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Economic Overview of the Black Community: Why the African American Community Needs Black Entrepreneurs—Now!

One of the reasons this book has been written is to support and stimulate the rapid development of business formation within the African American community. Many of the small corner stores located within many black and minority communities are owned and operated by people who live outside the community. Once again, as before, neighborhood dollars are being removed from circulation within the community and are finding their way into other local economies.

In reviewing this situation, it becomes painfully obvious that the basic problem facing the black community is that it has failed to exercise its inherent power to control and direct its economic destiny.

BLACK POLITICAL POWER—HAS IT HELPED BLACKS ECONOMICALLY?

Certainly no one can argue that blacks have won significant political rights in the past 40 years, which has greatly empowered the African American political machine. The changes in the political power structure of the black community are sometimes manifested in the number of American cities that are currently managed by black chief executives. As shown in Exhibit 1.1, many of America's major urban centers are being managed by African American mayors.

Exhibit 1.1 Black Mayors of Major Cities

Cities	Rank by Population	1998 Census Figures	African American Mayor
Houston	4	1,786,691	Lee P. Brown
Dallas	9	1,075,894	Ron Kirk
Detroit	10	970,196	Dennis W. Archer
San Francisco	12	745,774	Willie L. Brown Jr.
Philadelphia	5	1,436,000	John Street

Source: U.S. Bureau of the Census.

Even in cities where blacks do not enjoy a substantial numbers advantage, more and more whites are finding it more comfortable to vote for black politicians and to view them in leadership roles. Norm Rice, mayor of Seattle, Washington, and Michael White, mayor of Cleveland, Ohio, are proof that the racial politics of the past can be defeated. Even in cities not managed by someone of color, blacks and other minorities in those urban centers often wield a sizable amount of political power.

Unfortunately, these outstanding political gains are overshadowed by statistics that show African Americans lagging far behind white Americans in terms of housing, education, and economic status.

The increased racial intolerance visible today is dwarfed when compared to the lack of economic inclusiveness of African Americans in the workplace. A review of the economic status of the African American work force also may serve to spotlight the challenges facing African Americans. Of the nation's 34.2 million black people (12.8 percent of the population), 13.9 million participate in the nation's work force. Of these 13.9 million people in the work force, 29.2 percent work in blue-collar jobs and almost one out of every four labor in service occupations. This ratio in service jobs is double that of whites in the same fields. Among the 48.7 percent who are white collar workers, only 34 percent of black males have the designation "professional, technical, manager, or administrator" compared to 44 percent for white males.

Although opportunities for advancement of blacks within the lower-paying jobs are few, among the top executive ranks the chances for advancement are almost nonexistent. In one of Korn/Ferry's ongoing executive surveys, they surveyed 1,700 senior executives across the United States who earned six figures per year. Of those executives, only three (less than 1 percent) were black. In a Chicago study of 13,000 managers with the rank of department head or higher, only 117 (again, less than 1 percent) were black.

These statistics confirm what minorities and females have known all along. There exists a glass ceiling for women and minorities in corporate America, above which they are prevented from moving, no matter how talented they are. Even those who make it to executive heights are usually placed in highly visible jobs, such as human resources and public relations, but are restricted from entering positions that lead to powerful, top-level responsibilities.

THE TRIAD OF POWER

Why, with all the great victories won during the 1960s, has the African American community's economic prosperity been so delayed on all fronts? Can racism be used to justify all of the economic and social problems that still confront this community in such a big way? Clearly racism is a factor, but how much of a factor? I submit that there are other factors that at least deserve some special attention.

The biggest factor is that the African American community has not yet completed the essential triad of power. This triad consists of ethnic rooting (pride), political power (prowess), and economic power. Yes, while blacks have been successful at rebuilding their culture to the point of being proud of their African heritage and the contributions their ancestors have made to the world, as well as the impressive political clout amassed, their performance at completing the third leg of the triad, that is, economic empowerment, has been less than impressive.

Malcolm X, a man whose vision was probably too intense for his time, summarized the economic challenge that looms in front of the African American community when he said:

> The man who tosses worms in the river isn't necessarily a friend of the fish. All the fish who took him for friend, who think the worm's got no hook in it, usually end up in the frying pan.

