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ABSTRACT

The black community is considered as an economy where the consumption and investment behavior of black families have no significant impact on the growth rate of family income. This is seen to be a problem. The thrust of the argument that follows is that in the absence of a closer relationship between aggregate black family consumption spending, and their aggregate investment, through time, black families as a whole will become worse off economically relative to white families. This is hypothesized on the observation that conditions that generate a fall in the real income of the families in the black community relative to the nation are not countervailed by the potentially positive impact of black household consumption and investment behavior on the growth rate of black family income. In support of the hypothesis, the following questions are raised and answered: (1) whether the black community is an economy, (2) what the normal expectation of the growth of family income in an economy is, and (3) what the present consumption and investment situation of black families is. The basic solution to the problem is that the black community needs to be reorganized and restructured so as to raise the income of black families through their own aggregate consumpation and investment spending. (Author/AM)

THE CONSUMPTION AND INVESTMENT BEHAVIOR OF BLACK FAMILIES

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for

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What Is the Problem of Black Family Consumption and Investment Behavior?

What is the problem of Black family consumption and investment behavior, and what is the thrust of my argument? The problem is that the Black community is an economy where the consumption and investment behavior of Black families have no significant impact upon the growth rate of family income. The thrust of my argument is that in the absence of a closer relationship between aggregate Black family consumption spending, and their aggregate investment; it is my hypothesis that Black families as a whole will become worse off economically relative to White families as we go through time.

This is so because conditions that generate a fall in the real income of the families in the Black community relative to the nation are not countervailed by the potentially positive impact of Black household consumption and investment behavior upon the growth rate of Black family income.

My basic solution to the problem is that the Black community as an economy needs to be reorganized and restructured so as to raise the income of Black families through their own aggregate consumption and investment spending.

In support of my hypothesis, the following questions are raised and answered:

1. Is the Black community an economy?
2. What is the normal expectation of the growth of family income in an economy?
3. What is the present consumption and investment situation of Black families?

4. What is the future of the Black family under present conditions?
5. Why will Black families become poorer over time?
6. How can we solve the problem of capatalizing upon Black family consumption and investment behavior as a generator of rising family income?

Is the Black Community an Economy?

For purposes of economic analysis, I define the Black community as being an economy; albeit a sub-economy in the over all national economy? For example, if we defined the Black community as a specific place, how would we handle the economic concept of the Black community when Black families become scattered all over town, representing as in Washington, D. C., about 75 percent of the total population? I consider the Black ghetto as consituting the physical center and the material manifestation of the state of welfare of the Black economy.

By a Black economy, I mean transactions between Black people, or Black/Black transactions, and transactions between Black and White people; or Black/White transactions. These Black/Black and Black/White transactions embrace all of the economic processes, such as production of goods and services; income distribution; and consumption activities, that is, Black families buying consumer goods from Blacks and Black families buying consumer goods from Whites. These Black/Black and Black/White transactions occur wherever Black people live; and raise a whole host of economic problems. On the production side, there is the basic problem of business investment, resulting in miniscule Black-owned enterprises trying to compete in the Black community market, dominated by large white-owned enterprises. In the case of the Black ghetto, I call these white-owned chain stores White business enclaves. On the income distribution side, we witness only a tiny fraction of aggregate Black family income resulting from Black/Black transactions; while the bulk of aggregate Black family income is dependent upon a wage resulting from Black/White transactions with all of the attendant institutional and market constraints upon the aggregate size of Black family income emanating from these transactions.

What Are the Normal Expectations With Respect to the Impact of Consumption and Investment Behavior Upon Family Real Income in the Society?

The answer to this question will give us a clue to the problem of generating a rise in Black per capita real income through the consumption and investment behavior of Black family households.

I am hypothesezing that Black family consumption and investment spending in the Black community can be made to generate a rise in the per capita income of the Black community. My hypothesis is derived from the theoretical proposition that normally in the U.S. economy as a whole, we expect a relationship between the national income, savings, investment or net capital formation. That is, an increase in savings, lead to an increase in investment, which leads to an increase income, which leads to an increase in more savings, more investment, and more income, etc.

To get a rough idea of the probable impact of these variables upon the per capita real income growth, we may say, for example, if savings increased 15 percent, where savings equal investment; and the increment of the ratio of savings to capital was 3, and the population increased by 2 percent nually, the per capita income of the economy can increase by 3%. That is, $\frac{G}{P} = \frac{s}{k} - dp$. But this model of income, savings, investment, and capital formation has not been applied to the Black economy; and as a result, there has not been a force designed to generate a rise in the per capita income of Black families. Just how this can be done will be discussed later. At this point, let us consider the present consumption and investment activities of Black families.

What is the Present Situation With Respect to the Consumption and Investment Behavior of Black Families?

