

“Black Capitalism: An Economic Program for the Black American Ghetto”

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Abstract

The American federal government supported the creation and expansion of economically depressed urban residential areas where blacks live in segregation from whites. These ghettos face barriers to economic development including high unemployment, a low wage labor market, capital drain, and market dualism. Three popular ghetto economic development strategies are ghetto dispersal, corporate branch planting, and black capitalism. Black capitalism breaks the ghetto’s economic barriers better than ghetto dispersal and corporate branch planting, but it will only be possible with significant support from whites and the federal government.

Keywords: Ghetto, urban economic development, black capitalism, ghetto dispersal, corporate branch planting.

Why do ghettos have bad economies, and what is the best way to fix them? In this paper, I offer a partial answer.¹ In Part I, I describe the ghetto’s creation with emphasis on the role of the federal government. In Part II, I describe the ghetto’s barriers to economic development. In Part III, I explain three ghetto economic development strategies: ghetto dispersal, corporate branch planting, and black capitalism, and argue that black capitalism is a better strategy than ghetto dispersal or corporate branch planting.

I. The ghetto

“The ghetto” may refer to different things. It may refer to a poor residential area, or it may refer to a poor, racially homogeneous residential area.² But most often, at least in America, the word refers to a primarily black, economically depressed, urban, residential area in which blacks are segregated from whites.³ There are lots of these in America, and they are the ghettos I am concerned with in this paper.⁴ I will use “the ghetto” to refer to them from here on.

II. The creation of the ghetto

The ghetto is a relatively recent historical phenomenon. In 1870, eighty percent of black Americans lived as sharecroppers in the rural south.⁵ But by 1970, eighty percent of black Americans lived in urban areas outside of the south.⁶ Between 1910 and 1970, six million blacks moved from the South to the Northeast, Midwest, and West.⁷ Causes of this “Great Migration” include an expansion of northern industrialization in response to the outbreak of World War I, increasing labor demand in northern factories, and blacks seeking refuge from exploitive southern sharecropping systems, among others.⁸

¹ I am very grateful for comments, revisions, and advice from David Lyons.

² Massey and Denton, 18.

³ I’m thinking of areas in Watts, Harlem, Roxbury, Chicago, Detroit, Cleveland, and Philadelphia.

⁴ Hispanic Americans are moving into what are traditionally black ghettos so that the number of homogeneously black ghettos is decreasing. See Cutler, 17.

⁵ Massey and Denton 18.

⁶ Id. at 28.

⁷ Id.

⁸ Id.

Working class northern whites feared economic competition from black migrants.⁹ Northern factories employed migrant blacks as strikebreakers, which earned blacks the antipathy of white employees.¹⁰ Most unions excluded blacks. Newspapers increasingly used the terms “nigger” and “darkey.”¹¹ Five urban race riots broke out between 1900 and 1920.¹² Whites used violence and intimidation to force blacks out of white areas and into “darkytowns” and “black belts.”¹³ Levels of urban segregation between blacks and whites began a steady rise at the turn of the century that would last for over sixty years.¹⁴

Between 1930 and 1960, the American federal government supported suburban growth by providing greater tax savings for businesses relocating to the suburbs than for those staying in cities.¹⁵ A government mortgager called the Federal Housing Authority (FHA) facilitated new home ownership by accepting small down-payments.¹⁶ While policies like these helped enable 35 million families to participate in homeowner equity accumulation, they constrained black Americans’ residential opportunities to cities, and denied them access to wealth-generating suburban tract homes.¹⁷

To “preserve neighborhood stability,” the FHA openly recommended the use of “restrictive covenants,” contractual agreements among property owners binding themselves and their heirs to exclude blacks from owning, occupying, or leasing their property.¹⁸ Neighborhood “improvement” associations kept blacks out of the suburbs by threatening boycotts of real estate agents who sold suburban homes to blacks.¹⁹ By the late 1960s, “white flight” was complete, and virtually all American cities with significant black populations had come to house large, extremely segregated, impoverished ghettos.²⁰ Despite the Fair Housing Act and various federal economic development programs, the ghetto persists today.