In deep disgust, Malcolm would later comment, "I watched brothers entwining themselves in the economic clutches of the white man, who went home every night with another bag of money drained from the ghetto."

Malcolm realized, long before most other leaders of his time, that the key to social and economic parity and the accumulation of power was the achievement of economic self-reliance. He viewed prosperity as the ultimate equalizer. As a member of the Black Muslims, economic

empowerment became the heart of his message to African Americans. He knew that economic self-reliance would supply not only jobs and security, but also badly needed self-esteem and respect from the overall community.

When blacks complained about the slums they were forced to live in, Malcolm would scold them bitterly for their slavelike dependence on white America. He, like many of us today, felt that the need to develop businesses within the black community was of an urgent nature. Like mainstream America, he saw the ownership of property, whether that property was land or business, as a necessary requirement for any real freedom or independence. Malcolm's vision was to see blacks turn their neighborhoods into bustling centers of economic activity and prosperity.

ECONOMIC PERFORMANCE OF AFRICAN AMERICANS

Since Malcolm conveyed this strategy, the vision for economic self-reliance has been somewhat dimmed. The following pages provide a factual look at the current economic condition of African Americans and confirm the seriousness of the matter.

At the writing of this book, America is celebrating the longest period of continuous growth in its history. Starting in March 1991 and having reached beyond 107 months of expansion, we have surpassed the record set between 1961 and 1969, at the height of the Vietnam War. The phenomenal expansion of the "go-go" 1990s has erased the deficit (first time since 1969), reduced unemployment to record lows (below $5^1/_2$ percent), and raised the real gross domestic product by more than a third. What is even more amazing about this gangbuster economy is that it shows no signs of slowing down and losing steam.

While blacks and other minorities have not fared as well as others in the booming 1990s, some progress has been realized. To begin with, according to the Census Bureau the number of Americans living below the poverty level decreased dramatically from a high of 10.5 percent in 1991 to 8.5 percent in 1998. Black unemployment has dropped from 12 percent to 7 percent for black women and 14 percent to 7 percent for black men. Black teenagers, who are consistently among the chronically unemployed, saw their unemployment rate drop from 36 percent to 28 percent. Home ownership among blacks and Hispanics is up, currently hitting 46.7 percent and 45.5 percent respectively.

Despite the encouraging improvements, the fact is that the economic parity gap between black and white America still remains. This

gap is clearly visible when the following economic barometers are reviewed:

1. Unemployment
2. Mean net worth
3. Per capita income
4. Median family income
5. Persons below poverty level (as percent of group)
6. Persons below poverty level (number of people)

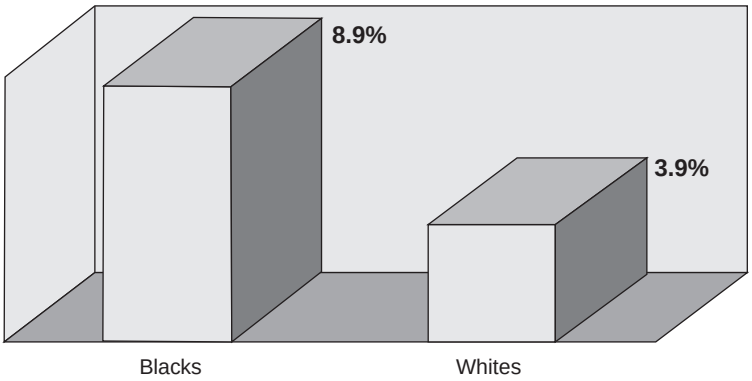
Unemployment

The U.S. Department of Labor's Bureau of Labor Statistics reveals, as shown in Exhibit 1.2, that the unemployment rate in the black community was 8.9 percent in 1998 while the rate for whites was 3.9 percent. For black teenagers the unemployment rate until recently, often hovered between 30 percent and 40 percent. Traditionally, the black unemployment rate has fluctuated between 1.5 and 5.3 times that of whites.

