

# Black Economics: Not Enough Emphasis On It

by Byron A. Ellis

Generally, to understand a given economy, it is partitioned into workable sectors. It is, therefore, interesting to partition the economic structure within the Black community into household, non-financial, financial, government and external sectors, in an attempt to assess strengths and weaknesses.

First, however, let's assume a closed Black economy. That is, one in which there is no external economic interaction with other ethnic groups nor with the federal government (no transfer payments). Under such a scenario, exchange of goods and services would only occur within the Black community. Hence, community income, in general, would be constrained.

If, however, the assumption of a totally closed Black economy is relaxed and labor exchange is allowed, Blacks would have a larger market in which to sell their labor services and household income would increase. Moreover, income tax revenues would also increase proportionately and a larger government sector is likely to emerge. As a result, more private and public jobs

will be created. Hence, a more open economy, allowing labor exchange, increases income to the household and government sectors.

It is logical to assume that not all increased income in the household sector will be consumed. That is, some economic units will forgo present consumption (save) for future consumption. These savings-surplus units will deposit their savings in the financial sector.

Let us, however, assume that our economy does not have a financial sector and further relax our assumption of a closed economy by allowing exchange with financial institutions outside the community. Meaning that savings from the household and government sectors will be deposited in financial institutions not under the control of community members.

The function of the financial sector is basically one of intermediation between savers and borrowers. The financial sector is essential for economic growth and prosperity, without it funds would not be available for investment in profitable businesses. Therefore, any community that does not control its financial sector is at a disadvantage. In

the sense that it will not be able to freely fund itself.

Briefly, the financial sector includes the federal reserve, commercial banks, savings and loan associations, savings banks, credit unions, life insurance companies, private pension funds, state and local government retirement funds, other insurance, finance companies, real estate investment trusts, opened investment companies, and security brokers and dealers.

Clearly, if these institutions are outside of our community, funds deposited will, in all likelihood, be funneled to investors outside the community. And, although in the economy as a whole, savings will equal investment; for our economy, in particular, this premise will not be true. And, as a result, capital to labor ratio will be low. Meaning that the standards of living in our community will also be low; as reflected by high rates of unemployment, incarceration, births out of wedlock, structural deterioration, etc.

If, however, our economy had a financial sector which was primarily controlled by community members, investment opportunities for

Blacks would be enhanced. Moreover, the probability of wealth creation and increased competitiveness would be high. And the expectations of attainment within the community would drastically improve.

Unfortunately, financial institutions are conspicuously absent from, and not in the control of, the Black community. And, savings by Black savings-surplus units are seldom reinvested in the community. In other words, the rate of capital investment in Black communities is, generally, close to zero. Meaning that there is no investment in factories, buildings and machinery. Hence, opportunities to increase labor demand and know-how do not exist.

The historical behavior of the external financial sector has not been in the best interest of the Black community and has contributed to a weak Black economy. Nonetheless, Blacks should have, long ago, revolted against financial bias by creating a robust Black financial sector.

The establishment of a Black financial sector is not as difficult as it may first appear, the mechanics are not that complicated. Moreover,

the community is endowed with talented members whose only deficit is lack of funding sources. Sadly, though, it is unlikely that Black self funding will occur in the near future, except if Blacks are sparked by some moral uplifting.

If the establishment of a Black financial sector is in best interest of the community. Why then have we not created an African based financial sector throughout the U.S. and Africa? It is evident that an economy, or business for that matter, is unlikely to prosper without adequate capital. It is also evident that capital information result from savings-surplus units pooling their savings. And that a savings-surplus unit is an individual that forgoes present consumption for future consumption. So why aren't we preaching the virtues, and the benefits, of savings and of forming and patronizing our own financial sector?

Apparently, the perception in our community is that the mechanism for uplifting Blacks is the political process, rather than economics-the effective utilization of scarce resources. However, the belief that politics will create a just redistribution of wealth is erro-

neous and counterproductive. Economies, such as the former Soviet Union for example, which had adhered to such doctrines have not fared well. The political redistribution doctrine is devoid of incentives for the efficient utilization of resources.

Wealth is created and expanded through access to efficient financial markets. Unfortunately, in the U.S. people of African decent have been systematically excluded from the existing financial markets. And the effects of such exclusion is a Black economy without a financial and business (non-financial) sectors. Additionally, the government sector is often poorly run and the external sector generally exhibits a net loss: more goods and services are being consumed from external sources than from internal.

Hence, it is time to create our own financial markets in order to fund promising Black entrepreneurs, and begin to seriously compete in the market place for goods and services. We must earnestly recreate and realize the vision of Garvey.

**Byron A. Ellis writes on economics.**