II. Modern barriers to economic development

Today, ghetto residents are faced with severe economic hardships.²¹ Nearly one out of three blacks lives in poverty, compared with fewer than one in ten whites.²² And forty three percent of all black children officially lived in poor households in 1986.²³ In this section, I will describe specific barriers to the ghetto’s economic development.

High unemployment and the low wage labor market

In 2010 the black unemployment rate was sixteen percent, the highest unemployment rate amongst major race and ethnicity groups; more than twice that of whites. Also in 2010, black youths had more than twice the jobless rate of white youths.²⁴

⁹Massey and Denton, 28-30.

¹⁰Id.

¹¹Id.

¹²Id.

¹³Id.

¹⁴ For an explanation of how blacks’ segregation from whites contributed to the formation of the modern ghetto see Massey and Denton, 28-30.

¹⁵ Oliver and Shapiro, 18, 28.

¹⁶ Id.

¹⁷ See Oliver and Shapiro, 28 and 16 for the ghetto’s formation.

¹⁸ Oliver and Shapiro, 18, Massey and Denton, 36.

¹⁹ Massey and Denton, 36.

²⁰ Massey and Denton, 57.

²¹ I do not mean to imply that blacks are the only residents of black ghettos or that nonblack residents do not suffer similar economic hardships.

²² Oliver and Shapiro, 24.

²³ Id.

²⁴ Oliver and Shapiro, 24-25.

Most residents are low-wage workers. Median income figures show blacks earning only about fifty five percent of the amount made by whites.²⁵ Residents work largely in low paying retail or personal service jobs.²⁶ Some ghetto residents work several odd jobs to make ends meet.

Columbia sociologist Sudhir Alladi Venkatesh spent over a decade immersed in a 10-block Maquis Park ghetto in Chicago's South Side.²⁷ There he met Maquis Park resident Oceana, who said her neighbors are unlicensed hairstylists, ad hoc caterers, tailors, psychics, gypsy cab drivers, janitors, and mechanics.²⁸ Residents of Maquis Park sell clothes, pirated movies, and used kitchen supplies they call "ghettoware."²⁹ Some make a quick buck taking over abandoned buildings and offering the space for shelter; others make money with promises to keep police patrols away from the same space.³⁰

Relatively few residents own their own businesses. When they do, they tend to own retail establishments or personal service enterprises like barbershops, beauty shops, and convenience stores.³¹

Running a business in the ghetto is generally expensive. Crime, shoplifting, and vandalism increase the costs of insurance and security. Accordingly, some businesses are run illegally because their owners cannot afford to adhere to government regulations or report all taxable income.³² Some business owners in Maquis Park engage in illegal practices to make ends meet: they rent their property out after hours to prostitutes, gamblers, and hair stylists. Listing the challenges of running an off-the-books car repair service, Maquis Park resident James Arleander first cites the police: "First, you are doing something illegal, which means police must be involved. You have to deal with them, and you can either hide [from them] or pay [them]."³³

Numerous residents have a hard time borrowing money. Residents are forced to borrow money from friends because financial lending institutions emphasize the experience of management, which many residents do not have.³⁴ Samuel Wilson, who runs a daycare in Chicago, says "It's a small group of us that are really helping each other . . . It's what you do in the inner city, and you can't lose that. Who's going to trust you next?"³⁵

The drain of capital

Those residents who are able to borrow money do so from high interest lenders, including loan sharks.³⁶ These lenders' investment policies draw funds out of the ghetto and into nonresident business loans and mortgages.³⁷ White non-resident slumlords take money from residents and spend it elsewhere.³⁸ Many residents choose to spend their money outside of the ghetto where prices are lower because it is cheaper to do business.³⁹

Many ghettos operate under severe trade deficits.⁴⁰ A trade deficit is an economic condition that occurs when the monetary value of imports exceed the monetary value of exports. An import is a commodity or service brought

²⁵Id. at 24.