Mean Net Worth

Basically, net worth is the result of summing up all of your assets minus your liabilities. In other words, if you were to sell everything you owned,

Exhibit 1.2 Unemployment Rates (1998)



Source: U.S. Census Bureau Statistical Abstract of the United States: 1999.

obtained the cash from this sale, then use the cash to pay off all of your bills, whatever is left would be your net worth (somewhat depressing, huh?). Mean net worth is the average net worth for all members of that particular group. Most people build net worth by putting a portion of their earnings obtained from their jobs into investments and savings accounts. Over a period of time these assets appreciate. Consequently, there is a strong correlation between income and net worth.

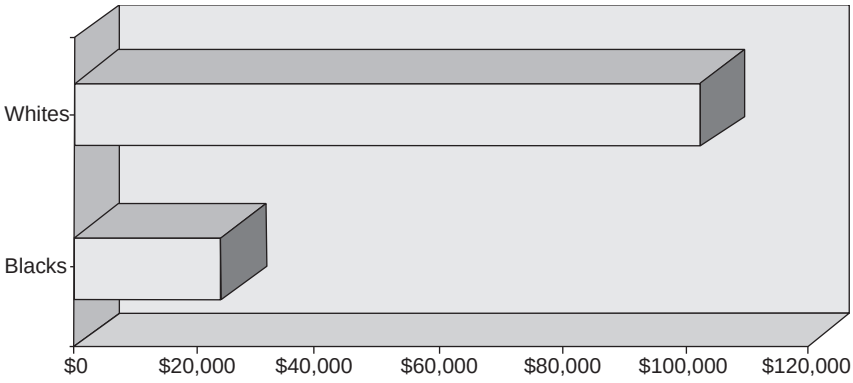
According to the U.S. Department of Commerce, in 1993 (the latest data available at this time, as shown in Exhibit 1.3) the mean net worth of black Americans was approximately one-fifth that of whites. In 1989 the mean net worth of blacks was one-fourth that of whites.

One of the participants of this study put it best when he said that our community is basically in a sharecropping economic mode. Some African Americans live from paycheck to paycheck. If that paycheck was taken away, the little net worth available would be eroded rapidly, plunging the community further into poverty.

Per Capita Income

Per capita income is calculated by dividing the total aggregate income by the total number of people in the target population. Basically it is the amount of income per person, for every man, woman, and child. Per capita income includes the income of all individuals, whereas family income includes the income of related persons living in households. Ac-

Exhibit 1.3 Mean Net Worth (1993)



Source: U.S. Dept. of Commerce.

cording to the U.S. Department of Commerce, Bureau of the Census, the recent report (as of Sept. 1998) on money, income, and poverty status in the United States reveals the following per capita income results for the three major groupings:

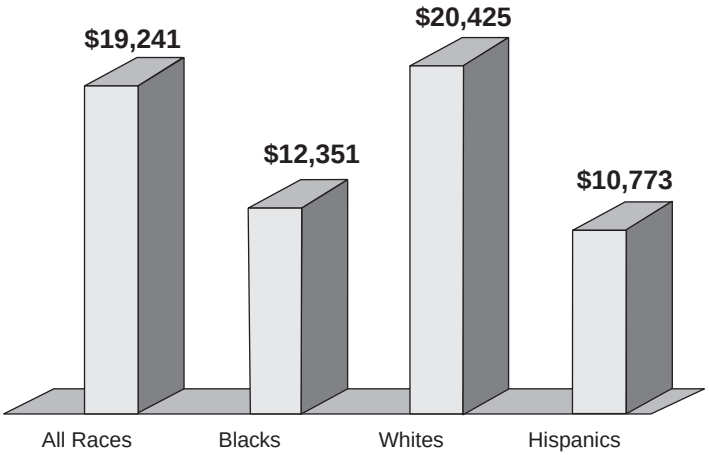
All races	$19,241
White	$20,425
Black	$12,351
Hispanic	$10,773

Exhibit 1.4 shows that in 1997 blacks continued to lag behind whites by $8,074 per person per year. Another way of stating these data is that every black family of four must earn more than $32,296 more per year for blacks to achieve economic parity with whites. This gap is even more difficult to close given that there are typically two wage earners in each family.

Median Family Income

The median income is an income level in which half of the households earn less than the median and the other half earn more than that income. The median family income is important because within the American

Exhibit 1.4 Per Capita Income (1997)



Source: U.S. Bureau of the Census.

