

Y4
. C 73/2
90-24

104)

90014
C 73/2
90-24

RIOT INSURANCE

GOVERNMENT

Storage

HEARING

BEFORE THE

COMMITTEE ON COMMERCE

UNITED STATES SENATE

NINETIETH CONGRESS

FIRST SESSION

ON

S.J. Res. 102

TO AUTHORIZE AN IMMEDIATE STUDY BY THE SECRETARY OF COMMERCE, AND A REPORT TO THE CONGRESS WITHIN SIXTY DAYS, WITH RESPECT TO THE AVAILABILITY OF INSURANCE PROTECTION AGAINST DISASTER PERILS RESULTING FROM RIOTS OR OTHER CIVIL

DISORDERS

AND

AMENDMENTS

(IN THE NATURE OF A SUBSTITUTE)

AUGUST 29, 1967

Serial No. 90-24

Printed for the use of the Committee on Commerce



KANSAS STATE UNIVERSITY LIBRARIES
U.S. GOVERNMENT PRINTING OFFICE

KSU LIBRARIES



EPSTDS 00011A
AJJ1900 501583

200
60314
2014

AY
C 1315
AS-09

RIOT INSURANCE

HEARING

COMMITTEE ON COMMERCE

UNITED STATES SENATE

COMMITTEE ON COMMERCE

WARREN G. MAGNUSON, Washington, *Chairman*

JOHN O. PASTORE, Rhode Island
A. S. MIKE MONRONEY, Oklahoma
FRANK J. LAUSCHE, Ohio
E. L. BARTLETT, Alaska
VANCE HARTKE, Indiana
PHILIP A. HART, Michigan
HOWARD W. CANNON, Nevada
DANIEL B. BREWSTER, Maryland
RUSSELL B. LONG, Louisiana
FRANK E. MOSS, Utah
ERNEST F. HOLLINGS, South Carolina

NORRIS COTTON, New Hampshire
THRUSTON B. MORTON, Kentucky
HUGH SCOTT, Pennsylvania
WINSTON L. PROUTY, Vermont
JAMES B. PEARSON, Kansas
ROBERT P. GRIFFIN, Michigan

FREDERICK J. LORDAN, *Staff Director*
JAMES J. BARRY, *Assistant Staff Director*
MICHAEL PERTSCHUK, *General Counsel*
RALPH W. HORTON, *Assistant General Counsel*
WILLIAM G. MESERVE, *Staff Counsel*



CONTENTS

| | Page |
|----------------------------------------------------------------------------------------------------|------|
| Text of Senate Joint Resolution 102..... | 2 |
| Text of amendments to Senate Joint Resolution 102..... | 6 |
| Opening statement of chairman..... | 1 |
| Excerpts from Cong. Rec., August 4, 1967..... | 2 |
| Letter from Sen. Warren G. Magnuson, to Hon. Alexander B. Trowbridge, dated August 8, 1967..... | 7 |
| Remarks by Senator Philip A. Hart..... | 11 |

AGENCY REPORTS

| | |
|--------------------------------------------------|----|
| Comptroller General of the United States..... | 8 |
| Department of Housing and Urban Development..... | 10 |
| Department of Justice..... | 8 |
| Department of Transportation..... | 9 |
| Department of The Treasury..... | 10 |
| Office of Economic Opportunity..... | 8 |

STATEMENTS

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| McQuade, Lawrence, Assistant Secretary of Commerce for Domestic and International Business..... | 12 |
| Smith, Wallace B., manager, American Mutual Insurance Alliance; ac- companied by George Potts, Raymond Kirsch, and John Renn, Washing- ton, D.C..... | 68 |
| Stark, Melvin L., manager of Washington Office of American Insurance Association, Washington, D.C..... | 52 |
| Yim, Arthur, director of business service, Mayor's Development Team, Detroit, Mich..... | 31 |

STATEMENTS SUBMITTED FOR RECORD

| | |
|-------------------------------------------------------------------------------------------------------------------------|----|
| Dykhouse, David J., Michigan Commissioner of Insurance, Insurance Bureau, Department of Commerce, Lansing, Mich..... | 72 |
| Government Employees Insurance Co., Bethesda, Md..... | 76 |
| Insurance Co. of North America, submitted by Bertram C. Dedman, gen- eral counsel, Philadelphia, Pa..... | 77 |
| National Association of Independent Insurers, Washington, D.C..... | 75 |
| Pfeffer, Irving, professor of insurance, University of California, Los Angeles, Calif..... | 78 |
| Vertrees, Orman L., staff reporter, Seattle Post-Intelligencer, Seattle, Wash..... | 43 |

DOCUMENTS SUBMITTED FOR RECORD

| | |
|-----------------------------------------------------------------------------------------------------------------|-----|
| By Department of Commerce: | |
| 1. A Business Opportunity Program for Milwaukee..... | 87 |
| 2. Summary: Program Activities of the Affirmative Action Programs Staff..... | 100 |
| 3. Summary of Department of Commerce's Economic Development Administration Projects in Inner-City Areas..... | 119 |

CONTENTS

1 List of Senate Joint Resolution 103
2 List of amendments to Senate Joint Resolution 103
3 Opening statement of Chairman
4 George J. Mitchell, August 4, 1987
5 Letter from Sen. Warren G. Magnuson to Hon. Alexander H. Haig, Jr.
6 dated August 2, 1987
7 Honorable Senator Philip A. Hart

AGENCY REPORTS

8 Embassy, Federal of the United States
9 Department of Health and Human Services
10 Department of Justice
11 Department of Transportation
12 Department of the Treasury
13 Office of Economic Opportunity

STATEMENTS

14 Michigan Law Center, Assistant Secretary of Commerce for Domestic and
15 International Business
16 Smith, Walter B., manager, American United Business Alliance, Inc.
17 compiled by George Lott, Raymond Bisset, and John Hagan, Washington,
18 D.C.
19 Mark, Michael L., manager of Washington Office of American Insurance
20 Association, Washington, D.C.
21 Jim, Arthur, director of business services, Mayor's Development Team,
22 Detroit, Michigan

STATEMENTS SUBMITTED FOR RECORD

23 Delaware, David J., Michigan Commissioner of Insurance, Insurance
24 Bureau, Department of Commerce, Lansing, Michigan
25 Government Employees Insurance Co., Bethesda, Md.
26 Insurance Co. of North America, submitted by Benjamin C. Johnson, gen-
27 eral counsel, Philadelphia, Pa.
28 National Association of Independent Insurers, Washington, D.C.
29 Lott, George, professor of insurance, University of California, Los
30 Angeles, Calif.
31 Warren, Warren A., staff reporter, Senate Post-Insurrection Study
32 Staff

DOCUMENTS SUBMITTED FOR RECORD

33 Department of Commerce
34 1. A Business Opportunity Program for Alliances
35 2. Summary Program Activities of the Alliance Action Program
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100
101
102
103
104
105
106
107
108
109
110
111
112
113
114
115
116
117
118
119
120
121
122
123
124
125
126
127
128
129
130
131
132
133
134
135
136
137
138
139
140
141
142
143
144
145
146
147
148
149
150
151
152
153
154
155
156
157
158
159
160
161
162
163
164
165
166
167
168
169
170
171
172
173
174
175
176
177
178
179
180
181
182
183
184
185
186
187
188
189
190
191
192
193
194
195
196
197
198
199
200
201
202
203
204
205
206
207
208
209
210
211
212
213
214
215
216
217
218
219
220
221
222
223
224
225
226
227
228
229
230
231
232
233
234
235
236
237
238
239
240
241
242
243
244
245
246
247
248
249
250
251
252
253
254
255
256
257
258
259
260
261
262
263
264
265
266
267
268
269
270
271
272
273
274
275
276
277
278
279
280
281
282
283
284
285
286
287
288
289
290
291
292
293
294
295
296
297
298
299
300
301
302
303
304
305
306
307
308
309
310
311
312
313
314
315
316
317
318
319
320
321
322
323
324
325
326
327
328
329
330
331
332
333
334
335
336
337
338
339
340
341
342
343
344
345
346
347
348
349
350
351
352
353
354
355
356
357
358
359
360
361
362
363
364
365
366
367
368
369
370
371
372
373
374
375
376
377
378
379
380
381
382
383
384
385
386
387
388
389
390
391
392
393
394
395
396
397
398
399
400
401
402
403
404
405
406
407
408
409
410
411
412
413
414
415
416
417
418
419
420
421
422
423
424
425
426
427
428
429
430
431
432
433
434
435
436
437
438
439
440
441
442
443
444
445
446
447
448
449
450
451
452
453
454
455
456
457
458
459
460
461
462
463
464
465
466
467
468
469
470
471
472
473
474
475
476
477
478
479
480
481
482
483
484
485
486
487
488
489
490
491
492
493
494
495
496
497
498
499
500
501
502
503
504
505
506
507
508
509
510
511
512
513
514
515
516
517
518
519
520
521
522
523
524
525
526
527
528
529
530
531
532
533
534
535
536
537
538
539
540
541
542
543
544
545
546
547
548
549
550
551
552
553
554
555
556
557
558
559
560
561
562
563
564
565
566
567
568
569
570
571
572
573
574
575
576
577
578
579
580
581
582
583
584
585
586
587
588
589
590
591
592
593
594
595
596
597
598
599
600
601
602
603
604
605
606
607
608
609
610
611
612
613
614
615
616
617
618
619
620
621
622
623
624
625
626
627
628
629
630
631
632
633
634
635
636
637
638
639
640
641
642
643
644
645
646
647
648
649
650
651
652
653
654
655
656
657
658
659
660
661
662
663
664
665
666
667
668
669
670
671
672
673
674
675
676
677
678
679
680
681
682
683
684
685
686
687
688
689
690
691
692
693
694
695
696
697
698
699
700
701
702
703
704
705
706
707
708
709
710
711
712
713
714
715
716
717
718
719
720
721
722
723
724
725
726
727
728
729
730
731
732
733
734
735
736
737
738
739
740
741
742
743
744
745
746
747
748
749
750
751
752
753
754
755
756
757
758
759
760
761
762
763
764
765
766
767
768
769
770
771
772
773
774
775
776
777
778
779
780
781
782
783
784
785
786
787
788
789
790
791
792
793
794
795
796
797
798
799
800
801
802
803
804
805
806
807
808
809
810
811
812
813
814
815
816
817
818
819
820
821
822
823
824
825
826
827
828
829
830
831
832
833
834
835
836
837
838
839
840
841
842
843
844
845
846
847
848
849
850
851
852
853
854
855
856
857
858
859
860
861
862
863
864
865
866
867
868
869
870
871
872
873
874
875
876
877
878
879
880
881
882
883
884
885
886
887
888
889
890
891
892
893
894
895
896
897
898
899
900
901
902
903
904
905
906
907
908
909
910
911
912
913
914
915
916
917
918
919
920
921
922
923
924
925
926
927
928
929
930
931
932
933
934
935
936
937
938
939
940
941
942
943
944
945
946
947
948
949
950
951
952
953
954
955
956
957
958
959
960
961
962
963
964
965
966
967
968
969
970
971
972
973
974
975
976
977
978
979
980
981
982
983
984
985
986
987
988
989
990
991
992
993
994
995
996
997
998
999
1000

RIOT INSURANCE

TUESDAY, AUGUST 29, 1967

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met at 10:10 a.m. in room 1202, New Senate Office Building, Hon. Vance Hartke presiding.

Senator HARTKE. Good morning, ladies and gentlemen.

The Senate Commerce Committee today holds hearings on Senate Joint Resolution 102, a resolution I introduced earlier this month, which would authorize the Secretary of Commerce to conduct a study of the availability of insurance protection against losses resulting from riots or other civil disorders. We shall also consider an amendment, which is the the nature of a substitute for this resolution, which was introduced last week by Senator Hart. His proposal calls for the Secretary of Commerce to make arrangements for an improved insurance protection program for areas where insurance is not now available at reasonable rates.

In focusing upon the conditions under which insurance protection is—and should be—available in the low-income areas of our cities, these proposals utilize one of the most basic instruments at hand for preserving the life of businesses in these areas and promoting the economic well-being of their residents. For where insurance coverage is unavailable, few merchants will run the risk of being completely wiped out by a single fire. Where it is available only at extremely high rates, few can afford to operate with such costly overhead. In either case, therefore, local business will be severely stunted or wiped out, and local consumers will be confronted with limited shopping opportunities and singularly high prices.

In recent years, a major cause of insurance blackouts or prohibitive rate structures has been the riot. In Watts, for example, the Wall Street Journal has pointed out that insurance rates today are five times higher than they are in the "safe" areas of Los Angeles, and these rates have doubled since the riots. The inevitable result is clearly shown by the figures: only eight businesses have opened in Watts where 40 were destroyed.

Immediate action is clearly necessary to prevent the continued deterioration of business in the central cities. Easing the conditions and terms under which insurance protection will be available is one of the quickest and most effective steps we can take to deal with this problem. The insurance companies alone are unable to launch such a program, however. It is essential, therefore, that we work with these companies to develop a joint public and private insurance program. I believe that such a program can best be developed only after an in-depth study of the type provided for by Senate Joint Resolution 102.

Staff counsel assigned to this hearing: William G. Meserve.

Our witnesses today, representing both Government and industry, will comment on Senate Joint Resolution 102 and upon the amendment of Senator Hart, and attempt to define more clearly some of the particular problems of writing and obtaining insurance in the cities. We certainly look forward to hearing from them.

Before calling our first witness, however, I would like to insert in the record at this point, the text of Senate Joint Resolution 102, a copy of the remarks I made in introducing it, and the text of Senator Hart's amendment to that resolution. Chairman Magnuson has also requested that a copy of a letter he sent to Secretary Trowbridge be included in the record, for he has asked that Mr. McQuade comment, at these hearings, on two of his proposals designed to promote commerce in the core cities. Following this we will insert other agency comments.

(The documents referred to follow:)

[S.J. Res. 102, 90th Cong., first sess.]

JOINT RESOLUTION, To authorize an immediate study by the Secretary of Commerce, and a report to the Congress within sixty days, with respect to the availability of insurance protection against disaster perils resulting from riots or other civil disorders

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of Commerce shall undertake an immediate study to determine the extent to which insurance protection against disaster perils resulting from riots or other civil disorders is available from public or private sources, and whether legislation is necessary to assure the continuing availability of such insurance. In carrying out such study, the Secretary shall, to the maximum extent practicable, consult with representatives of the insurance industry, with the Department of Housing and Urban Development and other Federal departments and agencies, and with State and local agencies. Findings and recommendations resulting from such study shall be reported to the Congress at the earliest practicable date, but in no event later than 60 days after the effective date of this joint resolution.

SEC. 2. There are authorized to be appropriated such sums as may be necessary to carry out the purposes of this joint resolution.

[Excerpts from the Congressional Record, Aug. 4, 1967]

PROTECTING INSURANCE RIGHTS OF RIOT VICTIMS: SENATE JOINT RESOLUTION 102

Mr. HARTKE. Mr. President, the insurance industry is in a quandary concerning the future of its underwriting in riot-prone areas. One symptom of its concern is the fact that tomorrow there is a meeting in Chicago by the Property Committee of the industry organization, the American Mutual Insurance Alliance, at which the question of insurance claims arising out of the recent riots, and the prospects for future problems, will be the focus of attention.

Recently there have appeared, on financial pages and in business publications, several articles dealing with the question. There is confusion, both in the industry and among those who have lost property. No one doubts that the probability of events in the future will compound that confusion. Nor can it be doubted that, while tragedy surrounds the entire chain of circumstances in the riots from Watts to Detroit and all the others, within the broader frame there are a great number of financial tragedies involving the loss of property by innocent victims of the riots. Says an article in the July 29 Business Week:

"The most difficult question of all involves future insurance company operations in riot-prone areas. It is no secret that most insurers are not particularly eager to write policies in slum areas."

Yet we must do all we can, for the sake of the social necessities of improving ghetto conditions, to preserve the life of businesses in these areas in order to give them the maximum stability, not to break them down further socially. But fully as much we need, in simple equity, to see that individuals whose property is looted, burned, and vandalized in an outbreak do not bear the sole risk for individual unreimbursed loss.

But how is this to be done?

There have been proposals, including bills before the Congress which would provide for Federal reinsurance, or which would reimburse insurance companies outright for 90 percent of their losses. But while there have been policy cancellations and rate increases, there has also been a lack of any systematic dealing with the problem. To me, while it is true that the insurance companies may need some assistance in the problem, the paramount necessity is protection of the innocent victim from bearing the burden of his loss prohibitively. After all, it is not he but the insurance companies who control the policies under which insurance losses are contemplated.

Because there is a genuine need for study of the situation, for a study to devise workable plans which will prevent unreimbursed loss of property in riot areas, I am today introducing a Senate joint resolution calling for such a study. The joint resolution asks that it be undertaken immediately—there is certainly urgency—and that a report be sent back within 60 days. The content of the report is specified—it is to cover a determination of, first, the extent to which insurance protection is available from private or public sources; and, second, whether legislation is needed to assure continuing availability.

Mr. President, I realize that it is difficult to deal with this problem. There are complexities which the insurance industry itself has not solved. But I do not believe the basic goal of property protection through a joint public and private effort is insoluble. In order to achieve a sound solution, however, I believe it is inappropriate to try to devise a too-hasty legislative concoction. At the same time there is an urgency which cannot be denied. It is for that reason that the resolution requires that the Secretary of Commerce initiate the study immediately and report to the Congress within 60 days. Presumably, if 60 days is not long enough, there will be an extension request; but the time limit indicates the urgency with which I view the need to meet the problem.

The joint resolution takes account of the fact that there has been developed some expertise in the Department of Housing and Urban Development, particularly in connection with the flood insurance bill now before the Banking and Currency Committee with recommendations from its Securities Subcommittee. The Secretary of Commerce is directed to consult with them as well as with other Government agencies, and with representatives of the insurance industry.

In this area the companies writing insurance affected are represented almost entirely by three organizations. These are the American Mutual Insurance Alliance, whose members are mutual companies; the American Insurance Association, whose members are stock companies; and the National Association of Independent Insurers, which includes a couple of the Nation's largest companies with household names, as well as others. I have talked with representatives of each of these three organizations, and I am assured that they support the principle of a study of this kind. They have also assured me that they will gladly cooperate in furthering any project of the sort which is undertaken.

A House joint resolution very nearly identical to mine is also being offered by Congressman Thomas Rees, of California who has been concerned about the insurance problem ever since the Watts riot. The only difference between the two is that in my resolution the study is in charge of the Secretary of Commerce, who is to cooperate with the Department of Housing and Urban Development, and, in his, HUD is the first-named agency, with Commerce in the cooperating role.

Mr. President, I have mentioned Watts. Because it is farther away in time than the recent losses—Detroit's is estimated at \$150,000,000—perhaps it can serve to illustrate the need as well as any. There, according to a recent story in the Los Angeles Times, a white druggist in Watts is finding his insurance "becoming impossible" because he is "paying as much for a month of insurance as for a year before the rioting." This has happened despite the fact that 108 carriers set up a pool in order to make insurance available in the area, to meet the situation arising when many companies canceled policies or declined to renew them. Fire insurance rates in Watts today are three to five times what they were before the riot, and even under the pool no risk is covered above \$150,000.

Mr. President, I am not asking for specific substantive legislation at this time. I do not believe anyone is in the position to know, without a study such as I propose, what legislation would be the best for the purpose. But I do want in the study to keep in mind a dual objective—protection for the property owner in the riot-prone ghetto area, and protection for private insurers who will be encouraged to maintain their services in these areas without crushing losses. If it is true, as I think it is, that the Nation as a whole, and the Federal Government in particular, through its past failure to cure the causes of these riots, has a

responsibility, then I think it is true that the Government needs to consider the means by which it can support the insurers and the insured so that their burdens will not be abnormal in these abnormal areas. Whether the means most desirable is Federal reinsurance or something else, I am not prepared to judge on the scanty available evidence. We need a study to clarify and sharpen the issues and to formulate alternative possibilities to guide us in legislation.

We have been able to do this in the production of a bill to deal with the problems of flood insurance, considered in earlier times an uninsurable risk. We have provided other mechanisms for disaster relief in case of tornado and other natural tragedies. We can do as much here, for the protection of the innocent victim of manmade tragedy in the ghetto.

In order to further throw light on the problem, I ask that certain articles appearing in the Washington Star of Wednesday, July 26 and in the July 29 issue of Business Week be reprinted in the Record.

The articles presented by Mr. Hartke are as follows:

[From the Washington (D.C.) Evening Star, July 26, 1967]

CASUALTY FIRMS AVOID USING RIOT CLAIMS ESCAPE CLAUSE—STATEMENT BY
AETNA BELIEVED TO REPRESENT INDUSTRY VIEWS

(By Donald B. Hadley)

Major fire and casualty companies are not expected to define rioting in Detroit and other cities as insurrection and thus invoke an escape clause that would allow them to avoid paying losses incurred in the disorders.

If later information shows there was an organization and a leadership trying to overthrow the government, and therefore was an "insurrection," the escape clause could be used, but no evidence of this has been uncovered.

Aetna Life and Casualty Group of Hartford, Conn., late yesterday issued a statement, which was considered representative of views among major companies. Statements from other companies are expected in a few days.

"On the basis of current information, we have found no evidence for denial of coverage on the basis that the Detroit disorders constitute insurrection," the Aetna statement said.

SAME VIEW ON NEWARK

A spokesman in Hartford said the company took the same view of the recent Newark rioting.

The statement added, "Aetna is not canceling any coverage in the Detroit area because of the disorders."

The Aetna statement followed a prediction made by a veteran Washington insurance executive earlier in the day. He said that no evidence had been found so far that Detroit or Newark disorders had been organized under a definite leadership.

He recalled that the word "insurrection" had been used to describe the Watts rioting last summer and that this had caused some confusion as to whether insurance companies might try to avoid payment of claims on this basis. Nothing came of it and insurance claims were paid, he emphasized.

Much of the fresh confusion arose this week over Detroit and Newark losses because of a report that Gov. Richard J. Hughes of New Jersey had described the Newark rioting as "insurrection" or a "near insurrection."

The confusion was fanned by newspaper stories, one in a Hartford publication, which indicated the possibility that insurance companies might decide the latest disorders represented "insurrection" as defined in the exclusion clause.

REPORTS OF PRESSURE

A report that Gov. George Romney of Michigan was being pressured to declare that a state of insurrection existed in Detroit only added to the confusion. Sources said to be close to Romney were quoted as saying he was reluctant to do this because it would automatically cancel out insurance policies covering millions of dollars in property loss from the fires and looting.

Most fire and casualty policies across the nation provide for reimbursement for fire losses and also extend coverage to losses arising from riots, civil commotion, riots attending strikes or damage caused by aircraft, vehicles and smoke. However, they carry a clause excluding coverage of losses resulting from war, insurrection, revolution or civil war.

The insurance industry was moving with all possible speed to assess the latest losses as quickly as possible, but will be forced to wait until order is restored in Detroit.

SPECIAL OFFICE SET

The General Adjustment Bureau in New York announced yesterday that it expects to open a special claims office soon in Detroit to handle the avalanche of claims expected to be filed against insurance companies there.

This is done as a special service to the member companies. A similar office was opened in Newark and now is in the process of handling claims in that city.

The Bureau sets up these offices also in areas damaged by storms and natural disasters. A storm is soon over, but it takes several days to restore order in a riot torn area, it was pointed out by a bureau official.

None of the insurance companies knows at this point as to what actual claims will amount to in the Detroit area.

The Associated Press yesterday estimated that property damage in the Detroit Area would exceed \$150 million.

President Dwight Havens of the Greater Detroit Chamber of Commerce added an estimate of how much retail business was lost due to the disorders and came up with a total loss figure approaching \$1 billion for the area. However, actual property damage was only part of this total.

COST ESTIMATES

The Associated Press survey listed these loss estimates for other cities: \$15 million in Newark; \$3 million in Cincinnati; \$1 million in Tampa, Fla.; \$350,000 in Dayton, Ohio; \$250,000 in Buffalo, N.Y.; \$150,000 in Erie, Pa., and \$100,000 in Cairo, Ill.

Insurance industry experts cautioned that preliminary estimates of damage tend to run higher than actual losses.

The riots are likely to lead to much higher insurance costs in the future. Insurance companies are permitted to cover losses by higher rates, but this is done gradually.

John Liner, a Boston insurance expert, commented that Americans not directly involved in racial riots in cities such as Detroit, Newark, Boston and New York, eventually will pay most of the cost.

After insurance companies pick up the tab for the multi-million-dollar damage to property, "they are likely to seek rate increases to recoup their losses," he said.

Liner said extended coverage endorsement, which most businessmen have attached to their fire insurance policies, covers not only damage done to plate glass windows, fixtures and the like, but also the theft of merchandise carried off during a riot.

[From Business Week, July 29, 1967]

INSURERS TOTE UP RIOT TAB—INDUSTRY FACES TANGLE OF PROBLEMS IN TRYING TO ASSESS DAMAGES AND IMPACT ON OPERATIONS—TASK IS COMPLICATED BY TOUGH LEGAL QUESTIONS: WHEN IS A RIOT AN INSURRECTION?

Top managements of major fire and casualty insurance companies huddled in hurriedly called executive sessions this week to assess the impact of the wave of riots on their operations.

But the president of one major New York company conceded: At this point it's strictly a guessing game for us. Our Detroit offices are bolted shut, and only late this week did we dare send any of our people out to look at the Newark situation."

Michigan's Commissioner of Insurance, David Dykhouse added: "No one's in a position to talk insurance in a serious way until the dust settles."

Common strategy. One of the few things that could be said with certainty was that the insurance industry would act in concert. Tuesday afternoon, word spread through the industry that a summit meeting of executives would be held soon to formulate some common strategy.

A difficulty is that there is little precedent other than the industry's experiences after the Watts riot of 1965. That outbreak cost the industry more than \$40-million, but it was much more limited in scope.

Of pressing importance now is how much of the financial loss the industry will pick up—and the size of that loss is anybody's guess. There may be fussing and failing, but there is little doubt in the industry that nearly all policyholders in riot areas will have legitimate claims paid in full.

Relief. Most insurers will get a bit of relief, however, through "stop-loss reinsurance treaties," which limit their liabilities for any single disaster. Everything over that limit is paid by reinsurance companies.

According to Donald Kramer, an insurance industry analyst with First Manhattan Co., if the riots do not spread much further, "the companies will be hurt, financially, but not crippled."

Another question being explored by insurance executives is the extent of their legal recourse. The small print of all insurance contracts generally carries a clause relieving the companies of financial responsibility in cases of "insurrection." If the insurers could show that the riots were "acts or instances of revolt against civil authority or established governments," they would be off the hook. The courts may have to figure this one out.

Definition needed. New Jersey Governor Richard J. Hughes called the Newark riots "out-and-out rebellion." Does this constitute insurrection? While Michigan's Governor Romney was careful not to use such dramatic language, did his call for federal troops imply insurrection?

In addition, many states have obscure laws that could pin some financial responsibility for riots on the municipalities. New Jersey's law, dating from 1887, has never really been tested. The state's Deputy Commissioner of Banking and Insurance, Horace J. Bryant, asks: "Is this law applicable to people who have no other means of financial recovery, or does it apply to all people?"

The most difficult question of all involves future insurance company operations in riot-prone areas. It is no secret that most insurers are not particularly eager to write policies in slum areas.

Policy freeze. Growing fears among Newark businessmen of mass policy cancellations, for example, prompted New Jersey Commissioner of Banking Charles Howell on Wednesday to call for a 90-day cooling-off period in which insurers operating in the Garden State would freeze all policies. He has asked them to sit down with him and other officials to work out some equitable plan for the future in problem areas.

Changes in the way fire and casualty insurance is underwritten are likely, though. Says once Hartford insurance man: "You just can't eliminate the human bias of an executive when it comes to situations like this."

To be sure, there is also going to be considerable political pressure on the insurers from all sides. One proposal due for close consideration: "assigned risk plans" that would force companies to insure ghetto property. Another would model new laws on programs recently adopted in California and other states requiring an insurer to show cause why he will not write insurance in a ghetto.

Impact on rates. "The problem with trying to force anything upon the industry," notes a New York executive, "is that it will force insurance premium rates sharply higher for everyone, which would bring political pressures from the other side."

As it is, insurance men concede that rates in the riot areas are likely to go up sharply because of the pay-outs they will have to make.

[S. J. Res. 102, 90th Cong.,]

(Amendment No. 288)

AMENDMENTS

(IN THE NATURE OF A SUBSTITUTE)

Intended to be proposed by Mr. HART to S.J. Res. 102, a joint resolution to authorize an immediate study by the Secretary of Commerce, and a report to the Congress within sixty days, with respect to the availability of insurance protection against disaster perils resulting from riots or other civil disorders, viz:

Strike out all after the resolving clause and insert in lieu thereof the following:

"That the Secretary of Commerce (hereinafter referred to as the 'Secretary') is authorized and directed to arrange with the insurance industry for the establishment, at the earliest practicable date, of a program designed to provide, at reasonable rates and on reasonable terms, insurance against loss resulting from damage to or destruction of real and personal property located in areas (without regard to

political boundaries) where insurance protection against usually insurable risks is not now available at such rates and on such terms.

"Sec. 2. The insurance program referred to in the first section shall be designed to be actuarially sound through the use of premiums, fees, extended payment schedules, or other similar methods.

"Sec. 3. The Secretary is authorized and directed to submit to the Congress, sixty days after enactment of this Act, a report concerning the status of the insurance program referred to in the first section of this Act. Such report shall contain such recommendations, including legislative proposals for Federal insurance and reinsurance, as the Secretary may deem desirable."

Amend the title so as to read: "Joint resolution to authorize the Secretary of Commerce to make arrangements for an improved insurance protection program for areas where such insurance at reasonable rates is not now available, and for other purposes."

AUGUST 18, 1967.

HON. ALEXANDER B. TROWBRIDGE,
Secretary of Commerce,
Washington, D.C.

DEAR SECRETARY TROWBRIDGE: As I am sure you are aware, the Senate Commerce Committee has scheduled hearings on August 29th to consider S.J. Res. 102, a Resolution introduced by Senator Hartke which would authorize the Secretary of Commerce to undertake a study to determine the availability of insurance protection against losses resulting from riots or other civil disorders. On Monday Senator Hart will introduce a bill which also will authorize the Secretary to conduct a study, but in this case, the study would investigate generally the availability of insurance in economically depressed areas. Our present plans are to consider both of these bills at our hearings on the 29th.

I know, Mr. Secretary, that you share my concern with the accelerating deterioration of commerce in our core cities. While adequate insurance protection is a critical—perhaps the most critical—immediate requirement to stem the flight of businesses from the low income areas of the cities, we should also begin to develop other long range approaches designed to revitalize commerce in these neighborhoods. That "the poor pay more" is a tragic, but undeniable fact; that the exploitation of the poor as consumers leads to deep resentment and, in some cases, riots, is increasingly apparent. But, while some slum merchants are undoubtedly callous victimizers of the poor, others are merely victims of the ghetto, eeking out a meager existence in poorly organized, high risk, businesses. Programs designed to develop local managerial talent, to provide technical advice, and to reduce the physical risk of operating in the city, could aid immeasurably in promoting the economic well-being of both local businessmen and consumers.

I know that you share my belief that the resources of the Commerce Department can be marshalled to play a constructive role in meeting these needs. Two projects have been brought to my attention which seem particularly appealing. The first would promote the development of commercial centers or parks in the low income areas. Ideally, such centers or parks would include a variety of small, locally owned, businesses grouped, so as to ease security problems, around a central core unit equipped to provide technical "business" advice to its satellites. Such advice could range from training in the fundamentals of bookkeeping and accounting to the development of central purchasing programs and the fostering of more efficient operating techniques.

The second project would be designed to encourage national chains to construct outlets, managed by local residents, in low income areas, and to encourage national franchise operations to establish franchises with local franchise holders or managers in these areas. Obviously such a program could help considerably in bringing the benefits of a mass merchandising economy to those members of our society who most need it.

I would appreciate very much receiving your views on these suggestions, or on any related proposals which you may care to make, at the Committee hearings on August 29th.

Sincerely,

WARREN G. MAGNUSON, *Chairman.*

RIOT INSURANCE

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., August 14, 1967.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
 U.S. Senate.*

DEAR MR. CHAIRMAN: Your letter of August 7, 1967, requests our comments on S.J. Res. 102, a bill to authorize an immediate study by the Secretary of Commerce, and a report to the Congress within sixty days, with respect to the availability of insurance protection against disaster perils resulting from riots or other civil disorders.

You are advised that we have no special information regarding the merits of this legislation and therefore have no comment to offer.

Sincerely yours,

FRANK H. WEITZEL,
Assistant Comptroller General of the United States.

EXECUTIVE OFFICE OF THE PRESIDENT,
 OFFICE OF ECONOMIC OPPORTUNITY,
Washington, D.C., August 28, 1967.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
 U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Thank you for requesting our comments on Senate Joint Resolution 102, to authorize an immediate study by the Secretary of Commerce and a report to the Congress with respect to the availability of insurance protection against disaster perils resulting from riots or other civil disorders.

We believe that the information gained from a study as proposed by the resolution is essential to the rebuilding of our urban areas damaged by the recent disorders and for the general protection of residents and businessmen in the high risk urban areas. However, we do not believe that legislation providing for such a study is necessary at this time.

In conjunction with the President's Commission on Civil Disorders, a special Advisory Panel on Insurance in Riot-Affected Areas has been appointed under the Chairmanship of Governor Hughes of New Jersey. The four major objectives of the Panel are: to examine the insurability of private property in urban centers, to identify the types and the cost of insurance presently available to "high risk" properties and the extent to which insurance is now unavailable to such properties, to determine the extent that the recent disorders may have altered the availability of insurance to businessmen and residents of the riot affected areas, and to propose solutions for the problems of providing insurance for properties in those areas. The Office of Economic Opportunity is in close contact with this Panel and will provide it with all assistance possible.

In light of the existence of the Advisory Panel on Insurance in Riot-Affected Areas and the scope of its inquiry, it would appear that the study proposed by Senate Joint Resolution 102 would be duplicative and therefore unnecessary at this time.

The Bureau of the Budget advises that there is no objection from the standpoint of the President's program to the presentation of this report to the Congress.

Sincerely,

SARGENT SHRIVER, *Director.*

DEPARTMENT OF JUSTICE,
 OFFICE OF THE DEPUTY ATTORNEY GENERAL,
Washington, D.C., August 29, 1967.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
 U.S. Senate, Washington, D.C.*

DEAR SENATOR MAGNUSON: This is in response to your request for the views of this Department on S.J. Res. 102, and on amendments thereto in the nature of a substitute proposed by Senator Hart.

As originally introduced, the proposed joint resolution would authorize a study by the Secretary of Commerce "to determine the extent to which insurance protection against disaster perils resulting from riots or other civil disorders are

available from public or private sources, and whether legislation is necessary to assure the continuing availability of such insurance." The Hart substitute would authorize the Secretary "to arrange with the insurance industry" for the establishment of a program to provide insurance against property damage in areas "where insurance protection against usually insurable risks is not now available" at reasonable rates. The program is to be actuarially sound, and may include recommendations of legislative proposals for Federal insurance and reinsurance. Both forms of the joint resolution direct the Secretary to make a final report to the Congress on the matters described within 60 days after enactment.

We believe that either form of the joint resolution would cause the Secretary of Commerce to duplicate work being done under authority of the National Advisory Commission on Civil Disorders established by Executive Order No. 11365 of July 29, 1967 (32 F.R. 11111). The Commission has recently appointed an advisory panel on insurance problems relating to areas affected by civil disorders. That panel, chaired by Governor Hughes of New Jersey, consists of representatives of the insurance industry and other persons in public life, including Assistant Attorney General Frank M. Wozencraft. It is undertaking a study of the problems referred to in the proposed joint resolutions, and is working toward their solution with the insurance industry and other affected business interests, as well as relevant State and Federal agencies, including the Department of Commerce.

Moreover, while we recognize the urgency of this problem, we doubt that 60 days will prove sufficient to complete a study of the complex and technical issues involved, and to develop a program for their solution.

For the foregoing reasons, the Department of Justice does not support enactment of S.J. Res. 102 in either form.

The Bureau of the Budget has advised that there is no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

WARREN CHRISTOPHER,
Deputy Attorney General.

OFFICE OF THE SECRETARY OF TRANSPORTATION,
Washington, D.C., August 29, 1967.

HON. WARREN G. MAGNUSON,
*Chairman, Commerce Committee,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in reply to your request for the views of this Department on S.J. Res. 102, a joint resolution "To authorize an immediate study by the Secretary of Commerce, and a report to the Congress within sixty days, with respect to the availability of insurance protection against disaster perils resulting from riots or other civil disorders."

This legislation authorizes the Secretary of Commerce to undertake an immediate study, with a report to the Congress within sixty days concerning the availability of insurance protection against perils resulting from riots and civil disorder. The Secretary would examine the availability of such insurance from public and private sources and determine whether legislation is necessary to provide for the continued availability of the protection. He would consult with industry and relevant Federal departments and agencies, and State and local governmental units.

The President's National Advisory Commission on Civil Disorder has, as you know, created a special panel known as the Advisory Panel on Insurance in Riot Affected Areas. This Panel is making a careful study of the problem the joint resolution seeks to cover. Its members include representatives of the insurance industry, State governments, and the Federal Government.

The Department of Transportation is cooperating with the Panel in its work. We will continue to be informed of the Panel's activities and assist it in whatever manner possible.

Because the Insurance Panel is conducting a comprehensive study of this question with the assistance of this and other interested departments and agencies, we would not favor the enactment of the proposed joint resolution.

The Bureau of the Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report for the consideration of the Committee.

Sincerely yours,

JOHN L. SWEENEY,
Assistant Secretary for Public Affairs.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., August 30, 1967.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S.J. Res. 102, "To authorize an immediate study by the Secretary of Commerce, and a report to the Congress within sixty days, with respect to the availability of insurance protection against disaster perils resulting from riots or other civil disorders."

The joint resolution would require the Secretary of Commerce to undertake an immediate study to determine the extent to which insurance protection against disaster perils resulting from riots or other civil disorders is available from public or private sources, and whether legislation is necessary to assure the continuing availability of such insurance. In carrying out the study, the Secretary would be required, to the maximum extent practicable, to consult with representatives of the insurance industry, with the Department of Housing and Urban Development and other Federal departments and agencies, and with State and local agencies. Findings and recommendations resulting from the study would be reported to the Congress not later than 60 days after the effective date of the joint resolution.

The National Advisory Commission on Civil Disorders, established by Executive Order 11365, July 29, 1967, has appointed an advisory panel on insurance, composed of representatives of the Federal, State and local governments and the insurance industry, to seek answers to questions which have been raised with respect to high costs and difficulties in obtaining insurance in areas where riots have occurred or are considered a threat. Section 3 of Executive Order 11365 authorizes the Commission to request from any executive department or agency any information and assistance deemed necessary to carry out its functions. Such information and assistance, is, of course, available to the Commission's insurance panel.

In the circumstances, the Department believes that further action on S.J. Res. 102 is unnecessary.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the Administration's program to the submission of this report to your Committee.

Sincerely yours,

ROY T. ENGLERT,
Acting General Counsel.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT,
Washington, D.C., August 31, 1967.

Subject: Senate Joint Resolution 102, 90th Congress (Senator Hartke).

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN; This is in further reply to your request for the views of this Department on S.J. Res. 102, "To authorize an immediate study by the Secretary of Commerce, and a report to the Congress within sixty days, with respect to the availability of insurance protection against disaster perils resulting from riots or other civil disorders."

Under this resolution, the Secretary of Commerce would undertake a sixty day study of the availability of property insurance in riot prone areas. He would consult with representatives of the insurance industry, the Department of Housing and Urban Development, and other Federal and State departments and agencies during this study. At the conclusion of the study he would be directed to report to the Congress his findings and recommendations concerning Federal legislation to assure the continuing availability of insurance protection against losses resulting from riots or civil disorders.

President Johnson, by Executive Order 11365 dated July 29, 1967, established an eleven member National Advisory Commission on Civil Disorders. He directed this Commission to investigate and make recommendations concerning the causes of these disorders, the development of methods for averting or controlling such disorders, the appropriate role of the local, State and Federal authorities in dealing with civil disorders, and such other matters as he might place before it.

The increasing risks to which owners of urban residential and business properties are subjected has made adequate insurance protection more than ever a basic necessity. Recognizing that this has become a matter of grave national concern, the Commission has appointed a special Panel on Insurance to investigate and prepare recommendations for assuring the availability of property insurance in urban areas.

This panel of Federal, State and local officials and insurance industry representatives has begun an intensive study of the urban area property insurance problem. The Department of Housing and Urban Development is in close contact with the insurance panel and will assist in any way possible in the work which it is undertaking.

In addition, while continuing to assist the panel in its study of the problems of insurance availability in urban areas, this Department, as a reflection of its responsibility for Federal programs affecting urban areas, is also continuing to explore the means of assuring that the financial protection afforded by insurance is available to owners of urban property at reasonable rates.