²⁶Helibrun, 4.

²⁷ See Howley.

²⁸ See Howley.

²⁹ Id..

³⁰ Id.

³¹ For a study of Central Harlem in which 3,100 of 4,000 businesses were engaged in retail trade and the provision of retail services, see Helibrun, 74.

³²Howley.

³³Id.

³⁴Howley.

³⁵Id.

³⁶Id.

³⁷Fusfeld, 147.

³⁸Shorris, 323.

³⁹Oakland, Sparrow and Stettler conducted a study of household expenditure diaries in Cleveland's Hough ghetto to estimate the "marginal propensity to spend inside Hough," a consumer's willingness to spend money inside Hough as his or her disposable income increases. The study found that, for every dollar increase in disposable income, residents were only willing to spend \$0.13 in Hough. See Harrison, 10.

⁴⁰In Richard Schaffer's comparative study of the black Bedford-Stuyvesant ghetto and its surrounding white neighborhood, Borough Park, Bedford-Stuyvesant showed a severe trade deficit of nearly \$76 million, but Borough Park was nearly in balance, showing a deficit of only \$6 million. See Harrison, 8-9.

into the ghetto for sale within the ghetto. An export is a good or service produced in the ghetto that is sold outside of the ghetto. The primary export of the ghetto is cheap, unskilled labor.⁴¹ The ghetto exports few manufactured goods, probably because the ghetto is not well suited for many forms of manufacturing.

Businesses prefer to locate manufacturing facilities in the open countryside where land can be cheaper than in neighborhoods. Manufacturing facilities require large open spaces, which ghettos generally do not have. Congested streets and few parking spaces make it difficult and expensive for delivery trucks to access the ghetto. And converting the ghetto into an industrial center would require dislocating an entire residential population.

Market dualism

Economists divide the few businesses that are located in the ghetto into a more profitable “leading” sector composed of white businesses and a less profitable “lagging” sector composed of black businesses.⁴² Economists call this phenomenon “market dualism.”

Many sales in the white sector are guaranteed by government contracts⁴³, so white sector businesses can afford to make chancy investments, raise prices, and invest in physical and human capital.⁴⁴ Businesses capable of making investments are generally more profitable than businesses with little investment capital.

Higher profits allow white sector businesses to produce higher quality goods and services, hire more workers, and pay non-poverty wages.⁴⁵ ⁴⁶ Workers in the white sector are generally more educated and more trained than workers in the black sector. Because workers value high wage jobs and employers value trained workers, white sector businesses generally have lower turnover. Job stability attracts investors who help increase the profits of white sector businesses.

Businesses in the overcrowded black sector, however, cannot purchase start up equipment and raw materials because they do not have adequate access to capital.⁴⁷ And many black sector businesses are actually part of white franchise chains.⁴⁸ Even if blacks own a small franchised business, a substantial portion of its profits ends up in white hands.⁴⁹ For example, it is more than likely that half of the sales volume of the Harlem retail and service network is ultimately in white hands.⁵⁰

Black sector workers are limited to a few types of low-wage jobs that do not require training because the scarcity of government-run training programs leaves workers largely uneducated.⁵¹ In Harlem, for example, employment opportunities in the black sector are limited to mostly barbershops, dry cleaners, small restaurants, and bars.⁵² The lack of government run training programs results in an urban “fiscal crisis” in which a worker cannot move from the black sector to the white sector without acquiring educational credentials and workers in the black sector cannot acquire educational credentials because they cannot afford them.⁵³

⁴¹In 1966, four fifths of the Harlem workforce was employed outside of the ghetto. See Harrison, 9.

⁴²Harrison, 10.