The Consumption Behavior of Black Families[1]

First, let us sketch a profile of Black family consumers. Without citing the statistics, we know that the bulk of Black families are urban consumers, concentrated inside SMSA, particularly in Central City. A little over 47 percent are husband

[1]U.S. Department of Labor, Bureau of Labor Statistics, USDL-276, May 15, 1975.

and wife with children. About 18 percent are one parent, with at least one child under 18; and about 34.4 percent are single person and other families.

Over a third of these families consist of 4 or more persons; and almost a fifth consist of five or more persons.

So the question that arises here is this: What is the consumption behavior of a large concentration of Black family consumers economically confined to a conjested space in Central City; with 72 percent of the husband-wife families with children; and where 18 percent of all the families are one parent families with at least one child; and finally where almost a fifth of the families have five or more persons to feed? Again, how do these families behave?

In my book, published in 1972, I showed that these Black families spend a dollar quite differently from White families. That is, there is a different pattern of expenditure; and within this pattern, the rate of expenditure out of a dollar of disposable income was greater for Black families than White families.

Some examples of this different pattern and rate of expenditure is as follows:

		Negro families spend:
1.	All food	4% more
2.	Food at home	7.3% more
3.	Tobacco	29.4% more
4.	Alcoholic beverages	25.0% more
5.	Housing	7.1% more
6.	Household operations	3.4% more
7.	House furnishing & equipment	8.0% more
8.	Clothing	22.5% more
9.	Personal care	36.0% more
10.	Travel, other than auto	29.4% more

Source: Davis, Frank G., "The Economics of Black Community Development, Rand McNally College Publishing Company, 1972, p. 187.

Obviously, if Black family consumption is at a higher expenditure rate in their unique pattern of income allocation, there must be some basic items in which the rate of expenditure is less; given a limited income. This raises the question of the size of family income and the nature of the items for which Black families had to allocate less of their income than White families; and the extent to which their income expenditure represent investment behavior.

The data I have observed indicate that the average income of Black families before taxes, as of June 1973 was $6,358. If we adjust this before tax income for price level changes since that time, the present worth of that amount in terms of 1967 prices would be about $3,905. In order for Black families to have the same level of real income in 1975 prices, their average money income would have to have risen to $10,350.82. But the Black median income in 1974 was only $7,800. Black families in 1973 spent $1,286.48 for food. Today, these same families would have to spend $1,929 or about 25 percent of their income for food instead of about 20 percent.

Investment Behavior of Black Families

We may say that investment is a function of saving which implies a postponement of immediate gratification in the present. However, we may think of investment in terms of human capital, such as education; or home ownership, as opposed to say, physical capital investment of Black businessmen.

In the case of education and home ownership, one may receive certain consumer gratification while investing since the item will last over an extended period of time.

If we measure Black family investment in terms of education, we observe that 51.1 percent of the families did not finish high school; 25.9 percent did finish high school; and only 3.2 percent finished college. In my book on "The Economics of Black Community Development," I showed that as a rate of return on investment in education, it does not pay for Blacks to go beyond the 9th or 10th grade, unless the person is going to finish college and take graduate work.

In terms of housing tenure, we observe that only 37 percent of Black families are home owners compared with 62 percent of White families.

With respect to the allocation of disposable income, my studies showed that Black families allocate 50 percent less of disposable income for education; 11 percent less for reading; 28.4 percent less for medical care.

Now, what is the economic future of the Black family in terms of their present consumption and investment behavior?

The Economic Future of the Black Family

So, the question here is, what is my prognosis of the future of the Black family where income, family size, and cost of living in an urban ghetto, result in not enough to live on; let alone enough to save and invest. My basic hypothesis is that the Black family is becoming relatively poorer because there are economic forces in the national economy which are generating both short and long-run poverty among the Black labor force. Let us first see if the Black family is becoming poorer; and then see why?

In this respect, my first hypothesis is that the gap between the potential GNP and the actual GNP will remain wider in the postdepression period than in the predepression period prior to the last quarter of 1973. By this, I mean that in view of the present inflation, the optimum level of recovery of the total output of goods and services will be such as to leave a permanent residual of 7 or 8 percent unemployment; together with the present level of high prices in relation to wage income. I am assuming an inverse relationship between unemployment and wage inflation. That is, as wages are inflated, unemployment will be reduced. But in the process of avoiding any kind of substantial wage inflation during recovery; unemployment will remain high in the postdepression period. This situation has tremendous economic significance for Black families whose unemployment is usually twice that of the nation. This means that depression rates of 15, or possibly 20 percent unemployment will remain indefinite with Blacks, if and when the economy is recovered from its present depression. Since present inflated prices will not be deflated or rolled back, the over-all price level will remain high even after recovery, if the history of prices since World War II will run true to form. That is, the prices of major commodities which are produced by industries where a few firms dominate the output, will remain inflexible in terms of downward movement.

