion of its gas market and other possible financial benefits, as well as the positive publicity reflecting Eastern's role in fostering low-income housing and black entrepreneurial endeavors. There appeared to be sufficient incentive for Eastern to involve itself with State, and it began to assist the group, primarily through its president Jack Robinson and lawyer, Tom Simmons.

No one in State had ever participated in anything as large as the rehab project and they had to draw a great deal on Eastern for legal and financial expertise. This ranged from straight-forward counseling in FHA's legal requirements for initial closing to more subtle matters, such as tactics for getting FHA to waive working capital requirements. State also drew on Eastern's power and influence by requesting that Eastern intervene on its behalf with the financial or governmental institutions. The problems of obtaining insurance, for example, were minimized when Eastern directly contacted relevant people among insurance concerns. State also relied on Eastern for help with its public relations program, and Eastern engineered and paid for a major press conference announcing State's rehab project.

To encourage additional outside investment in the rehab program, Eastern devised a somewhat unusual equity plan. Under it State would sell 80 percent of the equity in the rehab project in the form of a limited partnership which would run about eleven years and then be extinguished with 90 percent of each partner's equity reverting back to State.³⁹ The benefit to the buyers of the equity would be the use of a tax shelter against income that would otherwise be taxed. State could not be expected to initially have much use for a tax shelter, whereas it could use the money derived from the sale of equity to finance the rehab project. During the term of the partnership all operating decisions would remain with the general partner, or State Enterprises. Eastern agreed to buy 10 percent of the equity, given that State could find buyers for the balance. Eastern helped State develop a prospectus and then began beating the bushes for the names of potential investors. It was felt, both by Eastern and State officials, that the plan had to be very carefully explained to State's members to avoid the accusation that State was selling out its control to white investors. It was at this time that some problems began to develop between Eastern and State.

³⁹Memo from State Enterprises on "Limited Partnership Interests in Low-Income Housing Project."

From the time of its inception, State had been insinuating itself more and more deeply into a relationship with Eastern, one that was costing Eastern a substantial amount of time and effort. State officials, however, made little attempt to develop their own resources independent of Eastern, being content to make use of Eastern's greater experience and resources. State was continuing to be staffed by volunteer part-time officers who were attempting to manage State's business as well as their own private work. The degree to which State was consciously trying to manipulate Eastern and its resources is unclear, but the situation was such that Eastern could not help but be frustrated by State's operations.

Part of the difficulty lay in the hybrid business/social work nature of the relationship between State and Eastern. Despite the underlying business rationale in bringing State along, the voluntary and informal nature of Eastern's efforts carried a spirit of benevolence. When Eastern reasserted the business nature of their arrangement by offering State a significantly lower gas piping allowance than had been given the white developers (in recognition of the extensive aid already received by them), officials at State were not entirely happy with the arrangement.

Rumors began to drift through the black and white business communities that State was in some financial trouble, and anything that involved State and its rehab project now involved Eastern. At this time Eastern began to see how State had managed to box it in. By making a corporate investment in State's operation, Eastern had become publicly identified with it and stood to suffer if State ran into trouble. Further, having served to introduce potential investors to State, Eastern officials had obligated themselves, both corporately and personally, to see to State's well-being. However, only a fraction of State's internal managerial and financial affairs had been open to Eastern's staff and to insist on either disclosure or control would be to create a monumental racial gaffe.

This led to a change in the role that Eastern played in State's operations; it provided less direct services to State and instead focussed on helping State develop a more business-like operation. Under Eastern's direction, State began to develop a more adequate accounting system and began to turn to other outside resources for assistance, thus relieving Eastern of the entire responsibility. In this way it was hoped that there would be less identification between Eastern and State and that the resultant organization would be a more viable business.

Eastern's interest in State no doubt extended beyond the limits of the current rehab project. Officials at Eastern were very much aware of the Model Cities program and the business potential it offered. They were also aware that increased demands for black control within such a program made it difficult for white firms to directly utilize this potential market. By helping State Enterprises to develop, Eastern could better guarantee that State became an important vehicle in future large-scale rehab projects and that Eastern had a receptive partner in the ghetto.

Current State of the Rehab Project.

The project is running behind schedule, and completion, which was to have occurred sometime in August of this year, is now expected to carry into the winter.⁴⁰ Some of the units are already completed and ready for occupancy but State's delay in paying the gas bills accrued during the construction period has resulted in the gas company's refusal to provide utilities until the money is forthcoming.⁴¹ (State expects the delay to be a short one.)

⁴⁰ Interview with James Loving, September 12, 1969.

⁴¹ Ibid.

The cost of rehab has been much higher than originally estimated and State has applied for a mortgage increase, along with many of the other BRP developers, and it is hopeful of getting it.

Theater Project.

The second most notable activity which State is engaged in is around the development of a movie theater in the Roxbury area, something which the community completely lacked. State, working through its subsidiary, Roxbury Cinema Inc., took over a building that had been housing a furniture store (but which had once been a theater) and began renovations on it. This received a fair amount of publicity, not only because it was the first black-owned movie theater in New England, but because "200 residents of the community donated a few hours of their time to clear the theater of debris so that renovation could begin."⁴² The volunteers, ranging from "real estate agents and lawyers to carpenters, bricklayers, accountants and a Harvard freshman," saved the company over \$2000 by doing the demolition.⁴³ A Department of Health employee, William Vickers, who volunteered as a projectionist evenings and

⁴²The Boston Globe, "State Enterprises Gets Cinema Loan," July 18, 1968.

⁴³Janet Riddell, "100 Men Give up Weekends to Theatre," The Boston Globe, (undated).

week-ends, explaining "I went to projectionist school in the army and used to run their equipment."⁴⁴

The financing for the theater (\$170,000) was provided by the John Hancock Insurance Company and an arrangement was made with the Esquire Theater chain for it to serve as film broker and source of technical advice.⁴⁵ The opening of the theater was postponed from an expected date in November, 1968 until the early part of 1969. The source of the delay was in the rehabilitation of the theater, undertaken by a white contractor from the Braintree area. Working without plans or specifications, the contractor ran into numerous problems, and some members of State feel the resulting work was poor. When questioned as to why a white developer had been chosen, the current president of State held that it was done at the suggestion of the John Hancock Company in that the contractor was experienced in theater rehabilitation.⁴⁶ Two other members, however, stated that the contractor was involved in other private enterprises of Jack Robinson and that this accounted for the choice.⁴⁷

⁴⁴Ibid.

⁴⁵Dick Mattulina, "Negro-owned Cinema to Open Soon in Roxbury," Quincy Patriot Ledger, August 16, 1968.

⁴⁶Interview with Pietrow Frierson, August 11, 1964.

⁴⁷Interview with Royal Bolling, July 7, 1969.

Up to July of this year, the theater was only breaking even; this was attributed by State's accountant, James Loving, to poor management.⁴⁸ Now that a new manager has been installed, on a part-time paid basis, the theater is just beginning to return a profit. Earlier discussions as to the feasibility of following a movie-plus-live entertainment format has been temporarily suspended until the theater is better established. At present the policy remains of emphasizing movies with an ethnic slant.

Gas Station.

The third operation State is involved in is a Merit gas station located in the middle of Roxbury. Based on a leasing operation, State purchased the site of the gas station which was then leased to the Merit Company.⁴⁹ The entire operations--hiring, payroll, operation, etc.--is in the hands of Merit and all State does is collect the rental and pay the mortgage. The John Hancock Company also provided the financing for this operation, although Merit took back a second mortgage. Because the rental value of the site is greater than the mortgage payments, it is impossible for State to lose money on the operation.

⁴⁸Interview with James Loving, September 12, 1969.

⁴⁹Ibid.

Additional Projects.

The three projects discussed above are the only ones to actually get off the ground. For a variety of reasons, none of the other developments proposed by State have materialized. The youth group began to fall apart when no one within State provided the leadership or direction the younger members required.^{50,51} Left on their own, they lost incentive, and when some members left to go to college the group fell by the wayside. No one in State expressed much hope that the youth group would be revitalized and begin one of the businesses they had planned.

Another venture that fell through was that of a machine shop which State at one time had talked of acquiring. Although it employed little more than a dozen workers, Jack Robinson was in favor of buying it because then State could be said to be involved in industrial development and gain prestige in this way.⁵² State also attempted to develop a drugstore, one that would remain open in the evenings, unlike the drugstores presently in Roxbury.⁵³

⁵⁰Ibid.

⁵¹Interview with Pietrow Frierson, August 11, 1969.

⁵²Interview with Royal Bolling, July 7, 1969.

⁵³Interview with William Weeks, August 15, 1969.

However, a search for a black druggist willing to enter business in Roxbury met with no success, despite offers by State to pay most of the costs of establishing such a business. Other ventures, such as an electronics firm and a management firm were even more still-born. One thing that has impeded State's continued expansion is that the 221(d)3 rehab project has been absorbing a great deal of the time and resources of State, and delay in completion of the units has held up the flow of rents which State had been anticipating. State's accountant also maintains that one main impediment to State's further growth is the lack of a good marketable idea that it could develop,⁵⁴ rather than financial limitations, for he feels investment capital is generally available. The curtailment of State's original business goals, however, is not the only way that the organization has changed; perhaps more notably it has altered the role that is to be played by the membership body.

Internal Dynamics of State.

The most notable aspect of State Enterprises from its inception was its large and diversified body of stockholders-- probably larger and more varied than the membership of many "representative" community action groups. As noted

⁵⁴Interview with James Loving, September 12, 1969.

earlier, the vision of an organization which personally involved and utilized the skills of so many community people was a genuine inducement for many people to become stockholders. In addition it apparently was a selling point with outside financial and governmental institutions as well. Control was to be exercised by the membership through the extensive system of departments, the large board of directors and by frequent meetings of the officers with the general membership. After a year's operation the discontentment and alienation of many members was evidence that the original spirit of State Enterprises had not been sustained.

Two major factors were critical in the abandonment of the "wide-involvement" policy--the casual internal structure of State and the rather charismatic nature of its president. Lines of authority and allocation of responsibility were never explicitly laid out and the departmental structure was frequently overlooked. The accounting and reporting procedures were haphazard enough to prevent the average stockholder from gaining a good understanding of what was happening within State. The current president of State has found a growing apathy among the stockholders caused in part by their lack of involvement in the crucial

decision-making of State.⁵⁵ The frequency of stockholders meetings began to drop from one, on the average, every two weeks to one every three or four months.⁵⁶

The structural problems might have resulted in an aimless, slow-moving organization had it not been for its president, Jack E. Robinson. He is clearly the most controversial aspect of State, with members viewing him as either a devil or the shining light of the organization. All agree, however, that Robinson ran the show, and was a persuasive speaker and leader. In addition, he was personally successful in business (references, of uncertain origins, to his having made a million dollars kept cropping up) and many stockholders placed a great deal of faith in him. As one member said, "The stockholders were comfortable because Jack could always bring the ship home."⁵⁷ Robinson also displayed both initiative and energy and appeared willing to put in the time necessary to get State off the ground. (Since the officers of State received no pay, they were dependent on outside jobs or income for support.) His style was that of a "real gambler, willing to take

⁵⁵Interview with Pietrow Frierson, August 11, 1969.