⁴³ See p. vii of the Congressional Budget Office’s 1978 “Barriers to Urban Economic Development” paper describing federal loan guarantee, short-term training, and counseling programs “missing” the kinds of businesses “most in need of help from the federal government.”

⁴⁴Harrison, 11.

⁴⁵ Helibrun’s 1968 study of Harlem tax records reveals white businesses are significantly more profitable than black businesses. See Harrison, 14.

⁴⁶ Four-fifths of the black-owned businesses in Harlem in the winter of 1967-1968 had fewer than four employees, compared with only a little over 50 percent of the white businesses. See Harrison, 14.

⁴⁷Helibrun, 74.

⁴⁸Id.

⁴⁹Id.

⁵⁰Id.

⁵¹Id.

⁵²Id.

⁵³Helibrun, 74.

Governmental efforts to increase sector mobility have failed. Many of the established economic development institutions train black sector workers for low-wage labor, instead of teaching them how to start businesses of their own or providing them with investment capital.⁵⁴

Race and class discrimination are among the biggest contributors to sector immobility; business owners in the white sector are simply unwilling to hire workers from the black sector.⁵⁵

III. Economic development strategies

Discussions of ghetto economic development strategies became increasingly popular in the academic literature of the 1970s, and then kind of stopped.^{56 57} Ghetto economic development refers actions of policymakers that promote the standard of living and economic health of the ghetto. Today, three of the most widely cited ghetto economic development strategies are ghetto dispersal, corporate branch planting, and black capitalism. In this section, I will argue that black capitalism is a better solution than ghetto dispersal or corporate branch planting.

Ghetto dispersal is an unwise strategy

Advocates of ghetto dispersal (“dispersal”) encourage residents to leave the ghetto to access better educational facilities, housing, and employment. Some dispersal advocates feel that the government should increase information about suburban jobs and link training programs with suburban jobs.⁵⁸

Dispersal would be an unwise economic development strategy primarily because it would not be an economic development strategy. Abandoning ghettos would *eliminate*, not improve the economy of ghettos, and leave behind vast swaths of abandoned, deteriorating residential property. Dispersal advocates seem to assume that it is too expensive or impossible to economically revitalize historically and culturally relevant space.

But more importantly, dispersal is not feasible. Many residents would not want to leave the ghetto because their families have lived there for generations. And since ghetto residents feel the effects of racism every day, they might not want to live in white communities or work at white businesses. Black political leaders may be unlikely to favor a policy that disperses a geographically concentrated group of supporters. Widely dispersed interest groups are generally less politically influential.⁵⁹

Even if dispersal would make the ghetto smaller, it may actually intensify its barriers to economic development. Only those residents who could afford to pay moving costs would leave. In this sense, ghetto dispersal would leave behind the poorest of the poor. Dispersal would contribute to the drain of capital because dispersed residents would not spend their money in the ghetto. Finally, sending trained residents to the suburbs would increase the proportion of untrained workers in the ghetto’s labor supply. This would further discourage businesses from setting up facilities and contribute to the ghetto’s trade deficit.

Corporate branch planting is an unwise strategy

Corporate branch planting is the government providing subsidies and tax breaks for white business owners to construct and maintain businesses in the ghetto. At first glance, corporate branch planting seems like an attractive solution for the ghetto’s barriers to economic development. Proponents of corporate branch planting argue that placing a well-established white business within the ghetto would force income to flow through the ghetto, encourage small business growth, provide employment opportunities, enable the ghetto to produce expensive exports, and serve as a model for other businesses so that they meet legal requirements.⁶⁰

⁵⁴Id.

⁵⁵Harrison, 11.

⁵⁶ Significantly less academic economic literature specifically tailored to the development of the ghetto has been written since the 1970s. I believe urban studies, which emerged during the 1980s and 1990s, partially swallowed the topic.

⁵⁷ For a general overview of these ghetto economic development strategies, see Harrison’s “Ghetto Economic Development: A Survey” in the *Journal of Economic Literature* 12.1 (March 1974).