Therefore, while we are vitally concerned with these problems, we believe that in view of the foregoing developments there is no need at this time for legislation authorizing a study. Accordingly, we recommend against passage of S.J. Res. 102.

The Bureau of the Budget has advised that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely yours,

ROBERT C. WEAVER.

Senator HARTKE. I understand that Senator Hart would now like to make a brief statement.

STATEMENT BY HON. PHILIP A. HART, U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator HART. Thank you very much, Mr. Chairman.

I think you have stated very effectively the purpose that brings us together, and I would hope that before we conclude our hearings we will know how a prudent man can respond to what becomes really a basic need of cities in order to survive. The availability of adequate insurance is essential to the future of any city. When a section of a city is denied insurance, it is denied a future. Let's not have anybody deny that proposition. Business cannot exist without insurance. The inner city has no hope of survival without business.

When you have a residential neighborhood where insurance is prohibitive and unavailable, there is a history of rapid decay. No one wants to undertake unprotected improvements. This is history. We have insurance companies who are reluctant to write fire and damage insurance. First they write it so high that the businessmen and residents cannot carry insurance. For example, even before the riots in Watts, the insurance rates there were approximately two and a half times the highest rate in other parts of Los Angeles.

Senator Hartke responded by introducing this bill. I have been given the easier route of hindsight and amended Senate Joint Resolution 102. We seek a solution in the core cities.

I hope that today's witnesses will help us identify the types of insurance presently available with high risk to urban properties, the cost of insurance, and the extent to which insurance is presently unavailable at any cost to the residents and businessmen in the ghettos. I know that if you are on the receiving end of this as an insurance carrier, you can find all the reasons that make your position economically understandable in terms of your responsibility to your investors and policyholders. That is part of the system. One of the problems of the resident of the ghetto is that he is always running into the system. I think it may explain why he seems to act irresponsibly. We want to find within the system devices and mechanisms to

enable the growth that is required if the center city isn't going to evaporate or spoil. Thank you.

Senator HARTKE. Our first witness is Mr. Lawrence McQuade, Assistant Secretary of Domestic and International Business, Department of Commerce. We are delighted to have you, Mr. McQuade, even though I have to admit it looks as if you're someplace back of center field and I am back of home plate.

STATEMENT OF LAWRENCE McQUADE, ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS

Mr. McQUADE. I might cut down on the length of my statement and submit the text.

Senator HARTKE. The entire text will appear as though read, and you may cover whatever parts you think are necessary at this time.

Mr. McQUADE. I am Lawrence C. McQuade, Assistant Secretary for Domestic and International Business, testifying for the U.S. Department of Commerce.

The Department of Commerce is pleased to comply with Senator Magnuson's two requests to Secretary Trowbridge—first, that we present our views on Senate Joint Resolution 102, a proposal which would authorize a study to determine the availability of insurance protection against losses due to riots and other civil disorders, and the amendment to it introduced by Senator Hart; and, second, that we comment on how the Department of Commerce can marshal its resources and use the experience gained from its programs to promote the economic well-being of local businessmen and residents in city slum areas.

My testimony is divided into these two major parts, and, as appropriate, their interrelationship.

As you pointed out, insurance is necessary for business health, especially in the types of areas where riots have occurred. Availability of property insurance at reasonable rates encourages the startup and growth of business, including the financing of prudent expansion, and carrying of active inventories and merchandise stocks. And the reverse is also true.

An equally important point is that more effective operation of businesses in slum areas upgrades the quality of service to the customer and tends to bring prices down toward levels prevalent in the rest of the community. For this reason, it is particularly important to stimulate larger chainstores to bring to slum areas the better quality and lower prices which they are so often able to provide to their customers in other areas. This is not just a small business problem, but one of achieving a proper mix.

Expanded and improved business in the slums—particularly business run by people living in the areas themselves or by branches of larger chains which employ residents in operating the stores—can provide badly needed jobs for the unemployed, raise the wages of the underemployed, provide disadvantaged residents with aspiration and motivation for economic and social improvement through business careers, and benefit residents as consumers.

All of these business contributions attack the cause of riots. Preliminary data available indicate that most of the businesses that have been looted or otherwise damaged are very important for the people of the districts where riots have occurred. Among those hard hit are cloth-

ing, drug, hardware and grocery stores, laundries and drycleaning establishments, and gas stations. All are essential to a neighborhood.

I have a chart that you might want to glance at. I won't try to read it. It gives you a feeling as to how the damage in Detroit was allocated.

The special damage caused by riots and disorders has been principally to business property, and not residential property. The insurance problems relating to housing in the urban slums focus primarily on the quality and soundness of the structures, but the risk of riots alters this as well.

Senator HARTKE. I might point out at this place that I understand there is now a problem arising with residential insurance. Even now if anyone who wants to buy a house in a disturbed or potentially disturbed area, there is frequently denial of insurance.

Mr. McQUADE. I am sure, at the present moment of uncertainty, that insurance companies are very leery of doing anything in these areas. I am sure it applies to both types, business and residential. The impact of the housing question is just as unknown as on the business front. In at least seven or eight major cities in the United States insurance companies have made special arrangements in the urban areas on housing insurance problems, so that there will be no denial of insurance without on-site inspection. I think that their aspect of the insurance business will be spelled out by my successors.

The key problem of dealing with the insurance problem in cities is the need for information. I suppose that is the heart of this proposal.

The availability of property insurance in the slums is a complex problem involving State and local governments, large- and medium-size business enterprises, including the insurance industry, as well as small business and other property owners—in short, the whole fabric of the local economy and governmental institutions. A careful study will require the assembly and analysis of the relevant facts. This is clearly a necessary first step in determining the extent of the problem and its possible solutions.

Property damage caused during riots is today covered by normal extended coverage policies. Abnormal claim payments resulting from a single big loss riot or a string of smaller riots, or both, in a given year could place many companies in a losing position at least for certain insurance lines and perhaps for all property operations. The figures would have to be studied in detail to determine how much of a loss is involved compared with premium income for particular lines of insurance and for the total of property insurance operations.

An analysis of the riot experience requires very detailed data that the Federal Government does not collect, but that is available from insurance carriers: insurance in force, claims, premium rate structures, cancellations and other limitations on insurance, before and after riots in each metropolitan area affected, by particular neighborhood or census tract. We believe it is also important to have, if possible, business data on the number of establishments affected, by type of establishment and form of ownership; location of business by census tract, metropolitan area, or other broader region; financial data on insured and uninsured inventory, real property, personal property and percent of each asset affected by riot damage; costs of salvage, repair, or replacement; liabilities, by type, of those establishments affected; employment, net earnings and sales of businesses affected before and after a riot in the ghetto. From this formidable array of

facts we could get a picture not only of the insurance problems, but also the losses from riots from an economic viewpoint—how much the neighborhoods and the businessmen in those neighborhoods were affected as well as the drop in economic activity and capital investment in the area.

Preliminary reports of damage caused by riots indicate extraordinary losses that are quite large relative to normal premium income for coverage related to riot-caused losses. The riot in the Watts area of Los Angeles caused an insured loss of \$44 million, and the recent riot in Detroit alone may be double that amount. Thus, one riot, the Detroit riot, created insurance claims equal to 20 percent of the Nation's annual premium for extended coverage insurance, \$469 million in 1965, which not only covers these risks but also other natural and manmade catastrophes such as hurricanes—Betsy alone caused \$715 million of insured property losses. In 1965 losses from extended coverage totaled \$1.7 billion, or one-half billion dollars more than in 1964. This increase is more than the annual premium.

I will say, in brief, that these are not very good times for these insurance companies.

There are 3,050 companies selling some form of property and liability insurance, with assets of \$41.8 billion and policyholders' surplus of \$17.35 billion. Despite the size and financial strength of this industry, all property and liability claims plus operating expenses have exceeded premiums for 3 consecutive years—1963, 1964, and 1965. Premium rates are under pressure very naturally.

On an overall basis, however, the companies are financially sound as a result of earnings on investments, as well as overall assets.

Insurance, strictly speaking, deals with predictable risks. Insurance rates reflect actual losses in the past and loss trends. But the total probable damage due to riots and civil disorders is not readily predictable, and I understand that insurance companies make no charge in their current rate structures for major civil disorders of the type recently witnessed. In any event, recent developments have no doubt altered prior loss trends.

The questions are whether premiums covering riot losses can be intelligently set and, if so, whether they can be set low enough to foster business in these areas. If not, can a sensible, acceptable means be devised to make this possible? That is the heart, I guess, of the resolution you are proposing.

Insurance regulation has always been a State responsibility and, as you will recall, Congress has specifically affirmed the primacy of the States in the regulation of insurance. In 1944 in a case involving antitrust issues, *United States v. South-Eastern Underwriters Association*, 322 U.S. 533, the Supreme Court held that insurance was interstate commerce when conducted across State lines. This reversed a series of cases going back over 70 years, reserving the regulation of insurance to the States on grounds that it did not involve interstate commerce. Following the *South-Eastern Underwriters* case, Congress enacted in 1945 the McCarran-Ferguson Act—Public Law 15, 79th Congress, 59 Stat. 33—declaring continued regulation and taxation of insurance by the States to be in the public interest.

I should also note that the insurance industry is not unanimous in believing that help from the Federal Government is desirable. Obviously, the insurance industry feels some skittishness at least on behalf of part of the industry to aid from the Federal Government.

The Department of Commerce agrees with the broad purpose of Senate Joint Resolution 102, calling for a study of property insurance in riot-prone areas.

As you know, the President has created a National Advisory Commission on Civil Disorders and Governor Kerner of Illinois, its Chairman, has appointed a top-level Insurance Panel under Governor Hughes of New Jersey. This Panel is composed of the following members: the Honorable Richard J. Hughes; the Honorable William W. Scranton, former Governor of Pennsylvania; Mr. Walter Washington, former chairman, New York City Housing Authority; Mr. Aubrey Addison Roberts, president of the Reliance Insurance Co.; Mr. Frank Farwell, president of Liberty Mutual; Mr. George S. Harris, president of the National Insurance Association; and Mr. Frank M. Wozencraft, Esq., Assistant Attorney General, Department of Justice. These men have expert knowledge of the many points of view bearing on this problem and special access to the basic data needed for research.

I attended the last meeting of the Insurance Panel and it seems clear to me that this Panel has already begun work on the sort of study envisaged in Senate Joint Resolution 102 and in the amendment proposed by Senator Hart. As Governor Hughes indicated last week, the Panel is concerned with the various methods by which insurance may be made available to properties, including high-risk properties in the urban centers.

The Department of Commerce believes it can contribute much to the Panel's study and will, of course, cooperate fully with the Panel on its work. We do not see the need for a separately commissioned study, which would be essentially a duplicate of the work being carried on by the panel. Therefore, we do not recommend enactment of Senate Joint Resolution 102.

The second half of my testimony, Mr. Chairman, is in response to Senator Magnuson's request. I think I will just summarize it briefly. The heart of our responsibility is in our assigned duty to promote the health and vigor of the commercial and industrial sector of the economy. This job includes combating lagging business development in the central cities, and the Department of Commerce has worked for some time with projects intended to help bring distressed areas, urban and rural, back into the economic mainstream.

Briefly, I think you are probably well familiar with the Economic Development Administration's activities which permits us to provide public work grants and loans, business loans, working capital guarantees, and technical research, and planning assistance. We use this, I think, fairly creatively to the extent we have funds to be helpful.

There was an interesting article in the Sunday Post by Harry Bernstein of the Los Angeles Times entitled "Old Theories of Negro Jobs Are Breaking Down" which spells out how the Watts Manufacturing Co., a newly established subsidiary of Aerojet General Corp., has successfully pioneered in this direction.

The Business and Defense Services Administration has an affirmative action program which is administered by a six-man staff and has the entire facilities of the Department at its disposal. It has done some very interesting work, I think, in trying to get minority business-

men to be more effective in the conduct of their businesses. Their most impressive piece of work, I think, lies in the future. I am submitting a description of the Milwaukee program as a direct followup to the request made by Senator Magnuson. Not all the details of the discussion are there. The Milwaukee story focuses the resources of the Commerce Department and of the small businesses in the center city toward promoting business in this critical area.

I have and would like to make available to you and the committee a very detailed account of this because it is an enormously interesting example of what Senator Magnuson has in mind in using our resources. Senator Magnuson has expressed an interest in getting people to franchise and making franchises of large companies more readily available to the minority groups in slum areas. We have made an active effort to do this, and we have a marketing committee of distinguished businessmen at work to help us formulate a better scheme to suggest to businessmen how to enter and to expand in the slum areas I think, on the whole, the Commerce Department has quite a large role to play especially in promoting business in these areas. I think a lot of improvement can be made there but it has to be dovetailed into other programs of both local and national character.

I might sum up by saying that in our view Senator Magnuson set forth the correct priorities in his letter of August 18 to the Secretary of Commerce: assure availability of adequate insurance protection at reasonable cost to existing businesses in the low-income areas of the cities in order to stem the flight of business from these areas; assist existing and new locally owned businesses to achieve the security and business ability necessary to make them sound commercial risks for the insurance industry; promote the establishment of locally managed branches of large chainstores and locally managed franchised corporations in these areas in order to bring the benefits of modern mass merchandising to our low-income citizens who need it most.

Senate Joint Resolution 102 introduced by Senator Hartke and the amendment by Senator Hart are also correct, in our view in that both recognize the urgent need for a study to put together the facts on which to base any sound action to improve the availability of insurance in our core cities. This study, however, is also underway. It is being conducted by the Hughes panel. No competing study is needed and, in fact, a competing study might well detract from getting on with this task as effectively and urgently as the situation demands. It would seem unwise to prejudice the findings of this study, and no legislative action is, therefore, called for at this moment.

I think that recognizes both your resolution and the amendment suggested by Senator Hart. I think that maybe that is a fair summation of my testimony.

Senator HARTKE. Thank you for your very fine statement and for a very disappointing report. I would like to ask Senator Hart if he has any questions.

Senator HART. Thank you, Mr. Chairman. Mr. McQuade, you make the point that the President's group is doing a study and you wouldn't want to duplicate it, and you actually feel that that would be the effect of our adopting the bill and giving you direction. But if you note in the amendment that I offer, we ask for more than a study. We ask for something that the President's group cannot do, which Congress could do if given a report. We ask that you sit down with the industry and develop and put into effect a program that will

permit the center cities to survive. If you cannot do that, we authorize and direct you to come back here 60 days from now and tell us your problem and give us your recommendations, including legislative recommendations to achieve the end that we all very piously sit around here and agree we ought to have. That is not just a study, that is action. Why can't you support that amendment?

Mr. McQUADE. Well, perhaps the way I have been expressing myself has not been clear. I just want to point out the fact that we need the facts before we take action. I think that your amendment clearly recognizes that.

Senator HART. It does.

Mr. McQUADE. The prescription that is there for Governor Hughes is that he find out the facts and come up with a program of action, and I know from my attendance at the first session of the panel that they are not only looking to gather the facts, but they will also come up with proposals in much the same spirit which I think is embodied in your amendment. Perhaps I didn't spell that out clearly, but I am sure both parts of the program as spelled out in your amendment are the intended range of activity of Governor Hughes's panel.

Senator HART. I re-echo Senator Hartke's expression that it is a disappointment. I would think this amendment gets immediate results. Everything is relative, I know that. But all of us understand the course of Presidential study commissions, and we respect the problems that give rise to delays, to the fact that Presidential study commission recommendations often get lost my amendment would put a time certainty on the survey of the problem, and I don't think you have to be a Ph. D. in insurance to know what a good idea that is, and a direction that if the industry cannot respond to the problems that are identified, then the Department comes back to Congress and tells us how we can assist. I would hope you would have a second thought. The departments rarely have second thoughts.

Mr. McQUADE. The sense of urgency which you rightly reflect certainly can be handled by the panel. The past history of Presidential panels is something I don't think I should comment on.

I think these particular people have a very visible sense of urgency. The facts of the situation seem to be that some of the markets for residual coverage, especially the foreign companies which are called "alien insurers" who may only pick up "uninsurable" property, seem to be in a phasing-out course. Therefore, I think there is a feeling that we have to do something quickly or conditions will get worse.

Senator HARTKE. Let me come on back. I know Senator Hart has talked about his second thoughts. I think it is time somebody had first thoughts, so that we can have positive action of government rather than reaction. Whether you take his amendment or my resolution, we are aiming at a problem which is important now, not next March. We are talking about a report within 60 days. Can you tell me what the time schedule of the Commission is?

Mr. McQUADE. Governor Kerner, head of the overall Commission on Civil Disorder—

Senator HARTKE. I mean this panel on insurance. I don't want to cover all the problems. We have one specific point. We are not going into generalities. We are down to a specific subject. Either this in-

insurance study has merit, or it does not have merit. What is the time schedule for the Commission; do you know?

Mr. McQUADE. They do not plan to wait around—

Senator HARTKE. I am not talking about planning. Do they have a schedule. Do they not have a schedule? Or do you not know?

Mr. McQUADE. They are scheduled to report piecemeal as soon as they come to responsible conclusions about particular points.

Senator HARTKE. They do not have a schedule. They may develop one. What kind of staff does this insurance panel which you refer to have? What kind of staff?

Mr. McQUADE. They will draw primarily upon the institutions of the U.S. Government.

Senator HARTKE. I don't want to harp on this. Listen very carefully to the question. What kind of staff do they now have?

Mr. McQUADE. At the present time?

Senator HARTKE. Right now.

Mr. McQUADE. They have one executive secretary.

Senator HARTKE. When was he appointed?

Mr. McQUADE. And access to the entire U.S. Government.

Senator HARTKE. They have one executive secretary. When was he appointed?

Mr. McQUADE. All I know, he was present and active in the first meeting of the panel, which was approximately—

Senator HARTKE. I will tell you. He was appointed last Tuesday. That doesn't seem to indicate much urgency. We think this is an urgent situation. We think urgency means you move fast. It seems to me it's going to take 60 days to get a staff together.

Mr. McQUADE. I know there is a meeting tomorrow. There is a decided urgency. They are drawing upon us, for example. We have seven programs that they are drawing information from us on. I think the insurance companies are already doing the work; that is, forwarding the data to this Commission. I think they have started. It is important to make an intelligent start. While they may not have a staff actually on board, they do have access to the facilities of every department of the Government who have any know-how, as well as the full cooperation of the representatives of the industry.

Senator HARTKE. The President has full access to the entire Government. There is nothing unusual about that. He appointed the Commission and, of course, he had access to them. You know there is an old theory that if you don't know what to do, and you want to make sure you don't do anything but tread water, you appoint a commission. This is common talk not only in Government, but in business and society. If you don't know what else to do, you appoint a commission.

When we came to the railroad strike, we had action within 30 days or 60 days. It didn't take over 60 days to deal with a potential railroad strike, but it takes 6 months to deal with the riots. That should give you some indication of how urgent this is in the minds of some people and a sense of the priority it should have. Here they seem to have an absence of priority.

Senator HART. You underscore the point you made. Let me ask the question I asked earlier. Senator Hartke indicates and we applaud the President for creating that Commission to study the riots and really would not expect that any simple certainty be fixed on the action

to be taken by it. They have, as you have described to us, established this Committee under Governor Hughes to review the insurance problem and, in due course, some report will be filed. In all likelihood some of us will reach it and sooner or later get around to introducing legislation. But why could you not, and why would it not be desirable to meet now with the insurance industry and see what you can do now to get coverage? Then, 60 days from now come back and tell us what you have done and what legislation, if any, you need. Why can't you agree to that? That is the amendment that I introduced.

Mr. McQUADE. I fully understand that. I think there is solid substantive agreement. It is just the procedural points. It will be necessary, no matter who deals with this problem to collect the data which lies in the hands primarily of the insurance companies and of the State insurance commissions. Calling these people together is something we have already been involved in to some extent, and which the Commission will be heavily involved in. Part of it depends on whether we are going to have more than one person for these people producing sets of data so we can assemble and put them in an intelligent format and draw the appropriate conclusions. I think we all agree with that. The question is whether we would have a duplicating process. It is easier on the insurance companies and easier on the Commission to give—

Senator HART. Duplication is undesirable, however, if we are not going to do something until the Presidential Commission reports, because we are duplicating, then it might well be 2 years before we take action on these pressing problems.

Mr. McQUADE. I am sure it will be well in advance of the March date set by Governor Kerner as his tentative date. Until the dimensions of the problems are understood, I think the Hughes' panel has chosen not to set a fixed date. Therefore, I couldn't tell Senator Hartke the timetable.

Senator HART. Until we have the data, we are all in agreement. We are hesitant as to what precisely should be done. But what better way to get the data than to have the Department of Commerce sit down with the industry and work out a plan? The President's Commission is going to gather data across the whole scope of riots, their causes, and consequences. But what better way to zero into this problem than direct the Department of Commerce to sit down with the insurance industry and find out where we stand and, if possible, in 60 days work out a plan. If not, come back and tell us.

Mr. McQUADE. This is a completely understandable plan. We just feel the Panel could do the same thing with maybe some added steam behind it because they have three distinguished presidents of insurance companies on the Panel. They have an ex-Governor and a Governor who have insight from problem States, and they have Mr. Washington, who is—

Senator HART. I am one who feels that the power of Congress is an active thing. I don't necessarily subscribe to the way you have described the President's Commission as having more steam than a congressional directive to come in here in 60 days.

Mr. McQUADE. No, sir, the steam of the Panel versus the steam of the Commerce Department.

Senator HARTKE. Referring to the Commerce Department, what is the general duty of the Commerce Department? Maybe we have to start with this elementary proposition. What is the duty of the Commerce Department?

Mr. McQUADE. In relation to this problem, the Commerce Department's main responsibility in the U.S. Government is on matters of industrial and business economic analysis.

Senator HARTKE. Here we have a problem involving that very duty.

Mr. McQUADE. Yes, sir.

Senator HARTKE. What is the obligation of Governor Hughes of New Jersey? What is his responsibility?

Mr. McQUADE. As I understand it, he is supposed to dig out the facts—

Senator HARTKE. I didn't ask about the President's Commission. I asked what are the duties of Governor Hughes?

Mr. McQUADE. You mean in his traditional function?

Senator HARTKE. His traditional function. He is Governor, so he is primarily responsible for running New Jersey. Your primary responsibility is to run the Department of Commerce. What about Mr. Scranton? Maybe he has some spare time. What about Walter Washington? What does he do for a living?

Mr. McQUADE. I'm not sure.

Senator HARTKE. He is going to be the next Commissioner of Washington. I thought you said he was the former chairman of the New York City Housing Authority. This must be a real slip. Has he resigned?

Mr. McQUADE. He has resigned. His picture is presently appearing in the local papers.

Senator HARTKE. If he becomes a Commissioner of Washington, D.C., this will be his primary responsibility. This is the problem we are getting at. We are talking about people. I am not saying there is anything wrong with these people, but the primary responsibility in the case of a crisis is to act—to go ahead of other people.

I think the presidents of insurance companies will work with you just as quickly as they will with Governor Hughes.

Mr. McQUADE. There is no doubt we will be involved in the process. We will give our service to this thing. The President asked these people to take on the job. I think a single focus is more fruitful in getting this done.

Senator HARTKE. Do you think it is more important for them to take the lead and draw on you, than it is for you to take the lead and draw on other people, even though this is the Department of the U.S. Government which has the primary responsibility to concern itself with the business of America?

Mr. McQUADE. I think it is important that we have a single focus. It makes for a more fruitful way to do the job.

Senator HART. I think we have echoed perhaps in different fashion the same point, share the same concern.

Senator HARTKE. Senator Griffin.

Senator GRIFFIN. Mr. McQuade, how long have you been Assistant Secretary of Commerce?

Mr. McQUADE. A very short space of time; August 11.

Senator GRIFFIN. It was my impression that we had just confirmed you not too long ago. I also want to express my disappointment that the Department has not seen fit to give its blessing to this resolution or the amendment. Is it not true that the Department at the present time does have very little to do with the insurance industry?

Mr. McQUADE. I did not really go over all the material in my statement about this, but, as you recognize, the insurance industry has traditionally been regulated at the State level, and there has been a traditional feeling of uneasiness of getting the Federal Government involved. In the Supreme Court's decision in the *South-Eastern Underwriters Association* case, in a way, caused that particular sense of worry to be predominant. As a result, in the McCarran-Ferguson Act, Congress declared continued regulation and taxation of insurance by the States to be in the public interest. Within the Federal Government there is no one who has dealt regularly with the insurance problem in a comprehensive way and built up—

Senator GRIFFIN. There is no reservoir of expertise in your Department that we can turn to. You would have to go out and get some people to provide that expertise?

Mr. McQUADE. We have a few people. For example, one who spent a decade in the New York State Insurance Commission, one who worked in a life insurance company for some years, one who worked on the problem of liability for nuclear explosion from the industry side, and some who worked on maritime war-risk insurance. Beyond that I would say we don't have any extraordinarily qualified people, but we are probably better qualified than any other department in the Federal Government to do such a study.

Senator GRIFFIN. The Senator from Indiana made the comment that when you don't know what to do you appoint a panel, referring to the fact the President did that in the case of the commission which Governor Kerner heads. I would just call attention to the fact that while I support the resolution, that is exactly what the resolution does. It calls upon the Department of Commerce to undertake a study. Particularly in view of the reluctance to take on this job the other possibility would be for the Congress itself to do it. Apparently Members of Congress were not completely satisfied that Governor Kerner's panel would look into all phases of the causes of the riots, and therefore, the McClellan committee was authorized to investigate certain aspects of the causes of the riots. In other words, a committee of Congress is undertaking the responsibility, and I just want to advance an alternative of a committee, either this committee or a subcommittee of this committee, undertaking the job itself. It is a matter of great urgency. I would also like to read into the record an item which was reported in this morning's Washington Post, entitled "Michigan is Lifting Two Insurance Permits." It is datelined Lansing, Mich., August 28. "Michigan Insurance Commissioner David D. Dykhous has ordered the business certificates of two out-of-State insurance firms lifted because of their cancellation threats to customers whose businesses may be in riot areas.

So Dykhous said administrative proceedings to stop the United States Liability Insurance Co. of King of Prussia, Pa., and the Citizens Casualty Co., of New York, N.Y., from doing further business in Michigan will begin this week.

The firms reportedly tried to cancel about 1,400 business, home owner, fire and extended coverage policies in the state, the bulk of the cancellations in Detroit, where the nation's worst riot occurred last month.

I have no further questions or comments, Mr. Chairman.

Senator HARTKE. We are proposing a good program. I would like to clarify the comment made by the Senator from Michigan that the resolution introduced by myself and the amendment introduced by Senator Hart are the same as appointing a commission. We are not appointing anybody. We are not appointing a commission. If you are going to have a congressional study, you raise the same criticism. They have to have staff. There is a commission now, but it only has an executive director. You represent the Commerce Department. I hope it is in operation. You tell us you have been called upon to conduct seven separate and distinct projects and to report upon them. If you are eventually going to do that, you don't have to hire an executive director, I hope. You have secretaries. You have office space. You have people ready and an operation capable of doing it, I hope.

This is the very reason I have asked the general counsel of the Commerce Committee to bring me, for your information, the organization of the Department of Commerce—what its primary function is. I am reading from the organization of the Department of Commerce, section 2, the basis of and function of and structure of authority. The broad functions of the Department of Commerce originally stated in the act of February 1903, which is still applicable, provides: It shall be the province and the duty of such Department to foster, promote, and develop foreign and domestic commerce, manufacturing, shipping, industry, transportation facilities in the United States and to this end it shall be vested with jurisdictional control of the departments, bureaus, offices, and branches, of public service hereinafter specified and with such other powers and duties as may be proscribed by law.

A publication, "The Annual Report to the Secretary of Commerce," for the fiscal year ended June 30, 1966, sets out the function of the Business and Defense Service Administration: the Business and defense Service Administration was established pursuant to authority vested in the Secretary of Commerce by Reorganization Plan No. 5 of the Executive Order 10408 of August 4, 1953.

Its primary functions are to promote and to develop the growth of industry and commerce in the United States.

Now, I don't want to lose sight of what the problem is here. We are not trying to regulate the insurance companies. We are not even talking about regulating insurance companies. The problem is the business in the city of Detroit, the business in Watts, the business in Newark. That is the problem. I said in the opening statement that out of 40 businesses destroyed in Watts, only eight have re-emerged as going operations. I don't know whether this is because of the unavailability of insurance, but the facts are there. I am not talking about taking anything away from the insurance companies.

I think the insurance companies are as concerned as we are. They want to know what to do. They feel a social consciousness as well as an economic responsibility. The problem the insurance companies face is that they have to pay, and the problem for the businessman is that without insurance, he won't go back into business. Whenever riot damage forces the insurance companies to start paying, are you

going to skyrocket the rates all over the United States? Are you going to make these people pay two and a half or five times as much in order to get any insurance at all?

What bothers me is the reluctance of a department of the Government—which is in existence and which has a functioning operation—to take care of its primary responsibilities; that is, the development of commerce in the United States. So we don't lose sight of the purpose of these proposals, we are talking about how you can get business going again and how you can keep it going.

Mr. McQUADE. I don't detect any substantive difference. I agree with all you have said. My point is a very procedural one. Given that this panel is going to do the chore and going to call upon all the insurance companies we should call upon the insurance commissions, it seems that to avoid confusion and have a single effective study and proposal along the lines that Senator Hart asked for. We are reluctant both to work for the Hughes' panel and then duplicate its work.

Senator HARTKE. The Los Angeles Times, in an article on July 18, 1967, demonstrates how their emphasis is also on the number of businesses affected by the unavailability of insurance. If there is no objection on the part of the rest of the committee, I would like to include this article, entitled "Watts Insurance Rates Hit," in the record.

(The article mentioned follows:)

[From the Los Angeles Times, July 18, 1967]

NEW BUSINESS AFFECTED—WATTS INSURANCE RATES HIT

"It's becoming impossible," said a white druggist in Watts. "I'm paying as much as a month for insurance as for a year before the rioting."

After that uprising, when many insurance companies canceled policies or simply declined to renew, 108 multi-line carriers set up a pool in order to make insurance available in the area.

How that pool worked out is a matter for argument. Critics simply point to the absence of new business in Watts as proof that it did little—if anything.

One prominent Los Angeles insurance broker, unwilling to be identified, has charged that the program was launched amid great publicity, but is so set up as to be almost totally ineffective.

FIRE INSURANCE SPIRALS

For one thing, the broker said, fire insurance rates in Watts are three to five times what they were before the riot and the maximum amount of any single risk covered by the pool is \$150,000.

This, the broker emphasized, is next to nothing in coverage for a major business. And, too, the pool companies refuse to write policies covering theft, vandalism or malicious mischief.

He sees all this as a full explanation of why the pool has issued only \$14 million in policies for the curfew area out of a \$25 million capacity.

The broker said that the insurance losses in the Bel-Air fire of 1961 were spread statewide, so Watts helped pay for them, but that Watts business (if it comes in at all) must absorb the high cost of its own risk through escalated premiums.

Richard S. L. Roddis, state insurance commissioner, feels the problem is hardly that simple.

"The businessman looks to the insurance companies to work some kind of mathematical miracle," he said. "but control of social problems isn't too easy."

The pool, he said, "did the job it was supposed to do—provide a market for otherwise unplaceable risks."

Bel-Air, he mentioned, doesn't strike insurance companies as being an area of continuing high risk (although many brush-covered hill regions do have high rates), but as for Watts:

"The fact is that we continue to have incidents down there. Companies worry about these things."

Just spreading the risk statewide and giving South-Central Los Angeles a rate, comparable to other places, said Roddis, would only mean that companies would avoid the area altogether. They could write lower-risk insurance for similar premiums elsewhere.

OTHER SOLUTIONS

Possible solutions have been suggested, including an "assigned risk" set-up (similar to the auto liability plan) under which companies would be compelled to take on their shares of coverage.

Another is some form of government indemnification—a sort of fire-burglary-theft Medicare program.

It was fear of just this kind of government involvement, say some, that may have prompted the insurance companies to work out the pool arrangement in the first place.

But Roddis responded that the insurance companies' committee which designed the plan "was really a very public-spirited bunch."

Senator HARTKE. This is not an attack on insurance companies. The problem is that some of these businesses cannot operate. Maybe this is part of the reason why some people feel that the Congress is not exercising its traditional responsibility of being concerned with the welfare of the people. Maybe we have withered on the vine. Maybe we should follow Senator Griffin's suggestion and do this ourselves. Maybe this is the way. Maybe we went to take the responsibility of doing their type of study ourselves. I am not foreclosing that. I have no further questions.

Senator GRIFFIN. I am glad to hear the Senator from Indiana make that comment because we have a brandnew Assistant Secretary of Commerce before us. I don't usually feel sorry for Democrats, but I feel kind of sorry for you. The Secretary sent you down here to face the wrath of those who are very concerned to give the message that the Department is not for this resolution.

Mr. McQUADE. I am sorry I couldn't bring more agreeable tidings.

Senator GRIFFIN. It is true that your Department, at the present time at least, has no particular expertise in this field. But if we are going to turn to any department of the Federal Government, it's logical to turn to you.

Now, you put us in a very difficult position. If we go ahead and pass the resolution anyway, we would be thrusting a responsibility on the Department that it does not want. The only thing that makes sense is that due to the urgency of the matter, it would be desirable for a subcommittee of Congress to get some competent people added to its staff on a temporary basis and dig into this problem.

Reinsurance, from what study I have made, is a big problem, spreading the risk, what it's going to cost, how can the Federal Government play a role without injecting itself too deeply into the regulations of the whole insurance industry. I am just glad to hear the comments of the Senator from Indiana.

Senator HARTKE. Before we permit this to die, let me say I am not foreclosing a congressional committee study, but I would like to point out that a congressional committee study raises the same problem as a commission study does. We have to have a new staff. We have an existing organization in the Commerce Department. I thought you said there were seven projects on which this Commission is calling upon the Department of Commerce, is that true or not true?

Mr. McQUADE. Yes, that is true.

Senator HARTKE. Do you have to hire new people to provide the information for these seven projects? Do you not have the people who are experts in this field to go ahead and do this job?

Mr. McQUADE. I identified some people we have on our left who are knowledgeable about insurance and especially international insurance, because that is so related to trade activities. But on the domestic front, we don't have a large pool of competence. We do have some competence. We do have, we hope, the talent to pull together the information that will be used. We feel that it is what we will rely upon to try to do our share.

Senator HARTKE. There is no absence of expertise. There is no absence of competence. There is no absence of talent. There is no absence of staff. There is no absence of administration in the Commerce Department. There may be somewhat of a deficiency in the total structure. There is not a complete void, however, as there is at the present time with the Insurance Panel which only has an Executive Director. There is no competence that I know of in the Congress.

Senator HART. I would make a suggestion to the chairman that would not be very enthusiastically greeted, but there is expertise in the antitrust committee on the subject of insurance. Of course, we would consider it from the point of view of whether the McCarran-Ferguson function is desirable in the public interest.

Senator HARTKE. Let me come on back for a moment. If I have heard of one parallel case where an insurance study was conducted, it was in dealing with the problem of flood insurance. Now in that case, the HUD study took about 6 months. The Congress then received a recommendation from the Department. This, I would think, would be one approach. Certainly it should be investigated and looked into. But disregarding the substance of that report, the procedure established provided for a department of the U.S. Government to do the study and make the recommendation. In other words, they assumed a responsibility in the insurance field, and they did not have any second thoughts. They had first thoughts. They came back with a positive approach to a very specific problem. That is why I have the feeling that the Commerce Department is not willing to take on its responsibilities as directed under the law.

I think, though, that we have proceeded far enough. Senator Griffin feels sorry for you, and I have no personal feelings. You are a mighty fine person. We have a very serious problem on our hands, however. We are trying to get a solution to the problem.

Mr. McQUADE. I hope the problem will be dealt with, and I am sorry I could not bring a more agreeable message.

Senator HARTKE. Thank you very much.

(Mr. McQuade's prepared statement follows; the exhibits referred to will be found at the end of the day's testimony.)

STATEMENT OF LAWRENCE C. McQUADE, ASSISTANT SECRETARY OF COMMERCE
FOR DOMESTIC AND INTERNATIONAL BUSINESS

I am Lawrence C. McQuade, Assistant Secretary for Domestic and International Business, testifying for the U.S. Department of Commerce.

The Department of Commerce is pleased to comply with Senator Magnuson's two requests to Secretary Trowbridge—first, that we present our views on S. J. Resolution 102, authorizing a study to determine the availability of insurance protection against losses due to riots and other civil disorders, and the amendment

to it introduced by Senator Hart; and, second, that we comment on how the Department of Commerce can marshal its resources and use the experience gained from its programs to promote the economic well being of local businessmen and residents in city slum areas.

My testimony is divided into these two major parts, and, as appropriate, their interrelationship.

I. INSURANCE IN THE URBAN SLUMS

Insurance Is Important to Business and to Residents

Insurance is necessary for business health, especially in the types of areas where riots have occurred. Availability of property insurance at reasonable rates encourages the start up and growth of business, including the financing of prudent expansion, and carrying of active inventories and merchandise stocks. And the reverse is also true.

An equally important point is that more effective operation of businesses in slum areas upgrades the quality of service to the customer and tends to bring prices down toward levels prevalent in the rest of the community. For this reason, it is particularly important to stimulate larger chain stores to bring to slum areas the better quality and lower prices which they are so often able to provide to their customers in other areas. This is not just a "small business" problem, but one of achieving a proper "mix."

Expanded and improved business in the slums—particularly business run by people living in the areas themselves or by branches of larger chains which employ residents in operating the stores—can provide badly needed jobs for the unemployed, raise the wages of the underemployed, provide disadvantaged residents with aspiration and motivation for economic and social improvement through business careers, and benefit residents as consumers.

All of these business contributions attack the cause of riots. Preliminary data available indicate that most of the businesses that have been looted or otherwise damaged are very important for the people of the districts where riots have occurred. Among those hard hit are clothing, drug, hardware and grocery stores, laundries and dry cleaning establishments, and gas stations. All are essential to a neighborhood. The following data for the city of Detroit provide a profile of the property losses for business concerns damaged by the riot:

BUSINESS DAMAGED IN DETROIT RIOT OF 1967

| Type of business | Total loss | Serious loss | Number affected |
|-----------------------------|------------|--------------|-----------------|
| Furniture..... | 25 | 31 | 56 |
| Grocery..... | 38 | 93 | 176 |
| Drug and liquor..... | 131 | 68 | 199 |
| Jewelry and furs..... | 18 | 1 | 19 |
| Department store..... | 26 | 38 | 64 |
| Laundry and cleaners..... | 57 | 77 | 134 |
| Banks and loan offices..... | 5 | 1 | 6 |
| Gas station..... | 7 | 2 | 9 |
| Appliance..... | 10 | 5 | 15 |
| Auto parts..... | 2 | 3 | 5 |
| Clothing stores..... | 51 | 80 | 131 |
| Hardware..... | 10 | ----- | 10 |
| Miscellaneous..... | 94 | 138 | 232 |
| Restaurant..... | 7 | ----- | 7 |
| Apartment building..... | 12 | 12 | 24 |
| Total..... | 583 | 549 | 1,087 |

Source: Sourvey of General Adjustment Bureau, Inc.

The special damage caused by riots and disorders has been principally to business property, and not residential property. The insurance problems relating to housing in the urban slums focus primarily on the quality and soundness of the structures, but the risk of riots alters this as well.

The Need for Information

The availability of property insurance in the slums is a complex problem involving State and local governments, large and medium size business enterprises, including the insurance industry, as well as small business and other property owners—in short, the whole fabric of the local economy and governmental institutions. A careful study will require the assembly and analysis of the relevant facts.

This is clearly a necessary first step in determining the extent of the problem and its possible solutions.

Property damage caused during riots is today covered by normal extended coverage policies. Abnormal claim payments resulting from a single "big loss" riot or a string of smaller riots, or both, in a given year could place many companies in a losing position at least for certain insurance lines and perhaps for all property operations. The figures would have to be studied in detail to determine how much of a loss is involved compared with premium income for particular lines of insurance and for the total of property insurance operations.

An analysis of the riot experience requires very detailed data that the Federal Government does not collect, but that is available from insurance carriers: insurance in force, claims, premium rates structures, cancellations and other limitations on insurance, before and after riots in each metropolitan area affected, by particular neighborhood or Census tract. We believe it is also important to have, if possible, business data on the number of establishments affected, by type of establishment and form of ownership; location of business by Census tract, metropolitan area, or other broader region; financial data on insured and uninsured inventory, real property, personal property and percent of each asset affected by riot damage; costs of salvage, repair, or replacement; liabilities, by type, of those establishments affected; employment, net earnings and sales of businesses affected before and after a riot. From this formidable array of facts we could get a picture not only of the insurance problems, but also the losses from riots from an economic viewpoint—how much the neighborhoods and the businessmen in those neighborhoods were affected as well as the drop in economic activity and capital investment in the area.