There will be a big cost of living problem for Black families where the predominant wage rate is somewhere near the minimum wage, which is highly inflexible upward due to slow congressional action on changing the minimum wage laws. This means that the present cut in Black family income due to the inflationary spiral, will continue indefinitely to reduce the market potential for Black investors selling in the Black community. In addition to the present high level of Black unemployment, which is somewhere between 14 percent and 25 percent; depending upon whether you count the Blacks who have withdrawn from the labor market on account of frustration; and perhaps, the partially employed; we may observe the impact of inflation upon the Black families in terms of the rate of rise in the price level between 1967 and 1974; in 1967 prices; which was such that the real wage equivalent of the legal money wage went down considerably below the 1967 level; and still remains below the 1967 level.

We may conclude that not only have price level changes since 1967 eliminated any personal income gains of Black workers making up to $80.00 per week at the present time; but for all Black laborers and service workers whose money wage has been at some point near the minimum wage since 1967; their real income has declined since 1967 to a point of subsistence below the 1967 price level; and has remained below the poverty level as of May 1974. As of May 1974, the trend in the poverty level, on the basis of

1967 prices, was below 100 (poverty getting worse) while the trend in the minimum wage level was upward. But both the minimum wage level and the poverty level were below the purchasing power level of 1967. This suggests that both the poverty level and the minimum wage level, when expressed in 1967 prices, are highly representative of a real wage subsistence for between 53 percent and 71 percent of the Black labor force, whose wage is fixed near the federal minimum.

Now, what conclusion can we draw about the trend in the overall economy and the economy of the Black community? Our first conclusion is that the recovery from the present economy of stagflation (inflation plus unemployment) will leave a much higher level of post-recovery unemployment in the economy as a whole; together with a permanent condition of depression rates of unemployment of the Black community. Our second conclusion is that recovery will not bring with it any price roll-backs. But the overall wage level (all industries) will not rise significantly; particularly, the wage rates of the unskilled. Also, as I shall show shortly, the proportion of Black family income to the national income will continue to fall as we go through time.

It can also be seen from the above conclusi . with respect to post-depression unemployment, high prices, and low wage rates for the bulk of Blacks, that the Black economy is now and will be operating in a highly adverse economic and political environment. This means two things: (1) a continuation of a high rate of business failures among the small Black business investments already in existence, due to a shrinking Black community market; and (2) a highly restricted capital market for growth capital in the Black business community due to a high rate of business failure and continued high rates of interest.

My second hypothesis with respect to the Black family becoming poorer is based upon my declining income hypothesis which states that relative to the national income, the total money income of Black families is declining over time.

The evidence for my declining income hypothesis is derived from my analysis of the relationship between the variables, the national income, and total Black family income. We assume that total Black family income should represent a positive relationship with the movement of the national income; and not an inverse relationship, unless there are negative factors which over time, restrict the upward movement of Black family income.

To determine if Black family real income was moving downward relative to the national income, we computed the ratio of Black family income to national income, and weighted these ratios with the consumer price index for the period 1957 to 1972. Using these C.P.I, weighted ratios as a regression upon the time period 1957-72, a negative trend was obtained; representing an inverse relationship between an annual change in time since 1957 and the weighted ratio of Black family income to the national income.[1] Over the 16 year period, 1957 to 1972, the average deop in the real income of

[1]For the period 1957 to 1972, the computed value of Y was Yc= .168511 (-) .1719X. This means that for a one year change in time, beginning in 1957, there was two-tenth of one percent downward change in the ratio of Black personal income to the national income. R^2 was 0.8837. The S.E. of the regression coefficient is .01666.

the Black families relative to the national income was percent. Also, in current dollars, the ratio of the me of Negro to White families fell from .61 in 1970 to .58 fall of a percentage point per year over a successive t period.[2] In terms of our negative trend of Black famil come over time in relation to the national income; ther probability that the negative rate of the trend relatio been accelerated since 1970.

Why Are Black Families Becoming Poorer?

Black families are becoming poorer because the ope predominantly oligopolistic market system generates Bla My thesis is, which has been proven elsewhere, that Bla are primarily unskilled and to a large degree are paid wage. In a period of prosperity and rising prices, the come falls because product prices are rising. In the l technological change reduces the demand for unskilled l productivity manufacturing employment, and thus, Black faced with declining economic opportunities. If the ec perfectly competitive, rising productivity would lead t product prices rather than rising wages for the skilled

In my book, I have supported this thesis by showin the real wage of unskilled Black workers do fall during expansion; (2) that technological change in manufacturi the demand for Black workers; and (3) what the loss in is to Black families from the failure of product prices productivity rise.