⁵⁸Levine, 270.

⁵⁹See Helibrun, 77, and Etzioni’s “Special Interest Groups Versus Constituency Representation” in *Social Movements, Conflicts and Change*. Vol. 8, page 171. (1985).

⁶⁰Harrison, 16-17.

However, corporate branch planting would not necessarily meet these expectations. Corporate branch is an undesirable development strategy for four reasons.

1. White business owners would not want to participate

Development economists would have trouble finding whites business owners who would be willing to participate in the program. This problem has been obvious since branch planting's inception. In 1967, Robert Kennedy introduced "The Kennedy Plan," some of the first legislation subsidizing white corporate branch planting in the ghetto.⁶¹ Kennedy went to great lengths (and spent a lot of money) to find whites that were willing to plant branches in the ghetto.⁶² He gave speeches to Chambers of Commerce, negotiated with real estate boards, organized private dinner parties, and gathered support from Republicans like Douglas Dillon, and Henry Ford II.⁶³

However, most companies did not respond to Kennedy's proposal.⁶⁴ White business owners felt they "couldn't deal directly with black militants" and feared that "the climate of violence within the ghetto would deter most white employers from working there."⁶⁵ Union executives feared "there was no profit in community development for them."⁶⁶ One company president told Kennedy, "Senator, the afternoon I walk into my board of directors and tell them that Bobby Kennedy was here today, and he thinks we should put a plant in Bedford-Stuyvesant, that is the afternoon they'll have me committed."⁶⁷

Since the 1960s white business owners have not shown strong support for corporate branch planting.⁶⁸ Why? On the one hand, business owners today are generally much more aware of corporate social responsibility's importance, not to mention business benefits, so they probably aren't as worried about their board of directors "committing" them for branch planting. And the decline of the black power movement in the 1980s probably means "black militants" present modern white business owners with less of a threat, if black militants even posed a threat to begin with, which they probably didn't.⁶⁹

But on the other hand, it is empirically verifiable that branch planting can be an extremely risking undertaking even with a sizeable government subsidy.⁷⁰ Most planted branches under the Kennedy Plan failed due to excessive congestion and a lack of public services.⁷¹ Studies estimate firms drawing their labor force from the ghetto would have 7.5 percent lower productivity, fifty percent higher labor turnover, twice the hiring costs, and eight times the direct training costs as firms using non-resident labor.⁷² Also, property in urban areas can be expensive. Furthermore, white businessmen are generally aware that businesses are more profitable when surrounded by other businesses. And as it stands, there are generally few businesses in the ghetto.

2. Corporate branch planting places community control in the hands of whites

⁶¹Newfield, 98.

⁶² Id.

⁶³Newfield, 98.

⁶⁴ Id.

⁶⁵ Id.

⁶⁶ Id.

⁶⁷ Id.

⁶⁸ For an explanation, see Bartik at 5 contrasting "First Wave" economic development programs emphasizing branch planting with "Second Wave" and "Third Wave" economic development programs emphasizing government provisions of services to small urban businesses and similar services through quasi-private companies.

⁶⁹ I see no indication that black militants posed any justifiable threat to white business owners in the 1960s, or that black militants could actually stop white business owners from buying property and building businesses in the 1960s.

⁷⁰ Tabb, 24-52.

⁷¹ Harrison, 16, Brown, 285.

⁷² Tabb, 52.

There is no reason to assume placing a white branch in a black ghetto would reduce white's discrimination against blacks, which is perhaps one of the most fundamental causes of the ghetto's economic barriers.⁷³ In fact, branch planting would probably only increase racial tensions between blacks and whites. Corporate branch planting would place control of the ghetto in the hands of wealthy whites outside the ghetto.