Preliminary reports of damage caused by riots indicate extraordinary losses that are quite large relative to normal premium income for coverage related to riot-caused losses. The riot in the Watts area of Los Angeles caused an insured loss of \$44 million dollars, and the recent riot in Detroit alone may be double that amount. Thus, one riot created insurance claims equal to 20 percent of the Nation's annual premium for "extended coverage" insurance (\$469 million in 1965) which not only covers these risks but also other natural and man-made catastrophes such as hurricanes, (Betsy alone caused a \$715 million of insured property loss.) In 1965, losses from extended coverage totalled \$1.7 billion, or \$500,000,000 more than in 1964. This increase is more than the annual premium. I have attached a table on insurance premiums (see page 23).

There are 3,050 companies selling some form of property and liability insurance, with assets of \$41.8 billion and policyholders' surplus of \$17.35 billion. Despite the size and financial strength of this industry, all property and liability claims plus operating expenses have exceeded premiums for three consecutive years (1963, 1964, 1965). Premium rates are under pressure.

On an overall basis, however, the companies are financially sound as a result of earnings on investments, as well as overall assets.

Insurance, strictly speaking, deals with predictable risks. Insurance rates reflect actual losses in the past and loss trends. But the total probable damage due to riots and civil disorders is not readily predictable, and I understand that insurance companies make no charge in their current rate structures for major civil disorders of the type recently witnessed. In any event, recent developments have no doubt altered prior loss trends.

The questions are whether covering riot losses can be intelligently set and, if so, whether they can be set low enough to foster business in these areas. If not, can a sensible, acceptable means be devised to make this possible?

Insurance regulation has always been a State responsibility and, as you will recall, Congress has specifically affirmed the primacy of the States in the regulation of insurance. In 1944 in a case involving anti-trust issues (*United States v. South-Eastern Underwriters Association*, 322 U.S. 533) the Supreme Court held that insurance was interstate commerce when conducted across State lines. This reversed a series of cases going back over seventy years, reserving the regulation of insurance to the States on grounds that it did not involve interstate commerce. Following the South-Eastern Underwriters case, Congress enacted in 1945 the McCarran-Ferguson Act (Public Law 15, 79th Congress, 59 Stat. 33) declaring continued regulation and taxation of insurance by the States to be in the public interest.

I should also note that the insurance industry is not unanimous in believing that help from the Federal Government is desirable.

Senate Joint Resolution 102

The Department of Commerce agrees with the broad purpose of S. J. Res. 102, calling for a study of property insurance in riot-prone areas.

As you know, the President has created a National Advisory Commission on Civil Disorders and Governor Kerner of Illinois, its Chairman, has appointed a top level Insurance Panel under Governor Hughes of New Jersey. This panel is composed of the following members: The Honorable Richard J. Hughes; the Honorable William W. Scranton, former Governor of Pennsylvania; Mr. Walter Washington, former Chairman, N.Y. City Housing Authority; Mr. Aubrey Addison Roberts, President of the Reliance Insurance Co.; Mr. Frank Farwell, President of Liberty Mutual; Mr. George S. Harris, President of the National Insurance Association; and Mr. Frank M. Wozencraft, Esq., Assistant Attorney General, Department of Justice. These men have expert knowledge of the many points of view bearing on this problem and special access to the basic data needed for research.

I attended the last meeting of the Insurance Panel and it seems clear to me that this Panel has already begun work on the sort of study envisaged in S. J. Res. 102 and in the amendment proposed by Senator Hart. As Governor Hughes indicated last week, the Panel is concerned with the various "methods by which insurance may be made available to properties, including high risk properties, in the urban centers."

The Department of Commerce believes it can contribute much to the Panel's study and will, of course, cooperate fully with the Panel on its work. We do not see the need for a separately commissioned study, which would be essentially a duplicate of the work being carried on by the Panel. Therefore, we do not recommend enactment of S. J. Res. 102.

II. THE DEPARTMENT OF COMMERCE APPROACH

Let me turn now to Senator Magnuson's request that I describe the work being done by the Department of Commerce "to stem the flight of businesses from the low income areas of the cities."

The Department of Commerce has primary responsibility within the Executive Branch for promoting the health and vigor of the commercial and industrial sector of the economy. This job includes combating lagging business development in the central cities, and the Department of Commerce has worked for some time with projects intended to help bring distressed areas—urban and rural—back into the economic mainstream.

Among the most important remedies for the urban slums is to help draw the urban poor into full participation in the economic mainstream by making them competitive not only as workers but also as businessmen and managers. Such a solution involves innovation in self-help measures and in creating cooperative efforts to dismantle the barriers that have led to lagging economic development.

Our most comprehensive programs for creating permanent jobs in distressed inner-city areas are made available under the Public Works and Economic Development Act of 1965, administered by the Economic Development Administration (EDA) within the Department.

In those situations where an inner-city poverty area is part of a designated "redevelopment area", the full range of benefits from EDA may be tapped. (Generally, a "redevelopment area" is defined by law as a city of over 250,000, or a county, which has an unemployment rate of 6 percent or more.) These benefits include: public-works grants and loans; business loans and working capital guarantees; and technical, research, and planning assistance.

Where an inner-city poverty area is not a part of a "redevelopment area", as is the case in most instances, a varied technical assistance program, including project planning and feasibility studies, management and operational assistance, and research and studies on the economic growth of these areas, is available under this Act. This assistance may be provided either directly, through contracts with private consultants, or by means of direct grants to State and local bodies and private nonprofit groups. In practice, the bulk of our EDA technical assistance projects are performed through private consultants. Administrative expense grants (up to 75 percent of such expense) may also be provided for economic development planning by public bodies and private nonprofit groups.

Permanent employment is our goal for these inner-city areas. We are primarily concerned with providing opportunities for holding jobs and supporting families. An article in the *Sunday Post* by Harry Bernstein of the *Los Angeles Times* entitled "Old Theories on Negro Jobs Are Breaking Down" spells out how the

Watts Manufacturing Co., a newly established subsidiary of Aerojet General Corp. has successfully pioneered in this direction.

An especially useful study illustrating EDA's efforts is the three-volume study of why industries are leaving South Chicago and what might be done to reverse this trend. I have a memorandum identifying this and other examples if the Committee wishes it.

The Business and Defense Services Administration has an "Affirmative Action Program" administered by a six-man staff (of course, with assistance from the entire staff of the Department) whose innovations in creating business opportunities for disadvantaged people are detailed in the document that I am presenting to your Committee. The industry divisions of BDSA stand ready to provide technical assistance in particular industries, and our Field Offices to help local businessmen with many specific problems.

The Department of Commerce also works with business to improve the economic life of the central cities through Advisory Committees, trade associations and other business organizations. For example, a National Marketing Conference, established by one of our Advisory Committees, is studying ways to expand commercial services—such as branch stores of large volume and low priced retail chains—into slum areas, and to provide financial and other services to strengthen small businessmen in those areas.

The Office of Business Economics has developed comprehensive data on the income and economic activity of each county in the country; and the Bureau of the Census gathers and organizes for study the detailed information necessary for intelligent analysis of problems, economic and social, of the cities. These data are vital not only to Commerce programs to help the cities but to those of other agencies and to the cities themselves.

The Office of State Technical Services helps State governments to create programs that will bring the latest technological know-how within the reach of the smaller business.

Finally, we work with other Government agencies and with the Congress, and especially your Committee, to build a framework of sound and enlightened economic policy so important to the success of every business.

I would like to summarize a document which describes a program we are planning for Milwaukee. It will give you a picture of how these various resources in the Department of Commerce I have just described can be brought into play to help businessmen who are in the slums and who are members of disadvantaged groups. The amount of resources devoted to this purpose are few, but the illustration should be of interest.

The Business and Defense Services Administration is putting into effect two proven programs: (1) the Franchise Business Opportunity Program and (2) the Economic Organization Program. A third program, which is designed to provide youths with training and experience in business operations, has not been fully tested, but will be undertaken as well. These programs reflect a concept quite similar to those suggestions in Senator Magnuson's letter inviting us to testify before this Committee.

In Milwaukee, the Franchise Business Opportunity concept will be based on a "center" where minority group members and other disadvantaged persons will receive guidance and be placed in contact with national franchising organizations that provide training and managerial support services.

"Economic Organization" is a program which helps minority businessmen establish and operate trade associations. Through these associations, minority businessmen are able to escape many of the disadvantages that usually attend small businesses. For example, the advantages of association include: central purchasing and advertising; better access to capital markets; standardized and improved methods of accounting; cost and quality control; and diversification by addition of new services and/or product lines.

Incidentally, these associations are important for insurance purposes because they permit group insurance which reduces costs and makes insurance available to all businesses participating. We have received reports that individual businessmen from minority groups have not always been able to obtain insurance on their own, or have been forced to pay very high premiums. Thus the Economic Organization projects provide a contribution toward ameliorating insurance problems of slum businesses.

The youth training program will be a flexible tool designed to fit into the overall business opportunities available. Youth Enterprises Incorporated, which is to be pioneered in the Bedford-Stuyvesant Restoration Program, will be extended to Milwaukee. This program seeks to place disadvantaged youths and

young adults in all phases of franchise business operations on the job and in supplemental class work. The "earn and learn" concept will be applied in Milwaukee to franchising, and operation of concessions at schools and public events.

Priorities in Rehabilitating Business in the Slums

In the proposed program for Milwaukee, the Department of Commerce is taking a small but positive step toward greater stability and security in the slum areas. Insurance and other protective measures that permit businesses to qualify for insurance even though located in riot or crime prone locations would be, of course, a major step in the same direction.

The Business and Defense Services Administration has created new groups so that by groups being eligible for insurance can be increased, and the State Commissioners have introduced the voluntary urban areas program to get property brought up to standards of insurability. Much remains to be done along these lines which do not raise the complex issues involved in a new kind of Federal insurance or reinsurance program.

However, these efforts do not answer the problem of massive damage in large riots. Insurance improvements can and will make an important contribution in direct proportion to success in efforts to reduce the actual property damage due to riots and civil disorders.

These activities of the Department of Commerce have taught us the importance of taking a broad view of the very numerous specific economic handicaps and weaknesses in the urban slums. Every one of these creates problems that are real and important. All must not be allowed to intensify and cumulate. But none can be handled without recognizing the interrelationships which create complexities and difficulties that make a broad strategy imperative. The problem of riot insurance must be examined in this overall context.

III. CONCLUSIONS

In our view, Senator Magnuson set forth the correct priorities in his letter of August 18 to the Secretary of Commerce:

Assure availability of adequate insurance protection at reasonable cost to existing businesses in the low income areas of the cities in order to stem the flight of business from these areas

Assist existing and new locally owned businesses to achieve the security and business ability necessary to make them sound commercial risks for the insurance industry

Promote the establishment of locally managed branches of large chain stores and locally-managed franchised operations in these areas in order to bring the benefits of modern mass merchandising to our low-income citizens who need it most.

S.J. Res. 102 introduced by Senator Hartke and the amendment by Senator Hart are also correct, in our view, in that both recognize the urgent need for a study to pull together the facts on which to base any sound action to improve the availability of insurance in our core cities. This study, however, is already underway. It is being conducted by the Hughes Panel. No competing study is needed and, in fact, a competing study might well detract from getting on with this task as effectively and urgently as the situation demands. It would seem unwise to pre-judge the findings of this study, and no legislative action is, therefore, called for at this moment.

Finally, the outline I have given of Commerce Department activities relative to urban problems should be kept in perspective. These activities stem from our basic purpose of promoting the growth of a healthy commercial and industrial sector as part of a strong, growing national economy and society.

ATTACHMENT

PREMIUMS PAID FOR SELECTED FORMS OF PROPERTY INSURANCE PROTECTION

[In millions of dollars]

| Type of policy | 1965 ¹ | 1964 |
|---------------------------------|-------------------|---------|
| Burglary and theft..... | 118 | 111.1 |
| Glass..... | 40 | 41.9 |
| Fire..... | 1,510 | 1,501.9 |
| Extended coverage..... | 469 | 489.9 |
| Allied fire lines..... | 193 | 188.2 |
| Multiple line (commercial)..... | 506 | 371.3 |
| Multiple line (homeowners)..... | 1,509 | 1,333.1 |
| Total..... | 4,345 | 4,037.4 |

Source: "Insurance Facts, 1966," Insurance Information Institute.

¹ Preliminary.

Senator HARTKE. The next witness will be Arthur K. Yim, director of business service, mayor's development team, Detroit, Mich.

Senator HART. I am delighted to have this chance to add my word of introduction on behalf of Mr. Yim as he presents himself to the committee. He hails originally from Hawaii. His travels, happily for us, took him to Michigan. He graduated from the University of Michigan in 1951 and later in 1959 from the Wayne State University Law School. Since 1951 he has been employed by the city of Detroit, and about a year ago was appointed to the office of the assistant corporation counsel.

Following the riots in Detroit, Mr. Yim was appointed by Mayor Jerome P. Cavanaugh as director of business service, mayor's development team. Mr. Yim, I would add my word of welcome to the word voiced by our chairman.

Senator HARTKE. Mr. Yim, we are delighted to have you here. You may proceed in the way you think will be best to help us in our consideration of this serious problem.

STATEMENT OF ARTHUR YIM, MAYOR'S DEVELOPMENT TEAM, DETROIT, MICH.

Mr. YIM. Thank you, gentlemen. This is my first appearance before such a formidable group.

Senator HARTKE. Feel perfectly at home. Senator Hart may ask some penetrating questions. I am sure I won't.

Mr. YIM. I have made available a prepared statement. I would like to go over some of the highlights.

Senator HARTKE. The entire statement will appear in the record.

Mr. YIM. First let me give you a little background on Michigan and Detroit. Michigan's total population is approximately 8 million citizens, 20 percent of which are Negroes. Detroit's Negro population today, in the city itself, is estimated at over 600,000 out of 1.6 million people.

Many years ago, Detroit's Negro population was concentrated near the downtown business district on the lower east side. Over the years the all-Negro and predominantly Negro neighborhoods expanded to the north, the east, and the west. At the present time, based upon a 4-percent sampling made in 1965, we find that a large segment of the

city extending approximately 2 miles on both sides of Woodward Avenue and approximately 6 miles north from the Detroit River, has Negro occupancy ranging from 70 to 100 percent.

The riot began in an all-Negro area. Most of the buildings in the area were constructed in the early 1900's. Many were classified as nonconforming to present zoning, housing, and building code requirements. Many were substandard. The problems inherent in the neighborhoods were further compounded by the migration into the area of large families than originally intended. The results—overcrowded, substandard accommodations.

In 1965, after receiving numerous complaints that insurance companies were changing excessive rates and were dropping or refusing to renew policies in the older and changing neighborhoods, the Common Council of Detroit ordered an inquiry into these practices. Most of the complainants alleged that they were affected because they lived in Negro or changing neighborhoods. The companies denied this and maintained that there was no differentiation between an older or newer neighborhood.

In the complaints, it was alleged that the insurance companies had established red lines to set off the desirable from the undesirable or high-risk area. The companies of course denied this. They still deny it. We have obtained some evidence to show that such a red line exists. Several people in the industry and related fields have admitted it to be a fact, and at this point I would like to deviate from my original statement.

As written we say that they had all declined to furnish written statements to the extent that the red line does exist. At the present time we have been able to obtain some documents to show this fact.

Approximately 5 years ago, the red line was fixed at Grand Boulevard, a U-shaped thoroughfare, that runs north from the Detroit River about 2 miles east and west of Woodward Avenue and running east and west across town about 3 miles north of the river. I refer you to that chart, if you will look, at it.

Senator HARTKE. Is it the blue line or the red line that you are talking about?

Mr. YIM. This blue line relates to the red line area in 1963. This red line represents the area included in the undesirable district at the present time.

Senator HARTKE. What you mean is that the area has been extended from the original blue line section to the present red line section?

Mr. YIM. That is right.

Senator HARTKE. When did this happen? Before the riots?

Mr. YIM. At the present time.

Senator HARTKE. Was this so-called red line extended after the riot?

Mr. YIM. No; it was in existence prior to the riots.

Senator HARTKE. Prior to the riots?

Mr. YIM. That is correct. Who knows, it might move further.

Within the undesirable area, it was difficult to obtain insurance coverage at standard rates, if at all. In 1963, Mr. Sherwood Colburn, then the State insurance commissioner, charged that most fire insurance companies would not consider writing policies there although they were permitted to charge up to five times normal rates. Even

today, those carriers willing to write coverage charge at least three times the standard premium rates.

Since most companies refused to provide insurance in these areas, the people found it necessary to turn to the nonadmitted carriers, who charged what the traffic would bear, sometimes as high as 10 times the normal rate. The other alternative to the people was to forgo the protection of having insurance. Many elected to do so.

As a result of the 1965 inquiry, the insurance companies and the Michigan Insurance Department evolved the Michigan fire insurance inspection plan. This plan which went into effect on January 1, 1966, was designed to provide fire insurance at normal rates for property owners in high-risk or uninsurable areas in Detroit.

It should be pointed out that this program was not created by State legislation, nor is it administered by the State. Instead, it is a voluntary plan involving insurance companies writing more than 90 percent of the fire insurance in Detroit. It is administered by the Michigan Inspection Bureau, a rating agency that is maintained and paid by the insurance companies.

Essentially the plan calls for free inspection if the applicant is rejected or offered coverage at a high rate. Where the inspector finds that the residence needs requirements of minimum insurability, coverage must be provided for the owner at standard rates, regardless of the area. If he fails or waives, he then has to look to the high-risk companies to provide coverage, usually at three times the standard rate.

During 1966, there were approximately 3,500 inspections made by the inspection bureau. About 1,100 applicants failed to pass, the other 2,400 were accepted for standard rate insurance following original inspection or reinspection.

It is interesting to note that during 1966 about 6,000 owners signed waivers and purchased high-risk insurance. Of those who waived inspection, about 2,000, or one-third, were owner-occupants while the remaining 4,000, or two-thirds, were absentee owners.

There has been some criticism of this plan. It has been said that because the plan is administered by the inspection bureau, a private agency subsidized by the insurance companies, it gives the companies the right to be both judge and jury. There is a possibility that a home which meets all standards may still be rejected for standard rates because of the poor condition of a neighborhood building. At times, the cost of required improvements or repairs may far exceed any increase in value to the property after improvements, thereby encouraging or forcing property owners to pay for expensive high-risk coverage or to operate without any insurance.

So far, insurance companies have made no wholesale premium rate increases in Michigan or Detroit. We have no knowledge of any such increases in our area. We have learned of a small number of individual cases where policyholders under threat of cancellation were forced to pay higher rates.

Although the problem of rate increases is absent, there is yet another matter of grave concern to our property owners. Many policyholders are now faced with the prospect of cancellations.

We have learned that one company had canceled 124 policies prior to August 1, 1967. Since that date, an additional 287 policies have been canceled. Another 1,300 policyholders have been given the option,

under threat of cancellation, of accepting a transfer of coverage to a nonadmitted company. A further condition for noncancellation is that the insured sign and endorse excluding riot or civil commotion, and strike coverage. All of these policies were written for Detroit owners and include residential and commercial properties.

We were told that a majority of the latter 1,300 policyholders have accepted the transfer, at least temporarily, rather than be totally without coverage.

Another company, which had written about 700 policies in the entire State of Michigan, has canceled most of these policies and plans to withdraw from doing business in Michigan. These are the two companies referred to by Senator Griffin in the newspaper clipping.

Through another source, it was learned that at least another 100 policies on property in or near the riot areas have been canceled since the riot. We were informed these cancellations were all riot connected.

Let us now try to relate these conditions to the present situation in Detroit. A survey by the Detroit fire marshal indicates that 770 buildings were demolished by fires. Dun & Bradstreet has estimated that 1,200 businesses in Detroit suffered some damage during the civil disturbance. A representative of the American Insurance Association estimated that riot-connected insurance claims could total 4,000 or 5,000 in number.

The Michigan State insurance commissioner has estimated insurance losses from fire, looting, business interruption and other causes to be \$84 million. A figure of \$60 million was set as the estimated uninsured loss. The total estimated loss in Detroit was \$144 million.

Among the insured losses are 25 large claims, those involving \$100,000 or more, totaling \$10 million. The balance is comprised of reported damages ranging between \$10,000 and \$50,000 with only a few reporting a figure higher than \$50,000.

The Dun & Bradstreet survey showed that the impact of the disturbances fell principally on the small businessmen. More than 60 percent of the businesses damaged were in the net worth range of \$5,000 to \$35,000. Of the businesses damaged, 68 percent were retailers, 19 percent were service dealers, and the remaining 13 percent were specialty businesses.

The survey also indicated that in Detroit 86 percent of the people interviewed reported that they carried some sort of insurance. We do not at this time know whether these owners had enough insurance to cover all of their losses. An independent survey, consisting of interviews with 100 businessmen selected at random, disclosed the following: Fully covered losses, 10 percent; over 50 percent coverage, 23 percent; under 50 percent coverage, 27 percent; no coverage, 40 percent.

We make no claims that these percentages derived from a small sample would actually represent the total picture. These figures are cited merely to point the next problem. The matter of availability of insurance is the significant factor in reestablishing normal business activities in the area. For those merchants without insurance, the prospects of reopening are dim. Many have indicated that they will not return. The others are seeking State or Federal loans to help them get back into business. Those who do return and want to rebuild will encounter many difficulties. Insurance recoveries if adequate at best

could be used to acquire new stock and start a business, but it will not be adequate to rebuild. Most of these affected businesses are located on commercial streets that even before the rioting were going downhill fast. Building loans and insurance were difficult to obtain then, and now in the light of recent events, may be more difficult, or even impossible to obtain.

Many of the merchants have limited funds and bank loans are likely to be hard to come by for them.

Other cities have had the same problems. It is said that the lack of insurance was the toughest problem faced in the rebuilding of the city of Watts. Damage there was estimated at \$43 million. Our own damages are estimated to be over \$144 million.

I hope that while I have gone over this quickly, it will clearly emphasize the need for government participation in the field of insurance for high-risk and riot areas. There is a definite need for some program to provide adequate fire and riot coverage at reasonable rates for businessmen and homeowners in riot-torn and riot-prone areas. We endorse and will support those measures which will accomplish this. I thank you.

Senator HARTKE. Thank you, Mr. Yim. Senator Hart.

Senator HART. Thank you, Mr. Chairman. Mr. Yim, I observed in my very brief opening statement that where a city is denied insurance or sections of the city are denied insurance, it is denied a future. Wouldn't you agree with me that as short statements go, that is an accurate one, that a city or a section of a city which is denied insurance is denied a future?

Mr. YIM. Yes; I am 100 percent in agreement with you. To deny these areas adequate insurance coverage is to stymie any efforts they might make to rehabilitate or rebuild the economy in the depressed areas. I think we have been denying these people for too long.

Senator HART. With respect to the map that you have filed with the committee, will you tell us within the range of the red line what insurance is available on several bases and in some cases not available at all. What percentage of the population of the city of Detroit do you estimate lives or does business in that red-line area?

Mr. YIM. I must confess I don't have accurate statistics to answer that question properly, but I would say that in excess of 30 percent of our population lives in that area.

Senator HART. I would ask the chairman if after Mr. Yim had had a chance to check with the census figures and business figures and if his estimate proves inaccurate that the record be so corrected.

Senator HARTKE. It may be so done.

Mr. YIM. Thank you.

Senator HART. Insurance companies are in business to make money. They have an obligation to their investors to do this, an obligation to their policyholders, too, that they remain in a position to sponsor claims. So if given the opportunity to write it five times the going rate and they still felt it an unwise business action, we might well be charged with jumping on a dead horse.

Now, if the insurance companies can't write the insurance, let them not be like the American Medical Association, which says we don't want to do it and we don't want anybody else to do it either. Let's have some suggestions as to how somebody else besides the Federal Government can do it. Would you agree that it is not a disagreeable note to strike this morning?

Mr. YIM. In response to your question, among the recommendations I made in my written statement, which I omitted in my oral presentation, you will note that we are in favor of either direct or indirect participation by the Federal Government or some other agencies which help is to ease the load for these insurance companies. We note that approximately a few weeks ago the industry itself has come out asking for Federal assistance in providing insurance for these areas.

Senator HART. Yes, and I notice a story under the byline of Robert Semple, Jr., of the New York Times of August 24 commenting on the action of the insurance industry, asking for cooperation from the Government. The story says that insurance observers call this a historic move, and indeed it is. I think an encouraging one.

Your statement, Mr. Yim, is very comprehensive and responds to many of the requests for information which this committee was anxious to get.

Where in the map of Detroit would property located in the 7000 block of Dexter be found? It's in the Joy Road-Davison area.

Mr. YIM. That would be right in the heart of the riot area.

Senator HARTKE. Would you care to point it out?

Mr. YIM. Right about there [indicating on map].

Senator HART. I see that blue star. What would that signify?

Mr. YIM. That is Central High School where some of the troops were located.

Senator HART. Where is the property that would be on North Martindale, the 11000 block of North Martindale?

Mr. YIM. It would be in approximately the same area.

Senator HART. Let me just as an indication, Mr. Chairman, of the problem we are talking about in generality, make it specific. A constituent of mine, Ada Canvasser, wrote me early this month expressing concern that insurance is not available and describing what had happened to her property, and I asked her for information as to location, et cetera. She replies:

In answer to these questions, one building is located at 11750 North Martindale, which was on the outside fringe of the riot and untouched by the rioters. It has 23 residential apartment units consisting of two-, three-, and four-room apartments. According to a special multipurpose policy which we initiated on February 9, 1962, I would estimate the value of the building at \$125,000. A photostatic copy attached.

Building No. 2 is located at 11331 Dexter in the Joy Road-Davison Area. This building was in the center of the looting and rioting. Value of the building, according to the special multi-purpose policy, is \$250,000. This building consists of twelve four room residential apartments and twenty-nine three room residential apartments.

She mentions a third building but I didn't ask Mr. Yim to identify it on the map.

Building No. 3 is located at 2545 Taylor and 8944-50 Linwood was also in the center of the riot and looting area.

Mr. YIM. I know the Linwood address.

Senator HART. This building, the third building is valued, according to the multipurpose policy, at \$130,000. This building consists of 24 three-room residential apartments and four two-room residential apartments. These buildings, as I understand it, were in the center of the riot infested area yet were untouched during the complete period.

In 1962 I had these special multi-purpose policies written for these various amounts as illustrated in the photostatic copies attached, and in May, 1965 they were cancelled because of the insurance company's theory that these buildings were in a high risk area and that these companies were no longer writing policies in this particular area.

She explains that the insurance agent suggested triple rates with standard companies which might be able to get her coverage:

Therefore, I prevail on you to attempt to do something about the situation that has left me with nearly no insurance.

She attaches several letters from insurance brokers confirming the story that she describes.

If there is no objection, may they be made part of the record because it does describe the problem from the viewpoint of the property owner, the community, the insurance company, and as Senator Hartke said, we are not sitting here condemning insurance companies. We are trying to find out how adequate insurance can be available—we say adequate insurance. We are talking about an amount that encourages a businessman to go into business or a property owner to stay there. When you talk about availability, you are talking about rates that the businessman and the property owner can pay and which the management of insurance companies can justify to its own investors.

We are really trying to find out how in a sense we can have our cake and eat it too, not to condemn somebody for something that the whole society has a share of responsibility for.

I close, Mr. Chairman, on the same note that I opened. It is absolutely essential that insurance be available as I describe it, and if this system, the private economic system simply makes it impossible to get coverage in the center cities area, then we have got to put something into the system that isn't there now.

I would again ask that Mrs. Canvasser's letter and the other letters she forwarded be made a part of the record, if there is no objection.

Senator HARTKE. They may be made part of the record.

(The letters mentioned follow:)

DETROIT, MICH., July 31, 1967.

Senator PHILIP HART,
Lansing, Mich.

DEAR SENATOR HART: I sent this letter today to the Governor and I think that it would be of interest to you.

Very truly yours,

ADA CANVASSER.

JULY 31, 1967.

Gov. GEORGE ROMNEY,
Lansing, Mich.

DEAR GOVERNOR: I was shocked and amazed this morning to receive notices of cancellation of my insurance policies on two buildings which I own in the City of Detroit.

I feel that it is unfair, to say the least, that the insurance companies cancel policies on 5 day notice. This hardly gives us time to reinsure, if reinsurance is possible. I believe that something will have to be done in order to insure property within a central core city or there will be no one that would consider the ownership of property within a central core city.

I am enclosing for your information photocopies of the cancellation of insurance. I would appreciate the prompt attention of our state authorities in a solution to this dilemma.

Respectfully yours,

ADA CANVASSER.

NOTICE TO INSURED
OF
CANCELLATION OF INSURANCE POLICY

Agency at Detroit, Michigan

REGISTERED MAIL RETURN RECEIPT REQUESTED Date July 28 1967

M. Ada Canvasser

13341 Fenkell

Detroit, Michigan

We hereby cancel our Policy No. XXXXXXXX

issued to Ada Canvasser
on April 5, 1965 at 11750 North Martindale, Detroit, Michigan

in accordance with the terms and conditions of the policy.
You will, therefore, please take notice that at the expiration of Five (5) days from the receipt of this notice, unless surrender thereof to us be sooner made, the said policy will terminate and cease to be in force.

Respectfully yours,

CITIZENS CASUALTY COMPANY OF NEW YORK

(Insert name of Insurance Company as shown on policy)

Per Daniel J. Shumey Agent.

Note: An "X" is placed in the box at the left of the condition applying.

NON-PAYMENT OF PREMIUM

- 1. Please return this policy to us with remittance of \$....., being the amount of earned premium for time it has been in force at date of cancellation.
- 2. As the premium due has not been received by this Company for this insurance, there is none to be returned.

CS-9 COPYRIGHT 1944, COURTES-CITIZEN CO. PRINTED IN U.S.A.

PREMIUM PAID

- 1. Enclosed find \$..... being amount of return premium at pro rata rate for the unexpired term of this policy.
- 2. The excess of paid premium, if any, above the pro rata premium for the expired time, (if not tendered) will be refunded upon demand. (The words "upon demand" do not apply in Kansas.)

U.S. SENATE,
Washington, D.C., August 7, 1967.

Mrs. ADA CANVASSER,
Detroit, Mich.

DEAR MRS. CANVASSER: Thank you for bringing your situation to my attention. This problem of insurance cancellation concerns me very much indeed. I am checking with the State authorities. If effective action cannot be taken there, I believe we must develop federal legislation.

I will report back to you as soon as possible. Meanwhile please advise me: (1) location and value of the buildings in question; (2) purpose for which used—commercial or residential; (3) length of time you had had the policy with this company and (4) location of the property in relation to the Detroit riot area.

Sincerely,

PHILIP A. HART.

DETROIT, MICH., August 18, 1967.

Hon. PHILIP A. HART,
U.S. Senate, Washington, D.C.

DEAR SIR: It was indeed a pleasure to receive a letter from you regarding my problem of insurance in the Core Area of the Detroit riot.

In your letter of August 7, 1967 you specifically requested some information regarding:

1. Location and value of the buildings in question.
2. Purpose for which used—commercial or residential.
3. Length of time we had policy with this company.
4. Location of property in relation to Detroit riot area.

In answer to these questions, one building is located at 11750 N. Martindale, which was on the outside fringe of the riot and untouched by rioters. It has 23 residential apartment units consisting of two, three and four room apartments. According to a special Multi-purpose policy which we initiated on Febru-

ary 9, 1962, I would estimate the value of the building at \$125,000.00 (photostatic copy attached).

Building #2 is located at 11331 Dexter in the Joy Road-Davison Area. This building was in the center of the looting and rioting. Value of the building, according to the special Multi-purpose policy, is \$250,000.00. This building consists of twelve four room residential apartments and twenty-nine three room residential apartments.

Building #3 located at 2545 Taylor and 8944-50 Linwood was also in the center of the riot and looting area. This building is located within the first two blocks south of Clairmount and valued, according to the special Multi-purpose policy, at \$130,000.00. This building consists of twenty-four three room residential apartments and four two room residential apartments. These buildings, to the best of my knowledge, were in the center of the riot infested Detroit Area, yet were untouched during the complete period.

In 1962 I had these special multi-purpose policies written for these various amounts as illustrated in the photostatic copies attached, and in May, 1965 they were cancelled because of the insurance company's theory that these buildings were in a high risk area and that these companies were no longer writing policies in this particular area.

The only way that policies can be written according to my insurance agent is with triple rates with sub-standard companies. I therefore prevail on you to attempt to do something about the situation that has left me with nearly no insurance.

Very truly yours,

Mrs. ADA CANVASSER.

P.S.—Attached are copies of various letters pertaining to the insurance situation.

GREENBERG AGENCY, February 9, 1962.

SPECIAL MULTI-PERIL POLICY PROPOSAL FOR ADA CANVASSER

| Locations | Limits | |
|-----------------------------|-----------|----------|
| | Building | Contents |
| 8944-50 Linwood..... | \$130,000 | \$2,500 |
| 11750 North Martindale..... | 125,000 | None |
| 11331 Dexter Blvd..... | 250,000 | None |

PLAN 1 (MANDATORY COVERAGES)

Section No. 1—Fire, Extended Coverage, Vandalism and Malicious Mischief, and Premises Burglary.

Section No. 2—Liability—Limit \$300,000 per occurrence:

Three-Year Prepaid Premium, \$4,827.00.

Three-Year Annual Installment Premium, \$5,068.35. Each Installment \$1,689.45.

PLAN 2

Section No. 1—Fire, Extended Coverage, Vandalism and Malicious Mischief, Premises Burglary, Limited Water Damage, Plate Glass (\$50.00 each plate, \$250.00 aggregate), Collapse, Weight of Ice, Snow, or Sleet, and Falling Objects.

Section No. 2—Liability—Limit \$300,000 each occurrence:

Three-Year Prepaid Premium, \$5,399.00.

Three-Year Annual Installment Premium, \$5,668.95. Each Installment \$1,889.65.

PLAN 3

Section No. 1—Fire, Extended Coverage, Vandalism and Malicious Mischief, and Premises Burglary.

Section No. 2—Liability—Limits \$300,000. \$50.00 Deductible—Section 1 perils except Fire and lightning, Windstorm and hail on building (Disappearing Deductible):

Three-Year Prepaid Premium, \$4,717.00.

Three-Year Annual Installment Premium \$4,952.85. Each Installment \$1,650.95.

PLAN 4

Section No. 1—Fire, Extended Coverage, Vandalism and Malicious Mischief, Premises Burglary, Limited Water Damage, Plate Glass (\$50.00 per plate, \$250.00 aggregate), Collapse, Weight of Ice, Snow or Sleet, and Falling Objects.

Section No. 2—Liability—Limit \$300,000 each occurrence \$50.00 Deductible—All Section 1 perils except Fire and Lightning, Windstorm and Hail on Building (Disappearing Deductible):

Three-Year Prepaid Premium, \$5,046.00.

Three-Year Annual Installment Premium \$5,298.30. Each Installment \$1,766.10.

THE GREENBERG AGENCY,
Detroit, Mich., May 19, 1965.

Mrs. ADA CANVASSER,
*Care of Don Canvasser,
Detroit, Michigan*

DEAR MRS. CANVASSER: We wish to confirm our conversation with Donald in which we advised him that we have been unable to place \$65,000 coverage on the Linwood & Taylor building and also \$75,000 on the Dexter building. We have tried many sources to place this coverage, but to date with no success.

We will still try to make up this amount of insurance through some other resources and will advise you as soon as we have any success.

Very truly yours,

SAMUEL J. GREENBERG.

THE GREENBERG AGENCY,
Detroit, Mich., February 3, 1967.

Re Ada Canvasser buildings.

Mr. DON CANVASSER,
Detroit Mich.

DEAR MR. CANVASSER: We enclose our invoice for the installment billing on premiums due March 24, 1967 for the three buildings owned by your mother. This billing includes the inspection fee of \$15.00 which we paid last September when we submitted figures for additional coverage.

We also enclose credit memos for the two policies which were cancelled last June 30th by the Reliable Insurance Co. They total \$282.74.

We again wish to call your attention to the amount of insurance on each of these buildings which is only one half of the amount that should be carried to comply with the 80% Co-insurance clause. In the event of a loss the co-insurance penalty will be invoked and under these circumstances you would probably be able to collect only about 50% of the loss. We urge you to try to remedy this situation by increasing the coverage to comply with the co-insurance requirement.

Very truly yours,

S. J. GREENBERG.

STATE OF MICHIGAN, DEPARTMENT OF COMMERCE,
Lansing, Mich., August 28, 1967.

Re our file No. 867-4803,

Citizens Casualty Co. of New York; Ada Canvasser, insured.

ADA CANVASSER,
Detroit, Mich.

DEAR MADAM: This is in reply to your letters to Governor George Romney and Senator Philip Hart concerning the cancellation of the fire insurance on two buildings which you own in the City of Detroit. Governor Romney and Senator Hart have each asked that we investigate this matter for you.

However, I must advise you that at the present time we are unable to assist you with this problem. Insurance Commissioner David J. Dykhouse sent telegrams to all companies writing fire insurance in Michigan asking them to withhold for 90 days any cancellations or non-renewals of fire policies. There have been only two companies who have not heeded his request. Citizens Casualty happens to be one of these companies. It is my understanding that they are withdrawing from the state; therefore our jurisdiction in this matter is very limited.

While we are unable to assist you at the present time, let me assure you that everything possible is being done to find a solution to this problem. Governor Romney, Senator Hart and Commissioner Dykhouse have all been working with insurance industry officials in an attempt to come up with a workable plan to provide fire insurance for persons unable to obtain it through normal channels.

We appreciate the opportunity to review this matter for you and trust that a solution will be forthcoming in the near future.

Sincerely,

D. K. DUNN,
Chief, Policyholders Service.

Senator HARTKE. Thank you, Senator.

It's been stated, Mr. Yim, that prior to the riots which occurred in Detroit, large sums of money were poured into Detroit under the poverty and other aid programs in an attempt to eliminate poverty. Do you have any comment on that? Did it do any good? Do you have any comment to make concerning this overall approach?

Mr. YIM. Well, I will state that the administration under Mayor Cavanagh has made great progress in attempting to raise the standard of living and the standard of these poverty-stricken areas. It is true that we have received a great deal of Federal money, and I think the money had been put to good use. We have adopted numerous programs to aid the poor, those living in the depressed areas.

We have tried to furnish employment for the unemployed and even round out educational opportunities for the children who live in these areas. We have done a lot. Apparently it was not enough.

No one foresaw, at least no one foresaw in Detroit a riot of this magnitude. As a matter of fact, I think the riot when it came to Detroit came as a complete surprise not only to the citizens of Detroit but to the country as a whole.

Senator HARTKE. You mentioned that a number of the buildings in this area were substandard. Was there any property in this area which had been condemned by the city, but which was not actually being razed?

Mr. YIM. Yes, there is an area, but I am not able to delineate it for you. There is an area in there designated to be an urban renewal project area. It is called the Virginia Park project.

Senator HARTKE. Let me clarify my question. I am not talking about areas designated for urban renewal, which are subject to being razed for urban renewal. I am talking about a building which has been condemned for residential use because it was unfit for human habitation.

Mr. YIM. To the best of my knowledge there were no such buildings being condemned as unfit for human habitation. There was substandard plumbing, inadequate electrical systems, antiquated systems, perhaps heating was insufficient and accommodations were overcrowded.

Senator HARTKE. What percentage of the property in the riot area was absentee owned?

Mr. YIM. You have got me. I can't cite an exact percentage, but if we take a percentage from the number of owners that decided to purchase higher risk insurance in the area, we find it about two-thirds of those who decided to waive insurance rather than buy the higher insurance constituted about two-thirds.

Senator HARTKE. Do you know of any instance where insurance companies have refused to make payments on policies covering property in the riot area?

Mr. YIM. No, we have no such knowledge. I may add though that a number of insurance companies have made claims and have in turn notified the city of Detroit that they intend to file suits against the city under the subrogation clause.

Senator HARTKE. They intend to file suit against the city?

Mr. YIM. Yes.

Senator HARTKE. That is news to me. Under what theory, do you know?

Mr. YIM. I guess they claim that the city was negligent in protecting the property and persons of these people who suffered some damage in the riots.

Senator HART. Let me, Mr. Chairman, express some surprise. I assure you, I hadn't heard anything about it.

Senator HARTKE. Have any companies raised the question of insurrection?

Mr. YIM. None to date.

Senator HARTKE. Have any people raised the question of the President's referral to this as an insurrection at the time of his television speech?

Mr. YIM. Apparently that doesn't seem to be a major problem in Detroit. There have been assurances from the companies themselves that payment will be made regardless of the status or cause given to the disturbance.

Senator HARTKE. Do you think a study of the availability of insurance is an urgent matter?

Mr. YIM. Yes, sir, definitely.

Senator HART. Do you know where else, where in the country the problems of cancellations, high rates, and unavailability are problems in the same degree that you have described them in Detroit?

Mr. YIM. I believe the problem does exist in other areas in the country that have been stricken with riots—Watts, Philadelphia, Newark, so forth.

Senator HART. Isn't it true that the problem existed in Detroit before the Detroit riots?

Mr. YIM. If you are referring to the availability of insurance in those areas—

Senator HART. And cancellations.

Mr. YIM. And cancellations. I don't believe that is the problem that is unique in Detroit.

