

10-1-1982

A Program for Economic Development: Two Proposals

Walter E. Fautroy

Follow this and additional works at: <https://dh.howard.edu/newdirections>

Recommended Citation

Fautroy, Walter E. (1982) "A Program for Economic Development: Two Proposals," *New Directions*: Vol. 10: Iss. 1, Article 3.

Available at: <https://dh.howard.edu/newdirections/vol10/iss1/3>

This Article is brought to you for free and open access by Digital Howard @ Howard University. It has been accepted for inclusion in New Directions by an authorized editor of Digital Howard @ Howard University. For more information, please contact digitalservices@howard.edu.

20

A Program for Economic Development:

Two Proposals



By Walter E. Fautroy

In addressing the subject of economic development and reconstruction, I set forth the thesis that during the past 18 months, two actions by the government have resulted in two major problems—problems for which I would like to suggest possible solutions. I am referring, of course, to the administration's fiscal and monetary policies—policies that have impacted negatively on the American people generally, and Black Americans in particular.

The first action is the one taken by the Federal Reserve Board, ostensibly to fight inflation by inflating the cost of credit, thereby, inflating the cost of money. That decision alone has produced—in a period of 12 months—two ominous records: approximately 66,000 small business failures; and 2.5 million people unemployed, the highest since the Great Depression.

People can afford to buy houses, but they can't afford the cost of the money with which to purchase a house—the 17 to 20% interest rates they would be required to pay for 25 to 30 years. So people don't buy houses. That means, builders can't build new houses. And when builders don't build, then bricklayers, carpenters, electricians and plumbers lose their jobs. Soon, workers in lumber mills and in factories that make refrigerators, stoves, furniture and carpeting lose their jobs. The decision to fight inflation by inflating the cost of money has wrecked the housing and related industries.

Small businesses that depend upon credit to purchase inventory can afford the cost of the products they purchase, but they can't afford the cost of the money that they must borrow in order to purchase the goods that they now find difficult to sell. Therefore, the small businessman can't pay the principal and interest on the borrowed money. He goes bankrupt and his workers lose their jobs.

The second action by the government, with respect to fiscal policy, has pro-

duced four additional records that bode ill for the American people generally, and for Black America in particular:

■ It gave us a record cut in human needs programs of \$280 billion over the next five years.

■ It gave us a record tax give-away of \$750 billion over the next five years, primarily to major corporations and rich individuals.

■ It gave us a record build-up in military spending to more than \$1.7 trillion over the next five years.

■ And it saddled us in one year with a record \$183 billion dollar deficit.

These were the two decisions of government that offer us little more than continued high interest rates, continued small business failures, and continued high unemployment.

Two Major Problems

Those two decisions have exacerbated two major problems confronting all Americans. The first is *the deterioration of our nation's industrial and manufacturing base*. This problem is of vital concern to Black people. Manufacturing, in addition to its obvious central importance to any economy, has historically offered—and continues to offer—the greatest opportunities for unskilled or semi-skilled Blacks as well as white workers to have well-paying jobs.

At rock bottom, the problem with our economy is not that we spend too much money on food stamps for the hungry or Medicaid for the sick-poor, and school aid for the young. Our basic problem is that over the past 10 to 15 years, we have been experiencing a steady decline in economic performance, in manufacturing output, and in product design. In sector after sector, we are producing insufficient quantities of poorly designed products at too high a price; and when you do that not only does the world not buy what you make, even we Americans don't buy what we make. Thus, we are losing market

shares abroad as well as at home. The consequence: Rising unemployment, inadequate profits and investment, poor productivity, a weak dollar and worsening inflation.

That truth is best illustrated by an experience I had buying a portable radio for my son. He had indicated a desire for a good portable radio, so I went to one of the local stores and saw an American-made model for \$87.00. I was just about to purchase it when I noticed a similar product with three speakers and tape recorder for \$47.00. It was an import. Now, I love America and I have sense enough to know as chairman of the House Subcommittee on Domestic Monetary Policy that when I buy American made products, I am supporting jobs for my fellow Americans and taxpayers, but when I saw something better for less money, quite frankly, I bought the imported model.