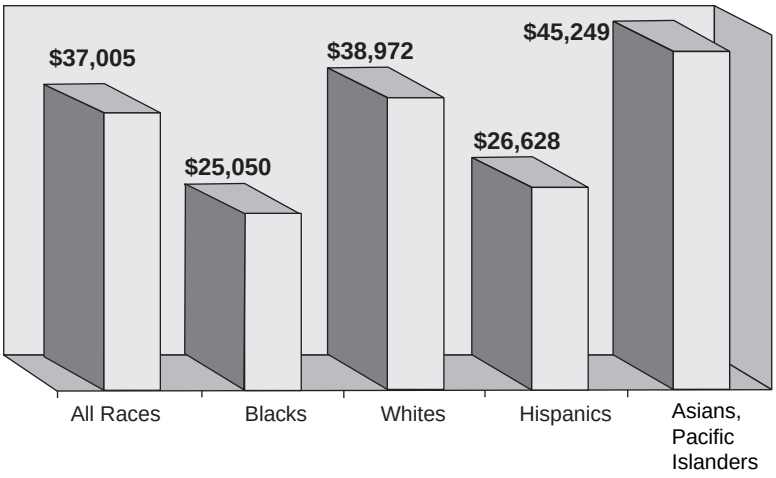
society, the family unit remains the cornerstone of societal structure. Thus, economic information on the family unit often is a more realistic indicator of group performance. In 1997, as shown by Exhibit 1.5, the median family incomes of the four major groups were as follows:

Blacks	$25,050
Whites	$38,972
Hispanics	$26,628
Asians, Pacific Islanders	$45,249
All races	$37,005

These data indicate that the median family income for black families is 64.3 percent that of whites. However, when a comparison is made between median family incomes for married couples (two parents in the home), blacks fare much better in comparison to whites. In fact, the median family income of blacks increases to 87 percent that of whites in this comparison. For married couples the median family income is as follows:

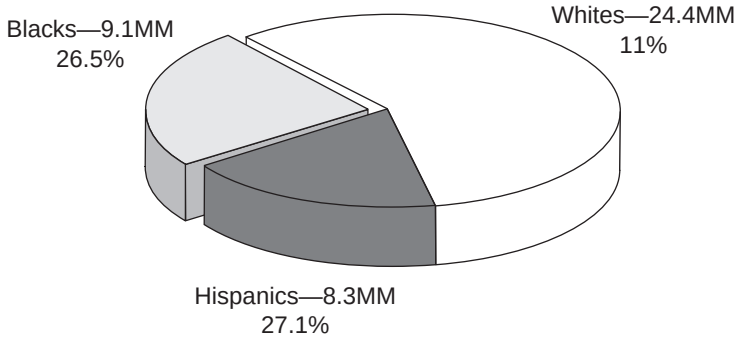
Whites	$52,098
Blacks	$45,372
Hispanics	$33,914

Exhibit 1.5 Median Family Income (1997)



Source: U.S. Bureau of the Census.

Exhibit 1.6 Percentage of Groups below Poverty Level (1997)



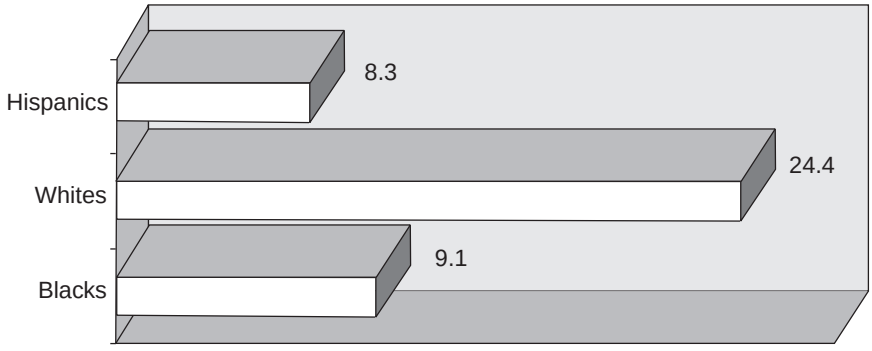
Source: U.S. Bureau of the Census.