Senator HART. It is not a problem unique to Detroit?

Mr. YIM. That is correct.

Senator HART. Was it a problem in Watts before the riots also?

Mr. YIM. That is correct.

Senator HART. We understand it existed elsewhere in the country and you named Watts and Newark even before the riots in those two cities.

Mr. YIM. I believe the problem existed in the ghettos or the depressed areas in those cities.

Senator HART. Mr. Chairman. I would ask that a report on the availability of insurance in the Los Angeles Watts area made in 1967 prepared by Prof. Irving Pfeffer of UCLA, be added to highlight some of the testimony that Mr. Yim has given.

Senator HARTKE. We are certainly going to have those reports in the hearing record before it is closed. We will have a definite state-

ment shortly as to how long the hearings will be held open for receipt of further information.

Senator HART. Also, there is a report given us by Orman L. Vertrees covering a survey that he did in Seattle, Wash. The report covers not only fire insurance available but also automobile insurance available in the depressed area of Seattle. I would suggest this also be made a part of the record, reflecting the national scope of the problem, the fact that it doesn't follow a riot in a particular city but is apparently very common in all of the oldest of the areas of all of our cities.

Senator HARTKE. It will be made part of the record as requested. (The report mentioned follows:)

BIOGRAPHY OF ORMAN L. VERTREES, STAFF REPORTER, SEATTLE POST-INTELLIGENCER

Age: 36. Born: Milwaukee, Wis. Married: Beth Lowty.

Graduate in Journalism—Wash. State Univ. 1953. Honolulu Hawaii Star Bulletin, City Hall Reporter, 1958-1959.

United Press International—covering Washington State Legislature 1957 and 1959 sessions.

Seattle Post-Intelligencer—asst. city editor, and staff reporter 1959 to date.

1965: Washington State Excellence in Journalism Competition, sponsored by the Western Washington Chapter of Sigma Delta Chi Professional Journalistic Society. First place in investigative reporting on insurance.

REPORT OF ORMAN L. VERTREES ON FIRE AND AUTO INSURANCE AVAILABILITY IN SEATTLE'S DEPRESSED CENTRAL AREA, AUGUST 25, 1967

"Somehow, I thought Seattle would be different."

The slender Negro legal secretary had just had her auto insurance canceled.

The insurance company gave her no reason, but the place where she had bought the car said it was because of the neighborhood in which she lives.

Miss Vera Jones, 21 and just a few months out of Mobile, Ala., was trying to get insurance here for the first time. She found out what many Central Area residents already know:

Insurance in their part of town is hard to get, and it comes high, sometimes up to four times the cost for a "standard" risk.

Miss Jones lives in a rooming house at 1459-21st Ave. She parks on the street because there isn't any place else to park.

She learned roundabout that the insurance company had refused her coverage because she parked on the street and because bands of juvenile delinquents supposedly roamed the streets.

"I haven't heard of any vandalism around our neighborhood," she said. "All the tenants park in the street and nothing has ever been taken from their cars."

The relative infrequency of car prowls, both on the streets and in garages, in Miss Jones' neighborhood was verified by Inspector Lyle LaPointe of the Seattle Police Department's Patrol Division.

Crime analysis maps for June, July and August show there was a total of 22 car prowls in the prowler car district in which Miss Jones lives. This is an area bounded by E. Madison, E. Spruce, Broadway and 23d Avenue.

District 126, of comparable size and bounded by W. Mercer, Westlake Ave. N., Lenora and the waterfront, had a total of 78 car prowls during the same period. Other downtown districts show an even greater frequency.

Miss Jones' predicament is an old story to two Negro insurance agents who work in the Central Area.

Jerome Williams, at Evergreen Underwriters, 2302 E. Madison, and Norman Proctor, who operates an agency at 1437-23d Ave., are two of only five Negro agents in the whole City handling property and casualty insurance.

"Insurance companies don't want us to represent them," said Williams. It never has been easy for a Negro agent to represent any of the recognized insurance groups."

Proctor recalled a case two years ago in which a company made an arbitrary mass cancellation of fire insurance policies in the Central area. Proctor said he had placed insurance with the company on about 35 of the homes.

"These homes represented the owner's life savings," he said. "The mortgage companies have to have the places insured. People come in, and I can't give them service. I don't know what to tell them."

He also told of two auto insurance rejections that came into his office this past week. Both rejected applicants were Negroes, one an FHA appraiser and the other a retired postal employe. Neither had a record of any accidents or traffic violations, Proctor said, and no reasons for the rejections were given.

"Sometimes I send people I can't help to downtown brokers," he said. "they can throw in a Central Area place now and then without too much static."

"But the companies run a report on every house I send in. It's hard to get a company to handle your business if they know it's all from the Central Area."

Mr. and Mrs. Leon Smith, 1819 E. Jefferson, bought a 10-unit apartment house a few doors down from their place not long ago. The fire insurance was subsequently canceled, then raised to more than double the previous amount.

"The insurance company said there is a very high fire hazard here," said Mrs. Smith. "But there is a fire hydrant right across the street and a fire station about 10 blocks away."

Mrs. Smith acknowledged that the apartment house needed renovating, but she said she and her mother have already fixed up five units and will soon complete the other five.

"The company knew we were working on it," she said. "They knew what we were doing, but we have to do all the work ourselves and it's slower."

Proctor told of a four-unit apartment house on which he had tried to get fire coverage.

The first company canceled within 30 days because the place had had two fires the previous year. A second company took the first \$7,500 of the risk at a premium of \$105 a year, four times the standard rate.

It also quickly canceled when it learned of the previous fires. Now the owner is self-insured.

Roscoe Warren, a Negro, runs Albert's Self-Service Cleaners at 1133-23d as well as a nearby real estate office.

"Most people I talk to have had a hell of a time with auto insurance," he said. "They get canceled out for any little reason and their base rates are usually higher."

"I can't get any burglary insurance at all on my real estate office. I was told it wasn't insurable because of a rash of burglaries in the building."

"I tried to get a package deal on my two businesses, two cars, a boat and house trailer. I've talked to three different agents but no one can write it. I've been able to get liability so far on one car."

Police crime analysis maps show that the two prowler car districts composing several blocks on either side of Warren's real estate office on E. Madison recorded a total of 39 business burglaries during June, July and August.

This compares to the smaller area of District 126, where 47 business burglaries were recorded during the same period. Again, the downtown districts show an even greater frequency.

Things are looking up for Lionel Haynes, owner of the East Madison Valet Cleaners, 2034 E. Madison.

"Many years ago," he chuckled, "I was in an auto accident. The claims adjuster came out and was he one surprised man. He said, 'You don't have insurance with us!'"

"It turned out that the man who sent in the application for insurance had neglected to say I was a Negro."

Haynes thinks it is a little easier now for a Negro to get auto insurance:

"The over-all picture is better now as far as I'm concerned, although I understand quite a few of our people do have trouble."

Most insurance companies and their reporting agencies deny that discrimination exists, but there is much convincing evidence that race and neighborhood still play a big part in the underwriting decision.

This newspaper has in its possession several insurance manuals loaded with racial overtones. Typical is this instruction for investigating prospective policyholders:

"The report should bring out the type of residences in the neighborhood—that is, whether middle-class, well-to-do, or poor."

"Due to the rapidly changing neighborhoods of today, people of a better class find themselves encroached upon by neighbors not considered in their social or financial class * * *"

The manual goes on to note the large influx of Puerto Ricans and Mexicans in some large cities:

"Their influx generally lowers the value of property located in close proximity to the neighborhood they are in. This also applies to Negro areas in our large cities."

The State Insurance Commissioner's office in Olympia has professed in the past to be unaware of such discrimination. Early last year, the commissioner's office denied that there was any problem for those wanting coverage on low-priced houses.

A report from that office to legislators said:

"We do not permit a company to underwrite on the basis of a KO (Keep Off) area, that is a designated location where they will not write fire business. Each risk must stand on its own merits."

At the same time the letter was written, the Safeco Insurance Co. of America had in circulation to several thousand agents an underwriting pointers manual, then in its 15th printing but since withdrawn following criticism by this newspaper as well as legislators. The manual advised that risks in certain sections of cities should not be bound.

"These sections," said the manual, "can be mapped and practically no dwelling risks in these areas, no matter how attractive, should be considered acceptable. Such areas will tend to have a high crime and vandalism frequency. In effect, what type of neighborhood is it? Would you live in it?"

The Washington Automobile Assigned Risk Plan, operated by the insurance industry, was designed supposedly to take care of those who could not obtain insurance on the open market.

However, the plan's manager, Calvin E. Koch, admits that the industry is trying to "depopulate the pool. We are trying to discourage agents from automatically turning to the plan. We believe that with a little effort, they can find a market."

The "market" for the substandard driver has not been a pretty prospect in the past. Some 73 high-risk companies have gone broke since 1960, often because of dishonest or incompetent management. They left hundreds of thousands of motorists without insurance and millions of dollars in unpaid claims.

The insurance industry, more concerned with skimming the cream off the market, simply turned its back on this debacle, leaving the substandard risk to go without insurance or put himself at the mercy of the high-risk operators.

The assigned risk pool in this state had about 22,000 drivers in 1964. It had about 14,000 in 1966.

Agents are discouraged from placing business in the pool by low commissions. They get only eight to 10 percent commissions for those assigned to the pool while 15 per cent or better is the going rate on the open market.

Of course, the dollar size of the commission would be much greater if a driver is placed with a high-risk insurance company, where his premium may go up to \$1,000 a year.

Since many drivers in this category can't afford to pay this much at one crack, or even a quarterly premium, this leads to premium financing.

This is a process whereby the insurance buyer borrows money, often at a high rate of interest, so he can pay his premiums in advance.

This permits the insurance companies to invest his premiums and make still more money. It also allows finance companies, agents or brokers and special premium-financing operations to pile their charges on top of premiums already boosted out of sight.

It is the Negro or other economically depressed consumer who must bear this heavy load.

Senator HARTKE. Thank you, Mr. Yim, for some very worthwhile testimony.

(Mr. Yim's prepared statement follows:)

STATEMENT OF ARTHUR YIM, MAYOR'S DEVELOPMENT TEAM, DETROIT, MICH.

Gentlemen, my name is Arthur Yim, an Assistant Corporation Counsel for the City of Detroit, assigned to the Mayor's Development Team.

I appear before you today, at your request, to present this statement about the cost and the availability of fire and casualty insurance in the City of Detroit.

Since the riot, numerous specific steps have been taken to meet the emergency needs of the riot victims including provision for food, shelter, clothing and the like. The City has moved effectively and swiftly to make the best use of existing

Federal programs. Within city government, our Mayor, the Honorable Jerome P. Cavanagh, has set up a Mayor's Development Team to coordinate municipal efforts in meeting emergency needs, and to work with others who are similarly concerned with rebuilding our city.

We have done a great deal, yet there remains so much more to do. The task of rebuilding and reshaping the city is a monumental undertaking and an awesome one. No single group can hope to mastermind and complete the job. Nor is the city able to do it alone. Recognizing this, our efforts have been directed at involving the entire community, the State and the Federal government in helping Detroit to "arise again from the ashes."

On August 15, 1967, Mayor Cavanagh appeared to testify before the President's National Advisory Commission on Civil Disorder. In everything that he had said that day, he emphasized the role of the Federal government in helping to create the "livable" city.

Among the 17 recommendations he placed before that body, one deals precisely with the problem before you today. He had recommended that steps be taken to provide insurance and re-insurance for those willing to invest in or live in "high-risk" areas. Pointing to the increasing difficulty in obtaining insurance coverage in depressed areas, he suggested that disaster insurance and re-insurance presently available for crops and for loss from natural disasters be extended to cover riot damage.

This problem of insurance available only at prohibitive rates or totally unavailable in some areas is not unique to Detroit; it has arisen in other cities throughout the country. Nor is the problem a new one in Detroit; it has been with us for many years.

To better appreciate the problem, let us begin with a brief description of Michigan and Detroit.

First, of Michigan's approximate eight million citizens, roughly 10 percent are Negroes. About 80 percent of all Negroes in the state live in the Detroit Metropolitan Area where roughly half of the state's population is centered.

Detroit's Negro population today—in the City itself—is estimated at over 600,000 out of 1.6 million people.

Detroit is a flat city, divided roughly in half by Woodward Avenue, and is primarily filled with single-family homes.

Many years ago, Detroit's Negro population was concentrated near the downtown business district on the lower East side. Over the years the all-Negro and predominantly Negro neighborhoods expanded to the north, the east and the west. At the present time, based upon a 4% sampling made in 1965, we find that a large segment of the city extending approximately two miles on both sides of Woodward Avenue and approximately six miles north from the Detroit River, has Negro occupancy ranging from 70% to 100%.

The riot began in an all-Negro area. Most of the buildings in the area were constructed in the early 1900's. Many were classified as non-conforming to present zoning, housing, and building code requirements. Many were substandard. The problems inherent in the neighborhoods were further compounded by the migration into the area of larger families than originally intended. The result—overcrowded substandard accommodations.

In 1965, after receiving numerous complaints that insurance companies were charging excessive rates and were dropping or refusing to renew policies in the older and changing neighborhoods, the Common Council of Detroit ordered an inquiry into these practices. Most of the complainants alleged that they were affected because they lived in Negro or integrated neighborhoods. The companies denied this and maintained that there was no differentiation between an older or a newer neighborhood. They argued, however, that standard rates weren't high enough to permit them to handle poor-risk areas. They denied that they will not write insurance in certain areas, but some of them specialized in writing insurance there at rates two or three times higher than others. Other companies, called "surplus lines" or "nonadmitted companies," like Lloyd's of London, not licensed in Michigan but which meet minimum standards, also handle this type of insurance.

In the complaints, it was alleged that the insurance companies had established "red-lines" to set off the desirable risk areas from the undesirable or high-risk areas. The companies denied this allegation then and deny it now.

There is some evidence to show that such a "red-line" does exist. Several people in the industry and in related work have admitted it to be a fact, but have declined to furnish us with written statements for the record. We admit, therefore, that the following description of the "line" is supported solely by oral admissions.

Approximately five years ago, the "red-line" was fixed at Grand Boulevard, a U-shaped thoroughfare that runs north from the Detroit River, about two miles east and west of Woodward Avenue and running east and west across town about three miles north of the River. Since then, that "red-line" has moved out from the heart of the city, following a pattern that corresponded closely with that of the integration of neighborhoods. Today the line still exists, but it meanders in various directions. However, it includes all of the high-density Negro areas and a little beyond.

Within the "undesirable" area, it was difficult to obtain insurance coverage at standard rates, if at all. In 1963, Mr. Sherwood Colburn, then the State Insurance Commissioner, charged that most fire insurance companies wouldn't consider writing policies there although they were permitted to charge up to five times normal rates. Even today, those carriers willing to write coverage charge at least three times the standard premium rates.

Since most companies refused to provide insurance in these areas, the people found it necessary to turn to the non-admitted carriers, who charged what the traffic would bear, sometimes as high as ten times the normal rates. The other alternative for the people was to forego the protection of having insurance. Many elected to do so.

As a result of the 1965 inquiry, the insurance companies and the Michigan Insurance Department evolved the Michigan Fire Insurance Inspection Plan. This Plan, which went into effect on January 1, 1966, was designed to provide fire insurance at normal rates for property owners in high-risk or uninsurable areas in Detroit.

It should be pointed out that this program was not created by State legislation, nor is it administered by the State. Instead, it is a voluntary program involving insurance companies writing more than 90 percent of the fire insurance in Detroit. It is administered by the Michigan Inspection Bureau, a rating agency that is maintained and paid by the insurance companies.

The plan provides for free inspection of any dwelling by the Inspection Bureau when an owner is refused coverage or offered coverage at a high rate.

Where the inspector finds that the residence meets requirements of minimum insurability, coverage must be provided for the owner at standard rates, regardless of the area.

If the dwelling does not meet minimum standards, the owner may be permitted to insure it temporarily at an increased rate while making improvements or repairing defects disclosed by the inspection.

Any owner who waives inspection or fails to pass can buy insurance from companies writing "high-risk" coverage, usually at three times the standard rate, if he can get it. If not, he must turn to the non-admitted companies and pay more than three times the normal rate.

Under the Plan, insurance companies are not permitted to issue "high-risk" policies unless the applicant has been refused insurance at regular rates by three separate companies.

During the calendar year of 1966, there were approximately 3,500 inspections made by the Inspection Bureau. About 1,100 applicants failed to pass, the other 2,400 were accepted for standard rate insurance following original inspection or reinspection.

It is interesting to note that during 1966, about 6,000 owners signed waivers and purchased "high-risk" insurance. Of those who waived inspection, about 2,000, or one-third, were owner-occupants while the remaining 4,000, or two-thirds, were absentee owners.

There has been some criticism of this plan. It has been said that because the plan is administered by the Inspection Bureau, a private agency subsidized by the insurance companies, it gives the companies the right to be both judge and jury. There is a possibility that a home which meets all standards may still be rejected for standard rates because of the poor condition of a neighboring building. At times, the cost of required improvements or repairs may far exceed any increase in value to the property after improvements, thereby encouraging or forcing property owners to pay for expensive "high-risk" coverage or to operate without any insurance.

There is also the possibility that some of these standard rate policies issued after inspection may contain many exclusions of which the policyholder is not aware. There may be large "deductibles" or the owner may be assuming a large portion of any loss through co-insurance arrangements.

So far, insurance companies have made no wholesale premium rate increases in Michigan or Detroit. We have all seen and read about how the cost of insurance

has gone up in other riot-torn areas of the country. At this time, we have no knowledge of any general increases for our area since the riots. We have learned, however, of a small number of individual cases where policyholders, under threat of cancellation, were required to pay higher rates.

Although the problem of rate increases is absent, there is yet another matter of grave concern to our property owners. In addition to the great disparity in rates between the desirable and undesirable areas, many policyholders are now faced with the prospect of cancellations.

We have learned that one company had cancelled 124 policies prior to August 1, 1967. Since that date, an additional 287 policies have been cancelled. Another 1,300 policyholders have been given the option, under threat of cancellation, of accepting a transfer of coverage to a non-admitted company. A further condition for non-cancellation is that the insured sign an endorsement excluding riot, civil commotion, and strike coverage. All of these policies were written for Detroit owners and include residential and commercial properties. We were advised that a majority of the latter 1,300 policyholders have accepted the transfer, at least temporarily, rather than be totally without coverage.

Another company, which had written about 700 policies in the entire State of Michigan, has cancelled most of these policies and plans to withdraw from doing business in Michigan.

Through another source, it was learned that at least another 100 policies on property in or near the riot areas have been cancelled since the riot. We were informed that these cancellations were all riot-connected.

These cancellations are not necessarily the actions of smaller companies attempting to minimize their future risk exposure. Included among the companies are several familiar names of large companies doing business across the nation, smaller companies with unfamiliar names, and the names of foreign as well as United States corporations.

Let us now try to relate these conditions to the present situation in Detroit.

A survey by the Detroit Fire Marshal indicated that 770 buildings were demolished or damaged by fire. Dun and Bradstreet has estimated that 1,200 businesses in Detroit suffered some damage during the civil disturbance. A representative of the American Insurance Association estimated that riot-connected insurance claims could total 4,000 or 5,000 in number.

The State Insurance Commissioner has estimated insured losses from fire, looting, business interruption and other causes to be \$84 million. A figure of \$60 million was set as the estimated uninsured loss. The total estimated loss in Detroit—\$144 million.

Among the insured losses are 25 large claims—those involving \$100,000 or more—totaling \$10 million. The balance is comprised of reported damages ranging between \$10,000 and \$50,000 with only a few reporting a figure higher than \$50,000.

The Dun and Bradstreet survey showed that the impact of the disturbances fell principally on the small businessman. More than 60% of the businesses damaged were in the net worth range of \$5,000 to \$35,000. Of the businesses damaged, 68% were retailers, 19% were service dealers and the remaining 13% were specialty businesses. In order of frequency, the principal types of retailers incurring damage in Detroit were liquor stores and stores which carried liquor, food stores, apparel shops and furniture stores.

The survey also indicated that in Detroit, 86% of the people interviewed reported that they carried some form of insurance. It is not possible at this time to ascertain if the owners had enough insurance to cover all of their losses. An independent survey, consisting of interviews with 100 businessmen selected at random, disclosed the following:

| | Percent |
|------------------------------------------|---------|
| Fully covered losses..... | 10 |
| Partial coverage (over 50 percent)..... | 23 |
| Partial coverage (under 50 percent)..... | 27 |
| No coverage..... | 40 |
| Total..... | 100 |

We make no claims that these percentages derived from a small sample would actually represent the total picture. These figures are cited merely to point out the next problem.

Obviously, the matter of insurance is a significant factor in re-establishing normal business activities in the area. For those merchants without insurance, the prospects of reopening are dim. Many have indicated that they will not return. Others are seeking State or Federal loans to help them get back into business.

Those who do return and want to rebuild will encounter many difficulties. It can be assumed that insurance recoveries, if adequate, can best be used for acquiring new stock and for start-up costs but *will not* be adequate to rebuild.

Most of the affected businesses are located on commercial streets that even before the rioting were "going downhill fast." Building loans and insurance were difficult to obtain then, and now, in the light of recent events, may be more difficult, or even impossible to obtain. Many of the merchants have limited funds and bank loans are likely to be hard to come by for them.

Getting insurance on new buildings will also be a big hurdle, no matter how much financing is available. Without insurance, the local lenders won't get into these areas. Neither will the Federal Housing Administration, which requires fire insurance on home loans.

Other cities have had the same problems. Deputy Attorney General Warren M. Christopher, who was involved in the rebuilding of Watts, said that the lack of insurance was the toughest problem faced in the rebuilding of that city. Damages there were estimated at \$43 million; Detroit's damages are estimated to be \$144 million.

The insurance industry, in an unprecedented move, has called upon the Federal Government for help to pay some of the costs for damages from future riots. Without government aid, it was indicated, companies may be forced to end or cut back riot coverage. The industry appears to be in favor of a plan to share the risks through re-insurance contracts.

It is my hope that everything I have said will clearly emphasize the need for government participation in the field of insurance for high risk and riot areas. There is a definite need for some program to provide adequate fire and riot coverage at reasonable rates for businessmen and homeowners in riot-torn and riot-prone areas. We endorse and will support those measures which will accomplish this.

We urge the Congress to introduce appropriate legislation immediately to undertake such a program. The prospect of this kind of legislation will lend urgency and impetus to the insurance industry's studying the problem itself, and doing it now.

The Federal Government should conduct its own study of these problems. There should be an examination of the availability of insurance protection for uninsurable areas. Particular attention should be given to the impact on the economy in these areas arising from the continued denial of coverage. We have been condemning these areas to decay. It is unfair, it is unwise, it is uneconomic.

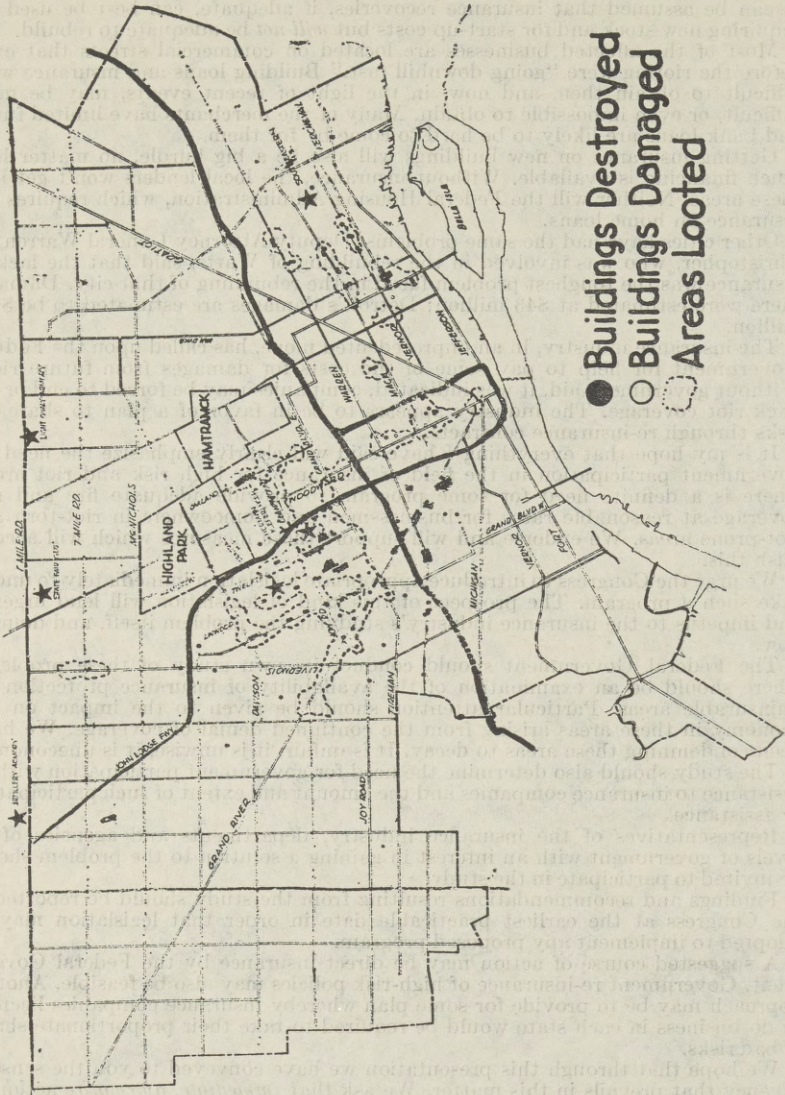
The study should also determine the need for government participation with or assistance to insurance companies and the amount and extent of such participation or assistance.

Representatives of the insurance industry, departments and agencies of all levels of government with an interest in gaining a solution to the problem should be invited to participate in the study.

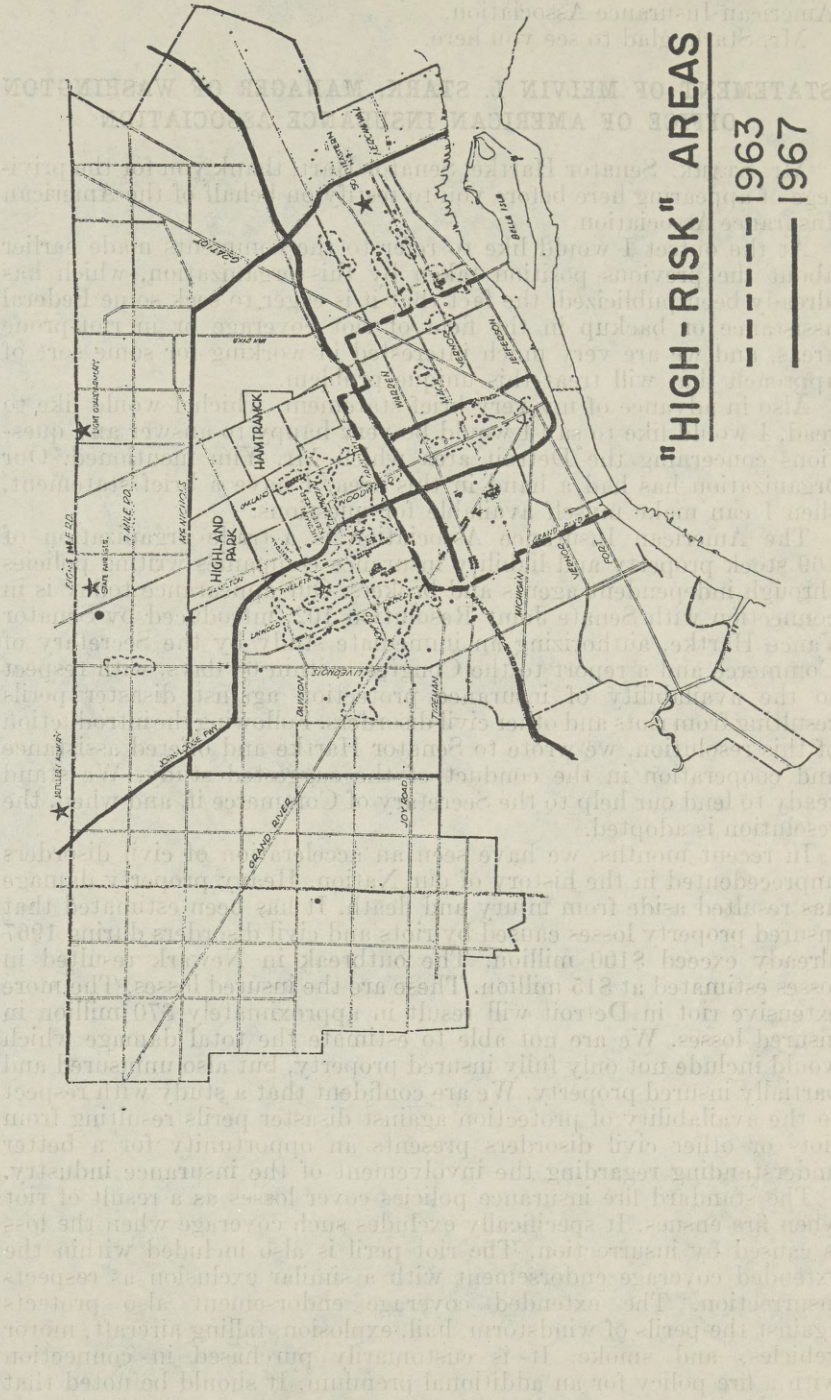
Findings and recommendations resulting from the study should be reported to the Congress at the earliest practicable date in order that legislation may be adopted to implement any proposed program.

A suggested course of action may be direct insurance by the Federal Government. Government re-insurance of high-risk policies may also be feasible. Another approach may be to provide for some plan whereby insurance companies licensed to do business in each state would be required to take their proportionate shares of bad risks.

We hope that through this presentation we have conveyed to you the sense of urgency that prevails in this matter. We ask that *immediate, affirmative* action be initiated.



● Buildings Destroyed
○ Buildings Damaged
○ Areas Looted



"HIGH-RISK" AREAS

----- 1963
———— 1967

Senator HARTKE. The next witness is Melvin L. Stark, manager, American Insurance Association.

Mr. Stark, glad to see you here.

**STATEMENT OF MELVIN L. STARK, MANAGER OF WASHINGTON
OFFICE OF AMERICAN INSURANCE ASSOCIATION**

Mr. STARK. Senator Hartke, Senator Hart, thank you for the privilege of appearing here before you to testify on behalf of the American Insurance Association.

At the outset I would like to refer to the comments made earlier about the previous position taken by this organization, which has already been publicized, the fact that it is eager to seek some Federal assistance or backup in the field of riot coverage or in riot-prone areas, and we are very much interested in working for some sort of approach that will treat this unique problem.

Also in advance of my very brief statement, which I would like to read, I would like to say I would be very happy to answer any questions concerning the Detroit area which Mr. Yim mentioned. Our organization has had a hand in this area. I have a brief statement, then I can make myself available for questions.

The American Insurance Association is a trade organization of 169 stock property and liability insurance companies writing policies through independent agents and brokers. Our appearance today is in connection with Senate Joint Resolution 102, introduced by Senator Vance Hartke, authorizing an immediate study by the Secretary of Commerce and a report to the Congress within 60 days, with respect to the availability of insurance protection against disaster perils resulting from riots and other civil disorders. Following the introduction of this resolution, we wrote to Senator Hartke and offered assistance and cooperation in the conduct of the suggested study. We stand ready to lend our help to the Secretary of Commerce if, and when, the resolution is adopted.

In recent months, we have seen an acceleration of civil disorders unprecedented in the history of our Nation. Heavy property damage has resulted aside from injury and death. It has been estimated that insured property losses caused by riots and civil disorders during 1967 already exceed \$100 million. The outbreak in Newark resulted in losses estimated at \$15 million. These are the insured losses. The more extensive riot in Detroit will result in approximately \$70 million in insured losses. We are not able to estimate the total damage which would include not only fully insured property, but also uninsured and partially insured property. We are confident that a study with respect to the availability of protection against disaster perils resulting from riots or other civil disorders presents an opportunity for a better understanding regarding the involvement of the insurance industry.

The standard fire insurance policies cover losses as a result of riot when fire ensues. It specifically excludes such coverage when the loss is caused by insurrection. The riot peril is also included within the extended coverage endorsement with a similar exclusion as respects insurrection. The extended coverage endorsement also protects against the perils of windstorm, hail, explosion, falling aircraft, motor vehicles, and smoke. It is customarily purchased in connection with a fire policy for an additional premium. It should be noted that

the same provisions of the fire and extended coverage contracts are incorporated in the various multiperil policies which today are purchased widely by homeowners and business establishments.

When riot coverage was introduced in the fire insurance policy and in the extended coverage endorsement, it was contemplated that riots would be infrequent, isolated occurrences and that their dimensions would be relatively modest. Widespread social upheavals, manifested in mass rioting on an unprecedented scale was not foreseen, contemplated, or taken into account by policy drafters. No charge is made in the rate structure for such catastrophe. If premium rates were to be adjusted to reflect a full measure of this new riot peril, the cost would be unbearably high and beyond the economic ability of many who are in the greatest need of riot insurance.

This new exposure to loss resulting from massive civil disorder will inevitably affect the market for property insurance in urban areas where recent experiences indicate these incidents are likely to occur. Realizing they face potentially catastrophic losses, underwriters may be reluctant to assume business which, in the absence of the riot exposure, would be considered acceptable risks. The insurance industry has developed and put into operation in a number of major cities the urban areas inspection plan which is designed to expand the market for fire and extended coverage risks in these areas. From all reports these plans have worked well and we expect that they will continue to work effectively in the future. However, something must be done to cushion the impact of this new catastrophe riot exposure and to permit insurers to freely provide the necessary insurance markets.

The pattern of these social upheavals in our urban areas has reached epidemic proportions. The American Insurance Association believes that, in this fundamental social problem, Government has a heavy responsibility. No other sector of the economy, such as insurance companies, can bear the economic costs of these occurrences. Through Government participation, the cost can be effectively shared by all segments of society.

There is nothing new in the concept of the private insurance industry cooperating with the Federal Government to provide insurance against risks of a nature too widespread for insurance companies to handle, or those that involve a too narrow segment of the public to allow the risk to be spread among many insurers. One example is the flood insurance program now before the Congress. Another is the foreign credit insurance program where the Export-Import Bank and insurance companies insure against commercial and political credit risks overseas. Still another is the War Damage Corporation, which during World War II had the cooperation of insurance companies and the Federal Government to insure property owners against war damages.

We offer the complete cooperation of the American Insurance Association and its member companies in any study which the Congress may authorize the Secretary of Commerce to undertake, or to any other responsible Federal study group. This is a matter of utmost urgency and a solution must be developed and put into operation promptly.

Thank you.

Senator HARTKE. Thank you, Mr. Stark.

Senator HART. You heard the testimony of Mr. Yim. Do you agree or disagree with the points that he made to the committee?

Mr. STARK. Specifically what points are you referring to, the operation of the plan?

Senator HART. Specifically to the existence of the red line.

Mr. STARK. I think the red line did exist at one time, yes, and I think it was used by a small minority of insurance companies. I don't think this was done by the majority of the industry or elsewhere.

Senator HART. To what extent are companies now planning premiums, higher premiums or cancellations in the areas of the recent riots?

Mr. STARK. In Detroit specifically, Senator?

Senator HART. I don't mean to be parochial. I must admit, however, Detroit was the first city I had in mind.

Mr. STARK. Irrespective of admonitions in the bulletins and telegrams sent out to some of the companies, I think, that a very salutary position has been taken by a great majority of the companies. I think there is a considerable amount of restraint being used, although I would not say there has not been some cancellation. I think some companies have canceled. I am not familiar with particular statistics. But with respect to the rate increase, I am not aware of any application with the Commission to indicate that there is a need for a rate increase. However, there will be inevitably, I suspect, as soon as there are more definite statistics, more data available on Detroit. There will be some filings presented for such action as they think advisable.

Senator HART. I think that is a very fair and frank answer. There have been some cancellations, you are sure.

I notice a story in the August 21 Wall Street Journal that gets us away from Detroit. It reports that insurance was abruptly canceled on the Philadelphia Housing Authority's property valued at \$110 million. An insurance broker for the authority said that the cancellation, which will be effective September 2, stemmed from recent rioting in Newark, N.J., and Detroit. Efforts were made to obtain reinsurance coverage in the London insurance market and the London companies weren't anxious to sign up.

I suggest that be made a part of the record, Mr. Chairman.

Senator HARTKE. Without objection, it will be made a part of the record.

(The article mentioned follows:)

[From the Wall Street Journal, Aug. 21, 1967]

**RIOTS BLAMED IN ABRUPT PHILADELPHIA HOUSING INSURANCE CANCELLATION;
BROKER SAYS NEWARK, DETROIT DISTURBANCES MADE INSURERS FEARFUL
IN LONDON MARKET**

PHILADELPHIA.—Insurance was abruptly canceled on the Philadelphia Housing Authority's property valued at \$110 million. An insurance broker for the authority said that the cancellation, which will be effective Sept. 2, stemmed from recent rioting in Newark, N.J., and Detroit.

The insurer, Philadelphia-based Mutual Fire, Marine & Inland Insurance Co., said it was cancelling the coverage because of refusal of other insurance firms to share in the total risk. The housing authority only last month renewed its three-year policy with Mutual Fire for a premium of \$160,000. The policy includes riot and insurrection coverage.

Mutual Fire wouldn't comment further on its cancellation. However, William B. Churchman, vice president of the Philadelphia insurance broker firm of Parker & Co., and broker for the authority, said that Mutual Fire was unable to obtain reinsurance coverage in the London insurance market. "Unfortunately, (Mutual Fire) was looking for reinsurance at the time of the Newark and Detroit riots," Mr. Churchman said. "The London companies weren't anxious to sign up."

The authority will accept new bids for coverage tomorrow, Mr. Churchman said he was "hopeful" that various domestic companies would respond with the needed insurance.

Philadelphia Housing Authority currently has a \$70 million, five-year program under way to provide 3,300 rehabilitated houses and 1,700 new housing units.

Senator HART. What information do you have with respect to this Wall Street Journal article?

Mr. STARK. The latest information I have was this action was precipitated by the reinsurance market. But immediately after this occurred, the fronting company, a very small company in Pennsylvania that was not in a position to carry very much on a primary basis at all—I am aware of how that business was placed with that company, but that is beside the point. The fact is at the present time, as of a week ago, I am not familiar with what happened since, another bid has been let by the Philadelphia Housing Authority. A group of companies have already arranged to pick up, I think, approximately 75 percent of the coverage that did exist, and I would suspect, recognizing the volatility of a situation like this, that this will be placed, if it hasn't been already this week.

Senator HART. Good. That is a good honest answer.

It isn't fair to say that absent the volatility of the situation that arrangements would have been made to find insurance, but the odds are fairly good that in this situation, as in most everything that humans are involved in, when the committee adjourns its hearings and when the heat is off, and when we are preoccupied with other things, then there will be a greater probability of red lines and the red lines will move out further and further in these cities across the country and everybody will have a good reason why that has to be.

So I welcome your statement that the American Insurance Association does welcome Federal assistance or backup in order that we do have insurance available.

Do you have any feeling or position with respect to the subject that Senator Hartke and I reviewed with the Assistant Secretary of Commerce earlier today? Do you favor the Presidential study approach or the bills pending before this committee?

Mr. STARK. I guess I would have to show you how good a statesman I can be by telling you we don't favor either one. We have no particular preference. Our statement, our position lies in the fact that we will cooperate with any study from any responsible source and we think each of these studies can bring a lot of meaning and information to a problem that is as difficult as this one.

But I think it would be very impolitic of me to express a preference.

Senator HART. But you can agree with us, can't you, that the resolution of this problem is of the greatest importance, and the prompt resolution of it?

Mr. STARK. There is no question about that, Senator. In fact, I would like to develop that a little more with your permission. I am not so sure that we are even prepared, at least in our organization, just to stand still for a study. I don't think we are necessarily anxious to await the turning of the crank to find out in due course what will come out by virtue of a study, because essentially what we have done is analyze the situation and decide that although we can take one Detroit, one Newark, and maybe a couple more, the cumulative effect of a series of incidents of this type, which is within the

realm of possibility, are not matters of the type that the insurance industry ought to be concerned with, ought to have any reason to pay money out for.

We think this is a public responsibility. And viewing the fact that the potential for cumulative massive civil disorders still exists this year, and that the long-range problems of social unrest and the problems of urban centers are going to take more than just a few years to cure, we see ourselves in a position of more or less picking up the marbles here for a long time to come, and not getting any premiums for it, not really intending to write protection for a contingency of this type, and a catastrophe of this nature.

I think we are maybe even ahead of you, Senator, in thinking in terms of urgency by hoping that any study, whether it be from this point or whether it be the study initiated through the President's National Commission, come to grips with a legislative program as quickly as possible, to develop some sort of a mechanism which would be acceptable to both the Government business and the public interest.

Senator HART. Now it might be helpful if the committee had the background that is found in a booklet entitled "Inspectors Handy Guide." It is issued by the Retail Credit Co. of Atlanta, Ga.