⁵⁶Interview with Royal Bolling, July 7, 1969.

⁵⁷Interview with William Weeks, August 15, 1969.

chances," an approach defended by one member as appropriate given the difficulties facing minority business.⁵⁸ This same person felt, on the other hand, that the unbusiness-like approach that Robinson used made State vulnerable in that "if anything went sour we had to remember we weren't dealing in candy stores anymore." Many major decisions were taken before the body and seriously debated there, but equally important decisions were made by individuals without consultation with any other parts of the organization.⁵⁹

A small clique began to develop around Robinson, and it has been charged that Robinson began filling vacant committee chairmanships with his own people.⁶⁰ As Robinson began to develop more power, more people gravitated to him in the hopes that their particular interests could be served. Apparently they were not mistaken. In the report of a management consultant group called in to assist State is the statement "There is evidence that there has already been conflict of interest problems and also conflict between contending groups." The report goes on the state "This is

⁵⁸Ibid.

⁵⁹Interview with George Daniels, August 7, 1969.

⁶⁰Interview with Royal Bolling, July 7, 1969.

⁶¹Report on Survey of Organization, Policies, and Development: State Enterprises, by Rath and Strong Inc., Dec. 1968.

permissible when the parties all know that everyone has their own primary business interest outside of State and that the funds involved are largely supplied by the community. Such a situation is intolerable and fraught with danger when some become full-time managers (without selling in their conflicting outside interests) and substantial public funds are invested." While the first situation may be more legal than the second, it is unclear in what sense it is more permissible. To some members of State it was unacceptable that anyone should agree to represent the interests of an organization and then use his position with it to further his own personal interests. While some people were reluctant to talk about the matter, it was possible to unearth some information on the problem. The process of assembling the rehab package was one instance of conflict in that the head of both State and Roxbury Renewal--Jack Robinson--was a major property holder of the units finally chosen for acquisition. (The current president said he would have avoided such a conflict-of-interest problem by setting up a straw between Robinson and State).⁶² A similar situation existed around the theater project in that State was developing (under Robinson) a movie theater

⁶²Interview with Pietrow Frierson, August 11, 1969.

at the same time that Robinson was planning to open his own, potentially competing, theater. Further, the contract for the renovation work on State's theater went out without any competing bids to a white contractor who, one member states, is also linked to the development of the second, privately-owned theater.⁶³ Many of the officers or board members of State are themselves unaware of the extent of such problems since adequate documentation of State's dealings has been lacking.⁶⁴ During the first year, a move was made to raise more capital by selling common stock on the public market. To do so required a vote by a two-thirds quorum, either in person or by proxy on the question of establishing a preferred class of stock. Such a quorum was not achieved so plans to go public had to be postponed. This was satisfactory to a growing number of dissidents within State who desired to overhaul the structure of the corporation and set up checks and balances on the exercise of power before an additional flow of money was pumped into the organization. This attitude was supported in the report by Roth and Strong, the management

⁶³Interview with Royal Bolling, July 7, 1969.

⁶⁴A long period of transition between the presidencies of Robinson and Frierson was required since no adequate accounting, reporting, etc. systems had been developed which would present the incoming officers with a clear picture of State's operations.

consultants:

We feel so strongly on this last point (the dangers of conflicts of interest) that if the proposed plan (or a reasonable alternative dealing with these issues) cannot be adopted, we recommend that State change its charter to an association and not raise public funds. Should the board decide not to implement the plan, yet proceed with full-time officers and funding, we would wish to be excluded from further consultation. 65

It is evident that the major source of pressure for greater dispersal of power came not from the general membership of State, but from those who were very near the seat of power but felt excluded from its benefits. In short, it was based less on egalitarian sentiments than on a desire for a piece of the action. One member who saw himself as outside both the primary and secondary levels of power held that the older established businessmen were unwilling to move over and give someone new a chance.⁶⁶ The opportunities being created through State were being snapped up by the businessmen in control so that the opportunity for new entrepreneurs to develop was slight.

A further level of conflict of interest was evident in the relations of State to the general black community. Little concern was evidenced within State for the needs

⁶⁵Survey on Survey of Organization, December 1968, p. 2.

⁶⁶Interview with George Daniels, August 7, 1969.

of the community, and at times worked counter to such needs. Since they began out of pressures for black self-determination, it is interesting to see where this policy led in the hands of State. The criticism that has plagued the white BRP developers as to their relocation policies, their hiring practices and their workmanship and financial dealings has meant that a significantly better rehab project could have emerged at the hands of a concerned developer. Although State's package is not yet complete, it is evident that, in general, it produced much the same product as the white developers. Despite calls for black involvement on the part of the community such involvement was almost inevitably an object of hostility once it occurred. As Sadelle Sacks of Fair Housing charged, the use of black developers was an attempt to buy off the community and constituted a bail-out for the rest of the BRP program.⁶⁷ (While this is true, it is also a manifestation of the power of the community to demand conciliatory measures.) Those concerned about the tenants of the area, however, soon had particular reason to be unhappy with State. Regular meetings between tenants' groups and the BRP developers were held, but the black developers consistently

⁶⁷Notes from the Tenants Review Panel, May 7, 1968.

failed to appear despite repeated requests to do so. Tenants in one of Robinson's buildings complained that, in the middle of winter, they were being left without heat and water.⁶⁸ While the white developers had to proceed very gingerly, or at least cagily, in their dealings with the community, the black developers felt less need to evidence concern or good will. The tenants did not spare State in their criticism, an outcome that provided both satisfaction and amusement to the white "neo-colonial" developers. While the black developers were certainly no worse than the white developers, they were clearly little better. The desire of some members of State to receive inflated prices for their property is ultimately reflected in the mortgage price, hence the rents paid by tenants, (especially if their recent request for a mortgage increase is granted). Thus State, in order to avoid absorbing increased rehab costs, has chosen to make future tenants carry the cost of a questionable business decision. The whole operation of State Enterprises has demonstrated, if nothing else, the diversity of interests that lie within the black community, even within such a defined sector as "traditional business interests." What is real cause for pessimism, however, is the almost insuperable difficulty

⁶⁸Notes from the Tenants Review Panel, December 12, 1968.

of establishing sufficient common ground to allow for the consolidation of efforts by such a group.

This issue was most explicitly laid out in the meeting of the Board of Directors when Jack Robinson resigned from the presidency of State. This occurred in February of 1969, and followed both the initial failure of State to go public and the acceptance by the corporation of the recommendations by Rath and Strong as to State's organization and policies. Apparently Robinson felt that the opportunities at State were at a temporary dead-end and he announced his desire to resign. He was quite clear about his reasons for leaving; he wanted a greater return on his time and energy than he was likely to get at State. With the new organizational structure, Robinson felt his freedom of action had been too severely constrained and he had to balance the value of remaining at State against that of developing his own private concerns and "...invariably operating as a one man company, making my own decisions, without having anyone else to answer to, my company could move far more swiftly and rapidly than State can move."⁶⁹ The recent restrictions within State on conflict of interest activities reduced Robinson's ability to simultaneously serve both State and his own company. Robinson's argument

⁶⁹ Transcript of Proceedings of a Directors' Meeting of State Enterprises, February 6, 1969, p. 31 (Xerox).

was that no one can be asked to abandon his own interests in behalf of the interests of a collectivity like State without just compensation. By this Robinson was not talking simply about a salaried position as president, but a substantial stock option plan. The membership of State would not, in Robinson's eyes, ever be willing to function in a manner where either large salaries or tremendous amounts of ownership accrued to its executives. Royal Bolling, who termed himself head of the loyal opposition, concurred that a corporation where 35-40 percent of the company assets were held by one man, and most of the decisions were made by the same man (while the rest of the members sat back and clipped coupons) was a complete perversion of State's original intent.⁷⁰ However, the majority of the board (Bolling included) urged Robinson to remain as head of State, for he still appeared to be the most capable man available, especially now that his excesses could be curtailed through State's reorganization. Robinson refused to reconsider and a new president was elected.

The refusal of Robinson to subvert his personal advantage to that of the group's was a position held (though less explicitly) by most of the leaders of State. Every

⁷⁰Ibid., p. 17.

major figure at State who was interviewed revealed private deals he was promoting outside of State rather than through it. This was also noted in the Rath and Strong report, "The business leaders in State would prefer the security of their own small business rather than gamble with others on a bigger, more significant operation."⁷¹ It is questionable, however, whether it is the risk involved that reduces attempts at cooperative action; more likely it is the desire to maintain the independence of action that brought these individuals into business for themselves in the first place. At worst, it also represents a certain degree of distrust that exists between many of the businessmen. Given this reluctance to join together, why was State Enterprises ever begun? One guess that can be put forth is that the founders, from the beginning, were using State in a manipulative fashion. It provided a source of initial capital and a mechanism for attracting additional financial and managerial resources, and as long as the leaders were reasonably assured they could control these resources they stayed with State. When free control was curtailed, they dropped it.

In the six months following Robinson's leaving office, the organization has been in a state of temporization--

⁷¹Report on Survey of Organization, December 1968, p. 15.

seeking to consolidate its existing operations rather than enter new projects. The current president of State, Pietrow Frierson, has been described by a number of members as an undynamic leader who does not move the organization along as Robinson previously did. Frierson, with a background in personnel work, does not have the business experience of many of the other leaders of State, and may, in fact, have been chosen because he appeared less threatening. While Frierson is concerned about restoring State's image as a business run for and by the community, the prospect of doing this appears slim.⁷² Without a dynamic leader who will energetically work toward this end it is most likely that State will continue to perform in the manner established in its first year and a half of operations.

⁷²Interview with Pietrow Frierson, August 11, 1969.

CHAPTER VI

Freedom Industries, Inc.

Both State Enterprises and EGandG Roxbury represent attempts to incorporate "social" goals--reduced unemployment among blacks, use of under-utilized ghetto talents, etc. --into fairly traditional business operations which retain a dominant goal, however modified, of increasing profits. The head of Freedom Industries, Archie Williams, holds that his company exists only to serve socially-useful ends and that the business operation, in and of itself, is incidental to this goal. For this reason, one newspaper account has reported: "Freedom Industries is already being called by most of those who have seen it one of the most intriguingly innovative companies in the United States that is owned and operated by black people."¹

Archie Williams attended Brown University and later Boston University Law School.² Since 1957 he has resided in Boston and has been engaged in legal work, primarily related to the fields of labor and civil rights, and has

¹Thomas Oliphant, "Freedom Industries, Innovation Makes It Go," The Boston Globe, June 15, 1969.