Politicians and businessmen like Kennedy, Dillon, and Henry Ford II would partner with wealthy businesspeople to decide what kinds of businesses are planted and where to plant them. Many black economists see white branch planting as a form of colonialism.⁷⁴

Because of the ghetto's social isolation, chances that wealthy white politicians and businesspeople have spent even a single day there are low. Residents seem to be better equipped to make decisions about the community, having grown up, lived, and worked there. Residents are probably more familiar with the community's economic needs and barriers to development. Whites outside of the community could select projects that benefit whites outside of the community, not projects that benefit residents. Most dangerously, residents' loss of control over their community could inspire animosity towards white politicians and businessmen.

3. Corporate branch planting would provide mainly low-wage job opportunities for residents

In the past, residents' wages in planted branches stayed low because white unions were unwilling to fight for them.⁷⁵ Many residents are untrained, unskilled, and possess little work experience. Paying unskilled and untrained workers high wages would be atypical business practice and dangerous for business owners considering planted branches tend to fail. Indeed, the successful planted branches tend to be those that pay the lowest wages producing cheap, standardized products.⁷⁶ Most importantly, corporate branch planting would flat out ignore the fundamental economic problem of a lack of black business ownership because it would increase the number of white-owned businesses.

4. Corporate branch planting would ignore market dualism

Proponents of corporate branch planting claim their policy would force money to flow through the ghetto's economy. A more desirable, but much more difficult claim, is that corporate branch planting would force money to flow through the *black* sector of the ghetto's economy. Not all corporations would overcome the strong temptation to plant branches in the white sector. After all, turnover in the white sector is lower, and workers in the white sector are more educated.

Now, assuming branches would be planted in the black sector, and the planted branches would survive, a significant portion of branch profits could end up in the hands of white branch owners. Even if residents spend their low-wage earnings in the black sector, white non-resident branch owners are probably more likely to spend the real profits outside of the ghetto, and contribute to the drain of capital.

Perhaps planted branches would increase surrounding property values. This is a good thing, unless property values would become so high that only white non-residents can afford to purchase the land. White businesses and residences could spring up around planted branches. This would divide the ghetto's economy along racial lines, detract from black businesses' profits, and cause the black sector to lag even more.

Black Capitalism

Black capitalism is a political movement that encourages black ownership of the means of production.⁷⁷ Black capitalists propose state and federal governments provide the following economic solutions for blacks and black

⁷³ Massey and Denton argue that racism created the ghetto but is no longer needed to sustain it. This argument is attractive yet unpersuasive. Segregation of housing, which is indubitably racist, continues today. Also see Oliver and Shapiro's argument at 172 that the American social structure generates racial distinctions in human capital, sociology, and labor market factors.

⁷⁴ Helibrun, 77.

⁷⁵ Harrison, 17.

⁷⁶ Id.

⁷⁷ Black Capitalism is a diverse political movement without an official body promulgating its goals. Some black capitalists are more concerned with group success than individual success and vice-versa. See Villimez, 117. My definition fits most

businesses exclusively: wage subsidies for workers, guaranteed purchases of manufactured goods, tax incentives, lower interest rates on loans, guaranteed loans, subsidized supplies of technical machinery, subsidized entrepreneurial education services, community development corporations to help blacks start businesses, and guaranteed insurance rates.⁷⁸

1. Black capitalism would be a better ghetto economic development strategy than corporate branch planting or dispersal

Black capitalism is both a place-oriented and a person-oriented strategy. To explain; a *place-oriented* development strategy's primary objective is to improve a particular location's economy. A *person-oriented* development strategy's primary objective is to improve the economic wellbeing of individuals.

Ghetto dispersal is merely a person-oriented strategy because it would encourage residents to seek out economic wellbeing at the expense of the ghetto's economic prosperity. Corporate branch planting is merely a place-oriented strategy because its proponents seek to spur the growth of ghetto businesses by placing successful white-owned businesses there. Black capitalism, however, is both a *place* and *person-oriented* strategy. Black capitalism is a person-oriented strategy because individualized entrepreneurial education and black ownership of ghetto businesses would improve individual blacks' economic welfare. Black capitalism is a place-oriented strategy because improving black businesses in the ghetto could create multiplier effects; for example, when a store-owner repairs the face of his or her building, neighboring businesses might feel pressured or encouraged to do the same. Black capitalism is both a place and person-oriented strategy because capable black leaders would be more likely to lend their talents to the betterment of the ghetto when they are employed inside the ghetto.