You wouldn't have any idea whether any of your companies are subscribers to the service of the Retail Credit Co. of Atlanta?

Mr. STARK. I know they do in automobile. They might in property insurance, it is possible, for inspection services, investigations.

Senator HART. I take it that the insurance companies engage the services of the retail credit company people to go out and inspect property in connection with an application for insurance.

Mr. STARK. My recollection is that inspection of properties as such is not done by retail credit. I think they merely investigate in the automobile underwriting field and perhaps miscellaneous investigations. If they do this, I don't think they do this for a large segment of the property insurance business.

Senator HART. Well, to the extent it is done, I find in here a section headed "Fire" and the directions, I guess you would call it, to the investigator, include such as these:

Apartment House.

If an apartment house risk (of more than 4 units) where building is being insured, consider as a business risk being operated for profit and make Mercantile Fire Report. Cover the following:

Type of tenants—racial descent, financial calibre and general reputation.

If a duplex, triplex or four-unit dwelling and building is being insured, type of tenants, racial descent, financial calibre and general reputation.

If you are out checking on a church, it says:

Church. Make separate paragraph on each of the following:

Type Church—usage: Cover the type of church; that is, whether Baptist, Episcopalian, Methodist, etc., and whether the congregation is composed of Negro or white people, or general racial make-up of congregation.

Elsewhere in this section under "Fire" it says:

Included in the investigator's report should be comment on the neighborhood type, predominant race, suitability.

Also I find in the instructions given when it is in connection with a special service bailees report, they are to give the business history, full name, title, and racial descent of each person interested in the business.

Now I guess that comes under what I described earlier as part of the system.

I would ask that the appropriate excerpts be made a part of the record, Mr. Chairman.

Senator HARTKE. They will be made a part of the record without objection.

(The excerpts referred to follow:)

HANDY GUIDE FOR INSPECTORS

Retail Credit Co.; Home Office, Atlanta, Ga.

(Minor Revision, 1965)

FIRE

Apartment House

Following situations are given with preferable handling indicated:

If household furniture (HHF) is the coverage, and furniture is used by insured, make Dwelling Report.

If an apartment house risk (of more than 4 units) where building is being insured, consider as a business risk being operated for profit and make Mercantile Fire Report. Cover the following:

1. Present management of apartment house.
2. Type of tenants—racial descent, financial calibre and general reputation.
3. Number of apartment units and average amount for which apartments rent.
4. Do apartments stay rented?
5. Cover number of vacancies, if any.

If a duplex, triplex of four unit dwelling and building is being insured,

A. Where insured occupies one unit, make Fire Dwelling Report on principal occupant—manager of apartment (not janitor), oldest tenant, or occupant presenting greatest possible fire hazard. Cover the owner in remarks. Also cover the following:

1. Type of tenants—racial descent, financial calibre and general reputation.
2. Number of apartment units and average amount for which apartments rent.
3. Do apartments stay rented?
4. Cover number of vacancies, if any.

* * * * *

Church

Write memorandum report on Form 106. Make separate paragraph on each of the following:

Type Church.—Usage: Cover the type of church; that is, whether Baptist, Episcopalian, Methodist, etc., and whether the congregation is composed of Negro or white people, or general racial make-up of congregation. Is church used weekly and attended regularly or only occasionally? Is church used for purposes other than for religious meetings? If so, explain, covering purposes and how often.

Premises.—Give detailed description of church and buildings—number of stories, construction, number of buildings, how grouped, approximate age, general upkeep, appearance, and housekeeping. Type of flooring—wood, tile, cement, etc. Is there a paid custodian—full- or part-time?

How is building heated—type unit and fuel used? If kitchen facilities—how often used, where located in church, type cooking units, etc. Is the church equipped with lightning rods?

Neighborhood.—Location of church. Is property in city limits? How far from nearest fire plug? How far from nearest fire station that will respond?

Losses.—If any past losses, give full details.

Diagram.—Draw rough diagram identifying church and adjoining exposures. Indicate on diagram distance between buildings and the construction and usage of such surrounding exposures.

(NOTE.—If inquiry has block checked for Amplified Report, change marking t o indicate a Basic Rate service rendered.)

* * * * *

Multiple Occupancy (Mercantile or Combined Mercantile and Dwelling):

A. If household furniture (HHF) is the coverage, make Dwelling Report. Otherwise,

B. Make Mercantile Report. Show names, lines of business and relative location of mercantile occupants.

1. Report on insured, if feasible. If not,

2. Report on Principal Occupant (occupant in whom there is the greatest or most likely fire hazard.)

C. If neither 1 or 2 seems practical, write Memorandum Report, Form 106. Write paragraphs headed as follows and cover—

a. Diagram: Show insured building. Show adjacent buildings, their uses, construction, number of stories, and distance to insured building.

b. Insured building: Construction, repair, upkeep, age.

c. Occupancy: Use of building, class of tenants. List, as far as practical, the names, lines of business, and relative location of mercantile occupants.

d. Hazards-losses: Any hazards noted? Any losses? If so, cover.

e. Protection: How many feet from nearest fireplug? How far from nearest fire department that will respond? Any extra fire protection?

f. Neighborhood: Type; predominant races; suitability.

g. Insured: Business and financial information on the insured, as far as possible.

* * * * *

Inland Marine—Bailee's Customers Floater

(Laundries, dyers, cleaners, and fur storers—policy covers losses from fires, thefts, or damage while goods in their care—from time they leave the permanent home of the customer and until returned—on delivery vehicles and at any location.) * * *

Special Service Bailees Reports.—We also have a Special Service hourly-rate arrangement for customers who check square on the inquiry indicating special service report is desired. Charge is straight hourly rate.

Instructions for making special service bailees report.—White report on Form 461. Label report "Special Service." Include separate paragraphs as follows:

1. Informants.

2. Business History—Antecedents: Full name, title, net bus. & pers. worth, age, and racial descent of each person interested in the business. Trade name, date business started; whether incorporated. How long at this location, other locations. Cover reputation and standing. Does applicant belong to an association? Cover class of clientele—high-class, well-to-do element, medium or low class. If any work is subcontracted give full name of subcontractor.

3. Man Power: Are they having acute labor shortage? Are they reasonably well up with work? If not, what steps are they taking to get work on current basis? Have present conditions affected deliveries? If so, explain. Give delivery schedule.

4. Finances. Net worth of business, gross annual receipts. Show division of gross receipts between laundry and dry cleaning. Maximum and average number of garments on hand at any one time (dry cleaning). Are customer receipt records kept? Estimate maximum book value of all customers' goods on hand at any one time. Does concern charge high, medium or low prices? Any competitive price wars? Cover any suits, judgments, foreclosures, bankruptcies. Reputation for financial stability.

5. Fire Hazards: What are physical condition and housekeeping of premises (plant and office). Cover from personal observation. Do they have large quantities of customers' goods stacked up in plant? Approximately how long do customers' goods stay on premises? Is clothing checked for metal, matches, etc.? Are approved safety solvents and cleaning fluids used? Name type of solvent used. Has city or town been subject to racketeering activities? Is risk desirable from fire insurance standpoints? Distance to fire plug and fire department.

6. Burglary Hazards: Cover burglary protective devices used on premises—iron bars and screens on windows, doors and openings, patrol service, burglary alarm systems. Any windows accessible to burglars from setbacks, fire escapes, ground floor exposures, etc.? Consider particularly openings accessible from the ground or any part of the premises hidden from street and side. Are delivery vehicles used? If so, are they of closed body construction? Are they kept locked when unattended? How many men attend each truck?

7. Flood Hazard: Is business located in a district subject to flood hazard? If so, explain.

8. Past Losses: Have they had any fires, thefts, burglaries or been held up? If so, give details.

* * * * *

Senator HART. Do you have any reaction to that type of instruction given in connection with the survey?

Mr. STARK. Unquestionably constant reference to racial aspects is not in keeping with what I believe to be the general approach that I believe all of the companies use; to wit, individual risk consideration in either property or liability insurance. I am surprised—do you have a date on that thing? We can't speak for Retail Credit, of course, but—

Senator HART. 1965.

Mr. STARK. I thought we were further advanced by 1965.

Senator HART. Well, that is a message that gets through slowly, as some people in the riot-torn areas have made pretty plain to us.

Mr. STARK. I don't think this is representative or descriptive of any literature or instructions we will find in the hands of responsible insurance companies.

Senator HART. Thank you. Thank you, Mr. Chairman.

Senator HARTKE. In your statement you refer to insurrection. Do you know whether the insurrection clause has been invoked by an insurance company?

Mr. STARK. I am not aware of one instance.

Senator HARTKE. Do you think this information is reliable? In other words, is it your opinion that no attempt has been made to avoid coverage because of insurrection, or is it just a fact that you do not know about it?

Mr. STARK. I think I can speak with authority for the companies of our organization that my best information is that not one of them has attempted to invoke the insurrection exclusion.

Senator HARTKE. All right. Do you believe a detailed study, such as is envisioned by the resolution which I introduced or by the proposal of Senator Hart, could be completed within the 60-day period provided in the resolutions or the amendment?

Mr. STARK. I think it would be tough and it would take a real crash program, because I think there is an awful lot of detail that has to be assembled that is not now really in the lands of Federal agencies, and which would have to come from industry.

Senator HARTKE. We will have the help of the industry if we have a study. But is the nature of the problem of sufficient urgency that it should be done within 60 days if it could be?

Mr. STARK. Yes.

Senator HARTKE. In other words, this isn't something which you can treat with just the casual approach of saying we should have a 2- or 3-year study?

Mr. STARK. No. I think although reference was made to the fact that many times studies are a device for "sweeping things under the rug," I don't think anybody is taking that attitude with respect to this study.

Senator HARTKE. I think your approach here is commendable. The insurance companies are not ready to wait too long for what we have to suggest. You are ready to make a suggestion of your own, if we don't come up with one. Is that right?

Mr. STARK. Yes. As a matter of fact, our organization is not too far from developing a specific approach to this which would in general be geared to the flood insurance approach, reinsurance.

Senator HARTKE. Yes; that is my understanding.

Do you think the high cost of insurance in these so-called disturbed areas appreciably affects the cost of goods for the consumers in those areas?

Mr. STARK. No; I do not.

Senator HARTKE. You do not think it has a material effect on them?

Mr. STARK. No, sir; I do not.

Senator HARTKE. Do you know of any types of businesses in these disturbed areas which have special problems in obtaining insurance?

Mr. STARK. Yes.

Senator HARTKE. What are they?

Mr. STARK. I would say probably the most important one, the one that stands out, is the liquor store, retail liquor stores.

Senator HARTKE. How about television and appliance shops?

Mr. STARK. That would be one of the major targets.

Senator HARTKE. What about supermarkets?

Mr. STARK. Yes, but as a category, I think liquor stores stand above all. Certainly in the rate structure, and the availability of insurance they are having I think more trouble than other businesses.

Senator HARTKE. Is there any appreciable difference in the cost of insurance in the major cities throughout the United States in this type of area? Do you have any information on that? In other words, is it different in the East, Middle West, Far West, South?

Mr. STARK. No; I don't think there would be any appreciable difference. I think recognizing the manner in which property insurance is rated, the structure and the method by which a price is fixed, keeping in mind the fact that the general nature of the area, the type of structure, the protection available are really the key elements that go into making up the price for the product and you will find this pretty much duplicated in any urban area.

Senator HARTKE. In relation to an urban area itself, can you give us the range of the cost of insurance in the various sections? For example, are rates higher in the core city compared to those in other parts of the city?

Mr. STARK. Original rate?

Senator HARTKE. They are not the same rates.

Mr. STARK. There is no territorial or geographical differentiation generally in the field of property insurance as you have in the field of automobile insurance. In many States, as a matter of fact, the fire insurance and the extended coverage rate would be the same for the city as it would be for the rest of the State.

In other words, the State carries one particular rate dependent on the class of property and the construction and the protection afforded for fire.

Now for extended coverage, Senator, there can be differences dependent on exposure to natural hazards. For instance, in New Orleans, in Miami, Key West, extended coverage insurance is much more costly than it would be in Detroit or Cleveland or Baltimore because of the fact of windstorm or hurricane hazard.

Senator HARTKE. Yes; I understand that. What I am talking about is what Mr. Yim referred to in his testimony—the so-called high-risk coverage.

Is there such a thing?

Mr. STARK. Oh, yes.

Senator HARTKE. All right.

Mr. STARK. Getting away from the standard rate structure there, are of course high-risk coverages. By that we mean simply this: A particular risk, let's assume it is a structure that is in Detroit—and this example was brought to my attention as a matter of fact last week, Senator Hart. I was given this question: What would be the figure quoted for extended coverage protection for a \$1 million masonry structure? In other words, perhaps an office building or warehouse of good construction, good protection. How much were they paying for extended coverage per annum. I was surprised to find—

Senator HARTKE. How much would it be for extended coverage?

Mr. STARK. Yes, per year, and it is approximately \$200 a year for a building of that construction.

Now when we talk about extended coverage protection, and fire protection, we are talking about relatively small amounts of money for protection as compared for instance to the price a man pays for an automobile insurance policy, which is a big debt. We are talking about five or six pennies per hundred dollars' worth of protection for extended coverage.

Getting to the high-risk situation, back to your question, a high-risk situation is one where by virtue of the ownership of the property, the condition of the property, its location, not because of race or anything of that sort, but its location generally, perhaps as an island in the middle of an urban renewal district, makes it an ultrahazardous situation. When that sort of thing occurs, insurance very often can't be gotten at the standard rate and there is a flourishing high-risk market in property insurance, though not as large as it is in automobile insurance in most States. There are many available for multifamily dwellings and for commercial properties. They will quote a rate, the rate has been approved by the State regulatory authority for a building of that character, and it may be two or three times the ordinary rate, 200 or 300 percent above the normal rates, but it will reflect what they believe to be the exposure and the premium they must get for that exposure.

Senator HARTKE. Is it possible to generalize as to how much more it might cost, for example, in the core city, or the central district as it is usually referred to? Is it possible to generalize about the difference in the total rate that would be paid there—considering the combination of the standard rate and the high-risk rate, both of which I understand are legal—as compared to other areas of the city?

Mr. STARK. I don't think so; I couldn't do that, no. I couldn't estimate that.

Senator HART. Just on the item that Mr. Stark mentioned, the availability of the high-risk insurance, isn't it true in recent years that the rate of failure among high-risk companies has been a matter of real concern?

Mr. STARK. Automobile underwriters, yes.

Senator HART. How about fire?

Mr. STARK. If there have been, I think they have been very few. I think there were a couple in Pennsylvania. I am not sure. There were one or two in Illinois, yes, in the last 5 years. But they constitute a minor portion of the industry.

Senator HART. In any event, you remind me of a concern that some of us have had about how do we protect the driver, and I suspect if you were insured by one of the relatively few high-risk fire companies that failed, you would have the same feeling.

How do we protect that fellow? I have proposed a bill that would create the equivalent of a FDIC for high-risk coverage. Do you have any feeling about that?

Mr. STARK. Do you want me to expand on that?

Senator HART. Briefly, yes.

Mr. STARK. We have not taken a position to oppose that.

Senator HART. What?

Mr. STARK. We have not opposed that. We have not spoken in favor of it either, but we haven't opposed it.

Senator HART. If you will just hold your troops neutral, that is good.

Mr. STARK. In the field of fire insurance I might add this, as to the possibility of insolvency, there is a little better chance there for policyholder protection I guess. In an eventuality of that kind, there is a lot of reinsurance, probably more so than in the automobile field, with the books and business being transferred to the reinsurers, so there are funds available from some source that would be able to pay off.

Senator HART. Thank you, sir. Thank you, Mr. Chairman.

Senator HARTKE. Mr. Stark, in Detroit and Newark have the insurance companies fully compensated the insured shopkeepers for their losses as of this time?

Mr. STARK. I don't think they have all been compensated, because I imagine many of the losses are still in the process of adjustment and appraisal, trying to get estimates of loss and damage to personal property, stock, buildings. But they are in the process of being adjusted, yes, sir.

Senator HARTKE. What about the small businesses? Do you have any idea what percentage of the small businessmen have claims which have not yet been adjusted?

Mr. STARK. I have no way of knowing that. Of course the fact is that the great majority of businesses that were affected were in the category of small business, certainly. But I would not know that figure.

Senator HARTKE. Do you have any information as to whether or not it will be possible for these small businesses to obtain new insurance in these areas?

Mr. STARK. Oh, I think so. I think, if I might take a moment, I would like to develop for your thought some comments on this particular picture.

In making our own position made known here with respect to our resolution, we of course have directed ourselves to the thrust of your measure, which speaks in terms of disaster perils, and in terms of our own preference we like to separate this problem from the other problems of availability.

In other words, speaking before the Detroit riot and the Newark riot, and speaking after the Newark and Detroit riot.

Let's look at it in that frame of reference. Our contention has been that except for spotty situations which did exist, like Watts, Bedford-Stuyvesant, Harlem, some situations in other cities, we did not think there was a serious market availability problem for businesses and residences in the urban centers up to the point of the riots.

Now there is another bill pending here in the Senate which Senator Smathers introduced that goes into this feature with respect to burglary and theft and the supposed inability of the small businessmen to get this kind of coverage.

Our position on that bill was negative. We did not feel that kind of proposal was called for. I believe we still feel the same way, aside from the new riot potential, the catastrophic aspect. So though I know that your thinking and that of Senator Hart has more or less followed the total question of availability of insurance in the urban centers, without necessarily a distinction between the riot aspect and other aspects, I would like to draw attention to the fact that we don't believe really that a case has been proved with respect to a lack of availability in the urban centers of other kinds of coverage and I believe business is able to get these coverages.

I would like to point out in many instances because of the marginal and submarginal nature of these businesses, even before anything happens, the people who own them, whether it is a ma and pa or somebody else, they are unable for even \$35 a year to buy protection, they just can't afford it. They live on a hand-to-mouth basis, and when an insurance salesman walks in the door they resist buying insurance. In other cases you do have sales of insurance but only what they can afford. They may decide for instance they can only buy \$1,500 worth of fire insurance, or \$1,000 worth of holdup protection, but in fact if they have a loss in either of these categories it might well turn out to be it would clean the place out, theft of \$2,500 worth of merchandise or perhaps a \$2,500 fire, and they are underinsured and they are just as badly hurt as if they have no insurance at all. They have to close up, they have no assets.

So these are possibilities that exist in the urban areas that have nothing at all to do with whether insurance companies will even sell there.

The point is they won't buy. Those situations exist today too. They can't afford to buy.

I have had conversations with the Small Business Administration on responsibility. What responsibility do they have? Is it their responsibility to make sure that the submarginal and marginal operators are in a position to always be able to take insurance, or must the insurance industry be the ones to buttress them up and put them back where they were before, even though they might have been in pretty bad shape. Recognizing the human aspect of it, perhaps they had no place in the area altogether, perhaps there were too many cleaning stores, or too many little candy stores there to start with.

These are things I think are judgment matters that don't necessarily have to provide a harsh answer for insurance companies. I am only pointing this up as the possibility that it is totally out of the range of the insurance companies' handling, for which we have no involvement or any sense of commitment.

Senator HARTKE. Mr. Yim referred to this question of subrogation and liability of municipalities. Would you care to comment on that?

Mr. STARK. Yes, sir. There are approximately 15 States and cities, either/or where some form of statutory authority exists that would seem to give property insurers a right of action; whether or not it can be proven is another thing. At common law there was no right of action, no cause of action against a municipality or state for damages caused by a breakdown of law and order or failure to preserve authority and order in the streets. But there are probably some legal precedents for efforts to be made, aside from what appears to be some 15 instances of statutory authority, there are some legal precedents that have to do with the possibility of an action that would be related to negligence, whether or not a community was negligent in allowing an incident of this kind to occur through failure of the administrative and governmental authorities to bring to bear upon the incident the full sum of their police and fire and other authorities.

Now that I assume is what Mr. Yim was referred to, because I happen to know in Michigan under the present state of the law I don't think that any other type of action is available to the companies. There was a statute passed in 1965, I believe, which expressly gave immunity to all governmental authorities for incidents of this character and others. Perhaps Senator Hart would have that in front of him.

Senator HARTKE. Let me ask you just one final question. Is Government Employees Insurance Co. a member of your group?

Mr. STARK. No, they are not.

Senator HARTKE. Are they a mutual?

Mr. STARK. They are a stock company, but they belong to another trade association.

Senator HARTKE. All right. Do you have anything else, Senator Hart?

Senator HART. No, Mr. Chairman. I think, as you have indicated, Mr. Stark has been very helpful to us. I listened with interest to your comment about the fact that quite aside from riots, you felt in the case of some small businesses they just weren't buying insurance when it was available.

But it is my impression that before the Watts riot that small businessmen in Watts would have to pay two and a half times more than the businessman outside of Watts, but in Los Angeles, for comparable coverage. And this generally is true across the country.

Mr. STARK. No, I don't think so, Senator. Now Watts was a special situation, I think. At the present time, as a matter of fact, postriots, post-Watts riot, the level of insurance premiums, was increased two and a half times the previous level.

[From the Wall Street Journal]

NEWARK'S NEW WOE: LONG-TERM DEPRESSION OF GHETTO'S ECONOMY MAY RESULT FROM RIOT; MANY STORES WON'T REOPEN, INSURANCE RATES WILL SOAR; NEGROES LOSE JOBS, CREDIT

A Backward Look at Watts

(By Earl C. Gottschalk Jr.)

NEWARK, N.J.—As a tense quiet now settles over some of America's riot-ripped cities, a major question looms: Are their ghettos destined to become ghost towns for business, leaving residents stranded without commercial services in islands of burned-out, boarded-up stores?

It is too early to make sweeping generalizations, but there is already evidence that this is a real danger here in New Jersey's biggest city, for reasons both psychological and financial. And the problems Newark businessmen now face are hardly unique; in Detroit, scene of the most destructive riots thus far, they will be even more acute. (For a report on the prospects for rebuilding businesses destroyed in Detroit, see page 3.)

Gripped by fear and bitterness, many merchants whose stores were looted, destroyed or damaged in the Newark riots say they will not rebuild. Others willing to make another start can expect to encounter great difficulty in getting financing and reasonably priced insurance—enough difficulty, probably, to discourage many of them.

A look across the country, at the Watts district of Los Angeles, is not reassuring to businessmen here and in other cities where violence has struck. In Watts, scene of bloody six-day rioting in 1965, the evidence already is in; of 40 businesses destroyed there, only three have been rebuilt, and only five new enterprises have located there.

PROOF AGAINST FIREBOMBS

A fortress mentality is apparent. One of the rebuilders, White Front Stores Inc., opened its new discount house in the Negro district in April—a windowless, fort-like structure apparently designed more to resist Molotov cocktails than to appeal to any aesthetic sense. Across the street from the new White Front, other stores on Central Avenue stand empty, with shattered glass from broken windows still littering their floors.

Newark's leadership, both Negro and white, is fighting to prevent the city's riot-wracked Central Ward from becoming another Watts. But talks with scores of ghetto store owners, industrial development experts, and leading businessmen, bankers and city officials reveal a deep pessimism.

About 1,200 stores were looted, destroyed or damaged during five days of rioting in the Central Ward, and insured property losses have been estimated at \$15 million. This doesn't count the damage done to many small stores that weren't insured.

Shopkeepers along Springfield Avenue, the main thoroughfare in the Negro district and the area hardest hit, estimate that half the small businessmen in the district ("the mama-and-papa outfits," some call them) and a quarter of the larger ones will never reopen.

Gil Bushberg, chairman of the emergency committee formed to get assistance for shopkeepers and a Central Ward retailer himself, says most of the small businesses in the affected area are owned by elderly people who say they are going to throw in the sponge. "Unless we can get some financial assistance for them, and persuade them to stay, this area is going to wind up a ghost town," he says.

If so, say sources, the biggest losers will be the Negro residents of the Central Ward. "They used to be able to get credit at the little stores until the welfare checks came through," says Mr. Bushberg, "but they won't be able to do that at the big stores downtown."

Ex-boxer Timothy Still, Negro president of the United Community Corporation, Newark's antipoverty agency, says he pleaded in vain with rioters to stop the destruction. "I told them, 'When you've tore it up, where are you going to buy your milk, medicine and groceries?'" he recalls.

He might also have asked where they were going to find new jobs. Most of the stores damaged and destroyed were white-owned, but many employed local Negroes who will be without work now. Many merchants who claim that in the past they hired and helped residents of the Central Ward say they have now turned against them.

One bitter shopkeeper there calls his former customers "shines" and "Mau-Maus." Another, telling a visitor that he had always had good relations with the Negro community, was interrupted by a Negro boy seeking a job. Whirling on the boy, the shopkeeper shouted: "You don't think I'm going to hire your kind now, do you?"

"THEY CAN HAVE MY PLACE"

Disgust and a sense of futility are rampant. "This wasn't a riot; this was a revolution," declares one merchant whose store was damaged. "The militants say, 'You want what's in a store, go burn it and drive the white man out. Then it's yours.' Well, they can have my place. I'm 61, and I'm not starting all over again at my age."

Mr. Bushberg, of the shopkeepers' assistance committee, fears that the only merchants who will stay in the Central Ward will be those who own the land on which their stores are built. "You can't sell or rent the property here now, and the only way to get anything out of it is to work it yourself. Those who don't own property and are free of leases aren't going to stay for long no matter what you say to them, he observes.

Talks with merchants do turn up some who readily admit they would fly to the suburbs or close down for good if they weren't tied down by property ownership. "If I didn't have a tremendous investment like this, I'd never stay," says Joseph Goldblatt, president of Fields Wearing Apparel.

He foresees a big drop in his volume, too. "About 40% of my business comes from outside the (Central Ward) area. These people aren't going to come back down here no matter what I can offer," he laments.

One of the first fears of stricken businessmen was that insurers would not fully compensate them for their losses and would cancel the policies of shopkeepers hit by violence. This fear still exists, though it has been moderated somewhat by Horace J. Bryant, New Jersey's deputy commissioner of banking and insurance.

Mr. Bryant says the state simply will not tolerate "wholesale terminations of insurance contracts and refusals to renew policies," and adds: "We're not going to permit the people of Newark to be without insurance, and if this means assigned risk, then that will be the medicine the insurance companies will have to take." (Under assigned risk, properties insurance companies are unwilling to cover are put in a "pool" of such risks, and insurers are then required by state insurance regulators to provide coverage for the lot. The amount of coverage required from each insurer generally is proportionate to its size.)

AN UNUSUAL RISK

New Jersey law expressly forbids insurance companies to discriminate by area in rate-making, so rate boosts for building insurance in Newark alone could not be pushed through because of the riots. However, insurers are allowed to raise rates on individual structures if they find an unusual risk of fire or other damage—and it seems likely insurers will try to take full advantage of this in setting post-riot rates on ghetto businesses here and elsewhere.

It is widely reported that property-casualty insurance rates in the Central Ward are already four times as high as those prevailing in the "safe" suburbs; any further sizable boosts would certainly make doing business in the Central Ward prohibitively expensive for some tradesmen.

This is precisely what has happened in Watts, according to Wesley Doyle, chairman of the Chamber of Commerce there. Besides continuing fear of more trouble, extreme difficulty in getting adequate insurance at reasonable rates has made businessmen reluctant to open—or reopen—shops there, he claims.

Rates in Watts are now running about 2½ times what they were before the rioting there, despite the efforts of the Insurance Facility Committee of South Central Los Angeles. More than 100 property-casualty companies are associated with the committee, which has provided \$15 million worth of coverage for area businesses put into the assigned risk category.

"OUT OF LUCK"

A committee spokesman says the greatly increased rates weren't levied to compensate for insurers' losses in the riot and are based only on increased hazard. The distinction is, however, a meaningless one to those who can't get coverage at reasonable prices. Mr. Doyle says that rates in Watts were always higher than in other areas of the city and that insurance in Watts now costs five times as much as in "safe" locations.

Moreover, he claims that some policies available at sky-high rates can be canceled at a moment's notice. "This means," says Mr. Doyle, "that if a disturbance starts Sunday night and looks as if it might grow into something big, a man's insurance might be cut off on Monday. And if he goes up in flames Monday night, he's out of luck."

Besides insurance difficulties such as those in Watts, Newark businessmen may have considerable trouble finding the cash to rebuild. Local banks claim they're trying hard to help; a spokesman for the National Newark & Essex Bank says the institution's branch managers all have been instructed "to be especially lenient" in processing loans. And J. Furman Denton, executive vice president of the First National Bank, says: "We will continue with our relationships to our customers in the riot area."

But the Newark businessmen's emergency assistance committee claims the banks' help won't be much use to the many shopkeepers who were uninsured or underinsured, so great are their financial needs. The committee says that outright grants, as well as special low-interest, long-term loans, are needed. It wants the Small Business Administration to provide the loans, and it plans to ask big businesses in Newark for cash grants.

"WE'RE HAMSTRUNG"

However, all the small businessmen have been able to get so far are promises of consideration for regular commercial loans from the banks and the standard 5½% loans offered by the SBA. P. Bernard Nortman, chief of the city's office of economic development, says he has been meeting desperately with local bankers in an attempt to arrange some kind of cheaper financing for the victimized merchants.

He has had little success so far. "There are legal complications to any kind of special financing," he says. "It seems as if everywhere we turn we're hamstrung. I know one thing: The life of the neighborhood depends on these stores, and if they don't reopen, the neighborhood will deteriorate further."

There are those in Newark who, while certainly not condoning the destruction, believe some material good may come of it. George Kelsey, director of Newark's Interracial Council for Business Opportunities, an organization that helps arrange loans for Negro businessmen, believes urban renewal will soon change the face of the Central Ward, and adds: "I suppose you could call the riots 'accelerated urban renewal.'"

He also believes that if white merchants do leave the area, black merchants will take their places—and that the Central Ward, and the city as a whole, would benefit. He accuses many white tradesmen of "fleecing the people"—charging two and three times as much for credit as downtown stores and marking up prices as much as 300%. These practices, he charges, helped fuel the resentments that exploded in riot.

Senator HART. Let me open up, just in the broadest sort of generalities, the always present problem when you talk about the Federal Government assisting by reinsuring or making moneys available in this area. The suggestion is made that this is a subsidy and the answer is well, subsidies are not evil per se if the common good is served, if they are good subsidies. But good, bad, or indifferent, they always carry with them a measure of Government regulation. And in the case of any reinsurance program by the Federal Government, I would assume that your members anticipate that there would be inquiry with respect to rate of return, rates, availability, and everything else.

You would agree if there was reinsurance by the Federal Government there should be this inquiry by the Federal Government, don't you?

Mr. STARK. There is no question about it. Such a mechanism is already set up in the flood insurance measure and agreements have been made with respect to this kind of involvement.

Senator HART. Yes. Thank you.

Senator HARTKE. Mr. Stark, are there some companies which have the policy of not writing insurance in these so-called ghetto areas?

Mr. STARK. I think so.

Senator HARTKE. Members of your association?

Mr. STARK. I hope not.

Senator HARTKE. Not members of your association?

Mr. STARK. I don't think so. But I can't speak for the individual underwriting policies in any particular locality at any given time for all of my members. But my best belief is this is not the pattern of activity of any of the members of my association.

Senator HARTKE. I understand that the National Association of Independent Insurers, who are not on the witness list, have now requested that they be allowed to submit a statement for the record. I would hope they will cover the specific question of whether their companies write in these areas, and if they do not, why not. I hope they will make specific reference to the company in Washington, D.C., called Government Employees Insurance Co.

I have no further questions. Thank you very much, sir.

(The following article was later submitted for the record:)

[From the Wall Street Journal, Sept. 5, 1967]

PHILADELPHIA HOUSING UNIT'S INSURANCE RATES ARE MORE THAN DOUBLED

PHILADELPHIA.—The Philadelphia Housing Authority said it has obtained insurance coverage of its multimillion-dollar properties—but at more than double the former rates.

Twelve companies have agreed to provide comprehensive coverage, including riot damage, for \$108,000 for a one-year period, an authority spokesman said. The authority's former policy was \$53,333 a year for three years.

Mutual Marine Fire & Inland Insurance Co. one of the new concerns agreeing to write the insurance, canceled the old policy following riots in Newark and Detroit.

William B. Churchman III, the authority's broker, said its properties are valued at \$148 million and that \$118 million of this amount is covered under the new policy.

Senator HARTKE. The next witness is Mr. Wallace B. Smith, manager, American Mutual Insurance Alliance, Washington, D.C.

STATEMENT OF WALLACE B. SMITH, MANAGER, AMERICAN MUTUAL INSURANCE ALLIANCE, ACCOMPANIED BY GEORGE POTTS, RAYMOND KIRSCH, AND JOHN RENN

Mr. SMITH. Mr. Chairman, I would like to introduce the gentlemen with me here. On my far left is Mr. George Potts, administrative assistant to the general manager of the National Association of Mutual Insurance Agents.

Next to me is Mr. Raymond Kirsch, who is secretary and counsel to our Property Insurance Committee of the American Mutual Insurance Alliance.

On my right is Mr. John Renn, who is secretary-manager of the Mutual Loss Research Bureau.

We have a short statement, so I will read it with your permission. This statement is made on behalf of two national insurance trade associations. The American Mutual Insurance Alliance is composed of 121 major mutual fire and casualty companies writing \$2.5 billion in premiums. The National Association of Mutual Insurance Agents is composed of 16,000 independent property and casualty insurance agents.

The civil disorders which have occurred in more than 80 U.S. communities this year have aroused great concern on the part of the general public, government officials and the business community, including the insurance business. Part of this concern has to do with the payment of insurance claims and with the continued availability of insurance coverages in areas exposed to riot hazards.

The organizations I represent therefore welcome this opportunity to offer our cooperation and to tell you what steps we are taking to deal with the serious insurance problems created by this unprecedented situation.

Let me assure you at the outset that we have every reason to believe that the insurance industry will pay all legitimate claims arising out of these civil disorders, in accordance with the terms of the particular insurance policies involved. Our industry is very proud of its record of standing by its commitments. I need only remind you that in 1965 the insurance business paid out more than \$715 million for damage produced by a single natural disaster—Hurricane Betsy. We are in the business of handling insurable risks.

The question we now have to answer is whether the riot hazard, which has developed new dimensions as a result of social and economic unrest, is the kind of risk which can continue to be insured under normal insurance coverages and procedures. Changes in both coverages and procedures may be necessary. However, it is premature at this time to say what form those changes may take.

That depends, in large measure, not on what has already occurred but on what is likely to occur in the future. We do not yet have a clear understanding of the forces at work producing the disorders. Nor do we know at this time what action will be taken to remove the causes of the unrest or to prevent massive damage when outbreaks occur.

That is why we have offered our wholehearted cooperation to this committee and to other groups interested in conducting a comprehensive, in-depth study of the riot problem in its totality. The insurance aspects should be considered in the context of the larger problem. We are willing to work with government officials at all levels to develop a factual basis for devising workable solutions. We do hope, however, that the various studies involving insurance can be coordinated to the greatest extent possible so we can move ahead with all deliberate speed.

The industry already has taken a number of steps to meet its responsibilities. My own organization, the Alliance, has appealed to its member companies to refrain from using the riot hazard as a reason for canceling existing policies, pending our current study of the problem. We are hopeful that, absent a worsening of the present uneasy situation, an orderly insurance market can be maintained in urban areas until a workable solution can be developed.

We start with the premise that, as businessmen, we want to make maximum use of the private sector of the economy in meeting the public's security needs. We prefer to solve the problem ourselves, insofar as we are able. However, we recognize that the insurance mechanism can operate successfully only in an atmosphere of law and order. If large-scale riots continue to occur, or if such disorders remain a serious threat to life and property in many communities, the financial risk involved is so catastrophic that insurance companies would find it very difficult to maintain an adequate insurance market without some kind of government back-up at the local, State or Federal level.

We are hopeful that the inquiries now underway will result in effective action being taken to prevent future outbreaks and to provide more adequate protection for life and property. This is the most important step which could be taken to assure the continued availability of coverages from the insurance industry.

We also recognize that changes probably will be needed in insurance underwriting procedures. Until recently the riot coverage was considered an insignificant part of the fire and extended coverage policy, in that it had little to do with the amount of premium charged. Rates for property insurance are set primarily on the basis of the fire and windstorm exposure.

Now, however, the human exposure created by the threat of window smashing, looting, and fire bombing has become a factor which insurance underwriters cannot ignore. Some way has to be found to measure this additional exposure and to collect enough funds to provide for paying the losses.

At present the funds are coming out of insurance company assets; that is, money retained in the business to guarantee solvency and to provide for growth. However, if massive riot losses continue to occur, many if not all insurers would be forced to withdraw from riot areas to preserve their solvency.

Therefore, funds for riot damage in the future will have to come from one of three sources, or a combination of these sources. One source is the property owner subject to abnormal riot exposure. A second possible source is to spread the loss over other policyholders. The third possibility is to obtain reimbursement for abnormally large riot losses from State, local, or Federal Governments, on the theory that the public generally bears some responsibility for the conditions that produce riots. A number of States already have laws that make cities liable for riot damage, although insurance companies generally have not sought reimbursement from this source in the past.

Mr. Chairman, this question has been brought up or mentioned by you and Senator Hart concerning Mr. Yim's statement. I believe, in the Detroit area, where subrogation has been announced by some companies. We do have a list of 16 States here that have such statutes that allow recoverage against the municipalities in such situations as this.

If you would care to have those for the record, we will be happy to submit it.

Senator HARTKE. Without objection, it will be made a part of the record.

(The list referred to follows.)

| <i>State</i> | <i>Citation</i> |
|---------------------|-----------------------------------------|
| Connecticut..... | Gen. Stat. Rev. Sec. 7-108 (1958) |
| Kansas..... | Gen. Stat. Ann. Sec. 12-201 (1949) |
| Kentucky..... | Rev. Stat. Ann. Sec. 411-100 (1963) |
| Louisiana..... | Rev. Stat. Sec. 33:5065 (1950) |
| Maine..... | Rev. Stat. Ann. Ch. 136, Sec. 8 (1954) |
| Maryland..... | Ann. Code Art. 82, Secs. 1-3 (1957) |
| Massachusetts..... | Ann. Laws Ch. 269, Sec. 8 (1956) |
| Missouri..... | Rev. Stat. Secs. 537.140-160 (1959) |
| Montana..... | Rev. Codes Ann. Sec. 11-1503 (1947) |
| New Hampshire..... | Rev. Stat. Ann. Sec. 31:53 (1955) |
| New Jersey..... | Stat. Ann. Secs. 2A:48-1 to 48-7 (1952) |
| New York..... | Munic. Law Sec. 71 |
| Pennsylvania..... | Stat. Ann. Tit. 16, Sec. 11821 (1956) |
| Rhode Island..... | Gen. Laws Ann. Sec. 45-15-13 (1956) |
| South Carolina..... | Code Ann. Sec. 16-107 (1962) |
| Wisconsin..... | Stat. Sec. 66.091 (1961) |

Mr. SMITH. Our people are devoting intensive study to all of these alternatives. In addition, we are reexamining the insurance procedures which already have been put into use to help assure the availability

of coverages in urban areas. For example, following the 1965 riots in the Watts district of Los Angeles, the insurance industry established a voluntary insurance pool for property owners unable to obtain coverages from other sources. It may be that the pooling concept can be applied on a broader basis.

In several other cities—Boston, Detroit, Cleveland, New York City, Buffalo, San Francisco, Oakland, and Los Angeles County—the industry has put into effect inspection plans which provide that no application for fire insurance shall be rejected unless a physical inspection of the premises reveals serious specific defects which make it uninsurable. Although, these inspection plans were not designed to deal with the riot problem, these do indicate that the industry is responsive to public needs.

In conclusion, we wish to reiterate our support for an in-depth study of all facets of this serious social problem, including its insurance facets. We pledge our cooperation in providing assistance and information from the insurance industry. We are aware of our responsibility to the public and we are moving as rapidly as possible to fulfill that responsibility.

Senator HARTKE. Thank you, Mr. Smith.

Senator Hart?

Senator HART. Mr. Smith, what results have you gotten on the appeal you have made to your member companies to refrain from using the riots as a reason for canceling policies?

Mr. SMITH. We think, Senator Hart, for all practical effects, we will have a unanimous agreement to our appeal. To date we have no information from any of our companies that will go against such an appeal as we have issued.

Our policy in establishing that request to our companies was established by our property committee, which is composed of a number of representative officials of our member companies.

Senator HART. I have no other questions. But let me react to one point you made here in connection with information which was earlier made a part of the record here.

You note in your statement that it was premature at this time to say what form the coverage and other procedures might be necessary in view of the riot hazard. Then you say, "That depends, in large measure, not on what has already occurred but on what is likely to occur in the future. We do not yet have a clear understanding of the forces at work producing the disorders. Nor do we know at this time what action will be taken to remove the cause of the unrest or to prevent massive damage when outbreaks occur."

I have a feeling that, without waiting for any elaborate analysis by Congress or the President's Commission or anybody else, that earlier this morning we heard of one of the things which makes for unrest, which is the practice—to the extent it is a practice—of instructing representatives of insurance companies to get into the business of race and national origin, whether it is a Negro or white congregation in a church.