²Freedom Industries represents primarily the efforts and thinking of its president, Archie Williams, and he is the source of a great deal of the information contained here. To avoid the necessity of frequent, repetitious footnotes giving interviews with Williams as a source, it can be presumed that unless otherwise noted in either a footnote or the text, Williams has been the direct source of information. The interviews took place during August, 1969.

also worked in, and in support of, many community groups. He found he was frequently called upon to advise people on business issues, advice that might be followed or ignored. Suddenly Williams realized that instead of advising others he should attempt to carry out his own ideas if he believed in them. It was not an interest in business per se that motivated him, but rather constraints he was confronting in his work in the community. At that time Williams was serving as director of NECDC (New England Community Development Corporation) in Roxbury and, as he said, "I thought that civil rights activity was going to be significant, but the limitations were soon evident." For example, he was opposed to the whole structure of the poverty program because he felt it fostered in the long run the dependency of the black community on government. When programs like EGandG's and AVCO's industrial development projects came along, he objected because he thought the money should come directly to blacks for their own businesses. Increasingly he felt the community needed ventures which would be self-sustaining and reduce reliance on governmental and foundation aid, which helped meet the short-range needs of black people but diminished the possibility of ultimate independence by blacks.

Williams gave some indication of what he meant by

independence when he explained that he felt some form of segregation had to precede any long-range goal of integration and that the focus of activity in black communities should be on increasing the political strength, the unity, and the favorable self-image of blacks. One of the few strategies that appeared capable of fostering these goals and being self-sustaining appeared to be business development. Williams never perceived that a business, as such, could be isolated in the ghetto. "I don't have any delusions about operating in a vacuum separate from the rest of the economy," he said.³ "We want to be able to cooperate and have an impact on its (society's) economic structure." What he did envision was a creation of a corporate structure that would be "a single unit of power--in influence, money, and talent."⁴ He has used the term "money machine" in reference to Freedom Industries, and this best explains his perception of the role he expects it to play in the community. Freedom Industries is expected to operate and produce profit for use by the community in much the same way an organization like Exodus might work to produce an educational service that is open to the community.

³Nancy C. Anderson, "A New Power in Roxbury; the Ghetto Means Money," The Harvard Crimson, February 24, 1969, p. 3.

⁴Ibid.

Early Development of Freedom Industries.

Almost completely lacking in actual business experience, Williams nonetheless left NECDC to begin developing a business organization. He started by looking at ghetto enterprises in nearby cities and similar quasi-sheltered economic ventures in an attempt to set forth his own schemes for development. He began to establish contacts with sources of business assistance and counseling ("I surrounded myself with experts") to supplement his own meager skills. A major source of help came out the Business Assistance Program (BAP) at the Harvard Business School, a project run pretty much by graduate business students. One of the students who has worked closely with Freedom Industries since its inception says that Williams caused something of a stir in his initial contacts with the Business School.⁵ Not only did his militantly black talk disconcert people, but his proposed schemes were seen as being wildly ambitious and unrealistic. As Williams put it, "They must have thought I was a fool." The concept he put forth was described as that of "a multi-functional, multi-urban, socially-oriented, black conglomerate."⁶ The

⁵Interview with Peter Siris, June 3, 1969.

⁶Memorandum from Peter Siris to the members of Freedom Industries Advisory Boards, August 30, 1968 (mimeo).

staff of BAP began setting up a series of planning teams to assist Williams structure a corporate strategy that would encompass his long-range objectives and his short-term operational goals. Williams proposed to obtain assistance from white businessmen, either in the form of contracts as an independent supplier, or in the form of financial and technical assistance.⁷ Whatever arrangements were sought, Williams insisted on retaining complete ownership of his business.

Williams' early brushes with white corporations led to a repetition of the initial response which greeted him at the Business School--his lack of staff, lack of business experience and lack of clear ideas about the industries he wanted to develop made him look too risky to the white businessmen he met.⁸ He decided to focus on the electronics and food industries, and began another round of negotiations with the heads of white corporations. This and subsequent experiences with white financial powers has left Williams quite cynical about their claims of concern about the urban crisis, and the importance of the role they can play. Terming their efforts "phoney support"

⁷Peter Siris, "Background Notes on Archie Williams," July 25, 1968 (mimeo).

⁸Memorandum from Peter Siris to Members of Freedom Industries Advisory Board, August 30, 1968 (mimeo).

he feels they have got to develop unique and riskier approaches. In speaking of black entrepreneurs, Williams says:

They (bankers) also say we have no experience in the field of business. To me, this is an evasion of the central issue. After all, if we had equity money, experience, and all the other "bankable" qualities, there would be no urban crisis. ⁹

The contacts with white businessmen produced other changes in Williams as a member of BAP records:

At the beginning of the year he (Williams) was a bright, attractive, and articulate militant who was given to broad generalities. By April he had learned to talk with businessmen on their own terms; with proforma profit projections, cash flow estimates, and detailed manpower training programs. He discussed black militancy, in a business context, as the way to solve the problems of the ghetto; and he provided an image of what white businessmen most wanted to see--a handsome Ivy League Lawyer, involved in business, who just happened to be black. ¹⁰

Progress of Freedom Industries.

In the spring of 1968 Williams made contact with an unidentified private individual who provided most of the seed money for Freedom Industries. The individual bought \$15,000 in stock to which Williams added an additional \$5,000. In June of 1968, Freedom Industries was incorporated

⁹Thomas Oliphant, "Freedom Industries," Boston Globe, June 15, 1969.

¹⁰Peter Siris, "Background Notes on Archie Williams," July 25, 1968 (mimeo).

and, at the same time, Freedom Foundation was established. The unidentified individual turned over his portion of the stock to the Foundation, so that 75 percent of it is now under the ownership of the Foundation. The expectation is that the Foundation, through dividends or sale of the stock, can begin developing an investment portfolio. The resources from this are to be used to support social services such as job-training centers, a scholarship fund and day-care centers. The reason for setting up a separate foundation is that Williams thinks "a company's effort in the field of social problems, while immense, should be divorced from its commercial activities."¹¹ (The whole role of the Foundation will be discussed in greater detail later in this study.) Now that the parent company had been established, Williams was ready to actually turn to the development of a subsidiary.

Freedom Electronics.

The first breakthrough came after Williams had spent many hours walking through Route 128 firms, talking to as many people as possible. Finally he contacted the Digital Equipment Corporation (DEC) who needed a local producer and who were willing to contract with Freedom Industries to do this work on an experimental basis--if the work

¹¹Thomas Oliphant, "Freedom Industries."

proved satisfactory the contract would be expanded. Williams said this proved to be a common occurrence with Freedom Industries in that "it could gain entrance into a field because it was black but could stay only if it produced quality work." On the basis of a few initial commitments the first subsidiary, Freedom Electronics and Engineering, was set up in August of 1968. To do this Freedom Industries borrowed \$35,000 from the Economic Development Administration under the Department of Commerce.¹² Because Freedom Industries could not afford to train the necessary skilled labor, arrangements were made with Roxbury's O.I.C. (Opportunities Industrialization Center) and M.I.T.'s Lincoln Lab to take over part of the training load. Lincoln Lab did this by taking about one-third of the starting work force into its own payroll and paying the salaries of the workers while they learned skills on the job. Even so, about one-third of the workers came into Freedom Electronics without any requisite skills-- these people worked on less demanding tasks until they too had acquired greater proficiency. At present every person in the shop is capable of doing most of the jobs required by any contract. While training was still going on in the plant, it was possible to offset accompanying costs

¹²Nancy Anderson, "A New Power in Roxbury."

by using either a cost-plus or a time-plus materials form of contract. Under the latter, the time cards of the workers were sent directly to the contractor. In this way the costs of the lower output by unskilled workers was passed on to the contracting firms.

When questioned as to the "hard core" nature of the workers, Williams responded that the critical variable was not a person's educational or skill level, or even his work history, but rather his current willingness to work. Given this, only the most severe mental limitations could impede a man's success at his job in the plant. It follows from this that motivation plays a key role in the production capabilities of the work force, and Williams holds that the workers are very satisfied. Of the forty hired, only four have left, one due to pregnancy, one entering college, one who began working in a civil rights organization and one who felt the work at Freedom Electronics could not make use of her advanced level of skills. The last worker has since returned since more skilled work is now available.¹³

¹³It is interesting to contrast here the experiences of EGandG Roxbury and Freedom Electronics. The executives at EGandG, Inc. had originally ruled out the development of an electronics plant, in part because it was thought to require too high a level of skills, and instead went into a non-growth industry which presented future problems in growth. Two months after the start of both plants, Freedom Electronics was in full production while ERI was still training its workers.

By October of 1968, Williams felt the plant had already begun to be competitive on the basis of the quality of its work. Over 91 percent of the production that passes Freedom Electronics' quality control is accepted by the contractors, and no work has been late in completion. By displaying the ability to perform, Freedom Electronics has received additional contracts from Digital Equipment, RCA, Western Electric, and Shintron Co., grossing over \$800,000 in sales in five months. The work has included making computer power supplies, and assembling coaxial cables and plastic circuit boards.¹⁴

Contracts, however, are still not easy to come by, especially as the firm has no sales force. If Freedom Electronics were willing to go into defense work, contracts would probably abound but, as Williams says, "We try like the dickens to avoid war stuff, even though it is tempting." His reasons for doing so include: one, his belief that business, especially his kind, shouldn't be engaged in such work, and two, he doesn't want a high degree of government contracts because of the dependency this would create. Other smaller firms face this same problem, and the solution Williams finds attractive is that employed

¹⁴Nancy Anderson, "A New Power in Roxbury."

by Digital Equipment. This firm has set a level of government work that it will accept and will pass over contracts that would result in a greater percentage of government business. Only a firm the size of Raytheon, holds Williams, can engage in as much government work as it wants without becoming dependent. The fields that Freedom Electronics would like to enter deal with such concerns as water and air pollution.

Freedom Foods.

The second major division Freedom Industries developed was in the retail food business, and was run under a second subsidiary, Freedom Foods. Williams was motivated to enter this field because he wanted to provide some necessity required by the residents and because Freedom Industries needed an operation that was extremely visible. A chain of supermarkets would meet these criteria, despite the fact that it was a rough business with a very low margin of profit. Freedom Industries began negotiations with the Stop and Shop chain over the acquisition of a store they owned which did a large volume of business and enjoyed a good location, but the two companies could not come to an agreement. At this point one of Williams advisory board members (who was also on the board of Purity-Supreme, another grocery chain) advised him to talk

to the Purity-Supreme people. The chain had several stores in the Roxbury-North Dorchester area, but they were doing poorly and the chain had begun to concentrate on suburban development. Because Purity-Supreme had just been acquired by yet another food chain, a re-evaluation of the business was taking place in any case. One of the stores Freedom Industries was interested in had deteriorated to the point where a costly renovation was required, and the new chain was frightened of making a substantial investment in a ghetto store--especially in light of the visibility it enjoyed. The result was that Purity-Supreme was interested in divesting itself of two stores, so that Freedom Industries was offered two 21,000 square-foot supermarkets, at a cost of about one million dollars.¹⁵ The new subsidiary, Freedom Foods, received a mortgage commitment from John Hancock Life Insurance, of which Williams and Purity-Supreme took back \$500,000 in mortgages. Financing was provided by the Episcopal Church. At the time of sale the stores were grossing about \$4 million a year, which was poor in view of their potential. Both stores required extensive remodeling, the worst one needing about \$100,000 for new lighting, a new ceiling, freezer cases, etc.