Black capitalism would address the problem of market dualism better than ghetto dispersal or corporate branch planting. If the government were to provide the black sector with wage subsidies, its workers may value their jobs more, and turnover may decrease. Lower turnover would make the black sector more attractive to investors. Lower interest rates and government-backed loans for black businesses may finally provide blacks with access to capital. Access to capital should reduce barriers to entry in the over-crowded black sector. Education programs for the black sector could result in more white sector businesses hiring black sector workers, alleviating the urban fiscal crisis and increasing sector mobility.

Black access to capital coupled with subsidized entrepreneurial training services would also allow more residents to start their own potentially successful businesses in the ghetto. With a sizeable government subsidy, ghetto residents could even build manufacturing plants. If ghetto residents would export enough manufactured goods, both the drain of capital and the trade deficit would decrease.

2. Black capitalism would empower blacks to eliminate the ghetto's barriers to economic development.

Corporate branch planting would require blacks look to whites for help. Ghetto dispersal would require blacks abandon their homes and communities for white communities. But black capitalism would not do either of these. Rather, it would empower residents to make their own financial decisions and "recapture their communities" by providing them with jobs, self-respect, and economic heroes.⁷⁹ Assuming politicians would be more likely to pay attention to people with money than people without money, black capitalist economic empowerment could lead to greater black political empowerment, another potential vehicle for eliminating the ghetto's economic barriers.

Black capitalism would be more likely to eliminate the ghetto's barriers to economic development than corporate branch planting or ghetto dispersal. Corporate branch planting would sustain the ghetto's low-wage labor market if white unions were unwilling to fight for higher wages for black workers. Ghetto dispersal would leave behind the poorest of the poor and perpetuate the ghetto's economic isolation from the rest of the economy. However, providing residents with access to capital may reduce their dependency on the low-wage labor market. Black

strands of black capitalism, but for the sake of argument, I will make some generalizations about black capitalism that may be incompatible with particular strands or black capitalists. See Chavis, 27, Nasser.

⁷⁸See Harrison, 13-14, Levine, 270-271.

⁷⁹Villimez, 119.

capitalism, if successful and well-funded, would create an economic domino effect. Successful black businesses would inspire other blacks to become businesspeople.

3. Arguments against black capitalism are unpersuasive.

Some economists will point out that entrepreneurs compose a very small portion of the population. They will say that becoming a wage earner would be a much quicker path to cash. But this argument mischaracterizes black capitalism. Black capitalism is not a “get cash now” program. Black capitalism is a long-term solution for a very long-term problem. It took at least half a century to create the ghetto; it may take even longer to eliminate its barriers to economic development.

Some will oppose black capitalism on ethical grounds and argue it would encourage segregation. I would grant them that black capitalism does not directly address segregation. Indeed, black capitalism grew out of a “separatist” movement to improving the wellbeing of blacks and requires blacks develop their own economy, largely without the help of whites.⁸⁰ However, it does not follow that black capitalism is immoral. The black economy is *already* segregated, so policy makers should not be afraid to “fight fire with fire” and apply a segregationist solution to the problem of segregation. These opponents also ignore that black capitalism is a long-term solution. Creating a separate black economy and black achievement of political power would be a means to eventual integration.