I am not suggesting Detroit blew up because of that, but I am suggesting that it is that kind of thing, cumulatively, that can produce civil unrest and disorder. So maybe you could get that word through to your companies.

Senator HARTKE. I have no other questions, Mr. Smith, other than those which we have asked before.

Therefore, these hearings will be adjourned and the record will be kept open until September 8, at 5 p.m., for further statements. These hearings will be subject, of course, to being re-opened at the call of the committee.

(Whereupon, at 1:00 p.m., the committee was adjourned.)

(The following material was subsequently submitted:)

STATEMENT BY DAVID J. DYKHOUSE, MICHIGAN COMMISSIONER OF INSURANCE

S. J. Res. 102 now before your committee calls for a 60 day or faster study by the Secretary of Commerce to determine the availability of insurance protection against the perils of riot or civil disorders. The resolution then asks the Secretary to determine whether legislation is necessary to assure the continuing availability of such insurance.

First, let me state that I concur in the general intention of the resolution and the concern that underlies it. I also believe that the Secretary of Commerce is an excellent choice for the study. It is my understanding that he is or will be undertaking a study of other aspects of the insurance industry and he probably has the staff and expertise available to study insurance problems.

Second, let me offer, in advance, the fullest cooperation of my office should the study be undertaken. We will be happy to work with the Secretary in every way possible and will be interested in any conclusions that he reaches.

Having made these general, positive statements about the resolution, let me insert a word or two of caution. And perhaps a word or two of advice would not be taken amiss from one who is very close to the problem at present and who is concerned with the effects that the recent disorders in Detroit may have on the Michigan urban property insurance market.

WORDS OF CAUTION

A sixty day study of the insurance market, were it to begin tomorrow, will probably not produce any really meaningful or statistically valid picture of our insurance markets with respect to the specific question of riot and civil commotion coverages. The time is too short and the time period is inappropriate. This is true for a number of reasons.

Reliable data will not be available in this time period. In several of our large heavily urban states—including Michigan, New Jersey, New York, and Pennsylvania—the Commissioners have requested companies to refrain from cancellations and non-renewals pending a general resolution of the problems. On August 1, 1967 I telegraphed the 295 companies writing fire and extended coverage policies in Michigan as follows:

"The recent civil disturbances in Detroit and other Michigan cities, as well as those in other parts of the country have created, of course, very serious problems for the insurance industry.

"These problems will require careful, not panic, reaction if they are to yield to responsible solutions in the long-range best interest of both the industry and the public. We will begin immediately to work with industry to find these solutions.

"Most insurers we have contacted recognize this and have indicated they do not intend to initiate a program of mass cancellation and non-renewals in areas affected. Such a program could only make a difficult situation worse.

"Accordingly, I request that all companies withhold for ninety (90) days any cancellation or non-renewal of standard fire policies and endorsements thereon other than those made in accordance with ordinary past practice."

With two exceptions, about which appropriate action is being taken, we have every reason to believe that this request is being honored. Consequently, the period during which the proposed study will be made is not likely to be a period in which the true market problems, resulting from the recent riots, if they later develop, will emerge.

A market shortage may develop during this period with respect to the placement of new risks, but it is unlikely that a significant pattern will emerge over such a short time.

We have begun in Michigan the only in-depth study of the market problem currently underway anywhere in the country, which promises to produce statistically reliable evidence of the scope of the market problem as related to riot and civil commotion. Effective August 3, 1967, we have required every property insurer in Michigan to report all cancellations and non-renewals of property insurance in Michigan from July 23, 1967. These will be tested against a normal pattern of cancellations and non-renewals and tested further by in-depth surveys of cancelled or non-renewed insureds with respect to any problems encountered in obtaining new insurance coverages.

It will be at least into October before this study will begin to produce reliable data on which to base reliable conclusions. Inasmuch as the Michigan study is the only one being currently undertaken in this detail, I doubt that the Secretary of Commerce will have available to him in the short period allotted much significant or valid market data.

In addition, the whole picture of the reinsurance market upon which so much of our private insurance market's exposure limitations depends will not emerge until into November, because by then the negotiations on most of the 1968 reinsurance contracts will be concluded or the pattern of the market will at least be well-established.

At the present time, the impact of the recent riot-connected losses has not been felt by the reinsuring companies as the primary losses are now just beginning to harden into reliable figures.

The point I am making is that a 60 day study is an unrealistically short time period to collect accurate data on the impact of recent riots on the availability of riot coverage nationwide, especially if the intention is to use this study as a basis for federal legislation in the area.

That is not to say that the study should not be undertaken. It should. But it should be of sufficient duration to give an accurate over-all picture of this problem, so that any federal legislation in this area, if needed, will be pointed toward a long-range, effective stabilization of this market.

That is not to say, further, that certain judgments and conclusions about the likely shape of the market cannot be made now. At the state level, as Governor Romney has expressed his intention to do in Michigan, measures should be taken to prevent any softening or attrition in the property insurance markets. In my judgment, if the states do a proper job, as we intend to attempt to do in Michigan, of stabilizing their own markets, the federal government will have the time to give careful scrutiny to the broad aspects of the property insurance problem, especially as related to the tremendous potential exposures involved in riots and civil disorders, and take measures appropriate in the disclosed circumstances.

This leads me to my second word of caution. The question of availability of property insurance against the perils of riot and civil disorder can only be understood in the context of the availability of property insurance generally. In most states, Michigan included, riot and civil commotion insurance is not sold separately, but rather as a part of a package of perils insured against. To date, our studies have not disclosed that any separate surcharge or portion of the rate in these packages was attributable to the peril of riot or civil commotion.

In short, unless the states permit separate packaging of riot and civil commotion coverage, an unlikely and undesirable event because of acute adverse selection and rating problems, the question of availability of this type of coverage involves the broader question of availability of property insurance generally in our urban markets. There is no way I know of to study the availability of riot and civil commotion coverage separate from this broader question.

It is likely that the increased hazard of exposure to loss resulting from riot and civil commotion will aggravate the already difficult market picture in our urban centers. It is on this general problem that Governor Romney has focused and it is on this general problem that I would suggest the Secretary of Commerce should focus.

Such a problem, and the federal government's proper role in its solution, will not be resolved on the basis of a sixty day study. It has occupied the attention of the best minds in state regulation for some time and progress in the form of inspection plans, rating procedures, and voluntary pooling arrangements has been made. More must be done and we intend to do it in Michigan.

I believe, however, that, at its root, the urban property insurance question is yet another aspect of the vast, complex social and economic challenge that faces our society in our urban centers. It is partially a cause and partially an effect

of the ills that confront us daily in these vital centers of our civilization. More than the time contemplated in the resolution will be required to present a thoughtful study of the urban property insurance question, its place in the complex of urban problems, and the federal government's role in its resolution.

WORDS OF ADVICE

As your Committee deliberates on the scope and time limits which should be given to the very important study that S.J. Res. 102 contemplates, the best thinking I know considers the following points to be primary considerations:

Availability of basic property insurance coverage at reasonable rates in our urban areas lies at the heart of all efforts to reconstitute these vital centers of our society.

A stable and strong insurance market for these basic coverages is therefore a primary social necessity. We cannot even contemplate the prospect of economic and social deserts in our cities brought about, even in part, by the lack of such an insurance market.

The recent civil disorders in Michigan and other parts of the country threaten further to disrupt an urban property insurance market, which, for a whole host of social and economic reasons, many of which I have previously discussed, has not been strong and readily available in recent years, despite improvement brought about by the Michigan inspection plan and similar plans in other parts of the country.

It is becoming apparent that the private insurance industry, if left unbuttressed and unchanneled by appropriate state and federal programs, might not and perhaps could not for competitive and financial reasons provide the strong, stable, and available insurance market that our urban society requires in order to reconstitute itself. Even the prospect of such a development requires that we adopt programs and measures now to avoid that prospect and that development.

Yesterday Governor Romney of Michigan proposed a plan which will, it is believed, strengthen and stabilize the Michigan urban property insurance market. Underlying the Governor's proposal are several basic considerations:

a) *Insurability*: Property to be guaranteed a market must be insurable under reasonable, fair underwriting standards. This must be the case, if we are to avoid perpetuating under the cloak of insurance the very conditions which have created much of our urban blight. An available market for insurable property will thus provide badly needed incentives for individual efforts in property improvement and management.

b) *Availability*: A market must be encouraged or brought into being, in which all insurable property can obtain basic insurance coverage at reasonable rates.

c) *Private Enterprise*: The private insurance industry should be the basic force in creating, and continuing to provide this market for all insurable risks to the fullest extent possible. On the other hand, the private insurance industry cannot and should not be expected to subsidize or underwrite basic social aims and goals from its privately owned resources.

d) *State Government's Role*: The role of state government must be to see that a stable market for insurable property is, in fact, continuously available. Therefore, a basic framework of regulatory controls and programs in which the industry will operate to provide that market must be established. This framework must assure the public that underwriting standards are fair and equitable, that profits are not excessive, that the financial and technical resources of the industry are focused and used in a manner that is fair to all companies and in accord with their individual resources.

e) *Federal Government's Role*: If the primary insurance carriers, in the coming months, are unable to spread the insurance risks acquired through the usual channels of reinsurance in the domestic or world insurance markets or reinsurance coverage becomes unavailable at any rate because of the excessive exposure which unsettled conditions in our urban areas might trigger, the federal government ought to consider a program of reinsurance for those coverages which cannot be reinsured through ordinary private channels.

However, Governor Romney noted that reinsurance is not in and of itself a solution. He said, "Reinsurance alone will not solve the problem of making insurance available. This basic problem must be attacked at the state level."

MICHIGAN'S PROPOSAL

Our approach to the problem in Michigan is based on several years of staff work, and on several weeks of intensive study. They are aimed at reaching a program for enactment by the Michigan legislature.

My basic recommendations to the governor, which he has directed me to refine in consultation with industry leaders, community representatives, public officials, and leaders in our legislature, will undoubtedly change in detail and scope in succeeding weeks, but they contain the elements of a solid solution to the urban property insurance problem insofar as it can be implemented at the state level. The two principal aspects are:

- 1) A provision for inspection of commercial as well as residential property in urban areas under a state supervised, industry managed, insurance inspection program.

- 2) A compulsory pool of the State's property insurance companies to provide insurance when it is not available through ordinary channels.

This two-fold approach is designed to guarantee, through the pool, that all urban property in Michigan, which meets reasonable underwriting standards, will be guaranteed a market at reasonable rates. The Michigan Fire Insurance Inspection Plan currently sets the minimum standard at the level of the applicable city building and sanitary codes, although many insurers are currently underwriting risks well below this level.

It may develop in the future that, even with such an approach as Michigan's widely in use, there will still be a need for federal reinsurance program, particularly with reference to the large potential exposures growing out of the increased riot and civil commotion peril, where the private insurance market will be unable or unwilling to provide all the required reinsurance coverage.

The Secretary of Commerce's study, if broad enough in scope and long enough in duration, could certainly help to determine the nature and extent of the federal reinsurance coverage needed by the insurance industry.

It is our firm conviction, however, that the first basic steps to resolve the urban property insurance problem must be taken at the state level where the markets are, where rate variations are reflected, and where the machinery and expertise for close regulation of the insurance industry already exists.

SUMMARY

1. I support the intent of S.J. Res. 120.
2. I believe the time period provided is too short to result in meaningful conclusions.
3. I think that the focus of the study is too narrow to be meaningful and should include a study of the availability of property insurance in general.
4. I think that the first solutions to the market problem should be sought and are being sought at the state level.

STATEMENT OF THE NATIONAL ASSOCIATION OF INDEPENDENT INSURERS

The National Association of Independent Insurers is a voluntary Trade Association of approximately 350 stock, mutual and reciprocal Property and Casualty insurance carriers, which was formed in 1946 to preserve reasonable competition and thereby to encourage and safeguard initiative, enterprise, improvement and development in the insurance industry under reasonable governmental supervision.

Because our association has just this month opened a Washington, D.C. office, the N.A.I.I. was not on the witness list for the hearings set for August 29th. The wide range and latitude of interest in the Committee, evidenced at the hearing, has prompted our request to prepare this statement for the record. We thank the Committee for granting us this opportunity.

S.J. 102 and the proposed Amendment #288 specifically deal with the very urgent problem of the availability of insurance protection against disaster perils, resulting from riots and other civil disorders. In an investigation into this specific problem, it is natural to range into questions and discussions concerning the availability of adequate insurance protection for deserving property owners in the urban blighted and/or depressed areas. As natural as this may be, these two problems are distinctive, and we believe, should be discussed separately.

Protection against the perils of riots and civil disorders have been available through the years under "extended coverage" insurance. While losses due to "insurrection" are not covered, to our knowledge the insurance industry generally has not sought to avoid liability by taking the position that the recent disturbances fell within that category. "Extended coverage" also protects property owners against such perils as tornado, hurricane, wind and hail. Because the occurrences of these later perils has been more regular and frequent, and many years of loss experience have been compiled and collated regarding these occurrences, credible statistics have provided the insurance industry with an actuarial basis for reasonable rates.

On the other hand, the rates promulgated for riot and civil disorder were predicated upon rather limited, isolated and rare occurrences. Developments of the nature and intensity of those experienced in Watts and again this summer were heretofore unknown, unexpected and unpredictable in their scope and location. We have then a situation wherein the cumulative effect of such social disturbances would preclude the determination of a credible rate that would appear reasonable in such a short period of time. The N.A.I.I. feels a sense of urgency in an undertaking which would study this immediate problem and will cooperate with any responsible Federal, State or local body in the determination of a workable solution to this problem.

The line of inquiry concerning the availability of insurance protection for small businesses and dwellings in the urban, so-called inner city areas has been continuous for the past several years. This dialogue existed prior to and regardless of the recent riots and civil disorders of Watts and of this summer. As evidence of the industry's sense of responsibility, the "urban areas" plan has been introduced in each locale where risks in that particular area were experiencing difficulty in finding an adequate market. These plans are now in effect in Boston, New York City, Buffalo, Cleveland, Detroit, San Francisco, Oakland, Los Angeles and the State of Louisiana. A plan for Chicago will go into effect this summer. Basically, all of the plans serve one purpose: the elimination of Fire and Extended coverage underwriting by area. In certain cities the plan covers habitational risks and in others both habitational and class rated mercantile risks. These plans require inspection of the property before a company can decline the risk and such declination must be for sufficient cause. Virtually all major property insurance carriers operating in urban areas, including N.A.I.I. companies are participating in this plan. Thus the industry has taken positive steps to provide an adequate market in the urban areas where the apparent lack of a market was shown to exist. Further implementation of these "urban area" plans in all affected urban areas coupled with an extension of the plan to mercantile as well as habitational risks in all areas would alleviate this second problem, allowing private capital through the insurance industry to accomplish this task.

A question was propounded by Senator Hartke, Indiana, at the hearing on August 29, 1967 pertaining to a member company of the N.A.I.I. and their response is submitted to the committee by a separate statement.

STATEMENT OF GOVERNMENT EMPLOYEES INSURANCE COMPANY

Government Employees Insurance Company, a member of the National Association of Independent Insurers, submits the following statement in response to the request made of the N.A.I.I. by the Senate Commerce Committee at its hearing on August 29, 1967:

Government Employees Insurance Company is a direct writer of insurance licensed in all fifty states, the District of Columbia and the Territory of Guam. Our Company specializes in the underwriting of the following personal lines of insurance:

| LINE | COVERAGE |
|-----------------------------------------------------------------------------------------------|-----------------------------------------|
| Private Passenger Automobile. | Liability and Physical Damage. |
| Dwelling and Contents (Dwelling is defined as containing not more than four apartment units). | Fire, Extended Coverage and Homeowners. |
| Comprehensive Personal Liability. | Personal Liability. |
| Boatowners. | Liability and Physical Damage. |

The written premium distribution for 1966 by each line is as follows:

| Line | Amount | Percent |
|-----------------------------------|---------------|---------|
| Private passenger automobile..... | \$158,690,506 | 96.3 |
| Dwelling and contents..... | 5,756,654 | 3.5 |
| Personal liability..... | 206,062 | .1 |
| Boatowners..... | 167,972 | .1 |
| Total..... | 164,821,194 | 100.0 |

As indicated above, Government Employees Insurance Company does not write insurance on commercial type vehicles or on any property not conforming with the prescribed regulatory definition of a dwelling. In addition, such business-type insurance as surety, robbery, plateglass, burglary and business interruption insurance is not written by our Company. These limitations of types and lines of insurance written by our Company are imposed universally and without regard to geographical considerations.

With regard to the personal lines we do write, individual risk considerations govern risk acceptability to our Company. No geographical limitations are imposed to the exclusion of individual risk underwriting and thus we undoubtedly have numerous policyholders in every urban area throughout the country. As a matter of record, Government Employees Insurance Company is the largest insurer of private passenger automobiles in the District of Columbia with our risks and exposures widely spread in significant volume throughout the entire area. Of course, this is not intended to suggest that the position of our Company in regard to the total private passenger automobile insurance written in any other urban area is comparable, but it does demonstrate that in this area where we have a dominant market position we obviously have substantial commitments in an urban community which encompasses slum and/or depressed areas.

In addition, our Company is a participant in the automobile assigned risk pools in every state and shares equitably in insuring extra hazardous automobile risks regardless of geographical location. In 1966, our assigned risk volume was 7.2% of our automobile liability premiums and developed a combined loss and expense ratio of 141.6% and an underwriting loss of \$2,442,836.

STATEMENT OF INSURANCE COMPANY OF NORTH AMERICA, SUBMITTED BY
BERTRAM C. DEDMAN, GENERAL COUNSEL

Insurance Company of North America ("INA"), headquartered in Philadelphia, is among the largest insurance company groups writing all lines of coverage. It is an independent company, not affiliated with the trade organizations such as American Insurance Association and American Mutual Insurance Alliance which appeared before your Committee on August 29, 1967 in connection with S.J. Res. 102. The purpose of this letter is to lend support for the representations made by the two trade organizations at the recent hearing and to offer INA's cooperation in connection with the proposed study by the Secretary of Commerce on the availability of protection against disaster perils resulting from riots and other civil disorders.

The various coverages offered by insurance policies generally in use already have been described to the Committee and we consider the principal issue to be whether loss from civil disorder, which has developed totally new dimensions in recent months, is the type of risk which insurance companies can be expected to insure under traditional policies. We believe that it may be necessary to effect changes both in coverages and in procedures, although admittedly, for the moment at least, no one can predict precisely what form such changes should, or must, take.

State regulatory authorities, in the principal states affected by the civil disorders in recent months, have requested companies to refrain from cancelling existing policies in riot-threatened areas and, to our knowledge, very few such cancellations have taken place. It is our hope that, unless there is a worsening of the present uneasy situation, an orderly insurance market can be maintained in urban areas until workable solutions can be found.

Like other companies, we want to utilize to the fullest the private sector of the economy in meeting all of the public's insurance needs. In short, we ourselves prefer to solve the problems arising from civil disorders, insofar as we are able to do so. It must be recognized, however, that the insurance mechanism, in its present form, can function only in an atmosphere of law and order. It is manifest that if these losses continue on any large scale, or if civil disorders continue to be a serious threat, the financial risk will be so catastrophic that insurance companies will not be able to maintain an adequate insurance market without some sort of governmental reinsurance or subsidy.

If insurance protection is to be provided for loss generated by civil disorder, some procedure will have to be developed to produce funds to cover this newly developed peril. One alternative would be to place the burden upon the property owner who is subject to abnormal risk exposure. The difficulty is that the cost to the policyholder in the riot-threatened area probably would be unreasonably high and beyond his economic ability to pay. A second alternative would be to spread the risk of loss among *all* policyholders, countrywide, regardless of whether or not they are subject to abnormal risk exposure. This alternative would be most distasteful to residents of rural areas who are beyond the riots' threats. A third alternative would be to obtain reinsurance or reimbursement from State, local or Federal governments.

In January of this year Mr. H. R. Heilman, president of INA, proposed that the industry consider the enlargement on a national basis of the voluntary insurance pool for property owners in the Watts district of Los Angeles who are not able to obtain insurance protection through normal channels. If Federal assistance were made available, probably in the form of reinsurance, we believe that a national pool would afford the best means of administering such a program. Mr. Heilman, or any one of us, would be pleased to discuss these problems with members of your staff, or with representatives of the Secretary of Commerce, should the proposed study be authorized by the Congress.

We again wish to offer our assistance in coping with this serious social problem which all of us recognize to be of considerable urgency.

THE SOCIAL RESPONSIBILITY OF INSURANCE: A CASE STUDY AT WATTS¹

By Irving Pfeffer, Professor of Insurance, U.C.L.A.

1. THE OUTBREAK OF THE WATTS RIOT

At 7:00 p.m. August 11, 1965 the trigger which led to the Watts riots was pulled. Marquette Frye, driving recklessly—approximately 50 miles per hour in a 35 mile hour zone—was flagged by police officer Lee Minikus for drunken driving. Frye pulled over to the curb. Lena Frye, mother of the drunken driver, came onto the scene at once to argue with the police officer. Her comments led her son to refuse to accept his arrest. A crowd gathered and at 7:19 p.m. a call was placed for emergency help. Help arrived immediately in considerable force. More than 27 squad cars arrived on the scene within a matter of minutes. The flashing red lights and sirens of the police cars served to stimulate the gathering of an ever increasing crowd at the scene of the arrest. The continuing resistance to arrest made it appear to onlookers that there was an excessive amount of force used and, with the arrival of additional units of police, the mood of the crowd changed from curious to grumbling to hostility. Several women began to shout "white trash" at the officers.

A woman barber who joined the crowd spat on some of the officers and an attempt was made to arrest her. Some people in the crowd grabbed her arms in order to resist arrest and there was a kind of tug-of-war. The police were uncertain as to what strategy was appropriate in view of the fact that the crowd had now increased to several hundred persons and the police were seriously outnumbered. Some felt that the appropriate action was to get out of the situation rather than attempt to make the arrests. Others were trapped in the crowd and compelled to continue what they were doing. The female barber fought vigorously to resist arrest. Her foul language and resistance made it difficult to get her into the police car. The crowd tended to look on her being led away as an additional humiliation on the Negro by the white policemen and the final insult. Distorted versions of this arrest spread quickly and wild rumors developed provoking the outbreak which followed shortly.

¹ This is a preliminary draft of remarks presented before the annual meeting of the American Risk and Insurance Association, Chicago, Ill., August 30, 1967.

The first projectiles hit the vehicles of the officers and within minutes bottles were hurled, shattering on the street. People began running through the streets yelling and screaming at the officers and throwing bottles and rocks at the police cars. The evening exploded with the cry which became the slogan of the Watts riots. Someone shrieked "Burn, Baby Burn!" The spark was lit and for six days the city of Los Angeles underwent the most severe disorder in its history.

Temperatures were in the high 90's during this period and even the night time lows remained in the 70's. The streets were dry and hot and the residents of Watts were out in full force looking for respite from their sweltering homes.

By 7:45 p.m. of the first day the amount of sand, glass, concrete, wood, planks and bottles thrown by the crowds, now estimated at a thousand, kept accelerating. The police made an attempt to retreat from the center of the mob hoping to encourage its dispersal and to dampen the threat of violence. This proved unsuccessful. The mob was not content with battering automobiles, buses, and police units but after stopping vehicles snatched their terrified occupants from them, beat passengers and drivers, and overturned cars. Many innocent persons were unable to escape the mob and had bones broken or sustained other injuries.

The Police Department seemed uncertain about how to cope with the situation. There was the feeling on the part of some authorities that the riot would be short-lived and of modest proportions. Police Chief William H. Parker, of the City of Los Angeles, said:

"The magnitude of this affair is not as great as some prepare to make it."

By 9:36 p.m. police had established a field command post where 82 officers attempted to control a mob now numbering about 1,500. Most of the members were in their late teens or early twenties. Newspapermen, television crews and radio broadcasters were descending in force. A police summary noted that there was "insufficient manpower for a sweep of the area." By 10:00 p.m. there were some 88 officers attempting to disperse crowds and control the riot area. The cry of "Let's get whitey!" could be heard throughout the area. Television crews became a new source of antagonism as people were able to get first hand views of the rioting and looting.

The indecisiveness of the police force, with a group of less than 100 officers attempting to control an angry mob of more than 1,500 persons, is attributed by many as a basic cause of the loss of control at Watts. By the end of the first night hundreds of windows had been smashed, many fires had been set and by dawn of the second morning it appeared that the riots were over. In the first night there were 19 policemen and 16 civilians injured, 34 persons arrested, and 50 vehicles, including two fire trucks, damaged or burned.

On the morning of Thursday, August 12, the second day of the riots, business went on as usual, stores opened and people went to work. In the Los Angeles Police Department there was the feeling that the riots were over.

At 4:52 p.m. on the second day, Police Chief Parker telephoned the commander of the California National Guard in Sacramento and told him that Los Angeles policemen might need help from the Guard. This call was in line with a procedure the Governor had suggested a year earlier. The Governor was vacationing in Greece at the time of the riots and the Lt. Governor would have to act on the formal request when and if it came.

About 7:00 p.m. firemen entered the neighborhood to answer alarms about burned automobiles. They were bombarded with rocks and shot at. In the days and nights that followed firemen had to retreat frequently from such situations because of lack of protection. In some cases they could not approach raging fires. In others they fought blazes under snipers' gunfire. The protection of firemen became a major task of law enforcement officers. Burning of automobiles and the stern beating of white men and women were not enough to satisfy the mobs on the second night. Not long after the riot resumed the first fire was set in a commercial establishment, a store. Looting began on a wholesale scale. When the mobs could find no policemen on whom to vent their rage, officers were lured into reach with decoy calls to police switchboards. Hundreds of false alarms were wrung to keep the fire department involved. Cries of "Get whitey!" were heard throughout the night. Molotov Cocktails began to be thrown into business establishment after business establishment. Cries of "Kill, Kill!" began to fill the air.

During the second night riots, rioters and looters spread through ever increasing areas. Despite this, Police Chief Parker held off making a formal request for the National Guard because of an under-estimate of how many people were involved. The police chief apparently believed there were not more than 200 people involved as of the third morning. By 3:30 a.m. on the third day at least 75 stores had been

burned and countless officers and innocent whites injured. The fire department had received 2,500 calls and had been forced to begin operating on an emergency basis.

2. NATIONAL GUARD CALLED IN ON THIRD DAY

It was not until 10:15 a.m. on the *third* day of the riots that Chief Parker requested the call of 1,000 National Guardsmen. The formal request was made at 10:50 a.m. By the time the formal request for the Guard was made ambulance drivers and firemen refused to go into the riot area without an escort. At approximately 11:00 a.m. the Lt. Governor was told of the Police Chief's request but he failed to act at that time. Seven hours later the Lt. Governor signed a proclamation officially calling the National Guard into action. Within an hour, 1,336 National Guard troops were assembled in the armories and were on route to two staging points in the riot area.

The looting that went on was massive in nature. Looters swarmed through super markets, through pawn shops, through the Watts Post Office, through furniture stores and T.V. and radio stores fairly methodically. Hundreds of men, women, and children were seen on the television receivers walking down the streets carrying looted merchandise on their backs. Incredibly, some of the furniture being carried included living room sofas, air conditioners, T.V. sets and other heavy items. As soon as stores were bare of merchandise they were set afire. Police were unable to make wholesale arrests because they were vastly outnumbered. There was little they could do to halt the looting. Time after time officers were seen standing bewildered as mobs swarmed through stores shopping for plunder. It wasn't until the fourth day that arrests for looting began to be made.

By 3:00 a.m. of the fourth day 3,356 Guardsmen were making massive sweeps through the affected neighborhoods. The area was not under control at any time on the third night as major calls of looting, burning and shooting were reported every two or three minutes. On throughout the morning hours of the fourth day the crowds of looters and patterns of burnings spread out and increased still further until it became necessary to impose a curfew on the 46.5 square mile area of Los Angeles.

A huge section of the Los Angeles Negro area was in flames, and by the fourth night more than 20 persons had died. The riot continued to spread north toward the Civic Center, 10 miles from its origin and west toward the integrated Crenshaw Boulevard district. In Pasadena, another 10 miles beyond the Civic Center, more than 100 Negroes were arrested and buildings were stoned and a liquor store and two gun stores looted.

By now Guardsmen who continued to arrive in the riot zone in ever increasing numbers had been given authorization to load their rifles. Mobs continued to attack fire trucks. Black gray smoke hung over most of the city, police were forced to flee some pockets of heavy sniper fire, commercial aircraft flying into and out of Los Angeles International Airport altered their flight patterns to avoid the riot zone where police and news helicopters earlier had been fired upon. Combat equipped Guardsmen went through neighborhood after neighborhood providing greater and greater support for policemen who by now had confidence enough to counter-attack.

Police Chief Parker said:

"This situation is very much like fighting the Viet Cong. We haven't the slightest idea when this can be brought under control."

By the seventh day, Governor Edmund G. Brown considered the riots sufficiently under control to end the curfew, and the National Guard pullout began. By Wednesday, August 18 some 10,500 National Guardsmen left for summer training exercises at Camp Roberts. This represented the entire Fortieth Army Division. During the peak of the disorder 13,500 National Guardsmen had patrolled the riot area.

3. THE TOLL IN TERMS OF PEOPLE AND PROPERTY

During the riots, more than 600 buildings were damaged by burning and looting and of this number more than 200 were totally destroyed by fire. Markets, liquor stores, pawn shops and firms dealing in furniture, appliances and clothing had been the principal targets. A county library was put to the torch by arsonists with some 12,000 volumes being reduced to ashes.

The McCone Commission Report listed the death toll at 34 persons killed of whom one was a fireman, one was a deputy sheriff, and one a policeman. There were 1,032 reported injuries, including 90 police officers, 136 firemen, 23 persons from other governmental agencies, and 773 civilians. 118 of the injuries resulted from gun shot wounds. 3,952 persons were arrested and property damage was estimated at 40 million dollars.

In the ugliest interval as many as 10,000 Negroes took to the streets in bands. They looted stores, set fires, beat up white passersby whom they hauled from stopped cars, many of which were turned upside down and burned, exchanged shots with law enforcement officers, and stoned and shot at firemen. The rioters seemed to be caught up in a rage of destruction. The disorders spread and ultimately an area covering 46.5 square miles had to be controlled with the aid of the military authority before public order was restored.

There were 3,438 adults arrested, 71% for burglary and theft. The number of juveniles arrested was 514; 81% for burglary and theft. Of the adults arrested 1,232 had never been arrested before; 1,164 had a minor criminal record; 1,042 with major criminal records. Of the juveniles arrested 257 had never been arrested before; 212 had a minor criminal record; 43 had a major criminal record. Of the adults arrested 2,057 were born in 16 southern states whereas the comparable figures for juveniles was 131.

4. THE INVOLVEMENT OF THE PEOPLE OF WATTS

In a study of the Watts area, called the *Los Angeles Riot Study*, to be published by the Institute of Government and Public Affairs at UCLA, under the editorship of Professor Nathan E. Cohen, some startling results were found. The riot study was conducted during the five months following the riot and was based on a total of 2,070 personal interviews sampling seven basic populations: Negro curfew area residents, Negro riot arrestees, White residents of greater Los Angeles, White curfew area residents, Mexican-American curfew area residents, social service workers and merchants who incurred damage during the riots. The sample of Negro curfew area residents was a random sample stratified by age, sex and income. Interviews were about two hours in length. The interview schedule covered questions of attitude toward the riot, activity in the riot, general, social and political attitudes and background information. Interviewers were selected from the area.

These are some of the conclusions of the Los Angeles Riot Study:

- 1) Up to 15% of the Negro adult population, or about 22,000 persons, were active at some point during the rioting in more than a spectator role.
- 2) An additional 35 or 40 percent of the Negro adult population, or at least an additional 51 thousand persons, were active spectators to the disturbance.
- 3) Young people were much more active than older people.
- 4) Men were more active than women but young women were more active than middle age or older men.
- 5) Support for the riot was as great among relatively well educated and economically advantaged as among poorly educated and economically disadvantaged in the curfew area.
- 6) Support for the riot was as great among relatively long time residents in South-Central Los Angeles as it was among the more recent migrants from the South. Furthermore, the majority of people in South-Central Los Angeles were long time residents thus dispelling the belief that the riot was a product of a recent influx.
- 7) About 34% of the sample were somewhat in favor of what took place.
- 8) While the majority expressed disapproval of the violence and destruction this was often coupled with an expression of empathy with the motives of those who participated or a sense of pride that the Negro had brought worldwide attention to his problem.

Another important measure of attitude is assessment by the residents of the community of the consequences of the riot for the Negro cause and for relations with white persons. Considerable optimism was shown over the results of the riot. 38% of the population in the curfew area thought that the riot would help the Negro cause.

Only about 20% thought that it would hurt the cause.

A study of the white population in the Los Angeles Metropolitan Area was in sharp contrast. 74% believed it would have hurt the cause of the Negro.

Only 23% of the population in the curfew area felt that the riot increased the gap between the races, as contrasted with 71% of the white population.

51% of the population in the curfew area saw the white as now being more sympathetic because of the riot contrasted with 32% of the white population.

The grievances of the people in the South-Central area were numerous. These ran the gamut of the practices of merchants operating in the community, various types of discrimination and alleged forms of mistreatment by the police. An analysis of the data suggested the following:

When asked to state their biggest gripe 33% said poor neighborhood conditions, 14% mistreatments by whites and 13% economic conditions. Only 21% had no specific complaints. When asked specifically about exploitive practice by merchants, approximately 1/3 claims to have encountered frequently the experience of being overcharged and sold inferior goods. When asked about job discrimination, 54% of the males and 33% of the females mentioned that it happened to them personally.

Males were also more likely to report discrimination in housing practices by landlords and schools. 34% of the males stated that they had experience discrimination in housing.

In summary, the UCLA study indicates that the Watts riot of 1965 had a much broader basis of support in the Negro community than previously thought.

5. "TELL IT LIKE IT IS": BACKGROUND

The underlying reasons for the rioting were deep-rooted. For years these ghetto dwellers had known discrimination, poverty and utter frustration. Public apathy was apparent and this did little toward contributing any feeling of hope for a better way of life to those living on the fringe of an affluent society, performing menial tasks when they could find employment. In periods of anger, the pent-up feelings of futility and resentment of a great many people relegated by economic circumstances to a subserviant, substandard, style of living lead to disorder. The kindling point was reached in August 1965 in South-Central Los Angeles. It required but a spark of provocation and the riot was on. Professor Murray L. Schwartz wrote in *The Saturday Review* (November 13, 1965):

"To attribute the riot to the arrest of one or two individuals by the State Highway Patrol is like attributing World War I to the Archduke Ferdinand."

The curfew area of Los Angeles had long been identified on the prohibited territory maps of fire and casualty insurance companies. The high crime rates, target risks, and run-down properties in the area made insurance relatively more expensive (substandard) and some coverages were difficult to obtain at best. The riots merely aggravated the insurance market further, leading to angry protests by merchants.

6. THE UCLA INSURANCE SURVEY AT WATTS

The very spectacular coverage of the Watts riots in the press, on the radio and by T.V. made it abundantly clear from the very beginning that this was likely to be a major social phenomenon worthy of study by scholars from a wide variety of disciplines. More than 200 different studies of the Watts area problem were launched within a few months of the actual outbreak of violence. More than 100 professors at UCLA alone, in disciplines ranging from sociology to math to business administration to medicine, were involved in research on the problem.

The insurance aspects of Watts appeared to be of sufficient interest to justify the launching of a quick and thorough survey using graduate students and residents of the curfew area as interviewers. We conducted a study of the insurance problem at Watts several months after the riots had subsided. This survey, while having deficiencies from the standpoint of optimal survey design, nonetheless sheds light on the insurance problem in Watts before, during, and after the riots. Some of the findings of that survey are reported here.

The community under study encompasses the 46.5 square miles area of South Los Angeles designated as the curfew area during the riots of August 1965. Approximately 433,000 Negroes live in this so-called underprivileged area.

Community leaders have long been interested in developing businesses in the area in an effort to solve the immediate problem of unemployment which runs about two to three times the Los Angeles County average. There is a natural interest in the availability of insurance—an essential factor affecting the growth of a business community.

Teams of UCLA graduate students and Negro junior executives associated with the Inter-Racial Council on Business Opportunity interviewed merchants in the curfew area using a short questionnaire designed to obtain information about the merchant's insurance profile as well as his insurance problems.

There were 198 merchants interviewed in this survey each of whom answered questions concerning his insurance coverage and problems. Interviewing teams were assigned specific blocks in the curfew area in which they were to interview the merchants in every establishment. Certain types of business establishments were excluded from the sample, such as bars and pool halls. The block assignments were made in such a way that 61% of them were in an area where there was an intense amount of rioting. The stores along 103rd Street, "Charcoal Alley"

were in this category. The remaining 39% of the block assignments were in areas where losses were minimal. In the analysis this area was referred to as a "fringe" area. The purpose was to have the fringe area as a control sample to test the before and after impact of insurance.

There are several important limitations on the method used to investigate the insurance problem in the curfew area. One is the selectivity of the sampling technique. The survey is biased towards those who survived the riots. In other words, those who as a result of the riots were forced out of business were excluded from the survey. Their special insurance problems, therefore, are not included in the survey results. If their experience was included in the analysis different results might have been obtained.

Another limitation concerns the interviewing technique which might have biased the responses. Bi-racial teams were used almost exclusively although a few teams were all white for the interviewing process. What effect the use of bi-racial teams had on the manner in which interviewees responded cannot be determined.

The attitudes of interviewees toward the insurance industry could introduce a bias. The merchant's personal experience with an insurance carrier probably affected the way he responded to the survey. Moreover, several of the interviewers reported a reluctance on the part of some merchants to respond to the interviewing process.

Perhaps the most critical item in the questionnaire was "Is there any insurance you cannot buy because of the Watts riots?" Affirmative answers to this question indicated that for some reason the desired coverages were not available. 44% of the people responding to this question indicated that they indeed had an availability problem. This percentage is large and further breakdown of the statistics indicates where the availability problem is most serious. For example, 82% of the sample were insured before the riots and of these 28% indicated that they had an availability problem. Of the 18% not insured before the riots 39% indicated an availability problem.

32% of the merchants in the sample suffered a loss and of these 47.5% indicated an availability problem. Of the 68% not suffering loss, 34% indicated an availability problem. 14% of the sample had experienced cancellations and of these 53% reported an availability problem. Of those located in the intense area who had been insured and suffered loss, 44% indicated an availability problem. Only 30% of those located in the intense area who had been insured previously and had not suffered a loss reported an availability problem. In the fringe area, of those insured and suffering a loss 37.5% indicated an availability problem. Those with the smallest availability problem were in the fringe area who had been insured and had not suffered a loss. This was not unexpected.

Burglary, theft and plate glass insurance were most frequently mentioned as being totally unavailable, or, if available, as being extremely costly. Approximately 16% of the respondents felt that the price was too high while 22% of them indicated the coverage was plainly not available. There were relatively few instances of complaints about the availability of fire or extended coverage insurance which was guaranteed to be readily available by the industry shortly after the riots.

When a merchant suffers an insurance policy cancellation he faces the serious problem of replacing the cancelled coverage. In order to replace it he must try to obtain the desired coverage in the open market where availability may be limited. Some merchants were cancelled immediately after the riots while others expected to be cancelled when their policies were up for renewal. The survey estimated the proportion of merchants cancelled during the first six months after the riots. Approximately 17.5% of those insured before the Watts riots had one or more of their policies cancelled as a result of the riots. This is a relatively large percentage and might indicate that carriers were trying to withdraw from the market. The effect of having one out of five lose his insurance is severe in view of the difficulty merchants had in replacing coverage.

The study indicated that 75% of those who had one or more policies cancelled were unable to replace the coverage. 17.7% of those who were insured and who suffered a loss indicated that the loss was not covered. Generally this reflects the problem of having partial but inadequate insurance coverage. For example, a merchant having a basic fire and extended coverage insurance program would probably not have had full protection against theft since the market for this coverage may have precluded him from obtaining it. Although the survey indicated that 32% of those interviewed suffered a loss and that 83% of them were insured and recovered on their losses there is reason to believe that those figures were conservative. Several merchants indicated that although they were insured for a loss they suffered it was not reported for fear of losing their insurance coverage.

One interesting finding was that approximately 11% of those insured before the riots had a Negro agent. This fell to 8% after the riots. In a meeting held with Negro agents in the area it was clear that they did not have much more than 10% of the total market for commercial risks in the ghetto area, 90% of them were placed by Caucasian agents.

The suspicion that certain types of insurance coverage are not available in the curfew area was confirmed by the survey. The merchant attempting to purchase theft, burglary or plate glass insurance was confronted with a shallow market. Basic fire and extended coverage insurances were available at varying prices. Some merchants obtained it at normal prices while others paid very high rates. Substantial price differentials existed in the curfew area and prices often were the determining variable in a merchant's decision whether to buy insurance or not. The causes of these price differentials were not determined by the survey.