¹⁵Thomas Oliphant, "Freedom Industries."

An arrangement was made by which Freedom Foods purchased administrative services at cost from Purity-Supreme, to assist in training, management and buying. The contract is open-ended and can be terminated whenever Freedom Foods wishes, though Williams says "If I were Purity-Supreme I'd have insisted that we use their help for the entire period for which they hold the mortgage." The agreement was also made that Purity-Supreme would absorb any employees who wished to transfer out of the stores that Freedom Foods had bought. About half of the workers indicated that they didn't want to enter the employ of Freedom Foods for a variety of reasons. Those who had been with Purity-Supreme a long time wanted the security of working within an established business and since Freedom Foods had little experience in the business, the risk was greater with them. Also, the size of Purity-Supreme's operation offered more potential than the two stores of Freedom Foods. The white employees were apprehensive of their future under black ownership and even some black workers welcomed the chance to work outside the ghetto. To minimize these pressures, Purity-Supreme agreed to transfer, within six months of the sale, any worker who remained at Freedom Foods and later decided to rejoin Purity-Supreme.

Even with 30-40 people who were new to the operation, Freedom Foods expected few training problems because of the low level of skills required. They found, however, that even stocking shelves is a complex process and the labor costs of Freedom Foods began to mount as a result of low productivity. Since the profit margin in food stores is only about 1-2 percent of sales, high labor costs (over 9 percent of sales) can wipe out the profit margin; and during the training period labor costs reached 15 percent and higher. This existence of untrained workers also resulted in service in the store being poorer than it should have been, and many new shoppers at Freedom Foods quickly stopped returning. The initial boost in sales that it experienced upon opening soon leveled out and the hard job of building it up to a higher, stable level is going on. At present the stores are averaging \$90-100,000 a week in sales, as compared to \$65,000 under Purity-Supreme; it is expected that by late spring of 1970 the intake will stabilize around \$120,000 a week.

Another problem felt by Freedom Foods was that the operation was subject to enormous rumors. Although Freedom Foods had its own line of labels on their goods, people were very aware of the Purity-Supreme trucks backed up to the store. This naturally precipitated the story that

Freedom Foods was simply fronting for a white operation and it became the object of hostility, even more than would have been directed at a frankly white-owned store. Rumors were not limited simply to the black community. Williams once got a call from the John Hancock Company, the mortgager on the stores, to ask about a story passing through the white financial community to the effect that Hancock was trying to undermine Freedom Foods. Although Hancock didn't feel it was out to wreck the business, they weren't sure if Williams felt the same, until he reassured them. In general Freedom Industries began to develop a negative halo effect within the community-- a problem that will be expanded on later in this study. These problems brought home to Freedom Industries the awareness that one cannot anticipate acceptance by the community, but rather that one must earn it.

Graphics 34.

As a design and advertising division, Graphics 34 serves primarily the in-house needs of Freedom Industries, although they hold some outside accounts as well. The art director is a woman who left the welfare rolls when she began with Freedom Industries, after teaching herself to draw and receiving subsequent professional training. Williams noted, with obvious satisfaction, that some of

the advertising ideas used by Freedom Foods have been lifted by Stop and Shop for use in their own advertising campaigns.

Freedom-Transatlantic Shoes.

This division imports economy-priced European shoes and wholesale outlets have been developed in the mid-West although markets in the Boston area are also being sought.¹⁶

Freedom Communications.

This operation has signed an agreement to buy a television station in Birmingham, Alabama.¹⁷ While the financial negotiations are underway, Freedom Industries is making formal application to the FCC for approval of the channel assignment. It has also made application for a cable television franchise in Boston, in the belief that cable television should serve individual neighborhoods and be controlled by their residents. Williams objects to the current practice, by large corporations, of gathering up bundles of franchises all across the country.

Freedom Housing.

Now in the process of assembling a site near Dudley Station in Roxbury, Freedom Industries is hoping to build

¹⁶Ibid.

¹⁷Ibid.

an apartment-office complex utilizing prefabricated building techniques. It is hoped that a mix of income levels will be found in the housing, and some plan of using the rentals from more luxurious units to offset the cost of more modest units is being explored. It is also hoped that the residents of the project can assume some decision-making role in matters relating to the housing.

Future Projects.

In the working stages are projects relating to urban education, a line of cosmetic products for black women, and various manufacturing enterprises. One acquisition that Freedom Industries is currently negotiating is that of EGandG Roxbury Inc (ERI), discussed in the first case study.

Present Financial State.

Each separate operation of Freedom Industries is showing an in-house profit, but added together the profits are not sufficient to cover the costs of total overhead, much of which is handled by the parent body, Freedom Industries. The expectations about the operations were that they would take a long time to become profitable, but once they did they would grow quickly; but in fact the reverse happened--they quickly became profitable but

expansion has proceeded slowly.

Freedom Industries and Community Development.

The description of Freedom Industries' first year of operation gives a picture of where it is at in a business sense, but it is also necessary to see how it has functioned as a mechanism for community development.

The original purpose of Freedom Industries was primarily that of creating an income-generating operation that could support needed social services in the community. The creation of such an institution in itself was expected to be a source of power as well as the profits it generated. However, the focus was on the need for independent funding rather than on the business operation per se. As a result no extensive theory of the role of business had been developed at the time Freedom Industries was organized. The need to make day-to-day practical decisions has caused the executives at Freedom Industries to shift to some degree both the focus of their concerns and some of their goals, and they now have a more comprehensive and realistic view of business. Some of the key issues that have emerged are discussed below.

Business versus Social Goals.

The major influences on the policy of Freedom Industries have been Archie Williams and David Smith, a

vice-president in the company. Smith, who is white, worked with Williams at NECDC and has assisted in the development of Freedom Industries at every stage. He is currently responsible for development and planning. With a history of community work in SNCC and SDS behind him, Smith holds to a "classical radical ideology."¹⁸ Together, Williams and Smith represent a socially-oriented view of business that puts them into conflict with other members of the staff. A number of middle management people have been recruited because they had skills that were needed in the company (e.g. accounting) and not because they shared the same ideological viewpoint. While most are black and feel some loyalty to the black community, they are basically "guys who are out to make a bundle" and to attract them Freedom Industries has had to offer salaries that are somewhat competitive with those offered elsewhere.¹⁹ Conflicts have developed when this "professional" staff is required to make seemingly irrational or uneconomical business decisions in order to accommodate some social goal. One such incident that occurred was related to the acquisition of the two food stores; the

¹⁸Interview with David Smith, August 27, 1969.

¹⁹Ibid.

transfer of ownership brought a ten-day hiatus in operations and temporary lay-off of the workers. While Freedom Foods was under no obligation to pay salaries during this period, the view represented by Smith and Williams was that the company should assume responsibility. Since this involved a substantial amount in wages, some of the staff vigorously fought this decision, to no avail.²⁰ Similar differences exist as to the types of business thought appropriate for Freedom Industries to enter. One viewpoint is that anything that is profitable should be considered while another is that some other redeeming feature--the product is required by the community or new skills are created, etc.--must be present. (Since some redeeming feature can probably be wrested from any business, the limits imposed by this criterion would appear to be small. Most likely it works out as a prohibition against a narrow range of activities, e.g. defense work, sweat-shop businesses, etc.) The reason for seeking the cable TV franchise in Boston, for example, is primarily to provide a mechanism for communication and organizing within Roxbury.²¹ While Williams is optimistic about the degree to which middle-

²⁰Ibid.

²¹Ibid.

management is responding to and adopting the socially-useful concept of business, others in Freedom Industries find that tensions over the policy still run high.

To a degree, the accommodating process has also moved the holders of the "social" view away from their original positions. The expectations about the level of social services which could be provided within Freedom Industries have been curtailed in the face of economic constraints. Early in the game, it had been envisioned that things like day-care centers, total health services, and a guaranteed annual wage could be made available to all the workers and their families. Now these schemes have been postponed and may be dropped entirely. As Smith has come to believe, Freedom Industries will have to build closer ties to the public institutions that provide such services rather than attempt to support a parallel set of its own at a prohibitive cost.²² As it is the overhead for personnel costs and fringe benefits is twice what they would be in another comparable company as a result of the extensive counseling and benefits offered. The insurance policy provided for all the workers is more comprehensive and the benefits are scaled higher than they are in a standard insurance plan;

²²Ibid.

in the food stores, this coverage is 25-30 percent more expensive than the usual policy of supermarkets. This means another one-half percent reduction in the already limited profit margin of the stores.²³ Similarly, Freedom Industries set out to encourage workers to take advantage of outside educational opportunities by offering to pay their tuition or fees. At one time over 50 percent of the workers at Freedom Electronics were attending school, including one man who was studying engineering at Northeastern University. The cost of doing this began to be significant and Smith feels this led to an unconscious decision on the executive level to push the program less. The result is that the larger working force of the food stores has not been encouraged, nor have they participated, to the same degree that the electronics workers have.

Distributional versus Quality of Life Issues.

While the more ideological of Freedom Industries' executives are in agreement over the broad goals of the company, there are clear differences in their priorities and, to a degree, their values. One set of priorities holds that distributional questions, principally the need for blacks to gain a bigger portion of society's resources, are of prime importance. Another view places equal

²³Ibid.

emphasis on questions relating to quality of life issues, particularly in relation to human needs in a work environment. The first approach, which focusses on the needs of blacks in the aggregate is most strongly represented by Smith, while the focus on the personal needs of individuals is the position fostered by Williams.

Within the quality-of-life framework Freedom Industries offers the opportunity for developing an economic institution in which the traditional authoritarian relationships found throughout most of society are replaced with something more closely resembling a peer group relationship. Williams feels that hierarchically structured relationships rely heavily on automatic responses to "authority" and reduce the freedom and potential capabilities of people all along the scale. He is attempting to alter this structure within Freedom Industries and hopes to ultimately wipe out the distinction between management and labor in the firm. One manifestation would be a company union that would be an advocate for all of the people in the firm, and would attempt to deal with any issues, personal or economic, that affected the employees.

At present, Freedom Industries has begun to enlarge the scope of decisions over which the workers have either

influence or control. These range from the design of a plant or a choice of furniture to questions of work schedules and vacations. In addition Williams encourages the workers--laborer and management--to voice grievances and fight for their positions, and he feels they have gotten more aggressive about doing this. The company bends over backward to support a worker and rarely resorts to firing. (Someone in the firm stated "It's almost impossible to get fired from Freedom Industries!")

This egalitarian philosophy is evidenced in the company's life insurance and medical plans. Traditionally such plans are scaled so that executives receive a much higher level of benefits than the average worker. When Freedom Industries requested that the same plan be written for everyone, president to trainee, the insurance companies balked but eventually complied. Both Smith and Williams expressed a desire to move towards a salary-equalization policy ("There's no reason why my secretary should be making less than me," said Smith but the fact is that the secretaries do make less than their bosses) and both indicated that it was probably illusory to think this possible. In view of the need to attract "guys out to make a bundle" this policy becomes even more wishful. Some modification of salary scales among the executives

has taken place however, with fairly marginal differences between executive levels. Williams also noted with just a shade of bitterness, that Freedom Industries is the only venture in its field that has held to its original intentions and hasn't been subverted simply by a desire to make money. He stated that every nickel and dime are put back into the business, whereas in many other operations the executives have used the profits to begin living high.