[2]U.S. Bureau of the Census, Current Population Rep Social and Economic Status of Negroes in the U.S., 1973

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Now, if Black families are becoming relatively poorer in the national economy; and if this poverty is generated by national economic factors outside the Black economy; then the big question is: How can the consumption and investment behavior of Black families be made to countervail the adverse impact of these outside forces upon Black family income?

How Can We capitalize Upon Black Family Consumption and Investment Bheavior?

The basic question is how can Black families raise their income through their own consumption and investment behavior? Another way of asking the same question is how can the Black community get a raise just on the basis of their own spendings? I recently pointed out at a regional conference of the Business Development Organization, that the aggregate size of Black family purchasing power in the U.S. is $54.6 billion. In the U.S., Black-owned businesses capture only an estimated 13.0 percent of this Black family purchasing power; and this is done where the average Black business consisted of only six (6) employees with gross receipts of $160,000. Just think how much better off Black families would be if only half of this purchasing power could be capatalized upon by Black families.

To do this, the basic idea is to conceive of the Black economy as represented by a huge national community owned holding company, whose primary factors and product market consist of the Black community; where the community, as a whole, receive wages; interest, rents, dividends and profits; instead of transfer payments. Th

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eveloped a model using just wearing apparel purchases
lies to indicate specifically in the case of just
item; how Black family purchases could increase
income.

is one of manufacturing feasibility based upon
Newark, New Jersey, showing the intersectoral
rces generated by manufacturing in a three sector
re ghetto economy such as Newark. My sectors are:

1. Capital good sector (manufacturing wearing apparel);
2. Consumer good sector (wholesale, retail wearing apparel);
3. Labor export sector (labor employment outside the Black community).

I will not go into the technical details which were involved in arriving at the net value of output of wearing apparel in the Newark ghetto, but I will give you some results of my findings which are as follows:

1. The total output of clothing was $21,538,000.
2. The net value of output of clothing was $16,617,000.
3. The capital goods sector (manufacturing operations) would have bought its machines and raw materials from outside the Newark ghetto.
4. The value of imports of machines and raw materials ($4,921,000) would have been paid for by the export of $4,921,000 worth of labor. In other words, this was the amount of earnings that Black workers would have brought home to the ghetto.
5. The capital good sector is vertically integrated with the consumer goods sector.
6. The money value of the purchases for the distribution operation in the consumer good sector must, of course, equal the output of the manufacturing operation of the capital goods sector.
7. There is no producer goods sector. All producer goods are imported and paid for out of earnings from otherwise unemployed labor exported to the White community.

8. The export sector is the balancing factor for general equilibrium. Since this Newark ghetto economy does not produce its own machines and raw materials for manufacturing, it would run a deficit in its trade balance and would have to cut back $4,921,000 on capital purchases or make up the deficit by exports that do not require machines for its production. Export of labor (1,537 unemployed workers at a minimum wage of ($1.60) bringing in wage of $4,921,000 would wipe out their import deficit, and the economy would be in equilibrium.

9. The total value added in the ghetto community (wages plus profit) at all stages was $5,551,137.

10. $4,921,000 earned outside the ghetto and converted to capital within the ghetto generated a new value of output of $16,617,000. Thus, the output/capital ratio

$$\frac{\$16,617,000}{\$\ 4,921,000} = 3.4.$$

That is $1.00 of borrowed capital would yield $3.40 in net value of output.

11. The rate of return on borrowed capital at the manufacturing stage is computed as follows:

profits, $418,000 divided by borrowed capital ($3,700,000) equals 11.3 percent.

12. The capital supply cost at the manufacturing stage (that part of value added by manufacturing representing return to capital per $1.00 of retail clothing sale in the Newark ghetto, $418,000 (profits) divided by $16,617,000 (retail

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additional $518,375,000 spent for clothes by central cities (ghetto) families by 1980. If we divide the $518,375,000 by 10, we get an annual aggregate increment to clothing purchases by central cities families of $51.8 million. Over the 10 years, this gives a growth rate of 2.9 percent in ghetto clothing purchasing.

Since wages would represent 29.76 percent of the additional $518,375,000 in total ghetto clothing purchases, the annual wage increment from vertical intergration of clothing production in the Black economy would be $15.4 million over the 10 year period, representing a growth rate in wages of roughly 3 percent.

In conclusion, let us drop our static view of Black families as micro-economic household units where their present consumption and investment behavior have little or no impact upon a rise in their future income. Let us consider the possibilities of a managed macro-economic approach to the Black economy so as to countervail the exogenous and endogenous economic forces that are generating poverty among Black families; and thereby raise the income level of Black families by capitalizing upon their own consumption and investment behavior.