7. THE WATTS INSURANCE POOL

An Insurance Industry Committee consisting of nine representatives of property insurance companies and insurance company associations was appointed by the Insurance Commissioner of California September 2, 1965 to administer the Watts Pool, and to assist the insurance department in handling problems of alleged cancellations, non-renewal or unavailability of insurance in the curfew area.

The procedure followed by the Committee is as follows: When a report of a problem is received from the insurance department it is assigned to one of the committee members. The committee member contacts the insured and/or his representative for additional information and every effort is made to obtain the desired insurance through the agent or broker selected by the insured in standard markets. An inspection of the property is made and wherever possible recommendations are given to the insured or his representatives which, if completed, will upgrade the property to enable the insured to obtain coverage at the lowest possible rate commensurate with the exposure. During its first six months of existence the committee had 25 meetings to seek the best possible solutions.

It became apparent there was a need for a facility to provide coverage for high hazard risks and this committee created an insurance industry facility to provide fire and extended coverage for high hazard property where it was not possible for the insured or his representative with the assistance of this committee to locate insurance protection in the regular insurance markets. This insurance industry facility, known as the Watts Pool, began operation January 1, 1966 using an insurance company whose business is reinsured by over 80 of the leading property insurance companies in California. Rates average about 2½ times standard. After a physical inspection recommendations are made wherever possible which will enable the insured to reduce the cost of insurance. This facility was created and is made available only where a complaint has been filed with the insurance department by an insured or prospective insured and is used only after the Insurance Industry Committee has screened the risk and made every possible effort to place it in other available markets.

In its second report to the Insurance Commissioner (*Underwriters Report*, March 16, 1967) the Insurance Industry Committee for the Los Angeles Curfew Area reported that little marketing problem exists for fire and extended coverage in the curfew area of the Watts district of Los Angeles.

The Committee credited California's rating law for encouraging competition and permitting flexible pricing methods which enabled the industry to solve problems of market capacity at competitive rates in difficult insurance areas.

The Committee's report provides a box score of results in the first 17 months after the August 1965 riots, emphasizing that of 22,312 commercial retail risks in the area 97.85% obtain insurance through the normal insurance market. As of February 1967, 480 risks had been placed in the special insurance facility set up by the industry to provide a fire and extended coverage market for such risks as could not obtain coverage in normal markets. As of the same date, 115 risks were pending before the committee, most of which were to be placed on the normal market. In its report the committee stated:

"For a period of a few weeks after the riots there was some uncertainty among the members of the public about the continuing availability of fire and extended coverage in the curfew area. Less than one month after the riots, however, the insurance business in cooperation with the California Insurance Department took action which in effect guaranteed these important insurance coverages to all insurable retail risks in the area. There had been no problem for dwelling, manufacturing or warehouses risks."

106 domestic insurance companies and Lloyds of London participated in the work of the facility. All companies writing fire insurance of any significant amount in California shared in the reinsurance. The Watts Pool Committee reported that in its judgment:

"There is at the present time no market problem in the curfew area for fire and extended coverage insurance for any type of risk, including commercial retail risks which cannot be handled by existing insurance facilities."

The Committee further reported:

"No doubt there have been cancellations of some fire and extended coverage policies by companies but apparently they have not been too numerous. Again, we refer to the fact that in over six months time there have been only 199 complaints made to this committee by the insurance department on cancellations, failure to renew, inability to buy insurance or inadequate coverage."

The Committee concluded:

"Burglary insurance, robbery insurance and plate glass insurance are not readily available in the curfew area or in any other city or parts of such cities where the incidence of such crimes is abnormally high."

8. THE ROLE OF THE INSURANCE INDUSTRY IN RIOT AREAS

There has been much concern on the part of the insurance industry that the pattern of state regulation may be overthrown because of a possibly inherent inability to provide continuous and adequate insurance markets to the American public. Senator Thomas J. Dodd has proposed the establishment of a Federal Insurance Motor Vehicle Guarantee Corporation which has met with a good deal of opposition from the insurance industry. Senator George A. Smathers introduced a bill in the Senate to establish a Small Business Crime Protection Insurance Corporation. Representative George E. Brown, Jr. of California initiated a congressional study of the insurance industry's merchandising practices. These steps were but precursors of more to come. The Wall Street Journal of August 18, 1967 reported that Mr. T. Lawrence Jones, President of the American Insurance Association said that government has a heavy responsibility for dealing with problems brought about by riots.

"No one sector of the economy, such as the insurance companies can or should bear the economic cost of these occurrences."

Mr. Jones recommended the development of a federal insurance plan for properties in slum areas. Senator Hart was expected to introduce a federal reinsurance bill in Congress. In an interview Mr. Jones said that federal reinsurance of slum area properties is appropriate and "we want to develop such a plan."

He noted the importance of maintaining continued insurance in these areas. All the efforts to redevelop urban areas require the continued availability of insurance.

On April 3, 1967 New York State disclosed that it had made major progress in compelling the insurance companies to sell fire insurance on ghetto housing that previously had been denied such protection. The program required a mandatory building inspection program and only 50 dwellings out of 1,150 were rejected by insurance companies. The practice of the fire insurance companies had been simply to rate the buildings by neighborhood instead of inspecting and evaluating them individually. This meant that any dwelling in a blighted neighborhood, regardless of its condition, was automatically denied coverage. Most banks would not grant mortgages without such coverage.

The insurance companies through an industry rating body, the New York Fire Insurance Rating Organization must inspect the premises of every applicant. Based on the inspector's report the insurance company can approve a policy at the standard rate, add a surcharge until unsafe conditions are corrected, or reject an application.

In an article by Arelo Sederberg in the Los Angeles Times, July 21, 1967 entitled *Riot Area Insurance Rates Show Rise of 300 Percent* the author points out that:

"Costs for slum area insurance always have been higher than average since experience has shown that risks are greater."

"The higher cost of insurance is one tangible economic backlash of riots. Other damages are not so palpable. One is the possibility that businessmen, Negro or white hesitate to reestablish operations in riot areas. The risks may be considered too high. The comeback may be slow, the road may be impassible."

"The history of Watts may prove an example for other riot torn areas. Despite rebuilding Watts certainly still is suffering economically from the riot two years ago. The economic toll, however, is uneven relative to insurance rates."

9. SOCIAL RESPONSIBILITY

A trip through the curfew area during the second annual Watts Festival in August 1967 makes very clear the fact that this is an area of high unemployment, of low per capita income, with few industrial or mercantile establishments of the usual kind. Driving down the streets near Charcoal Alley late in the evening only the bright neon lights of the liquor stores and gas stations can be seen. The area remains a powder keg despite the efforts that have been made since 1965 to improve conditions. The one factory establishment for the manufacture of canvas tents which was established with the aid of a government grant employs a mere 70 people. Discussions of improving employment conditions speak in terms of one or two thousand additional persons. These suggestions don't come near meeting the real needs of the area. Failure to resolve the economic and social problems of the urban ghettos poses major problems for the private insurance industry.

"Under normal conditions, insurance companies are able to provide a continuous market for all insurable hazards. A competitive reinsurance industry permits the larger risks underwritten in a given area or line to be distributed almost automatically throughout the world market. Rate levels and underwriting rules tend to have stable characteristics and most assureds feel little need for concern about the continuity and reliability of coverage. When major disasters strike, however, the economics of supply and demand instantly undergo drastic and disturbing changes. Underwriting rules are severely tightened, rates tend to rise steeply, and, too often, the market "dries up" completely for awhile. Thereafter, the market opens up again at very high but gradually declining rate levels. Ultimately, long terms normal rates are reestablished. While insurance rates are not necessarily set in concert, they behave in a typical price leadership pattern."

"Insurance company executives argue that it is imperative to protect their loss ratios by withdrawing from ultra-hazardous areas, but the public demands a continuous insurance market with relative rate stability. This is a basic dilemma in the area of social responsibility. The problem invariably reaches critical proportions when unfamiliar disasters strike. In the past, the resolution of the crisis has either taken the form of government intervention as a conservator, carrier or regulator, or an informal compromise solution leaving vast numbers of disenchanted policyholders with strong feelings of hostility and frustration. The central issue appears to be whether disasters suffered by one group of citizens should be shared directly by society as a whole through private insurance mechanisms, or whether, by default, the insurance industry function is to be displaced by some governmental agency."

10. THE SOCIAL COSTS OF DISCONTINUOUS INSURANCE MARKETS

An analysis of the social costs of discontinuous insurance markets, where the supply is suddenly shut off, indicates that the economic burden is very substantial and largely unrecognized. While estimates must necessarily be gross, some of the areas in which costs are affected can be identified. The following by-products of a curtailed market for insurance are suggestive.

1. Mass cancellation of insurance coverage gives rise to economic *panic* on the part of policy holders and their creditors which has a multiplier effect in terms of drastic business strategies not grounded on sound business policy. This includes the closing down of stores and enterprises, lay-offs of personnel, removal of inventories to presumably safer locations, and general business disruption. Business failures tend to increase sharply as past-due creditors move quickly to avoid piling up bad debts. Receivables tend to be more difficult of collection as well. The leverage which is implicit in most firms tends to reverse itself, causing ripples throughout the array of suppliers of credit and goods as well as among the customers of the business.

2. The increased cost of insurance, or of self-insurance, is in the nature of a capital tax which will be shifted to the consumer in the form of *higher prices* if this burden is shiftable. Experience indicates that consumer prices in disaster areas do have this effect. Those who perhaps are least able to bear the burden are the hardest hit.

3. *Credit tends to become restricted* with the tightening of the insurance market. Banks and other financial institutions require insurance in acceptable form and with acceptable carriers as a precondition to maintaining lines of credit. As the insurance disappears, so too does access to bank loans.

4. In competitive markets, manufacturers, who supply semifinished goods, are trapped in a *profit margin squeeze* because their prices are inflexible and they may be forced out of business.

5. *Relocation of industry, at all levels, takes place on an emergency basis rather than in an orderly manner. This creates vacancy factors for owners of real property, heavy losses through machinery which is not readily movable, and rising costs of starting up business in other areas.*

6. *The cost of protection both for police and for loss prevention in the form of improved construction, improved water-proofing, the use of brick walls instead of glass, improved burglar alarm systems, raises the cost of doing business materially.*

7. *Demoralization of the community and strong antipathy toward insurance companies and their products is a natural consequence of the uncertainties arising from a discontinuous market.*

8. *Political pressure for government intervention to prevent an economic crisis in the community builds up to levels which are not easily offset by conventional lobbying activity. The crises are real, the need is real and society tends to move suddenly and usually irrevocably toward the provision of governmental alternatives to private enterprise.*

Many of these costs have a cumulative effect as each experience of discontinuous insurance supply—regardless of justification—reinforces the trend toward public utility legal status of the insurance industry.

11. CONCLUSION

The Watts Riot was merely one of the first of the massive short-lived, destructive, urban, ghetto revolts in the United States in the 1960's. Its magnitude and intensity found the police and the insurance industry ill-prepared. The costs were so concentrated and so high as to force the issue of social responsibility of the private insurance industry to come to a head. The relative success of the Watts Pool can too easily be regarded as the basis for over-simplified solutions. Continuous insurance markets are probably mandatory from an economic and social need standpoint, but there is serious question whether, in the present regulatory framework, private carriers can do it alone.

(The following three documents are the exhibits submitted with statement of Lawrence C. McQuade, Assistant Secretary of Commerce for Domestic and International Business.)

1. BUSINESS OPPORTUNITY PROGRAM FOR MILWAUKEE

U.S. DEPARTMENT OF COMMERCE,
BUSINESS AND DEFENSE SERVICES ADMINISTRATION,
Washington, D.C., August 16, 1967.

HON. HENRY S. REUSS,
House of Representatives,
Washington, D.C.

DEAR MR. REUSS: This is in reply to your recent request for the Department of Commerce to develop a "Business Opportunity Program" for minority group persons in Milwaukee. Since our meeting with you, we have had conferences with officials of Small Business Administration, Office of Economic Opportunity, Economic Development Administration and Commerce Department Field Office. The following outline represents actions and services which the respective agencies have agreed to provide, as well as our suggestions for a comprehensive business development program:

SBA—Will provide the services of their Field Office representative to process loan applications and give management assistance, from the SBA Office or at a neighborhood center in the core area.

Commerce Department Field Office—Will provide staff services to support and assist businessmen in meeting and solving problems.

OEO—Will make available the services of the local CAP to carry out several youth projects suggested by Business and Defense Services Administration.

Suggested Business Development Program

The program ideas presented are based on demonstration programs developed by the Affirmative Action Programs Staff of the Business and Defense Services Administration . . . designed specifically to bring about a greater participation of minority group persons in industry and commerce. Special emphasis is placed on improving the efficiency and profitability of businesses already owned by minority group persons and developing effective means for encouraging maximum entrepreneurial experience for minority group persons through franchising. The following three point program is suggested:

(1) *Franchising*—to provide new business opportunity for area residents and create a greater entrepreneurial interest and involvement by minority group members. (2) *Economic Organization*—to provide existing businesses owned by minority group members with an opportunity to improve their efficiency and profitability through an expanded trade association concept, and (3) *Youth Training*—to provide youngsters, 16–26 years of age either in high school or dropouts, with an opportunity to become acquainted with business and earn while learning basic skills needed to become self employed persons or proprietors of small businesses.

I. INITIAL IMPACT PROGRAM

Franchising

It would be very beneficial to establish several new franchise businesses in the near future to demonstrate that the program is a reality, and that business is an attainable goal for the Negro. A careful review of the franchisors listed in the "Franchise Company Data" book has been made to determine those franchisors whose offerings most nearly meet the needs of both the local community and prospective entrepreneurs. This office has prepared the following list of franchisors to consider: (These selections were made on the basis of equity capital investment. It is likely that Group 1. represents businesses which are not feasible for Negro involvement at the present time, but they should be given serious consideration as soon as possible.)

Group 1 (high equity capital):

| | |
|----------------------|---------------------------------|
| General Motors | The Firestone Tire & Rubber Co. |
| Chrysler Motors | B. F. Goodrich Tire Co. |
| Ford Motor Co. | Sheraton Inns, Inc. |
| American Motors | Quality Courts, Inc. |
| Goodyear Tire Co. | Mopar Franchise Jobber |
| Howard Johnson | Program Parts Div.—Chrysler |
| Gambell Skogmo, Inc. | Motors. |

Group 2 (intermediate equity capital):

| | |
|----------------------------------------|------------------------------------|
| Ben Franklin Stores | House of Fabrics |
| Jaze International | One Hour Valetone of America, Inc. |
| Western Auto Supply Co. | Gulf Oil Co. |
| Chicken Delight | Humble Oil Co. |
| Mister Donut | Texaco |
| Midas, Inc. | Sunoco |
| Rayco Mfg. Co. | Orange Julius of America |
| Rexall Drug Co. | Penn Jersey Auto Stores |
| Baskin-Robbins 31 Flavors Stores, Inc. | Brickstone International |
| Southland Corp.—"7-Eleven" | Open Pantry Food Marts, Inc. |
| Dog N Subs | Carvel Franchise Systems, Inc. |
| A. P. Cleaning Center Sales | Dairy Isle-Commissary Corp. |
| Norge LCV | Dairy Queen |
| Mary Carter Paint Co. | Stewart's Root Beer, Inc. |
| | Martin Equipment Co. |

Group 3 (low equity capital):

| | |
|----------------------------------|----------------------------|
| Aero Mayflower Transit Co., Inc. | Duraclean Co. |
| Karmelkorn Corp. | Wade, Wenger ServiceMaster |
| Von Schrader Mfg. Co. | Snap-on Tools Mfg. |
| Bix Sales Co. | |

The Department will provide staff to assist in selections and will place calls to those franchisors initially selected. Follow-up letters should be sent by the local Business Development Agency.

In follow through, the local Business Development Agency should conduct negotiations with the franchisors and make arrangements to satisfy the financial and other requirements in back-up capital, insurance, etc. that might be required.

It should also provide for the selection of the most promising and capable members of the community for enlistment as potential franchisees and make all arrangements to see to it that training, advice and counsel is given these franchisee prospects * * * so that they succeed.

BDSA will provide assistance in both these areas and will make arrangements with other interested public and private agencies for consultative services in business organization and operation. The ICBO which is headquartered in New York City is a nonprofit corporation providing business consultative services to minority group businessmen throughout the country; however, they do not have an office in Milwaukee. Through the efforts of OEO, which is funding ICBO to carry out a special project to assist Negro Businessmen, John Patterson, National Executive Director, has promised to visit Milwaukee to ascertain specifically how ICBO might assist in this project.

II. SUSTAINED IMPACT PROGRAM

A. *Establish Franchise Business Opportunities Center*

The initial effort to establish this Center should begin within 60 to 90 days after the "Initial Impact Program" has begun. Space for a promotional program should be provided for in a store front building which has maximum accessibility and visibility to area residents. The details of the project are included in Exhibit A (attached). The Center should be operated for at least a two year period.

The Business Development Agency should: (a) create the initial awareness and receptivity to advancement through business and franchising in the area, (b) promote the Franchise Center through posters and presentations to key local groups, including churches, civic groups, social groups, businessmen's associations, etc.

At an early date preceding program implementation, a letter will be sent by BDSA to all franchisors listed in the Data Book, requesting their cooperation in the Center Program. A follow-up letter should be sent by the Business Development Agency giving specific data on the particular goals of the project and the procedure it plans to follow in directing prospective franchisees to respective franchisors.

The Agency should consider using a franchise consultant (specialist) to direct the preparation of lectures, tests and screening devices. BDSA will suggest suitable prospects.

B. *Establish Youth Enterprises, Inc.*

This is directed at establishing several franchise businesses owned by a nonprofit corporation organized by the Business Development Agency to be operated as a training vehicle for minority group persons having entrepreneurial aspirations, but lacking business know-how. The details of the project are included in Exhibit B (attached). This project should be implemented concurrently with Franchise Business Opportunities Center to run perpetually as a community owned enterprise. An advisory committee of leading social, civic and community leaders should be organized at an early date to maximize community participation and support. BDSA will assist in establishing Youth Enterprises, Inc. on an operational basis. This project was originally designed to provide entrepreneurial training and experience for youth and young adults, but the same vehicle can be used to provide training and experience for persons of all ages.

C. *Economic Organization*

A survey should be conducted by the Business Development Agency to determine the types of businesses presently being operated by minority group persons in the core area. Once this survey has been completed, BDSA will assist in selecting a group or groups of businesses through which the Economic Organization project will be conducted. BDSA will also train staff and participate in initial organization meetings of selected groups. The details of this project are included under Exhibit C (attached).

D. *Youth Training Programs*

It is our opinion that the Business Development Agency should operate at least one program directed to youngsters either in high school or in a current dropout category. One such project could be the "Earn and Learn" program, which BDSA is presently developing with Pepsi-Cola in New York City. It involves the organizing of youngsters into corporations which will be franchised by Pepsi to sell Pepsi Cola at high school football, basketball, baseball games and at school dances, etc. The youngsters will attend bi-monthly sessions, conducted by Pepsi

on business operation as it relates to our economy. This concept can be used to develop all types of business youth projects. BDSA will submit several of these projects for your consideration by October 15, 1967.

III. CONTINUING IMPACT PERIOD

Activity

There is no time involved here. This phase should begin near the end of Phase II or at the completion of Phase II. It would be designed to bring general improvement to the entire business community and open up maximum new store opportunities. It would consist of a franchising part and an economic organization part, the latter in effect providing a continuing mechanism for helping to improve the business community.

This phase should be characterized by the greatest possible assimilation of business opportunity programs into the basic fabric of the community. It should be able to bear witness to a movement into the area by business because business can see sustained profits ahead. It should be based on the availability of trained, reliable, interested people in the community, adequate capital or guarantees thereof, and a growing market.

The economic organization aspects of this phase might simply be characterized as a very strong chamber of commerce, encouraging high standard performance with tools to demonstrate how progress can be achieved.

IV. OTHER FACTORS

To provide meaningful support for all these programs, consideration also should be given to take steps that will result in long-term benefits.

Included are:

1. Expansion of adult education programs to interest the community in business.

2. A scholarship program to pay for high school graduates (5 in the first year, 10 in the second, and 15 in the third year and thereafter), to put them into a business college course, and offer them an opportunity to earn money, gain experience and help the local area programs by working for the Business Development Agency during the summer.

3. A conscious attempt to bring the businessmen of the community into prominent positions, as on the OIC board and similar organizations.

4. To promote success for the programs in Milwaukee, the Department of Commerce will make available one man to function with the Business Development Agency for a period of 30 days and the total staff will be available for periodic consultation as necessary.

Sincerely yours,

RODNEY L. BORUM, *Administrator.*

EXHIBIT A

FRANCHISE BUSINESS OPPORTUNITY CENTER

The Department's franchise program, for Equal Opportunity in Business, is designed to expand equal business opportunities for all, including members of minority groups, through franchising. Franchising can serve the dual function of increasing the number of business opportunities, especially those available to minority groups, at the same time that it is developing among these groups the essential skills which are the basis for a truly competitive position in business. The potential impact of this type of expansion could provide significant, far-reaching benefits useful to the minority groups involved, and the growth of a general economy.

Franchising may be described as an arrangement whereby an organization (the franchisor) which has developed a successful retail product or service extends (sells) to individuals (the franchisees) the right to engage in the business, provided they follow the established pattern.

"Franchising offers a convenient and economic means for the filling of a drive or desire (for independence) with a minimum of risk and investment, and maximum opportunities for success through the utilization of a proven product or service and marketing method."

The response from the general public to the "Franchise Company Data" book and information about franchising and government assistance has been gratifying. Since January 1965, 45,000 copies of the list of franchise companies have been

distributed to individuals and organizations interested in the program. Requests for the "Franchise Company Data" book are still being received at the rate of approximately 300 per week. This response indicated a strong interest in franchise business opportunities generally, since the letters reflect for the most part an interest in franchising without regard to the special character of our program.

Although this office has directed its major efforts toward informing minority groups of the details of the program and to encourage them to utilize franchising as a means of becoming independent businessmen, it has been unable to penetrate significantly the inner community organization of the total Negro population.

This, in essence, represents, the basic rationale for the proposal. For, it is our conclusion that if we are to achieve the Department's minimum objective in the area of franchising we must provide a new, sound, "in-depth" approach to demonstrate the degree of business success which can be achieved by individuals from minority and actual underprivileged groups (as well as any other individual who is qualified and is sincerely interested) through the use of a professional, organized "Total Concept" program which *maximizes the use of basic motivation*.

In addition to providing an "in-depth" approach, it is essential that the program be packaged in such a way that it can be put into operation by local business or civic organizations throughout the country with a minimum of direct aid and counseling from the Department of Commerce.

The Problem

Many projects have been initiated and sponsored in the past by various federal and private agencies to assist small business ventures. Frequently dollars were provided with some counseling, sometimes from volunteers or retired businessmen. Although there have been a few individual limited success stories produced by this effort, the results generally have not been encouraging or profitable. Especially is this the case among minority group and underprivileged individuals, who have participated very little in the available programs.

Past programs have usually been fragmented, with greater attention to the dollars available for investment than to the proven qualifications of the individual to succeed and the necessary continued controls to ensure successful operation. The results, therefore, have been disappointing. However, an interesting paradox here is that many of the most colorful human interest stories of business success in our country have been generated from the lives of underprivileged and minority groups. It is highly desirable to be able to demonstrate actual case histories of business success achieved through the Commerce Programs in operation.

In the meantime, the market place is becoming more professional and competitive through mergers, acquisitions, chain operations and franchised programs. The most spectacular current business technique is franchising, but the problem is so big that it requires additional professional action to demonstrate to all Americans that free enterprise provides "a more excellent way."

In essence most minority group persons lack the two basic essentials for operating a successful business: (1) business and managerial experience; and (2) adequate financial resources. Franchising provides a means of resolving these problems. Under this system, the franchisor provides managerial training and assistance on a continuing basis and in most cases will finance equipment; co-sign bank notes; arrange leases for property; and arrange for equity capital through loans from SBA, local banks, private investors, and at times participating themselves. In addition, franchisors provide for location analysis and counsel, advertising and merchandising counsel and assistance, standardized procedures and operations, and centralized purchasing with consequent savings.

PROJECT OBJECTIVES

1. To provide sound business opportunities for hard-core unemployed minority group members and others who qualify based on other than traditional standards.
2. To provide opportunities to go into business through counseling, screening and psychological testing relative to the use of franchising as a modern business technique and to assist franchisors in finding qualified members of minority groups from pre-screened applications.
3. To provide specific opportunities by careful selection and negotiation with national franchisors to sign-up a minimum number of prospective franchisees.
4. To assist minority group members in developing franchises from selected viable local minority group owned and operated enterprises.
5. To provide managerial training to hard-core and minority group businessmen primarily through the cooperating franchisors.

6. To take franchising out of the "talking" stage, as far as minority group business is concerned, and to establish it as a practical attainable means of going into business, with the potential of satisfactory profits and growth.

7. To provide employment opportunities for hard-core unemployed through the new franchised businesses that are developed. Most franchises employ a minimum of five individuals.

8. To put in motion some self-perpetuating machinery which will assist the minority group community to function and grow on its own as a vital part of the over-all business community.

9. To develop sources of capital for minority group franchise participants.

10. To develop community support for the project participants.

PROJECT PROCEDURES

To meet the foregoing objectives, the Franchise Business Opportunity Center to be established would follow the following procedures:

1. It would distribute along with other business literature, copies of the Department of Commerce "Franchise Company Data" book to provide for interested individuals, at the local level, a comprehensive list of franchise business opportunities with the added assurance that discrimination is not a factor.

2. It would maintain an active folder on all selected and pre-screened franchisors in the Commerce Department program. Additions to the original pre-screened list including other ethical franchisors qualifying to participate in the program will be made regularly by the Department of Commerce.

The folder would include brochures, sample contracts, and all pertinent information regarding the particular offering of a franchisor. In addition the Commerce Department would provide signed pledges as concrete evidence of the nondiscriminatory policy of participating franchisors.

3. It would maintain a library and reference list of all current and significant publications, including articles and books pertaining to the franchise industry in order to provide information and education to potential franchisees and franchisors.

4. It would conduct regular weekly seminars on all phases of franchising. These seminars would be designed with visual aids, literature and case histories to enlighten and inspire the individual on his inherent potential, the importance of getting the facts to intelligently set a specific intelligent goal for himself and to effectively evaluate franchise opportunities.

5. It would organize and conduct business career counseling in individual sessions so that it may be determined for each individual his specific goal, including in-depth personal analysis. This specifically refers to the use of an in-depth personal analysis procedure used by many of the legitimate Franchise Consultants to determine the suitability and eligibility of prospective franchisees.

6. It would provide information on how to become a franchisee. In addition qualified applicants would be brought together at the Center with the acceptable franchisor so as to assist as many of the applicants as possible in becoming franchisees.

7. It would, with the aid of the Department of Commerce negotiate with National franchisors to establish a minimum number of minority group franchisees during the first year's operation.

8. It would establish and maintain liaison with local financial institutions such as banks, private investors, SBA Offices, SBIC's and other financial resources to assure that proper financing is available to minority group members and others having entrepreneurial interest.

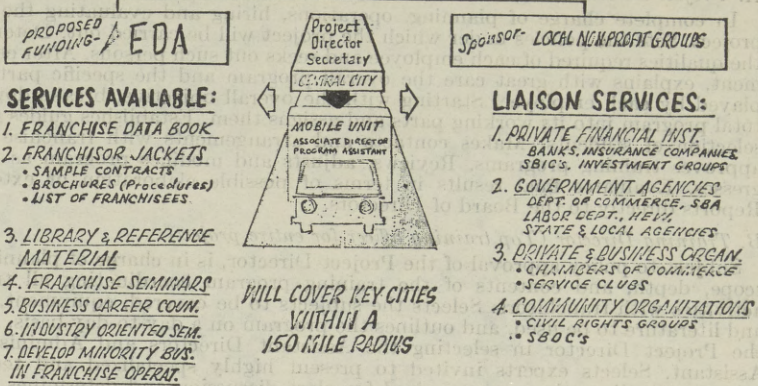
9. It would constantly seek and coordinate the support of local leaders and organizations to assure full utilization of each and every available resource having a relevance to franchising and the motivation of individual enterprise.

Although maximum effort would be directed at seeking utilization by minority group members of the Center services, it would not be organized or promoted exclusively for use by minority group members. The intent is not to strengthen the segregation concept, but rather to generate a spirit of sharing and freedom which is so essential to productive franchising and full community involvement and support.

The Department of Commerce will provide consultation and supportive services in the development and implementation of the project. For this purpose, monthly or periodic progress reports will be sent to the Affirmative Action Programs Staff of the Department of Commerce.

EXHIBIT B

FRANCHISE BUSINESS OPPORTUNITIES CENTER



YOUTH ENTERPRISES, INC

Problem

Recent racial disturbances in our major urban areas have heightened the cry from concerned Americans that until the Negro has a stake in the economic future of America, as meaningful as that of whites, racial unrest will continue.

Purpose

Youth Enterprises, Inc., would be a local, nonprofit corporation which would own and operate franchised businesses—to provide job training and entrepreneurial experience to minority group persons.

Procedures

Youth Enterprises, Inc., would be organized by the local sponsoring organization as a nonprofit corporation. Its Board of Directors would consist of business and community leaders selected for their unique capabilities to assist in implementation of the project. Youth Enterprises, Inc., would operate franchised outlets with each unit franchised business organized as an independent corporation wholly owned by Youth Enterprises, Inc. The local sponsoring organization would have sole responsibility for operating procedures and personnel requirements. Youth Enterprises, Inc., would be a perpetual corporation and should be self-supporting from profits within a few years.

Selection of Trainees

Youth participants would be limited to those between the ages of 16 and 30 years. High school diplomas would be required except where arrangements are made for students to take part in a work-study program. This criterion would serve as a possible stimulant for interested dropouts to return to high school. Recruitment would be done through the established public and private youth serving agencies.

The number of trainees selected would depend on the number needed to operate the unit business for the prescribed number of hours each day. This would vary according to the type of business, but an average of 10-12 trainees per unit would be a good working figure.

Training Program

The key to the successful operation of a franchise business, in great part, lies in the training program. Many franchisors have spent years developing the most effective and successful training programs in American industry. Therefore, major emphasis will be placed on the most efficient utilization of existing franchisor training programs.

The staff responsibilities of Youth Enterprises, Inc., would be set up as follows:

POSITION DESCRIPTIONS

A. Project Director (Top Administrator for entire project)

In complete charge of planning, operations, hiring and evaluating the entire project. Sets the policies under which the project will be carried out. Determines the qualities required of each employee and seeks out such persons. After employment, explains with great care the overall program and the specific part to be played by each employee. Starting with the overall objective, breaks down the total program into its working parts and assigns them. Establishes guides for the selection of students. Makes contacts and arrangements with franchise firms, approves training programs. Reviews, adjusts and modifies program as it progresses. Evaluates final results in terms of possible elaboration or extension. Reports directly to the Board of Directors.

B. Training Director (Top training officer for entire project)

Subject to policy approval of the Project Director, is in charge of planning the scope, depth, and contents of the training program coordinating all training activities with franchisors. Selects the subjects to be covered, equipment, books and literature to be used, and outlines the program on a day-to-day basis. Assists the Project Director in selecting the Assistant Directors and Administrative Assistant. Selects experts invited to present highly specialized and technical subjects. Outlines the cases required for class discussion and determines appropriate sources of case material. Develops contacts with existing business firms in advance of student visits. Works closely with training officers in each of the franchise businesses operated within the project. Evaluates the training program, as each section is completed, for improvement and manualizing.

C. Associate Training Directors

Under the supervision of the Training Director, carries out the training programs in the classroom and field (not including franchise firms). Works closely with the students, makes assignments, and is in charge of the classroom, leads discussion, sometimes makes subject presentation, and introduces outside speakers. Evaluates the work of each student and counsels with him on all matters involved in his eventual success or failure as franchise employee and possibly, as a franchisee. Reports to the Training Director on the progress of the program and individual students. Recommends changes and improvements in the program.

D. In-Plant Training Officials

An In-Plant Training Official will be in charge of each franchise establishment used as a training center. Ideally, he should be a regular employee of the franchisor, fully trained in the policies and operations of the particular kind of business. He should be a person qualified personally, by training and experience, to supervise novices, train them on the job, and maintain a functioning business which will attract and hold customers and develop a growing and profitable business. He must be completely familiar with the objectives of the project.

E. Administrative Assistant and Case Collector

Under the direction of the Project Director will maintain personnel files; handle the budget; prepare monthly and quarterly expenditure reports; maintain all records relating to student assignments, activities, and evaluations. Assume other administrative duties assigned to him by the Project Manager.

Under the direction of the Training Director, contacts selected firms for the purpose of securing case material for class study and discussion. After approval of the Training Director, prepares final drafts, have them reproduced and ready for class use by the Associate Training Directors.

TRAINING PROCEDURES

No detailed training format can be firmly established until the specific franchisors have been chosen, however, the major emphasis in training would be "learning through doing," rather than by simple imitation or detailed manual instructions.

A training course would not exceed one year, at which time new trainees would be enrolled, again depending on the particular franchise operation. The course will include classroom instructions and "on the job training." Most franchisor training programs are directed solely at the "on the job training" aspect, whereas

our desire is to equally emphasize basic business concepts, including academic case studies and visits to other successful business enterprises.

The academic approaches or classroom instruction will be handled in simple, practical language. Included in this aspect, among other things, will be the following subjects and activities:

1) *Types of business ownership*—sole proprietorship, partnership, corporation; how these relate to the capitalistic system; government controls and its relationships.

2) *Getting along with people*—Kinds of people (introverts and extroverts): classes of people (customers, employees, suppliers, government officials, franchisor); motivation; case studies involving decision making; learning to speak, debate, and write effectively.

3) *Learning about business*—production and distribution for consumption, land, labor, capital and management; the profit system; dynamics of management; kinds of business organization and advantages, and disadvantages of each; and case studies involving decision making.

4) *Business operation*—Administration vs operation; policies vs practice; management functions, *i.e.*, production, marketing, financing, credit, storage, transportation, housekeeping; case studies involving these functions and decision making.

5) *Special kinds of business operations*—regular business, voluntary chain, cooperative chain, trade association, franchise, strength and weaknesses of each as they operate in the United States; the franchise, franchisor, franchisee, and the market.

6) *Field trips*—visiting small and larger businesses in varied trades and industries; preparing analytical reports on visits, and discussing each report.

In addition, Youth Enterprises, Inc., plans to coordinate activities with (a) management training officers of the Small Business Association; (b) industry specialists of the Business and Defense Services Administration in Commerce Department; (c) consultants from the Interracial Council for Business Opportunity; (d) interested business and industry leaders; and (e) the Small Business Guidance and Development Center at Howard University.

As mentioned above and reemphasized here, the total training program will be geared to the most practical application of business principles, designed to produce, within the period of one year, an individual capable of operating successfully a small business.

FRANCHISE BUSINESSES

Final decisions as to which franchise operations Youth Enterprises, Inc., will utilize, in great part, will depend on the extent to which franchisors participate. We would insist on three conditions: (1) that the franchisor waive the usual franchise fee during the first three years of operation, to allow for additional funds needed to fully implement all phases of the program; (2) that the franchisor establish the initial outlet on a cost only basis; and, (3) that the franchisor pay, in part, the salary of the in-plant training officials. Ideally, it is anticipated that certain franchisors might assume the entire expense, for an initial period, by placing on loan one of its present staff training officials.

The figures indicated on the franchise data sheet under *Equity Capital Needed* in the Commerce Department booklet "Franchise Company Data," are not necessarily fixed. They range anywhere from zero dollars in investment to the highest figure stated on the sheet, depending upon the extent to which the franchisor is willing to invest in the prospective franchisee. The initial investments in the equity capital aspect by Youth Enterprises, Inc., will vary and cannot be ascertained until specific negotiations are started between Youth Enterprises, Inc., and the franchisors.

TRAINEE PLACEMENT

Many training programs fail because they do not have well defined placement procedures for trainee graduates. It is our intention to place maximum emphasis on this aspect of the program.

Phase II of the program would be initiated at the end of the first year. This would involve the placing of Youth Enterprises, Inc., trainee graduates as employees and managers of franchise extensions outlets. For example, if a Mister Donut franchise were chosen, one complete outlet has enough machinery and capacity to furnish merchandise for an additional two to four outlets, depending on volume. These, in essence, would be sales outlets with no production facilities and would represent the next step for the trainee graduate—the gap between

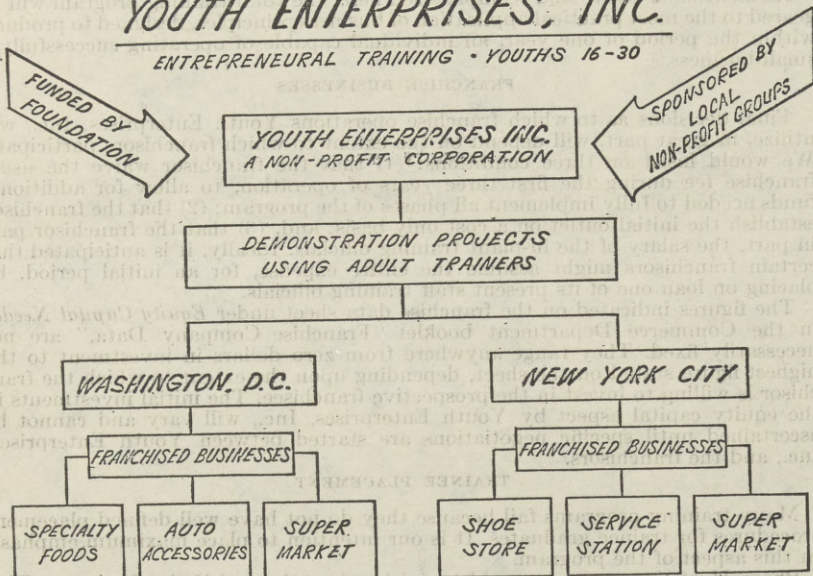
intensive indoctrination and practical application. An identical situation exists in the One Hour-Martinzation Drycleaning and Retail Store, as is possible in several other franchise operations. Phase II would last for one year after which time, the trainee would be ready for assimilation into the business community. Every effort will be made to see that each graduate is properly placed either in a responsible position or as an owner-operator of a franchise business as soon after Phase I as is practicable.

A number of resources would be utilized in placement of trainee graduates. The following possibilities exist:

1. Franchise Business, those sponsoring the project and a host of others, would be prime prospects for employment.
2. The National Urban League Skills Bank would provide a nationwide facility for job placement.
3. Small business operators who generally find it difficult to recruit and train employees would provide a wide range of opportunities. Negro firms especially could benefit from this pool of trained and "indoctrinated" young people.
4. The more mature and financially stable trainees would be excellent prospects to operate their own franchise businesses.
5. The Small Business Development Centers throughout the country would be a vital resource not only in general placement of the young people in small businesses but also in counselling them in selection and operation of franchise businesses.
6. Local offices of the Interracial Council for Business Opportunity could help in the same way as the Small Business Development Centers.
7. Students who participate in the Work-Study aspect of Youth Enterprises would represent good candidates for the Department of Commerce Youth Opportunities program and eventual prospects for career opportunities in the Department.
8. Plans for Progress offers the possibility of our coordinating with them a list and biographical sketch of Youth Enterprises training graduates which they could distribute to their member companies for possible employment.
9. Local offices at the State Employment Security Agency.

YOUTH ENTERPRISES, INC.

ENTREPRENEURIAL TRAINING • YOUTHS 16-30



and would represent the next step for the trainee graduate—the gap between the franchise extension outlets for example, if a Minor player and manager of franchise extension outlets has enough money and don't franchise were chosen, one complete outlet has enough money, depending on volume. These in essence, would be sales outlets with no production facilities and would represent the next step for the trainee graduate—the gap between

MARTIN EQUIPMENT SALES,
Cincinnati, Ohio, November 10, 1966.

Mr. ABRAHAM S. VENABLE,
Assistant Director—Office of Equal Opportunity,
Office of the Secretary, U.S. Department of Commerce,
Washington, D.C.

DEAR MR. VENABLE: May I thank you for taking the opportunity of telephoning me to explain some of the details of your Youth Enterprise, Inc. program. We would be interested in further discussions in regard to this program and its development. Such a program does, of course, receive our endorsement as there is no doubt that some good will be derived from it by those individuals who will actively participate and be enrolled in the program.

When you have the opportunity to send further data to this office for review, will you please do so. Also, should you be in this vicinity in the near future, we will greatly appreciate the opportunity of showing to you some of the present facilities that we use in the "Martinizing" dry cleaning program.

Very truly yours,

PETER N. PASCO, *Manager.*

HUMBLE OIL & REFINING COMPANY,
MARKETING DEPARTMENT, EASTERN ESSO REGION,
Baltimore, Md., November 15, 1966.

Mr. GEORGE H. ROBINSON,
Program Officer, Affirmative Programs Division, U.S. Department of Commerce, Office
of the Secretary, Washington, D.C.