Now that's the root of our problem in this country: Most Americans are doing just what I did. We're buying Datsuns, Toyotas, Volkswagens, Hondas, Kawasakis, Sanyos, Suzukis, Yamahas, Panasonic, Sonys, Nikon cameras, and Seiko watches not because we desire to take jobs from American makers but because the imported products are better.

Let us face it, there will be no jobs or economic growth in this country until we fashion the kind of targeted tax relief that stimulates jobs and economic growth in sunrise businesses and industries where we can remain competitive, and get out of sunset businesses and industries which, for geo-social and economic reasons, are more cost efficiently done elsewhere in the world.

Until we do something about restoring our nation's deteriorating industrial and manufacturing base, there will be no jobs in America for the masses of people, no matter how much tax relief we give to the rich. A strong and growing manufacturing sector is not only important to the health of our nation's economy and its competitiveness in world markets, it is necessary

22 for the economic advancement of poor Americans, especially Black Americans.

The *second problem* that the current economic policies have exacerbated is *the urgent need of small businesses for outside capital* in order to get started, survive, and grow. Despite the thousands of new small businesses coming up each year, the business bankruptcy rates are at the highest levels since the Depression. And Black businesses, especially, have been hit hard.

Small businesses can be a source of new jobs and new technologies that are the wave of the future for this country. If Black people are to be in on the wave of that future, then Black businesses must have the necessary capital to get started, to survive, and to grow.

Unless this outside capital need is met, the ability to provide jobs and business competition in Black America will be nonexistent. Yet, at a time when there is a severe need for venture capital in small Black businesses, there are cutbacks in small business loans, cuts in the minority business set-asides, and in general, a lessened Federal response to the problems of small and minority businesses.

These, therefore, are the two major problems exacerbated by the decisions of government in this era of Reaganomics: the problem of our deteriorating industrial and manufacturing base; and the urgent need of Black businesses for outside capital to get started, survive, and grow. We need to address these problems through both Federal action, and through actions within the Black community to help ourselves.

Two Possible Solutions

Turning first to the problem of our nation's deteriorating industrial and manufacturing base, I would commend the model of The Reconstruction Finance (RFC) Corporation. During the Great Depression of the 1930s, President Franklin D. Roosevelt made the RFC into a source of badly needed financing for businesses and

local governments threatened by the economic collapse. The RFC between 1932 and 1947 provided \$1.5 billion in loans, loan participations, and stock purchases to 30,000 business enterprises that were unable to obtain private financing. In current dollars, that would equal about \$11 billion in aid. Such assistance was integral to the survival of these enterprises.

Similar institutions, both public and private, are needed today. To deal with our declining industrial sector, we will need more—not less—Federal government involvement. To deal with problems of Black businesses, both existing and potential, we will have to rely on our own initiatives and resources, at least for now. A budget, even the one proposed by the Congressional Black Caucus, only provides a framework for the implementation of an economic development program. We must have a multi-faceted program which will finance the revitalization of our industrial base, our cities, and the growth and expansion of our economic base.

A U. S. Revitalization Bank

We need something similar to the RFC to address the declining industrial sector. In manufacturing, we are all aware of the problems faced by our automobile, steel, rubber, electronics, textile, apparel and other basic industries because of foreign competition. There are many reasons for this situation, but the major problem lies in one simple fact: American factories are, on the average, 20 years old, compared with an average age of 12 years in Germany and 10 years in Japan. Simply put, this country's industrial base is deteriorating with age and obsolescence, and with it the ability of American manufacturers to compete in world markets and at the same time provide jobs for American workers.

Just as Roosevelt used the RFC to deal with economic problems during the Depression, we too should be ready to provide similar relief. There are currently a number of bills before the House to do just this, and members of the Congress-

sional Black Caucus have been among the sponsors and cosponsors. One such bill, which I have sponsored, would create a United States Revitalization Bank. This bank, which under the bill would receive \$5 billion in initial capital from the Congress and would have authority to raise an additional \$25 billion in private markets, would make loans to help financially-distressed businesses and local governments . . . to assist businesses to modernize or expand in order to provide employment and greater productivity, and to assist local governments to renovate or replace deteriorating capital facilities.