The "quality of life" concerns have also been expressed in an attempt to make the daily activities within the company humanistic and personal. The management directly involves itself with the company's employees, interceding on their behalf in problems with school authorities, police, credit institutions, etc. Williams reports that he and the other managers are likely, in the course of a day, to drive a sick employee to a doctor, serve as a witness for a relative in court, or help intervene in foreclosure proceedings. This policy of "personalization" is expressed in the training philosophy of Freedom Industries:

Freedom Industries believes that workers must be treated as more than skilled operatives - they must be treated as people. In working with the "hard core unemployed", technical skills represent only the first step in job training. Human skills are a more significant and yet more difficult segment of a man-power program. Before all else a worker must be able to come to work. He must stay healthy and his family must stay healthy.

The high rates of disease in our inner cities lead to high absenteeism and a disrupted work environment. Workers must be freed from other family pressures. Women must have day care centers for their children and workers must learn about terms of credit, so they do not have to quit their jobs and disappear when the collection agent arrives. A worker must be motivated in his work environment. He must feel that his job has a future - that his training will not lead him to a dead end. He must feel that the company is legitimately concerned about him and that he can participate in developing his own work environment. And he must be given the opportunity to broaden his technical and educational background in ways not directly related to a specific job. He must be given the opportunity to seek and grow. ²⁴

The way this policy would be carried out in the training of a supermarket employee, for example, is through education in economic buying, food production (visiting farms and processing plants), nutrition, and food preparation as well as basic remedial training, specific job skills, courses in the human environment (taxes and budgeting, housing, etc.) and the community environment. The result would be the creation of "food specialists" who, in turn, could serve as educators for the rest of the community. Workers would rotate in setting up special displays to demonstrate some tract on food or nutrition so that shoppers could share in their information.

The result of changing both the nature of the work engaged in, and the allocation of power and resources

²⁴"Application for Training," Funds (mimeo).

between workers would be a radically new work environment. Williams points to the electronics plants, where a great sense of cooperation and good will is said to exist, as evidence of the early effects of these policies. The workers are committed to the success of the plant, some bringing in tools from their own homes when the operation could not afford to buy them, or coming in on weekends or evenings to work. Williams is excited by the possibility that Freedom Industries could serve as a change model for the "disinterested Raytheon's" and the residents of poor white communities like South Boston.

While Williams' stated motivations and philosophy appear quite genuine, his relations with his employees could as easily be termed paternalistic as humanistic. His authority as president of a company has apparently sensitized him to the responsibilities he has acquired in regard to his employees, and he apparently prefers to carry this out in a personal rather than institutionalized manner. The satisfaction he derives from this role, as well as his closeness to the problem, tends to distort his ability to judge the results. In regard to his policy of decentralizing decision-making, for example, he has given the workers authority over very insignificant questions (i.e. the colors a building is to be painted), but not over such matters as contracts, etc. To talk of workers

influencing decision-makers as a result of gripe sessions falls radically short of making workers the decision-makers. To exhibit personal concern and assistance for the problems of an employee is desirable unless such aid can be had only through the kindness of a superior. When questioned as to the need to make structural changes if one is serious about sharing authority and responsibility, Williams maintained that one cannot bureaucratize or structure humanism and concern for an individual; he was seeking to build such a concern in the company by altering the attitudes of those making decisions. While Williams may be right, his position ignores the possible "humanistic" value of a more far-reaching distribution of power, and also indicates the limits of his own definition of "shared decision-making."

The second major emphasis within Freedom Industries as represented by Smith, is one that is seeking to create just such structural changes--both within and outside the company. While an operation like Freedom Industries is seen as a key to greater economic and political clout by both Williams and Smith, Smith places a higher priority on this objective. He tends to view the company in light of its ability to foster organization within the black community and to consolidate power vis a vis the larger

white community. By creating some power base in the community as a result of its own economic activities, it is expected that the company will be able to leverage more resources to be used by the community. Smith holds that the present clout held by Freedom Industries in relation to city officials or financial institutions is very marginal, although some changes in attitudes have been experienced. 25 In regard to the internal situation at Freedom Industries, Smith feels that more significant structural changes should be made if the thing is not to be a sham. He remarks "at worst, Freedom Industries is no better than a black Polaroid." While relationships in the executive levels were felt to be very open and casual, Smith was less glowing than Williams on the environment at the food stores or electronics plant; "While the plant is about as good as that kind of operation can be, the food stores are little different from the average store." Smith, however, notes that it has been more difficult than he expected to decentralize the decision-making process. On the one hand, the demands of the business favor a centralized process, and on the other, the decision-making capabilities of the workers have to be developed. Before that takes

²⁵Interview with David Smith, August 27.

place, the personal problems of the people have to be met for "if a guy's mainlining, and we have a couple who are, that is a more critical problem than making decisions at work." 26 It takes education and training on the part of both workers and management to accomplish a sharing of responsibility and this means a financial commitment that Freedom Industries is unable to make at present.

Relations with the Community. Freedom Industries has attempted to involve itself and to assist other organizations in the community. By paying for a year's ads in advance with a local black newspaper, it provided the paper with working capital it needed at the moment. It extended food on credit to the freedom schools set up during a school crisis. It fed, and helped negotiate for, the black students who were sitting in at Brandeis University. Whenever possible, it utilizes the services of other black businesses in the community; for example, it uses only Paradise Cab, a recently organized black taxi company, in the pickup arrangement at Freedom Foods. 27

In addition, Freedom Industries attempts to carry to the community the idea that the company is related to it

²⁶Ibid.

²⁷Nancy Anderson, "A New Power in Roxbury."

and is one which the people can influence. The same "peer relationship" that is sought with Freedom Industries is also sought between it and the community. This is what Williams feels is at the heart of the "negative halo effect" accruing to the company. The experience with Freedom Foods is that people who previously remained mute in the face of poor service or goods at a white-owned supermarket are now becoming extremely vocal about about any deficiencies in the black-owned stores. As Williams related, "There are husbands who had never in their lives stepped into a grocery stores. Now they're doing the shopping and they're all experts on the price of a can of chickpeas. Even an old classmate of mine from college comes to me to complain if the lettuce is at all wilted." If any single thing is found lacking, the whole store is responsible and the people make their criticism known. When sales began to dip, Freedom Foods went to competitors' stores and interviewed people as they were waiting in line as to why they weren't at Freedom Foods. The most frequent complaint was that it was always necessary to wait in lines at Freedom Foods. All of this is regarded by Williams as evidence that the shoppers' expectations have become more exacting and they feel they have the right to criticize and further, that they can make some changes if they do. All the same, "It hurts like hell, " says Williams.

The attitudes of the community in general has been somewhat more ambivalent, being both hostile and impressed. Freedom Industries is sufficiently like a community organization as well as a business to subject it to the same criticism and kibutzing that greet the activities of every community group, from Exodus to a local APAC. In this way, Roxbury is much like a small town in that few things can be kept private and almost all actions will be greeted by some mildly hostile debunking. Freedom Industries made clear its concern for the community and having done that it is subject to failure in the way an indifferent business would not be. The suspicion that Freedom Industries' leaders are really selling out, or fronting for whites, or making a million dollars, increases the hostility. This was evident in the relations with the Youth Alliance, a group of teenagers who had organized themselves and played a fairly militant role in the community. Freedom Foods gave the Alliance a contract to deliver ad leaflets, despite the fact that there existed some hostility among the members toward Freedom Foods as a result of the "fronting for whites" rumors. When it was discovered that the Alliance was failing to deliver the ads, and was instead stocking most of them in their headquarters, the contract was ended. To the Alliance, this was clear proof of the bad intention of Freedom Foods.

Those who accept Freedom Industries on face value and ignore the rumors tend to be more impressed with the operation than Williams thinks they should. This too can be illusory and the result will be that the community will expect miracles from him. What he feels is necessary is that four or five operations similar to his be developed if any real economic force is to be developed.

As to the role the community will play in actually controlling Freedom Industries, Williams' stand has remained unchanged. He wants no community control of the company and he repeats, "This business should be thought of as a money-making machine, that's all. The community can control the money it makes." Williams expresses some anger at the people (mostly white) who keep asking him how he is going to give the community some control. "White businessmen that I go to for financial assistance want me to have community control, something they'd never think of having in their own business," he said. Others in Freedom Industries who are sympathetic to the idea have more closely examined the problems of community control. One major problem is evident when one distinguishes between ownership and control. The first implies simply dividends and is fairly easily dispersed, although "peoples' capitalism" is of no benefit if it means tiny bits of equity in small

businesses, says Smith. Control, however, is much more difficult to achieve--either one has broadly dispersed control through an unmanageably large body that does not allow for any efficient decision-making or one reduces the decision-making body to something like a Board of Directors, which in actuality, often means that control for the larger body is a delusion. The problems of developing a large body of informed residents also produces a stumbling block for, as one Freedom Industries executive noted, the operation of the business could be wrecked at the hands of the residents. As an illustration, he pointed to Freedom Foods which, in money volume, does a phenomenal business, but doesn't make large profits. The average shopper, faced with soaring food costs, would move to slash prices if he could. However, even a one or two cent decrease on any item (a cut that would pass unnoticed to most shoppers) could entirely wipe out a profit margin of the store. ²⁸ When asked to comment on the structure provided by the Community Self-Determination Act where an appointed, and buffered, business board makes the decisions, the response was, "If the community cannot really make the business decision, why have the structure?" ²⁹ As Smith put it,

²⁸ Interview with David Smith, August 27, 1969.

²⁹ Ibid.

"I want to get control spread, but can't figure how to do it. That's my main ideological bitch."

The difficulties of accommodating widely-dispersed community control has led those supporting such a philosophy to revise their thinking on the constituency appropriate as a base of control. Where they previously held that the entire community should be the base of control, they are now thinking that each institution should define its own unique population made-up of those to whom the institution is centrally relevant. For Freedom Industries such a group might consist primarily of its employees, and to some degree, its consumers. At present, though, no stable, long-term policy has been established but is instead developing out of a series of ad hoc decisions.

Freedom Foundation. What the community is definitely expected to control, in relation to Freedom Industries, is the bulk of the profits they make. The control of the Foundation, with its ownership of 75 percent of the stock in Freedom Industries is at present in the hands of two of the company's executives, Smith and Williams, and over a half-dozen other community people. These include Mel King and Bryant Rollins of the New Urban League and others suggested by local community organizations. Williams hopes that ultimately

³⁰ Interview with David Smith, September 15, 1969.