Persons below Poverty Level (As Percent of Group)

The poverty definition used here is adopted for official government use by the Office of Management and Budget and consists of a set of income thresholds that vary by family size and composition. Families or individuals with incomes below their appropriate thresholds are classified as below the poverty level. The poverty thresholds are updated every year to reflect changes in the Consumer Price Index.

As depicted by Exhibit 1.6 and Exhibit 1.7, blacks have consistently absorbed a disproportionate share of the poverty in this country. In 1980, 13 percent of all Americans lived below the poverty level; during the next

Exhibit 1.7 Number of Persons below Poverty Level (1997)



Source: U.S. Bureau of the Census.

eight years, the percentage peaked at 15 percent during 1982, dropped to 10.5 percent in 1991 and even lower to 8.5 percent in 1998. During this same period, the percentage of blacks living under the poverty level peaked at 35.6 percent during 1982 and ended around 30.7 percent in 1989. In 1997, 11 percent of whites lived below poverty level, while the percentages for blacks and Hispanics were 26.5 percent and 27.1 percent, respectively.

Persons below Poverty Level (Number of People)

One of the fallacies that some people like to perpetuate is that blacks and other minorities are the groups who soak up the social programs paid for with tax dollars. As shown in Exhibit 1.7, this is not the case. In 1980, just as President Reagan was taking over the Executive Office, there were close to 30 million Americans living below the poverty level. Almost two-thirds of those people were white, while blacks and Hispanics made up a much smaller proportion. During the eight years of the Reagan administration, the number of people living below the poverty level increased to close to 35 million people, with all groups sharing in the increase. The total number of people living in poverty in 1997 by group were as follows:

Whites	24,396,000
Blacks	9,116,000
Hispanics	8,308,000

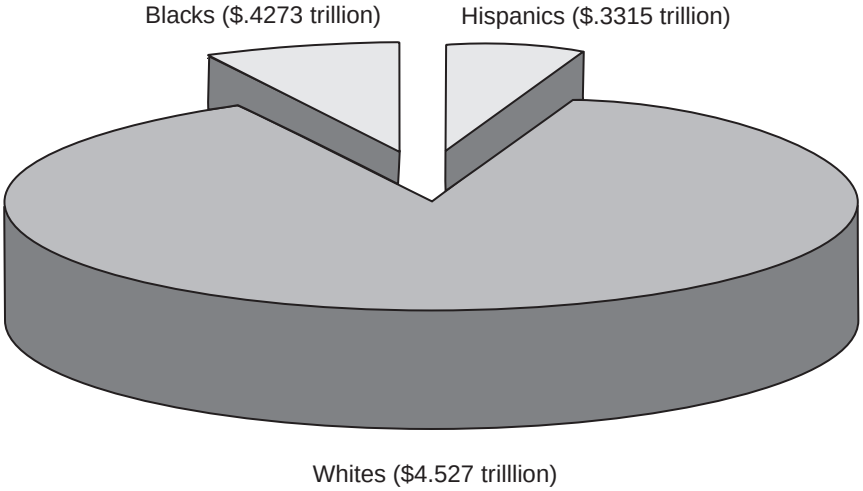
Income of Households—Aggregate

Exhibit 1.8 illustrates the aggregate total of incomes from the preceding three groups. These figures are compiled by multiplying all households by the amount of income they generated in 1997. Whites, due to their greater numbers, had an aggregate income of approximately $4.5 trillion per year, while blacks had an aggregate income of approximately $427 billion per year. Hispanics generated approximately $331 billion during the same period of time.

WHAT DOES IT ALL MEAN?

As you can see from the summary of economic statistics, the African American community faces a monumental challenge in realizing economic parity with mainstream America. Although some progress has been made, there still exists a significant economic parity gap between blacks and whites and, in certain instances, between blacks and other

Exhibit 1.8 Aggregate Incomes (1997)



Source: U.S. Bureau of the Census.

minority groups. If the African American economy were to be isolated, it would become obvious that economic justice has not been realized within the black community, and urgent measures must be taken to rectify the situation. It is because of this urgency that the role of African American entrepreneurs takes on a new and pivotal role in the community's survival and future development.