Such a bank, of course, would not provide assistance to every company or city facing problems. Obviously, some firms have been so mismanaged, that they deserve to go under, and many local governments can solve their problems on their own. But otherwise well-managed businesses producing needed goods and services are also threatened with ruin, which would leave their employees without jobs; many new firms with promising prospects in new high-technology fields may never get off the ground; and many local governments faced with reduced tax revenues and increased spending on welfare and social services will be facing insolvency through no fault of their own unless they are helped. In such cases, assistance provided by the proposed bank could be essential to continue economic stability and economic recovery.

Black Economic Development Fund

For possible solution to the second major problem, I recommend a Black Development Fund be established. If Black businesses are to have the outside capital with which to start and maintain businesses that will put people to work recycling the \$150 billion that pass through our hands annually, then we as Black people are going to have to provide that venture capital ourselves.

My proposal is that we think in terms of moving to a stage in which we encourage every Black American to give one dollar a

month to a Black Development Venture Capital Fund. We have been successful in getting payroll deductions for contributions to a United Black Fund to meet the needs of the poor; let us do the same for our economic development.

A Black Economic Development Fund could be organized on these same principles, with the funds amassed from individual contributions becoming the seed money for private enterprises. If each person contributed but \$1.00 per month, the resulting \$300 million could be leveraged to upwards of \$1.5 billion in investment capital each year. Carefully and prudently managed, such a fund could contribute significantly to the size and success of Black businesses and employment.

The problems with developing such a fund are formidable indeed, but they are not insurmountable. First, our people would have to be convinced of the need for, and importance of, this kind of a program. To obtain their trust and support for such a venture, a board of directors made up of prominent Black leaders would be needed. I'm thinking here of about six regional funds with six regional boards.

To assure our people that their contributions would not be lost or wasted, this fund would need to have as management officers competent businessmen, economists and lawyers. This fund would have to walk a fine line between hard financial analysis and advice, and sensitivity to the special needs of promising Black businessmen. It would have to work with, and to a large extent, through existing Black financial institutions and venture capital firms.

These are serious problems, and it will take much effort and cooperation to achieve them. But, the clear advantages of being able to control our economic destinies in this way make me believe that we can move in this direction.

This alone, however, does not solve the problem of small and minority business capital formation. At present, the tax laws

discourage equity participation in, and venture financing of, small and especially minority businesses. We will need to work for changes in the tax laws that will provide these enterprises with the same access to capital that large companies now enjoy, and that will encourage Black people to make investments in Black ventures. Such changes would multiply the benefits from a Black Economic Development Fund by encouraging the entrepreneurial activities that such a fund can support.

So there you have it, two possible solutions: A Black Economic Development Fund, and a Revitalization or National Development Bank.

Conclusion

Organizing and obtaining the Black community's support for a Black Economic Development Fund will require recommitment to the goals of full economic freedom for Black people. Obtaining the Federal programs for industrial development will require overcoming the opposition from those who want to roll back the Federal government's economic and social activities to what they were before the New Deal.

If we join together with other people of reason and goodwill, we will begin to reverse the trend of official indifference and callousness. We can bring about the programs and assistance that are so vitally needed to provide jobs and job opportunities to all Americans. □

Walter Fauntroy represents the District of Columbia in Congress. The above was excerpted from a July 26, 1982 presentation at the National Summit Conference on Black Economic Development & Survival, in Gary, Indiana.

AFRICAN DIASPORA

Continued from page 19

derived from the powerful set of cohesive historical conditions which helped to cement global bonds among African people.

The times and cast of characters have changed over the centuries, but in some ways, the challenge today is similar to that of the past, a situation in which Africa's political, strategic, and economic resources weigh heavily in the decisions of world policy-makers, and this fact makes even more important the existence of diaspora African communities in world centers of power. That fact underlines the critical nature of linkage between African people throughout the world. For in the struggle for world equity and peace, it would be a great mistake for any power in Africa or elsewhere to ignore the implications of those natural, and historical links.

Thus, the study of the African diaspora must be understood as an ongoing, historic and dynamic phenomenon influencing and influenced by relationships and events in global context. □