Freedom Industries will exercise no role in the administration of the Foundation. Here again there are different conceptions about the role the community can play in controlling the Foundation. On the more conservative side, it is felt that representatives of community groups (perhaps a body like the United Front) should act as the directors of the Foundation while a more liberal view is that access should be widened to allow more leadership to emerge from non-organization people. A decision as to whether the stock held by the Foundation is to be voting or non-voting and how much additional stock will be issued are questions currently being discussed within Freedom Industries. Discussions of the alternatives remain academic at the moment and will continue to until Freedom Industries begins making a profit. The existing structure of the Foundation in relation to the corporation itself may, in the future, produce tensions that are already evidencing themselves in Freedom Industries. These tensions arise out of the conflicts between meeting the in-house business and service needs of the company and the income-needs of the Foundation. Profit absorbed internally on medical services for Freedom Industries' workers will mean less profit to be distributed by the Foundation. Decisions to reinvest surplus profits in additional expansion will also reduce or eliminate dividends to the Foundation. Until the time when the Foundation can develop a sufficiently

diversified investment portfolio, its operations will be very dependent on Freedom Industries regardless of the company's absence from the Foundation's board. At present, only one community leader, Mel King, is on the Board of Directors of the corporation itself and this is the body that will be formally responsible for such decisions as declaring dividends, etc. What is evident in Freedom Industries in its first year of operations is that the operations of the business has assumed a greater importance than its founders had really anticipated. The internal concerns of the company--be they desire for growth or additional services for the workers--are, at present, overshadowing the focus on community social services. Whether this will change once significant profits start being generated to support such services is unclear, although this is the hope of the company's executives.

CONCLUSIONS

In summarizing the results of this study it is necessary to clearly state the concerns that motivated it, for this research has been primarily an attempt to answer questions that have been personally troubling. The questions arise out of two clear positions that have been supported by many black leaders: one, that blacks must control the institutions that effect their lives in critical ways and two, that black communities must foster their own values and culture and create the institutions which will best serve these values. As a rule, these two positions are seen as complimentary--if black parents desire a different kind of education for their children than can be gotten in a Boston public school, they must achieve control over a particular school and supplant the old-style education with a new. The assumption here is that by controlling the old institutions one is in a position to transform it. A more pessimistic view is that controlling such an institution only means that one becomes absorbed in it in a higher level, with the result that one loses the capacity to alter it. The parents who gain control of a local school in Roxbury may

only be investing their energies in buttressing up a deteriorating school system. Thus it occurs that a new and larger institution must be controlled before the qualitative goals of a group of dissidents can be implemented. To stop short of this, and demand only a change in a fragment of the dominant institutions, is to believe that "the goals of the 'revolution' can be realized for one group without going through to completion that necessary, protracted struggle of transforming the society for all groups." ¹

This problem becomes potentially more conflicting in the area of black economic development. On the one hand, blacks are clearly demanding an equitable share in the economic institutions and resources of this country, but they are also encouraging a concept of black brotherhood in which mutual dependence and a communality of interests are fostered in the ghetto. Either the goal of black brotherhood and solidarity is merely a tactical one which increases the likelihood of achieving a redistribution of economic resources or it stands as an end in itself. The central question, then, is whether the economic enterprises which are being promoted in ghettos are compatible with the vision of new human relationships

¹Alan Haber. Economic Development Strategies in the Urban Ghetto: Decolonization and modernization, June 1968 (mimeo).

which are being fostered between blacks? A traditional critique of capitalism holds that this dominant form of economic institution in our society embodies the values of individual competition, concern for status, a material definition of value, and hierarchically-defined relationships--all of which would be incompatible with the development of solidarity and fellowship between blacks. It is the validity of this statement that has been a central concern of this study though stated more generally it asks: What goals are being expressed in current black economic development and to what degree have traditional economic institutions and structures been able to accommodate the goals of black solidarity and self-determination? In short, is economic development a promising strategy for community development and if so, what kind of community development?

The sampling of writings and statements on the subject of black economic development included in the introduction to this paper make it clear that there exists little consensus as to what the goal or direction of development is. On the one hand, it is claimed that black economic development will serve as a reaffirmation of the free enterprise system and traditional private ownership, while another view holds that the new economic development will be formed around a collectivity--

that of the entire black community. Another major position is that the outcome of ghetto development will be a new corporate imperialism in which large economic gains will be made by ghetto residents at a cost of ghetto independence. This is contradicted by the position that ghetto development policies are to be criticized because they will never create anything more than small, uneconomically-viable enterprises. A final set of assumptions relates to the degree of racial isolation that will result from black economic development, one view holding that the policy is separationist while another foresees greater integration resulting. The purpose of this study, then, has been to begin developing a more accurate set of assumptions about the nature of current economic development and this will be done by analyzing the major issues which have emerged out of the case studies and by drawing some tentative implications from the analysis. Finally, an attempt will be made to describe the role of economic development in a context of community development.

Most of the distinctions between the many and varied programs of black economic development can be attributed to differences in regard to three major issues:

1. Who is to control a given enterprise and through mechanisms?

2. To whom are the benefits dispersed and what structure provides for this?
3. Should economic development be an end in itself or a strategy for political development?

Control

The issue of control permeates all aspects of black economic development and it is useful to look at control as it functions on three levels: one, the relation between white corporations or financial institutions and black businesses; two, internally within the black community and three, in the political arena outside the ghetto. Control, as it is used here, is not limited to formal, legal power, but includes the use of political and economic influence.

Control by White Business Institutions or Ghetto Enterprises:

The first level of conflict over control lies between the black enterprises being developed and the white financial and business institutions that are involved with them. The original forces of the current phase of black economic development was on the need for blacks to control their own economic institutions, and the visibility of the many ghetto businesses, primarily retail stores, that were clearly owned by whites was a constant reminder to blacks of their own lack of control.

Many riots were used, in part, to either soften the hold of white ghetto merchants or to force them out entirely. The goal, at that time, was to transfer ownership of these businesses out of the hands of whites and into the hands of blacks; a larger part of ghetto economic programs are still directed to this end. It soon became apparent, however, that emotionalism over the issue of control of these businesses had clouded the fact that many of them were very marginal in value. Bigger and more viable businesses were needed but they involved substantial amounts of capital and financing if they were to be developed. Since the ghetto was without such resources, blacks were faced with the contradiction that "controlling our own economic institutions" in the ghetto involved dependency on white financial institutions outside the ghetto. Those blacks who are attempting to develop some program of economic development have had to confront this issue squarely and decide for themselves what the nature of external control is and how much they are willing to accommodate to it. The range of answers that have evolved in Roxbury include, at one end, that if the United Front (an association of most major community groups, which is seen as a militant body) who operated a program of business development that is funded by white no-strings contributions and, at the other, the

black managers of ERI who sought to thoroughly imbed themselves in a white corporation. The most common model, no doubt, lying somewhere between these extremes, will be that of an independent black business that allows itself a limited dependency on white institutions in order that it can use the resulting gains to increase its own long-term viability.

The degree to which this constitutes "control" by white institutions is largely a matter of interpretation, for the formal arrangements between a black business and a white institution rarely reveal the actual allocation of power. This is illustrated in an article on Roxbury's economic development by a former New Republic writer, James Ridgeway. Being hostile to capitalism and large corporations, he is sensitive to the role they are playing in ghetto development, and to the control they exercise there. After looking at Freedom Industries, he concluded:

Since Freedom Industries has no experience in this field (electronics) it depends on the contractors for management and training, which leaves it pretty much at the mercy of the bigger companies.

In relation to Freedom Foods:

Looked at one way, a black company has taken over two stores in a black community. Looked at another way, a scared white store owner has got himself a black front. While quitting the retail end, he still controls things as mortgage holder and sole supplier.

After briefly discussing the other black ventures in Roxbury, Ridgeway summarizes by saying:

If black business succeeds in Roxbury, it will create more jobs and the illusion of control. In fact, however, the black militants who talk about survival strategy will have duped themselves. Their colony may have shifted hands from small white store owners to large insurance companies, but it's still a colony. ²

The questions Ridgeway poses are common ones and troublesome to answer--what constitutes control by white institutions and what is the alternative? Ridgeway's conclusions suffer from too rigid, or too superficial, a view, of what constitutes domination by white institutions, but because his view is shared by others it demands examination. First, it is presumptuous to assume that a developing company, simply because it lacks experience, is at the mercy of bigger companies. This may or may not be the case, but it is not automatically true; it presumes a far narrower range of alternatives open to a black entrepreneur than is realistic. This is illustrated in Ridgeway's own observation that Freedom Industries was dependent on electronics contractors for training when in fact Williams utilized the services

²James Ridgeway. "Urban Bourbons and Blacks," Mayday, No. 2, October 18-25, 1968 .

of Lincoln Laboratory and OIC, which involved no compromise of Freedom Industries' independence. Still, while it is possible to avoid some dependency relationships, others are unavoidable, such as Freedom Foods' relationship to the mortgage holder on the stores. (Was Williams to pay a million dollars in cash for them?) Nearly every business, white or black, is dependant in some fashion --but even these relationships are negociable. Here Stokely Carmichael's preconditions for viable coalitions are most relevant to business partnerships and bear repeating: 1. recognition by all parties of the self-interests involved, 2. mutual belief that each party stands to benefit by an alliance, 3. an independent base of power by each party, 4. alliances dealing only with specific and identifiable goals. Freedom Foods' arrangement with Purity Supreme seen from this perspective, is less a situation of black dependency on whites than of mutual dependency. The need of Purity Supreme to get out of Roxbury coincided with the need of Freedom Industries to buy a supermarket and this placed them both in a bargaining position. The bargaining strength of a black businessman derives from the particular circumstances surrounding a given business negotiation and its existence cannot blanketly be denied.

³Stokely Carmichael and Charles V. Hamilton. Black Power, (New York: Vintage Books, 1967), p. 80.

The David and Goliath relationship that existed between Eastern Gas and State Enterprises demonstrated the extent to which the political power that automatically accrues to a black organization in any black-white relationships can compensate for a shortage of economic power. At times this political clout may even override the existence of white institutional power--this may have been the case when Purity Supreme did not press Freedom Foods into a commitment for management services equal to the duration of the mortgage it held. Such an arrangement could have been damaging to them both when it became public. The case of ERI demonstrates two points--one, that independence may not be a goal sought by black businessmen, especially if their personal needs can be better served by foregoing business independence. For them, individual power and financial independence must be weighed against the values of a vaguely-defined "community autonomy." The second point is that the problems of doing business in the ghetto remain severe enough that a white corporation does not necessarily want control over a black operation. What they do want, as shown in the case of EGandG, is control over their own corporate funds. ERI was a white, not a black, creation; EGandG's curtailment of ERI's autonomy

did not represent a white "takeover" because it never really belonged to the blacks.