Other opponents will argue it would be unfair to provide government benefits on the basis of race alone. Black capitalists must reply that this argument contains an untrue premise. Black capitalism would not provide benefits strictly on the basis of race alone because black capitalism is a place-oriented movement. Black capitalism would not, for example, provide subsidies to the tiny minority of wealthy blacks living in Boston’s Back Bay. Now, even assuming black capitalism would provide preferential treatment on the basis of race, the argument ignores the fact that preferential treatment is fair where the treated individuals face an extreme disadvantage through no fault of their own. Blacks born and raised in the ghetto cannot help that they were born into a life of economic disadvantage. For this reason, arguing that black capitalism is unfair is like arguing educators act unfairly when they accommodate students with learning disabilities. If the wealth gap between blacks and whites is a legacy of the government policies of slavery and Jim Crow, policies that have systematically favored whites, then the government has a responsibility to undo the wealth gap, and should give black enterprise special attention.⁸¹

Other opponents would contend that black capitalism is too expensive. Indeed, black capitalism will not be possible without a massive federal investment. But this investment is morally and logically required. The federal government encouraged suburbanization with substantial spending on federal highway and water projects, waste treatment, defense spending, mortgage insurance, and tax subsidies for homeowners. These policies helped create the ghetto, and federal programs to improve city services and housing have only slightly offset the damaging effects of suburban sprawl. Indeed, the national “back to the city” movement has been almost entirely ineffective.⁸²

4. Requirements for success

Black capitalism will not be possible without significant white support simply because most politicians and policy makers are white. But some whites may not support black capitalism. Black capitalism would inevitably involve significant wealth distribution on the basis of race, a difficult idea for many policy-makers to swallow. And some whites will assume that a more profitable black sector of the ghetto would mean a less profitable white sector of the ghetto, or that more black businesses will leave white businesses with a smaller piece of the economic pie. But

⁸⁰For example, Booker T Washington argued whites would only accept blacks as equals after blacks became experienced in business on their own. Malcolm X argued “[w]e have to teach our people the importance of where to spend their dollars.” Roy Innis, former chairman of the Congress of Racial Equality, argued for community control of ghetto institutions so that schools in the ghetto purchase materials strictly from black businesses. See Villimez, 119.

⁸¹ See Lyons’ much more detailed argument from compensatory justice at 32-39 that the federal government is required to provide certain rectification and redistribution programs and cash-aid because of its role in supporting slavery, Jim Crow, and its failure to “dismantle [slavery and Jim Crow’s] inequitable legacies.

⁸²See Congressional Budget Office, ix.

these whites would be assuming that ghetto economic development is a zero sum game.⁸³ Proponents of black capitalism must emphasize that economically prosperous ghettos are better for all Americans.

It may be difficult to identify successful entrepreneurs to invest in since few blacks in the ghetto currently have entrepreneurial skills. So instead of providing training for low wage jobs, which many current programs do, black capitalist programs must institute mandatory entrepreneurial training as a prerequisite for government loans. Also, white policy makers must realize that the best black candidates may identify with “militant” movements.

IV. Recommendations and limitations

While black capitalism would be a better solution to the ghetto’s economic barriers than dispersal or branch planting, that is not to say certain forms of dispersal or branch planting would not enjoy success. Perhaps ghetto dispersal would be successful if the government fronted the moving costs. And perhaps corporate branch planting would be successful if residents ran the program. Future work should address these theses.

This paper has not addressed how much money the federal government must spend on black capitalism for it to be successful. Studies comparing the cost of black capitalism with the cost and expected returns of ghetto dispersal or corporate branch planting are required. Future studies should consider how wealth is to be distributed under black capitalism. Also, most academic analyses of the ghetto’s economy are outdated, from the 1970s.⁸⁴ Future work must update these sources in light of the changing ghetto.

But most importantly, this paper did not adequately address how to *convince* whites to support black capitalism. Since black capitalism requires wealth redistribution on the basis of race, this may prove to be a difficult task.

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⁸³ This assumption is similar to the “lump of labor” fallacy; the contention that the amount of work available to laborers is fixed. See Krugman.

⁸⁴ Like Fustfeld, Harrison, and Chavis.

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