The other question that Ridgeway's analysis poses relates to the alternatives available to a black businessman who seeks to avoid any control by white institutions. The alternative of seeking financing in the black community is obviously limited--that's what economic development is all about. The route taken by the United Front of using white funds with absolutely no conditions imposed is free of white control in a narrow sense, but leaves the group tremendously dependent on the good will of white donors. In any case such sources are not adequate in the face of the resources required. The tradeoff is between a short-term infringement on their control and the long-term strength and independence that will result from growth. A good example of this is the arrangement between State Enterprises' contracting subsidiary and Poley-Abrams which resulted in controls by the white firm for the duration of the rehabilitation job but provided bonding which gave them access to a \$1.5 million job and increased their chances of getting similar jobs in the future. If it is the intent of a black businessman to retain control of an economic enterprise, yet to make use of the necessary resources held by whites, he can probably do so if he has both

brains and discipline. It requires brains to understand the implications of certain activities and relationships and discipline to balance the needs for short-term resources with long-term requirements for independence of action. Without a substantial use of outside capital, it would seem impossible for a ghetto to develop its own self-generating sources of capital or funds.

Control within the Ghetto: A strong concern for the decentralization of decision-making has been attributed to black communities as a result of their political and organizing activities and as a result of the pronouncements of many black leaders. What this view fails to take into account is the motivation behind such activity and rhetoric. When black leaders are confronting dominant white institutions and demanding that control be shared they are speaking from the positions of have-nots. The objective they seek in decentralizing decision-making is really a re-alignment of power. Thus dispersed decision-making assumes tactical importance; this contrasts with the view, expressed primarily by white radicals of an SDS persuasion, that "participatory democracy" is a goal in its own right. This view tends to emphasize

the psychic values of self-government where the elimination of despair, alienation and turmoil is said to result when ghetto residents participate in the decisions effecting them. ⁴ Further, by sharing in the ownership of profit-making enterprises, the need by the poor for demeaning handouts which strip them of dignity is said to be eliminated. Thus, some radical thought holds that control of black economic ventures must not be retained by a leadership elite but must permeate through the community.

If the emphasis of many blacks on decentralized decision-making is in fact a tactical strategy to gain greater access to power, one could expect that upon achieving power, the same blacks would quickly lose interest in shared control and decision-making. This is, quite clearly, what has been occurring in much of the economic development activity in Roxbury, where blacks are beginning to accrue power or control and see no need to give it up (to other blacks). In some cases, demonstrated best by Jack Robinson and State Enterprise, the ability to control a situation is related to the capacity to make money. Robinson felt his own autonomous company could produce more wealth for him than State

⁴Gar Alperovitz, "Are Community Corporations the Answer?," Boston, June 1968, p. 49.

could with all its new checks of power. On the other hand, is Archie Williams who feels he can best maximize his power in behalf of the black community by not dissipating it through a structure of decentralized control. Frequently, he says, white businessmen, who are offering financial assistance to Freedom Industries, want to see a community-control structure built into the company yet these businessmen have never attempted such a thing with their own businesses. ⁵ The problems of doing so are numerous.

The most obvious problem is that of defining a community within which control is to be shared. The attempts to translate a general concept of community into something operational is a problem that has confronted all three of the businesses studied. This problem was resolved by EGandG in setting up ERI when it decided that ERI employees would represent "the community." Bert Lee, however, relates that EGandG originally intended to extend the opportunity for ownership of ERI only to the executives of the plant. ⁶

Only pressure from the ERI managers changed the plan to extend equity to the non-executive personnel. Even so, the managers are cynical of the role of "community

⁵Interview with Archie Williams, August, 9, 1969.

⁶Interview with Bert Lee, July 18, 1969.

control" of ERI. First, most of the stock will be held by black executives, most of whom live outside of the ghetto. Are they members of the community? Even those workers who do live in Roxbury are unlikely to 25 years from now when EGandG's maximum divestment of control will take place.

Within Freedom Industries this question, has received a great deal of attention, some of which is reported in the case study. However, an unexamined and basic contradiction was revealed by Williams while discussing another aspect of his operation altogether. When questioned as to the company's black-white employment ratio, Williams stated that they didn't keep track. In his eyes anyone who lived in Roxbury, black or white, who shared a concern for the community was a part of it. Thus even the crudest definition of the community (total population of blacks within a given area) was irradiated. When Freedom Industries had to make an operational definition in regard to control of Freedom Foundation it chose to regard the population of the "community" as a series of organizations. State Enterprise, on the other hand, opened its membership to the community-at-large as individuals but deliberately excluded organizations from membership.

Once an economic enterprise has operationally defined a "constituency" for control, a new series of problems emerges as it sets up a structure for the "community" control. If a policy of direct (non-representational) control is pursued, the conflict of accommodating the goals of the business to the unwieldy nature of the decision-making procedure is great. Freedom Industries has decided this question in favor of the goals of the business-- which is to provide resources for the community. State Enterprise originally decided in favor of wide-spread control, but its experience revealed the difficulty of maintaining decentralized control. The tendency for more power to accrue to those closest to day-to-day decision-making is predictable enough. What was less evident was that the other potentially contending groups who remained quite close to the activities of the company could also be effectively excluded from the exercise of power. If those whose self-interest is at stake cannot manage to be effective, those individuals who are indifferent are almost certainly bound to be excluded from control when sporadic issues of interest arise.

If the goal of direct control is modified, either by a system of representation or by a reduction in the areas open to control (eg. the choice of a business manager rather than actual business decisions) it would seem that

the psychic values claimed for it would not be produced. Control which is not psychologically perceived and experienced cannot reduce feelings of "alienation," etc. The average stockholder of Sears and Roebuck probably feels quite removed and powerless in relation to the company he "owns." In addition, substitutions of a black elite for a white elite or an unresponsive black business for an indifferent white business is little consolation to the black who is on the bottom. For him the situation of the haves and have-nots, in relation to power, has switched from a black-white context to a black-black context. Thus the original meaning of "community" control of business which was that blacks should control previously white-owned businesses has been extended to mean wider black control of black businesses and many black businessmen are finding this impossible to live with.

External Political Arena: A final aspect to the control issue is raised by some conjecturing about the shifts that might occur in the making of municipal political economies if powerful new actors, like the national corporations, begin to involve themselves in ghetto activities. Should the federal government's emphasis on the role to be played by corporations in ghetto

development ever be supported by large amounts of Federal money, such funds could circumvent municipal structures and enter the ghetto via private institutions. This would be especially significant if the funds for ghetto economic development ever began to substitute (as some people fear they're intended) for more traditional forms of social service funding, especially those which pass through the control of local government. Some hint of this is seen in the role Eastern Gas envisions for itself in relation to State Enterprise and future development in Roxbury. Eastern would like to be a funnel for Federal and private monies which could be utilized in the development of Roxbury through an operation like State. If significant corporate intervention in the ghetto is induced by heavy Federal subsidies, the powers of city government could be weakened. For example, if Federal grants to corporations covering skills training and remedial educations costs were developed at the expense of aid to cities for adult education, a weakening of local municipal power would occur. The danger that some foresee in this is that municipal power would be eroded just as the blacks are about to obtain control of the cities. 7

⁷Richard Cloward and Frances Piven, "Ghetto Redevelopment."

If the city is reduced in power instead of strengthened the blacks will have lost an important power base; as funds for services, jobs and facilities are routed through quasi-public/corporate structures, black access to control will be diminished.

Such an outcome could occur only if the scale of Federal support available to corporations for ghetto development were to become much greater than it is today, for no prolonged or extensive involvement by business in the economics of the ghetto is going to take place without it. EGandG, for example, had expected greater Federal support of its Roxbury operation and when government contracts for ERI did not materialize and losses mounted, they soon began to cut back the project. There is little likelihood that the Federal government would make the committment necessary to attract considerable corporate intervention, in part because it would be very costly and in part because the return on its investment--in terms of altered social or economic conditions in the ghetto--would be a very slow one. It is likely, however, that minor shifts and adaptations in the local political arena will be forthcoming in response to limited corporate intervention.

Benefits

A second major issue of particular concern to the ghetto, is the means and substance of the benefits dispersed as a result of economic development. While this can be directly tied to the question of control, an operation like Freedom Industries clearly separates the two.

Traditionally, the black, bourgeoisie businessman or professional, has been criticized for his neglect of, and alienation from, the rest of the black community. Black businessmen have generally functioned as a conservative force in the community. Today, the old-line businessmen are becoming increasingly sensitized to the new political spirit of the black community, but this does not necessarily alter their way of working. State Enterprises demonstrates well the ability of the traditional business interest to adopt the rhetoric of the militant black leaders and convert it to their own ends. State went further, in latching onto opportunities created by the political acts of the militant leaders. While they solemnly state "The emerging Black Middle Class has a great opportunity, and a compelling obligation to help its less fortunate brothers attain economic security." 8

⁸State Enterprises Philosophy (mimeo).

State used the opportunity to provide low-cost housing in a fairly shabby way. One of the expected benefits of black enterprises was that they would be more responsive to the black population; the behavior of some leaders of State around tenant complaints show that they may prove to be equally indifferent. On the other hand, Freedom Industries has remained responsive to community sentiment. One difference might be that the success of a major operation of Freedom Industries (the food stores) is dependent on the good will of the residents, more so than the less competitive movie theater of State. ⁹ The degree to which any black enterprise must work to develop acceptance by the community is a point of some conjecture. One position taken is that blacks react negatively to the traditional capitalistic orientation toward profits and regard black capitalists as being as exploitative as white capitalists. ¹⁰ A Newsweek magazine article on the subjects concludes, "Despite some ghetto ventures into black entrepreneurship, black capitalism is almost universally scorned by today's black leaders. ¹¹ Robert

⁹ Since State's income from the gas station occurs from the lease of the land and not sales directly, they are not required to be consumer-oriented.

¹⁰ Peter Siris.

¹¹ Newsweek, "Angry--But They Still Have a Dream," June 30, 1969.

Hall of Watts Operation Bootstrap agrees "To me black capitalism means one or two people are going to get rich. We need black economic development that helps everyone, not a few." ¹² However, a recent survey done in Roxbury asked a larger sample of residents questions about their buying habits, including a question relating to the take-over by blacks, of most of the white businesses in the community. ¹³ The response was 75 percent in favor and 8 percent disapproving. When questioned further, almost half of the respondents expressed a willingness to pay higher prices at black-owned stores and nearly 85 percent expressed a willingness to travel out of their way to deal with a black-owned store, given that the price and quality were equal to that of the white stores. While part of the positive responses were based on a distrust of whites or an expectation of better treatment by blacks, most supported the idea because sticking together meant helping other blacks. While these responses are not to be taken at face value, they do indicate a lack of the hostility toward black capitalists presumed by black leaders. Those who opposed the idea, did so in the assumption that a

¹²Ibid.

¹³The request was made that the source of the survey not be identified until the survey was made public.

black store would carry poorer quality goods or charge higher prices. Thus, while a black businessman may have to overcome no greater antagonism because he is a "black capitalist", the experience of Freedom Foods indicates he does not garner any automatic support either. The critical attitude of many residents to the operation of the food stores, which Williams attributes to a growing "peer relationship mentality" in their part, could also be a result of a tendency of many blacks to overtly or unconsciously deprecate the abilities and efforts of other blacks. Thus, some shoppers are critical of Freedom Foods, not because "I have the right to judge" but "If its black-owned its got to be bad." The question remains as to whether a black businessman is made to feel a need, by pressures from the community, to provide benefits to the community that a comparable white businessman in a white area does not feel. The experience of the businesses studied indicates that the average consumer or man-in-the-street is relatively indifferent to the social-orientation of a business. The leadership level, however, will attempt to bring pressure on a black-business to act in behalf of some community goal when the business in some way touches in areas of public concern. As noted earlier, the expressed intentions of Freedom Industries have placed their entire operation in this public arena and the existence

of certain political feelings within the community have led Williams to boycott certain advertising media (eg. Boston radio station WILD) and certain financial sources (eg. Boston's Urban Coalition Group) in addition to its other community acts. ERI became "public property" during the period of its inception and leaders responded by bringing conditions to bear on equity and staffing matters. Two of State's projects, the theater and gas station, are strictly private entrepreneurial activities and are beyond the attention of the black leaders; their rehabilitation project was public by virtue of the history of the BRP program.

Ultimately, however, the distinction between business leaders and the degree to which they were willing to put benefits--services, money, influence, leadership--back into the community was a direct function of their own acquisitive desires rather than a perception of the power of other sectors of the community. The "power" of community leaders was, after all, not a terribly real threat. If a group like State Enterprise or EGandG/ERI chose to solidly confront community leaders with an issue (like the firing of the ERI managers or the failure to provide heat in an apartment) a showdown would result in which the leaders would have little real recourse of action. Williams, on the other hand, chooses to be susceptible to community

pressures. This is critical in that so many of the benefits attributed to black economic development (eg. recirculation of money through investment in further black enterprises) are all predicated on a greater responsiveness in the part of developing black businessmen than is warranted and few businessmen can sufficiently subjugate their own individual wants to those of some hypothetical community. A conclusion to be drawn is that there is little inherent in the present environment of the black businessman to guarantee a greater responsiveness in his part. Some, like Archie Williams, are motivated by both ideology and the threat of social sanctions from the environment in which they operate--that of the black political leadership.

Economic Versus Political Goals

"There's nothing the matter with niggers that money can't solve," a young black boy is quoted as saying, and this suggests the most basic issue underlying different strategies of black economic development. ¹⁴ Is economic development and a higher per-capita average income an end in itself or is it to be used tactically towards political changes?

¹⁴Theodore Cross, "Black Capitalism."

It is relevant here to place the potential of ghetto economic development in perspective. While there is obviously inadequate data as yet in the availability of investment capital and black entrepreneurial skills, and the success of current operations one can still get a general sense of the scale of activity that is either required or expected. One writer on the subject has attempted to establish a crude measure of the amount of employment to be expected from black enterprises. The average annual non-white employment has been growing by almost 160,000 jobs per year from 1960 to 1967 and given that an increase of 50 percent of this rate is required to keep even with the growth of the labor force and to absorb some of the unemployment and under-employment, 240,000 jobs will be required annually for several years. ¹⁵ It is unlikely that more than 10-15 percent of those jobs will be created through black ventures. This means that 85-90 percent of black employment will have to occur within the white business sector. The role that dividends would play in providing income is, on a larger scale, even more minimal. As Dorr also noted, it's

¹⁵Michael Brower, "The Promotion of Black Ownership and Business," (unpublished draft, December, 1968).

the jump in a man's income from \$2500 to \$6000 in wages that's crucial, not the jump from \$6000 to \$6300 from dividends.

While EGandG established a primary goal of employment in their ERI operations, the other black firms focussed less on this goal. Even EGandG's total investment (training, equipment, purchase, etc.) of something like \$1,400,000 has resulted in only 40-some production jobs instead of the original 140 envisioned. ¹⁶ While Freedom Industries employs about 180 people, the bulk of them are in the previously existing food stores so that the total increase has not been that great. While one of the industry selection criteria of Freedom Industries is that it be labor intensive if possible, they have no illusions about black employers solving the unemployment problem. State Enterprises has developed only a small handful of permanent jobs (eg. theater manager), the bulk of its employment resting with the construction crews on the rehabilitation project.

The fact that Dunn and Bradstreet figures show that there is only a 50 percent chance that a new venture will last 18 months and that odds are five to one against survival after ten years, suggests that it is shaky to rely

¹⁶Steven Trooboff, "EGandG Roxbury, Inc."

on black business to increase the per capita income of black communities (especially if a man leaves a wage-earning position to enter business on his own).¹⁷ Thus, if significant wide-spread economic benefits are unlikely to follow from the present activities of black business, and if some of the anticipated psychological and social benefits are just as dubious, what can be expected from black economic development?

There are two possible goals of the changes that can result from the current programs of ghetto economic development. The first, and easiest to achieve, is that of giving blacks a piece of the action through the creation of traditional black capitalists. Probably most of the efforts in ghetto development will end up this way. This meets one problem, that of the inequitable distribution of entrepreneurs between the white and black populations of this country, but does nothing towards meeting the political or economic needs of most blacks. This view holds that the development of black business is an end in itself and is exemplified by the model of ERI.

The second view holds that economic development should be focussed on the creation of economic and political institutions which can strengthen the black community's ability to confront repressive institutions. It can provide a mode of organization for the community, it can

¹⁷Michael Brower, "The Promotion of Black Ownership."

provide some economic independence and it can develop political influence for a black neighborhood as a collectivity. This collective body would serve both as the producer of changes and the object of change. In the words of one black leader "Modernization is a time for dynamism when it is absolutely necessary to call for and push for new forms, new institutions to solve old problems." ¹⁸ One old problem blacks have always been keenly aware of is inequality so that one of the innovative forms they are in the process of creating is that of "people's capitalism" which attempts to confront inequality in economic enterprises through wide distribution of profits. This takes the question of inequitable distribution beyond that of a racial concern and really focuses on class.

The minor attempts of Freedom Industries to deal with such values as inequality of workers, the fragmentation of work, arbitrarily assigned status, and profit measures of value suggest that the constraints of the profit system are severe. When forced to choose between working towards the goal of radically restructuring the economic system of the society and working towards an increase in resources within the black community, Freedom Industries has chosen the latter. The job of creating microcosmic models of an idealized economic system in ghettos across the country

¹⁵Stokely Carmichael and Charles Hamilton, "Black Power."

is like asking for franchised radicalism, and the current attempts at black economic developments are not likely to create even a few such models. The least that can be expected to result is that there will be a more equitable distribution of entrepreneurs between the black and white populations; the most that can be hoped for is that black communities will gain increased access to power and resources and that these goods will filter down into the community. What will not occur are economic institutions based on values that depart radically from those dominant in the society today.

Summary.

Using the case studies and other general data, it is possible to draw a general picture of the directions which black economic development seems to be taking. One of the most clear-cut conclusions is that the black man entering business today is not seeking to develop a separatist economy. While many of the small-scale retail or service stores in the ghetto are almost by default dependent on an all-black market, few new businesses are initiated on the assumption that a segregated market can be restored. Now that black businessmen feel that the opportunities in business are beginning to open up, they are seeking larger operations in such fields as manufacturing, communications, construction, etc., and the most efficient operations are the medium to large enterprises that require substantial capital investment and a much larger market than can be sustained within a black community. The criticism that black economic development would foster segregation does not appear to be true--most businessmen are quite willing to function in a larger-than-ghetto economy.

The threat that controlling white corporations would be excessive and that a new brand of colonialism would develop also does not appear realistic at present. The

major role played by white financial institutions appears to be in the provision of traditional forms of financing-- something almost inevitably required by a black business and the degree to which such a relationship connotes control is a result of the particular power position of the black businessman. Further, it appears that white institutions have not generally sought to exercise excessive control. This, of course, is because most white financial or business institutions have not made excessive or risky investments either. When they do, as in an industrial-turnkey operation, it can be expected that they will be very controlling, especially when their investment is being threatened. This lack of autonomy for a turnkey operation in the period when long-term policies are set means that black communities inherit a business that is locked into, for the most part, an established mode of operation. If blacks are to be given the maximum freedom to establish their own long-range business policies it is important that Federal assistance for development be in the form of programs that can be utilized directly by black enterprise rather than programs (eg. tax incentives for corporate investment) that require significant intervention by outside institutions. A structure like that proposed in the Community Self-Determination Act, in which a community corporation would serve as a channel for

outside investment, would provide a safeguard to the black communities' independence if significant amounts of corporate money ever became available to the ghetto. In the face of inadequate Federal subsidies, however, massive outside investment is not likely to take place. Limited involvement by white business in the form of sheltered contracts, mortgage funds, etc. are more likely to be the norm in ghetto development, and entail less likelihood of outside control.

As to whether structures favoring individual or collective enterprise will predominate is less clear. It is quite likely that experimentation with forms of collective economic institutions will continue for a number of reasons. First, this mode of organization is so common throughout most of the community service work in the ghetto that there is likely to be a natural spill-over into economic affairs. If groups exist to drive large numbers of students to distant schools, it is natural to have groups work at developing business in the ghetto. Further, the relative scarcity of financial and technical resources in the ghetto fosters attempts to develop collective economic bodies. The degree to which this will change over time as more resources find their way into the black community is unclear; historically the periods of great need have been the periods of reciprocal support. (The mutual aid societies, which later developed into the large black insurance industry,

were possible only among the poorest blacks. Attempts at collective action among better-off blacks, like establishing a black bank, have traditionally failed.) It is quite clear, however, that no widespread communal ethos exists within most ghettos, and that even the leadership does not demonstrate a wide interest in broadly-based collective economic endeavors. A minority of the leadership, primarily young militants, are the major source of concern for the decentralization of control and benefits associated with economic enterprises. In fact, it becomes apparent that the formal structures of an institution--be it traditionally capitalistic or more communal--is less critical in determining the way benefits are dispersed than is the ideology of the leaders of the enterprise. Given that the people involved seek to maximize either their own self-interest or that of some larger community, they can generally manipulate any given structure to any ends. While it might not be the most critical factor, the structure nonetheless does provide outer limits and constraints to the forms of human relationships carried on within them. Small economic institutions existing within the context of the general value system can deviate very little from it without sacrificing their own viability.

This leads to the final question, of the degree to which economic development can function as strategy of

general community development. To repeat, community development is held to be an increase in the capabilities of ghetto residents, in the aggregate, to influence and control the institutions that effect them. In these terms economic development seems to have the potential for promoting community development in the following ways:

By acquiring economic influence as a result of control over real estate, payrolls, commercial good will, etc.

By achieving some measure of economic independence for the support of internal ghetto services and the confrontation of external sources of power.

By contributing to the growth of black pride and providing a focal point for the development of group identity.

By increasing political influence, both within and outside the ghetto.

Through the growth of specific goals (increased black employment or improved ghetto communications) that follow from the choice of specific industries.

The degree to which economic development can become a potent force in meeting the above objectives depends upon the scale it achieves. Even more importantly, it depends on the degree to which black entrepreneurs consciously seek to use their businesses in support of the community. The evidence of the case studies suggests that this will be the most insuperable barrier to the effectiveness of economic development.

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