DEAR MR. ROBINSON: Confirming our recent 'phone conversation, we at Humble Oil are genuinely interested in participating in the Youth Enterprises, Inc. project. Since you have indicated that New York and Washington will represent the initial areas of experimentation, these cities should provide ample opportunity to work out appropriate sites where the program can be administered in a practical manner. We are looking forward to an early opportunity to discuss the details of your plan so that we can best determine the manner and extent to which our participation can be arranged.

As you probably know, we are presently involved in two widely separated service station projects that are designed to develop qualified service station managers and driveway salesmen among minority groups. Since Youth Enterprises, Inc. expands on this worthwhile activity, we are hopeful that satisfactory arrangements can be worked out for us to take part in the Washington and New York City projects.

Very truly yours,

W. N. FARLIE,
Public Relations Manager.

MARY CARTER PAINT Co.,
Tampa Fla., November 10, 1966.

Mr. ABRAHAM VENABLE,
Assistant Director, Business Information,
U.S. Department of Commerce,
Washington, D.C.

DEAR MR. VENABLE: Following our discussions on Youth Enterprises, Inc., I would like to say that Mary Carter Paint Company certainly endorses the entire program. Recognizing the caliber of franchising companies that have endorsed the program and are willing to participate, I feel that it will contribute tremendously in providing equal opportunities in franchising to all interested prospects regardless of race, creed or nationality. We would be willing to participate in the program provided satisfactory arrangements can be worked out. I'll be looking forward to hearing from you in regards to our possible participation in the program.

I would like to take this opportunity to thank you for your time in explaining to me the program in detail on my recent visit to Washington.

Sincerely yours,

LARRY LEHNER,
Vice President—Sales.

CHICKEN DELIGHT, INC.,
Rock Island, Ill., November 17, 1966.

MR. ABRAHAM S. VENABLE,
Director, Affirmative Actions Program Staff,
U.S. Department of Commerce,
Washington, D.C.

DEAR MR. VENABLE: Following a telephone call from our mutual friend, George Robinson, and after reading his thumbnail sketch of your Youth Enterprises, Inc. project, I wish to advise that I thoroughly endorse this program and assure you that our company would be most anxious to participate wherever and however possible.

I feel that this approach to the apparent problem is sound and completely basic and should be effective and successful.

Sincerely yours,

A. L. TUNICK, *President.*

MISTER DONUT,
Westwood, Mass., November 14, 1966.

MR. A. VENABLE,
Director of Affirmative Programs Division,
U.S. Department of Commerce,
Washington, D.C.

DEAR MR. VENABLE: I am familiar with the Youth Enterprises project, and am fully in accord with the concept of this program.

To my mind, the most important aspect is the experience and the education—how the individual trainees can best benefit from Youth Enterprises. We feel that you are going in the right direction when you plan for the training and not for the profit.

We would be happy to participate if satisfactory arrangements can be worked out with the Interracial Council for Business Opportunities once the negotiations are completed with the Ford Foundation for funding.

Very truly yours,

DAVID B. SLATER, *President.*

EXHIBIT C

ECONOMIC ORGANIZATION

PROBLEM

Most Negro-owned businesses are in the service and trade industries and are very small from an operational standpoint. They are comparable in size and operation to many white businesses as they were 30 to 40 years ago and are conducted at a rather low level of efficiency, organization, and profitability. Negroes have not been a part of the American industrial and economic revolution which has propelled American business efficiency to unexcelled heights. The result is that even in a period in which industry's profits are higher than they have been in the history of our country, the Negro businessman is struggling to survive. This same condition exists among other minority groups, especially the Puerto Ricans and the Mexican-Americans. The situation with respect to American Indians, with some exceptions, is considerably worse.

There is a dearth of leadership in minority group and low-income areas. This is a particularly critical problem among businessmen in these communities. As a result, economic development of these areas has been discouragingly slow. This situation will continue until soundly based business activities are generated.

The Negro and other minority groups must have a greater stake in America if they are to become more responsible citizens. The minority group businessman is a necessary stimulant to this need. Presently, they are confined to a minority group market because of their lack of experience, know-how and financial base. They may remain in this dwindling market because of their inability to challenge large corporations which are becoming aware of such market opportunities and because of the crossing into the total market by the former minority group customer. An answer to this need is to provide the minority group businessman with guidance and the opportunity to acquire new management skills necessary to compete in the total market. This proposal provides such an opportunity, through organization, mutual aid and use of total community resources.

PROJECT OBJECTIVES

Specifically this project is designed to:

1. Organize disadvantaged owners of businesses into several single-line self-help structures for the purpose of:
 - a. increasing operational efficiency
 - b. developing a profit potential
 - c. providing job opportunities to urban hard-core unemployed.
2. Demonstrate the value of utilizing total community resources in economic organization for self-help.

PROJECT PROCEDURES

Economic Organization might be defined as the *cooperative joining of business firms, engaged in identical or similar lines of business activity, into a trade association—through which a standardization of operational procedures and marketing techniques are initiated* to allow the individual participating firms an opportunity to *up-grade themselves*, over a given period of time, to meet the minimum operational standards and requirements necessary for any possible survival in the general market—the total effort being directed at *maximizing efficiency and profit*. The standardization of operational procedures and marketing techniques would include the following areas:

- (1) physical appearance or image control
- (2) quality control
- (3) accounting systems
- (4) employee and employer benefits program
- (5) employee training
- (6) customer service expansion
- (7) cooperative buying of wholesale supplies.

These seven areas represent in general, the basic weaknesses inherent in the majority of Negro owned businesses and they vary little from one industry group to another.

This project development procedure would run as follows:

- (1) The project sponsor would select the groups to be organized.
- (2) A program officer would be assigned to cover each group.
- (3) The staff would develop a specific program proposal for each of the industry groups selected, utilizing primarily the seven standardization areas mentioned above, however, gearing each proposal to meet the specific need of the industry group involved.

In carrying out the above procedures, full benefit will be taken of the knowledge and experience gained in the pilot dry cleaning project and the current total community concept project conducted by Howard University Small Business Guidance and Development Center.

Once the above activities have been completed, program implementation procedure for each group would begin as follows:

Step one would be to survey each of the selected fields of business to *identify prospective members and pinpoint specific needs*.

Step two would be to form the individual *trade associations*, having each group select its Officers and a Board of Directors.

Step three would be to set *physical appearance standards* and establish necessary machinery to *analyze individual shops* to determine what, if anything, would be required in order to meet association standards.

Step four would involve the setting of procedures for *quality maintenance* to ensure that shops are providing their customers with the best possible product or service at a given price.

Step five would entail a *systematic analysis* of the *accounting practices* of each business, so as to assure proper use of accounting tools and to establish for the shops a simple comprehensive approach for practicing and maintaining good accounting procedures.

Step six could involve the initiation of *employee and employer training* programs designed to improve an individual's usefulness to the business. Maximum use would be made of MDTA, OJT and other federal private and local assistance programs.

Step seven would involve the *expansion* of each shop's *business services* to include any and *all related services* from which additional revenue might be obtained and which would be of maximum usefulness in meeting customer needs.

Step eight would involve the establishing of group buying practices to enable the shops to reduce to a minimum their cost factor.

DEVELOPMENT IMPACT

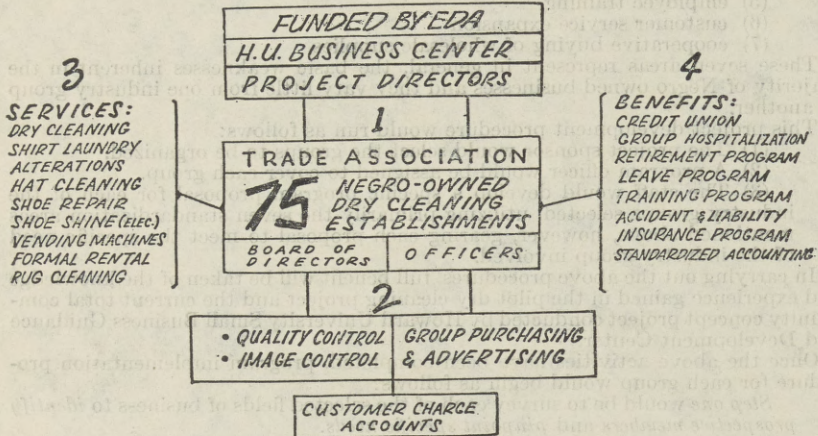
Our whole national economy is based on private enterprise, but private enterprise in the Negro Community does not provide a sound base for economic advancement. This project, because of its utilization of proven business organization techniques, will demonstrate how to strengthen private enterprise in the Negro Community, thus providing a sound base for economic growth. The obvious results will be:

- (a) additional jobs and more stable employment at better wage levels for hard-core urban ghetto residents.
- (b) development of profitable operations from marginal enterprises.
- (c) reinvestment of wages, salaries and profits in the local community.

DURATION AND FOLLOW-UP

The project duration should be for one year. After the first year, the trade associations should function on their own, financed primarily through dues and service fees from member stores.

HOWARD UNIVERSITY PROJECT "ECONOMIC ORGANIZATION"



2. SUMMARY PROGRAM ACTIVITIES OF THE AFFIRMATIVE ACTION PROGRAMS STAFF
(Abraham S. Venable, Director, Business and Defense Services Administration, U.S. Department of Commerce)

The Affirmative Action Programs Staff was organized on February 1, 1966, to bring about equal opportunity for American citizens by fostering and developing within the business community affirmative programs which implement the spirit and intent of our civil rights laws. Specifically, the Staff seeks to develop action projects directed at increasing the involvement of minority group members (especially Negroes) in industry and commerce. This is divided into two functions: (1) programs designed to improve the efficiency and profitability of businesses already owned by minority group members and (2) programs which will encourage a greater entrepreneurial interest and involvement, in general, by minority group members.

In developing a rationale for program organization and implementation, a critical review and analysis of the economic aspects of race relations revealed four basic assumptions about the nature of the problem:

1. Most Negro-owned businesses are in the service and trade industries and are very small. They compare in size with many other businesses as they were 30 or 40 years ago and are conducted at a rather low level of efficiency,

organization, and profitability. Most minority group members have not been a part of the American industrial and economic revolution which has propelled American business efficiency to unexcelled heights. The result is that even in a period in which industry's profits are higher than they have been in the history of our country, the Negro businessman is struggling to survive.

2. In the white community, businessmen are predominantly community leaders. Because the Negro businessman has to struggle to survive, he has neither the time nor the stature to serve as a community leader. Thus, the neighborhood and the community at large are deprived of what could and should be one of its strongest stabilizing influences.

3. More often than not, many Negro businessmen are a symbol of frustration and hopelessness rather than an example of achievement, success and leadership. As a result, "business" per se is not a polite word in the Negro community, and Negro parents as a rule tend to discourage their children from pursuing business careers either as employees or as entrepreneurs.

4. Recent racial disturbances in our major urban areas have heightened the cry from concerned Americans that until the Negro has a stake in the economic future of America—as meaningful as that of whites—racial unrest will continue.

With this background, our approach, by necessity, has been one of coordination and communication. We do not attempt to establish a new set of business principles for minority group members, rather, we work to help Negro businessmen and other minority group members to become more aware of and to make greater use of existing public and private resources available to assist business. We emphasize the already proven techniques the majority business community has used to achieve its economic objectives making changes and variations in basic formula when necessary to meet the specific needs or problems of minority group persons.

I. ECONOMIC ORGANIZATION PROJECTS

In an effort to improve the efficiency and profitability of businesses owned and operated by minority group members, a series of demonstration programs have been initiated to show the merit of organizational techniques widely used and proven by American businessmen. One such experiment involves the organization of independent, minority group businesses—which sell identical products or services—into self-help groups to foster greater efficiency through combined purchasing, group advertising, maintenance of quality workmanship and attractive shop appearance.

In implementing this idea, we developed an "Economic Organization Concept" which embodies the cooperative joining of business firms engaged in an identical or similar lines of business activity into a trade association through which a standardization of operational procedures and marketing techniques are initiated to provide the individual participating firms an opportunity to upgrade themselves, over a given period of time, to meet the minimum operational standards and requirements for any possible successful survival in the general market—the total effort being directed at maximizing efficiency and profit.

A. Howard University Drycleaning Project

This project was funded by the Economic Development Administration on July 1, 1966, at \$47,600 for a one-year demonstration to test the feasibility of the "Economic Organization Concept," in bringing together minority group-owned drycleaners located in Washington, D.C. The Small Business Guidance and Development Center at Howard University administers the project.

The vehicle selected for organizing the shop owners was the Capital Drycleaners Association, officially formed February 14. CDA now has 65 dues-paying members. To date significant progress has been made in seven areas: (1) improvement of physical appearance of shops, (2) standardized accounting system, (3) group insurance, (4) employer and employee training, (5) group advertising, (6) publishing a newsletter, and (7) standardized quality controls. There are problems yet to be worked out, but the Association, with experienced officers, a strong board, 65 members and a developing program says much for the leadership and dedication of all involved in this project.

At the present time, approximately fifteen of the most efficient shop owners in the Capital Drycleaners Association have decided to form a *cooperative chain*. Under this arrangement, these shops will lose their identity and operate under one name. All members of the Association are welcome to join, but only those owners who agree to adhere to all standardized procedures and the highest standards of workmanship will be admitted.

The Howard project has proven the feasibility of organizing local businesses for common economic goals. (See Chart—Exhibit A.)

B. Regional Economic Organization

With the experience of the drycleaning project behind us, we decided to test the feasibility of this technique on a regional or national level with a more sophisticated line of business. In June 1967, the Economic Development Administration funded a one-year project at \$62,700 to be conducted by the national office of the Interracial Council for Business Opportunity located in New York City. They are organizing marginal minority group owners of furniture and appliance stores, located in key cities from Boston, Massachusetts, to Richmond, Virginia, into a regional self-help trade association. Some 50 to 70 storeowners will participate eventually in this project. The organizational concept to be followed will be the same as adopted by Howard University in the drycleaning project. Exploratory talks have been held with firms in Washington, Baltimore, Philadelphia, Trenton, Newark and New York. The response has been very encouraging. Project staff have been hired and are currently attending a workshop on the dynamics of trade association operation at Syracuse University. The first organizational meeting will be held on August 4th in Philadelphia, Pennsylvania. (See Chart—Exhibit B.)

C. Total Community Concept

This project represents the second phase of the Howard University Drycleaning project; it extends the Economic Organization Concept to four additional lines of businesses in the service and trades industry in Washington, D.C. Included, in addition to drycleaners, are minority group-owned auto repair shops, day nurseries, carry-out shops and restaurants and building contractors. This effort will utilize all of the resources of Howard University, other local, public and private agencies and provide in-depth coverage of the minority business community. Our aim is to create a greater impact for improvement in the local area. The project was funded by the Economic Development Administration at \$78,908 for one year. This multiple-use approach in organizing five business groups simultaneously presents no new problems and allows for the rapid expansion needed to achieve total community coverage. (See Chart—Exhibit C.)

Economic organization of minority group business is a relatively new tool. It represents a more far-reaching and effective means of upgrading marginal business than programs involving guidance, counseling and training. This does not mean that these tools are unimportant. On the contrary, they are vital, but economic organization goes further, with built in concepts of guidance, counseling and training. It provides the mechanism for the businessman to take full advantage of his training, enabling him to move up to a more efficient and productive level of operation.

We strongly believe that economic organization of minority group-owned businesses represents an effective means of setting in motion self-perpetuating machinery which will make it possible for the Negro community eventually to function and grow on its own as a vital part of the total business community.

II. FRANCHISE PROJECTS

Franchising may be described as an arrangement whereby a corporation (the franchisor) which has developed a successful retail product or service, extends (sells) to individuals (the franchisees) the right to engage in its business, provided they follow the established pattern.

Many minority group persons lack the two basic essentials for operating a successful business: (1) business and managerial experience; and (2) adequate financial resources. Franchising provides a means of resolving these problems. Under this system, the franchisor provides managerial training and assistance on a continuing basis and, in most cases, will finance equipment; co-sign bank notes; arrange leases for property and arrange for equity capital loans from SBA, local banks, private investors and, at times, participate themselves. Franchising provides a useful vehicle to expand equal business opportunities for members of minority groups because of its standardization of procedures.

A. Franchise Company Data Book

The Staff publishes this book to identify franchise firms which have pledged to enter into franchise agreements on a nondiscriminatory basis and without regard to race, color or national origin. The publication, recently updated, describes franchising and provides information on how to evaluate the various offerings. Forty-four thousand copies have been distributed and the roster of equal oppor-

tunity franchisors has grown from an original 18 in January 1965, to 249 in the latest edition, February 1967.

The *Franchise Company Data* book is distributed free to everyone who requests a copy but special efforts are made through the Field Offices, franchise seminars, conferences and similar means to get this publication into the possession of minority group members who have an interest to go into business for themselves through franchising. The average distribution of this book is about 325 copies per week.

We are now in the process of preparing the seventh edition. We plan to update the information concerning existing franchisors and affirmatively contact other well-known franchisors for inclusion in the seventh edition. (See Request Form—Exhibit D.)

B. Establishing Criteria for Inclusion of Franchisors to be Listed in Future Franchise Company Data Books

Because of the interest in franchising in general and the wide distribution of the *Franchise Company Data* book, we feel the need to upgrade the quality of this publication in order to eliminate the weak and unsafe franchisors.

In addition to the present nondiscriminatory policy, we have submitted a new criteria which will have to be met in order to qualify for listing in future *Franchise Company Data* books to the Office of General Counsel for approval. The suggested new criteria is as follows:

1. All franchisors must pledge that they do not discriminate on the basis of race, color, religion or national origin in the availability, terms or conditions of their franchises.
2. They must have at least three or more operating franchises in the United States or possessions.
3. They must supply the Department with a sample contract of their agreement.
4. They must supply the Department with samples of all sales materials.

C. Youth Enterprises, Inc.

This project proposes to establish a nonprofit corporation which would own and operate franchise businesses in urban areas to serve as training vehicles for minority group persons having entrepreneurial aspirations, but lacking necessary experience and business know-how. At the end of the two-year, in-depth, training and management program, persons completing it would be provided assistance in opening their own businesses or would be placed in management positions in existing firms. A pilot project is being developed in Brooklyn, New York, in cooperation with the Bedford-Stuyvesant Development Corporation. (See Chart—Exhibit E.)

D. Franchise Opportunities Center

This project proposes to establish in the local community, a Center which would provide all essential data on franchising, including a list of franchise companies; a list of franchise operations; copies of sample contracts; a library and a reference list; seminars and business career counseling; testing to determine individuals goals, abilities and desires; financial reviews to determine the extent of financial resources; etc. This entire effort is directed at providing a meaningful opportunity for interested persons to get guidance and assistance on franchising—with frank direction as to what an individual should do. This project is designed to take franchising out of the "talking" stage, as far as minority group business is concerned, and to establish it as a practical, attainable means of going into business, with the potential for satisfactory profits and growth. (See Chart—Exhibit F.)

E. "20 x 10 x 2" Project

This project is directed at securing a firm commitment from 20 outstanding national franchisors to sign up 10 Negro franchisees each with the next two years. This Staff will provide assistance in locating qualified prospects. Ten such firms have already expressed a determined interest. The first locations will be coordinated by the Bedford-Stuyvesant Development Corporation.

F. Study to Determine Feasibility for a Franchise Industry under the Auspices of the Conference

We have studied the need for a Fair Trade Practices Conference in the franchising industry with members of the FTC, International Franchise Association, Boston College and private franchise consultants. There is a need for such a conference because misleading and fraudulent practices do exist. It is felt that the

findings of this conference would be more meaningful if carried out by the private sector of the franchise industry in cooperation with the FTC.

The Boston College Center for the Study of Franchise Distribution recently appointed a special committee to do research and report on unfair and deceptive practices in franchising. We will work closely with this committee.

G. D.C. Franchise Workshop for Drycleaners

This effort is designed as a special interest project for present owners of dry-cleaning businesses and those persons having entrepreneurial aspirations in this area. The workshop will introduce the franchise concept to those now in the dry-cleaning business and, at the same time, display the latest equipment designed to improve present shops. Major emphasis will be placed on creating an awareness of business opportunities available in the drycleaning business. The workshop will be held in early November 1967.

H. Jet Food Corporation

This office is working with SBA and Jet Food Corporation (a newly-formed national corporation with predominantly Negro leadership formed to franchise supermarkets in central city areas). Staff assistance is being provided Jet Foods in securing locations in the ghetto areas of Mobile, Miami, St. Louis, and Chicago. Other ghetto areas presently involved in Urban Renewal Projects are under Staff investigation. The Jet Supermarkets will be a source of employment for hard-core unemployed and will provide minority group persons with entrepreneurial experience. The markets will fill a convenient gap now existing in ghetto communities.

I. Project FIT—Franchise Industry Training

The Franchise Industry Project (Project FIT) was designed to train youngsters between the ages of 16 to 21 in the general principles of retailing, business entrepreneurship, and franchise dynamics.

Through the efforts of BDSA Divisions and this Staff, the Department of Labor through its Office of Special Manpower Programs awarded a \$258,000 grant in June 1966, to the Boston College Center for the Study of Franchise Distribution to conduct Project FIT.

In July 1967, a second grant of \$208,000 was made for Project FIT. This year a greater emphasis is being made to recruit and training minority group youths between the ages of 16 to 21. This office is monitoring this project on a continuing basis.

III. JOB DEVELOPMENT PROGRAMS

A. 1967 Youth Opportunity Campaign

This is the President's program to assist the more than two million 16 to 21 year olds who fail to find summer jobs. As in the two previous Youth Opportunity Campaigns, the Department of Commerce has played a major role in bringing the story to industry and coordinating the program. As of this date, the Secretary has sent letters to 900,000 business firms employing 10 or more people requesting their assistance in the program by adding one additional employee for every 100 employed. The Department's Field Offices assist with local task forces headed by Mayors. Each office and bureau of the Department will utilize its facilities in giving the message to the business community. This program is being coordinated by this office.

B. Manpower Shortage Program

This office is working with the Department of Labor and the President's Committee on the Physically Handicapped in developing training programs with industry; currently meetings are underway for developing training programs with the Council of Air Conditioning and Refrigeration under the Electronic Industries Association. We will continue to act as a catalyst in bringing industry together with labor for the development of training programs and job opportunities for the disadvantaged.

C. "Major Programs Providing Federal Funds for Employment and Training" (publication)

The initial publication of this pamphlet in 1966 met with outstanding success. Over 70,000 copies were distributed upon request. Presently, information has been requested from the participating agencies to update this publication, listing all pertinent changes made by Congress.

D. Machinery Stockpile Project

Under this program, we are making surplus machinery available to nonprofit corporations engaged in training the disadvantaged for employment. We have successfully filled the request of the Harlem Institute of Fashion for sewing equipment and material. The Office of Textiles, BDSA, working with the Apparel Manufacturers Association, were able to assist this nonprofit organization which is devoted to training the disadvantaged. Requests for equipment and material have been received from the Washington, D.C. Opportunities Industrialization Center and from the Pre-Vocational Center, UPO, Washington, D.C., and are presently being reviewed by the BDSA Ad Hoc Committee on Manpower.

E. Earn and Learn Projects

This office is cooperating with Pepsi Cola to implement a special pilot project in Washington, D.C. Under this program, high school youths in low income areas will be given an opportunity to earn and learn by operating Pepsi Cola "franchises" at school football, baseball, basketball games and other school functions. Other items such as hot dogs, popcorn, etc., will be added. A corporation by the students will be formed for educational purposes and visits will be made to local Pepsi Cola wholesalers. This will initiate in September 1967.

IV. SPECIAL PROJECTS

A. Bedford-Stuyvesant Project

This office has held a series of meetings with representatives of the Bedford-Stuyvesant Development Corporation in New York City. This project recently received a seven million dollar grant from the Labor Department and \$750,000 from foundations.

This office has been asked to develop a "Business Opportunities Program" for Brooklyn and have suggested four of our current programs to be implemented in the Bedford-Stuyvesant area by officials of the Development Corporation. These programs already described are as follows: (1) Youth Enterprises, Inc.—would establish a nonprofit corporation which would own and operate franchise businesses in the ghetto area to act as training vehicles for young Negroes having entrepreneurial aspirations; (2) Franchise Business Opportunities Center—would establish a Center in the ghetto area to provide information, counseling and assistance on franchising as a modern business technique and to pinpoint sound business opportunities for minority group members; (3) Economic Organization Concept—would utilize the approach used in the Howard University drycleaning project to assist existing Negro businessmen; and (4) "20 x 10 x 2" Program—to specifically identify franchisors who have expressed a readiness to establish outlets in ghetto areas for qualified minority group applicants.

B. HUD—Contractors Project

There is huge demand for ownership of decent housing on the part of low income families and those persons whose incomes are too high to qualify for low-income housing and too low to qualify for FHA-insured housing. At the same time, there are large areas of slum and substandard housing which can be rehabilitated and, if costs are reduced, can be made available to the above-mentioned families.

The staff is working with the Washington Area Contractors Association (Negro building contractors), Negro ministers, and HUD to develop a project which would involve an extensive housing rehabilitation program in the center city, under the sponsorship of a nonprofit group formed by the ministers utilizing HUD's unique 3 percent financing plan. Costs would be reduced to the point whereby the rehabilitated structures could be sold to the above-mentioned, low-income, families. This would primarily take advantage of the 221H Program at HUD.

A second project, which is in the planning stage, would develop a model community in a nearby suburban area. The plan would meet the needs of several distinct low-income groups; the elderly, large families in public housing and low-income apartment dwellers. A proposed 45 acre plot would be divided into three sections: (1) housing for the elderly, with annuities or services necessary to make it both economically feasible and attractive, (2) detached homes with 4 to 6 bedrooms financed with 3 percent mortgage money, making them marketable to persons with large families, and (3) multi-family units incorporating the condominium or cooperative concept. This demonstration project should be ready for funding evaluation by September 15, 1967.

C. State Technical Assistance Project, Re: Drycleaning

In carrying out the Howard University drycleaning project, valuable assistance was given by the Neighborhood Cleaners Association of New York City which serves 2,600 members with 3,500 shops in Connecticut, New York, and New Jersey. One of the major problems facing the Association was that of effectively reaching store owners in outlying areas with educational and technical programs. In order to solve this problem, this office assisted the Association in preparing a project proposal for the Office of State Technical Assistance. In July 1967, the OSTA made a grant of \$63,860 to supplement funds from the NEA to conduct a \$130,932 special merit program during the next 12 months. This program will provide: (1) greater dissemination of technical information on fabrics and dyes; (2) an increase in the number of seminars on maintenance of equipment and the evaluation and use of new chemical products such as detergents and water repellents; (3) guidance in selection of new equipment; and (4) demonstrations on the correct use of drycleaning and finishing equipment related to solving common problems with fabrics, dyes and finishes. We shall continue to monitor this project.

D. Royal Crown Cola

In May, we were contacted by a representative of Royal Crown Cola for assistance in resolving distribution problems in center city Philadelphia. Discussions with company officials resulted in their agreement to use a Negro firm as a franchise distributor to cover a large segment of Philadelphia, selling Royal Crown Cola, Diet Rite Cola, Hires Root Beer and Crush. We are awaiting decisions by the company on the proposed total financial format. When agreement is reached, Staff will work with company officials in locating a suitable franchisee.

E. Credit Pool and Guaranty Fund

This project, sponsored by a nonprofit corporation, Association to Assist Negro Business, is designed to solve the one major obstacle confronting the establishment of new Negro businesses, the lack of capital.

The sponsor is located in New York City, in the heart of Harlem and will serve Harlem, Bedford-Stuyvesant and other low-income areas.

The mechanics of operating the Credit Pool are as follows:

1. The Association to Assist Negro Business will screen applicants for loans. A commercial bank, The Freedom National Bank of New York City, will make available loan funds to these screened perspective businessmen. If a bank loan is approved, it will be guaranteed by members of the Credit Pool. Hence, a four way, interlocking relationship evolves between the Association, the Guarantors, the Bank and the Loanee.
2. The Association will provide legal assistance and counseling. It will cover the entire scope of management principles and practical application of same to the loanee's enterprise.
3. The Association is now in the process of working out minor details with the already committed guarantors. It is expected that funding by EDA will be forthcoming within the next sixty days. The amount of the funding is \$47,600 for one year (See Chart—Exhibit G.)

F. Gasoline Station Operational Training

The gasoline station is one business in which Negroes can be readily absorbed into the labor market. The object of this program is to provide short-term training which will qualify interested persons as gasoline station attendants and owners. These persons are young adult Negroes, who possess no experience in this field but have a mechanical aptitude and are desirous of steady employment.

In 1964, a program designed to provide the necessary skills and training for successful employment in this burgeoning field was funded by the U.S. Department of Labor in the City of Baltimore. It was hoped that through this program, young adult Negroes would learn the necessary skills for successful entrepreneurial involvement in the gasoline distribution field. This program was successful.

The Affirmative Action Programs Staff was requested by the Labor Department to undertake an expansion of this program based on involving the larger gasoline distribution firms in setting up and running training centers in major cities.

This Staff obtained an agreement from the National Association of Market Developers, a nonprofit organization concerned with Negro Marketing, to sponsor this program in six major cities through the cooperation of all major gasoline firms. Special Market Resources, a local consultant firm on Negro marketing problems,

would be retained to manage the program. The proposal calls for financing of \$600,000 which will probably be amended to \$450,000. Funding through the Department of Labor is expected in November 1967. We will monitor the project.

G. Set-Aside Program for Small Business

The Affirmative Action Programs Staff has evolved a program to deal effectively with the current non-involvement of Negro business in the procurement of Government contracts, more particularly those contracts set aside for small business.

This project involves several steps to accomplish its goal of minority group business participation in Government contracts:

1. A conference of set-aside program coordinators for each agency and department of the Government to eliminate the need for as many as a hundred separate registrations for each business.

2. Notification of the new single registration procedure operated by the Affirmative Action Programs Staff to all Negro businessmen through the Negro press and Negro trade associations.

3. Registration of the businesses through the Small Business coordinators.

4. Notification of registrants of their participation.

5. Monitoring of the set-aside program, in terms of minority group registrants, through the establishment of an ad hoc committee composed of set-aside program coordinators throughout the Government. The committee would also evolve means of effectively increasing both the opportunity to participate and the actual involvement of minority-owned business in Government contract procurement on a continuing basis.

It is expected that the final clearance of this project will be forthcoming in the next 30 days and that the conference will take place within 30 days of final clearance.

H. Neighborhood Recreation Centers

The idea for this project was inspired by the noticeable lack of recreational facilities in ghetto areas and the presence of many boarded up commercial buildings in the neighborhood districts. A nonprofit corporation will be formed utilizing churches, fraternal groups or civic organizations to sponsor and administer the project. First, the owners of several vacant buildings will be contacted requesting their cooperation in making their properties available for "Neighborhood Recreation Centers" at little or no rent. Secondly, contact will be made with recreation equipment manufacturers and wholesalers such as Sears, Roebuck & Company, American Machinery & Foundry Company, etc., requesting their assistance in purchasing equipment at either reduced prices or on a loan, rental, or lease basis. Retired persons will be employed to man the Centers and professional athletes from local teams will be asked to participate. The Centers will host a variety of activities, including ping pong; basketball, volley ball; billiards; archery ranges; bowling lanes; etc. We might even consider establishing "Charm Centers" to assist ghetto girls to improve their confidence by improving their appearance. Athletes will be asked to teach youngsters on dynamics of baseball, basketball and football. Local professional musicians might be asked to man "Music Centers" to provide musical training for youngsters. The project is being prepared and will be ready for implementation by October 1, 1967.

I. The Athlete's Project

This program is being organized in cooperation with the National Football League—to assist them in developing a program to encourage greater entrepreneurial involvement by minority group players in the NFL. The athlete would be utilized as a vehicle to encourage more minority group persons to enter business, while at the same time providing risk capital for new businesses. In businesses in which athletes wish to operate, they or their managers would be trained in effective business techniques. In addition, the athlete would be encouraged to form nonprofit corporations to assist youngsters and others in various projects at the community level.

Most of the details have been completed for forming the first corporation of athletes—to include John Mackey of the Colts; Bobby Mitchell of the Redskins; Lonnie Sanders of the Redskins; and Willie Woods of the Green Bay Packers. The plan is to establish three major businesses in Washington, D.C., during the next year: (1) a Goodyear Tire & Appliance Center; (2) a Multipurpose Recreation Center (hopefully to include a roller skating rink, an ice skating rink, 16 to 20 bowling lanes and an olympic size pool, (all under one roof) and (3) a motel. The initial arrangements with Goodyear Tire and Rubber Company have almost

been completed. We are presently working with AMF on the Multipurpose Recreation Center and with Imperial "400" Motels on the proposed motel. Long-range plans call for establishing a Business Development Corporation for athletes. (See Letter and Chart—Exhibit H).

J. Economics Inc.

Basically, this project is designed to meet the lack of equity and risk capital available for the establishment and the expansion of Negro-owned businesses in America on a mass basis.

Economics, Inc., is a vehicle through which millions of dollars can be made immediately available for distribution through low-cost loans to qualified and interested Negro businessmen and prospective businessmen with which to expand, modernize or establish new businesses.

It is a self-perpetuating, ever increasing fund which will have an expanding capacity to remedy the current capital acquisition difficulties of Negro businessmen.

It will be funded by the voluntary purchase of high risk, low yield shares by American persons, firms or corporations, wishing to participate in the advancement and reinforcement of Negro business, based on the American historical truth, that economic integration fosters social and political stability and mobility.

This proposal is now being reviewed to determine feasibility and will be in presentation form by October 1, 1967.

K. Joint SBA-Commerce Department Summer Program

Last year, the Department joined with SBA in a series of programs in 11 cities (Philadelphia, Pittsburgh, Detroit, Cincinnati, Milwaukee, Baltimore, Phoenix, Dallas, Los Angeles, Oakland and San Jose) to study the needs of local Negro businessmen, consider their recommendations, stimulate assistance from the white business community and explain the Federal resources available for use and assistance through SBA and Commerce. These programs revealed a lack of knowledge on the part of Negro businessmen regarding the programs, services, and information offered by the Federal Government. In most cases, Negroes confused the Department with the U.S. Chamber of Commerce. However, the Negro businessmen eager to learn of the Department's programs, and were stimulated by the Department's expressed interest in their problems. The programs pointed up the significant role the Field Offices could play in reaching and servicing the minority group business community. These programs served not only as a stimulant to the Negro business community, as exemplified by the Pylone Salesmanship Club of Dallas in its decision to embark on a program to upgrade the area's 3,500 businesses, but they also served to stimulate helpful actions on the part of local public officials, as seen in the decision of the Phoenix City Manager and the Public Works Director to assist very small business firms in obtaining city contracts, including the breaking down of calls for services in such a way that a small firm or individual could make a bid.

This office plans to followup on the meetings started under SBA-Commerce Department sponsorship and to extend this type of service to key cities throughout the nation, using, of course, the valuable assistance of the Department's Field Offices. While last year's programs revealed how helpful the Field Offices could be, they also demonstrated that the Field Offices needed direct stimulation and assistance from this office in order to be effective in the Negro business communities. Our plans are to hold direct conferences in key cities with Negro businessmen to discuss, in detail, available resources in the Department of Commerce.

L. The MBA Article

In the May 1967 edition of the "MBA" (The Master In Business Administration), a student publication of the Graduate School of Business Administration at Harvard University, there appeared an article on the Affirmative Action Programs. The title of the article was "Mobilizing Dormant Resources: Negro Entrepreneurs." It describes Department activities in assisting Negro businessmen through the utilization of the "Economic Organization Concept" described in the introduction of this paper. Harvard officials felt that many of the approaches and programs being developed by our staff have broad implications which could be of significant value to many young emerging nations. The article was approximately 2,000 words. (See Reprint—Exhibit I.)

M. Secretary's Conference on Minority Opportunities in Franchising

The goals of this program are: (1) to acquaint the leadership in the field of franchising with the business opportunities existing today in the Negro Community; (2) to bring about a realization that such opportunity must be coupled

with a greater involvement of the Negro businessman and perspective businessmen in franchising; (3) to help identify specifically, firms committed to expanding their business through a special and active recruitment of Negro franchisees; and (4) to supply to the franchisors ways and means to help them identify qualified Negro businessmen and prospective businessmen.

It is anticipated that this conference will be split along industry type divisions of natural interest.

Certain aspects of the problem can be best met through the bringing together similar or like kinds of franchising businesses because of their special problems and interests. Therefore, this conference will become a series of seminars or small conferences in order to meet these special interests. Naturally, items of general interest and universal applicability will be discussed during general sessions.

Final clearance on the conference is expected soon and the conference itself is planned in late October 1967.

N. National Advisory Committee on Minority Business Problems

Negro businesses generally are concentrated in the service and trades areas and most are marginal operations. Few are members of local chambers of commerce or trade associations. The establishment of an Advisory Committee, therefore, would provide the Negro business community with a direct link to the business agency of the Federal Government. It would also provide the Department with a broad-based group for understanding and support of its various programs. The committee would perform the following functions:

1. Serve in an advisory capacity to the Affirmative Action Programs Staff in developing programs designed to improve the efficiency of minority group businesses and to make them more competitive in the general market.
2. Assist the Staff in analyzing the status and problems of minority group businesses.
3. Advise the Field Offices on effective methods of serving the minority group business communities.
4. Assist the Staff in conducting regional and national seminars, conferences, workshops, training institutes, etc., designed to carry out the objectives of the Department.
5. Help evaluate the various departmental programs and services with regard to their effectiveness in reaching, involving and substantially assisting minority group businesses.

O. Proposed National Conference on Negro Business

The need for a Commerce Department-sponsored National Conference on Negro Business is highlighted by the following:

1. The 1966 SBA-Commerce Department Summer Program involving seminars, public meetings and private consultations on problems of minority businesses in eleven cities showed the need for a national meeting.
2. The last national conference was held in 1961. Although the Department of Commerce did not sponsor the affair, Secretary Hodges gave the major address, other departmental officials participated, and the Department published the findings under the title "Problems and Opportunities Confronting Negroes in the Field of Business."
3. Major changes have taken place in the marketplace since 1961. The Federal Government, and especially the Department of Commerce, is now exerting greater leadership in matters pertaining to minority business opportunities.

4. Tentative plans for a national conference were postponed a year ago. Department of Commerce leadership is essential to a successful national conference, as evidenced by the abortive attempt of Ohio University and OEO to call such a meeting last February.

The program would emphasize new methods of solving the minority group businessman's problems and develop techniques for preparing him to enter the mainstream business community. The numerous demonstration programs developed by this office (some funded by EDA and OSTA) would be analyzed and, where appropriate, recommended for use in additional communities. Major emphasis would be placed on the inherent value of the "self-help concept." It is suggested that the Department schedule this conference in late October 1967.

EXHIBIT A

HOWARD UNIVERSITY PROJECT "ECONOMIC ORGANIZATION"

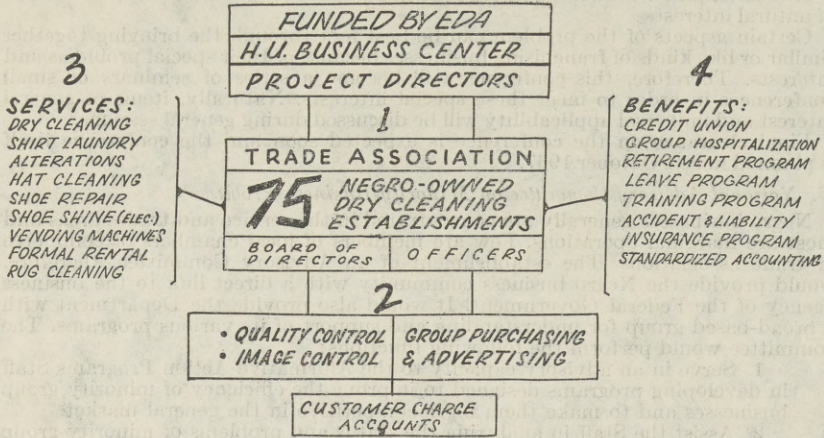


EXHIBIT B

Regional ECONOMIC ORGANIZATION Project

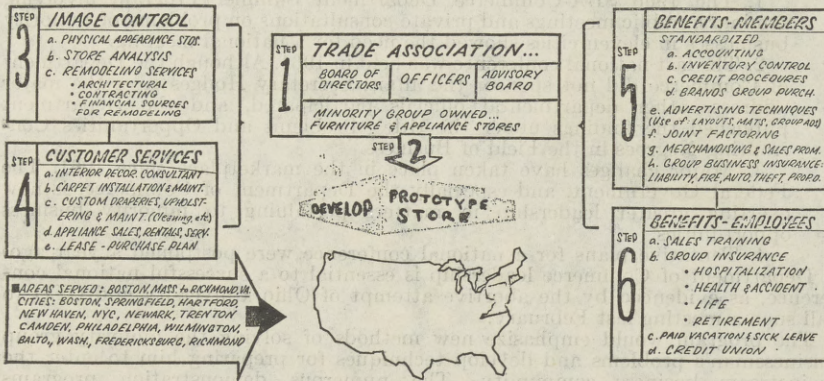


EXHIBIT C

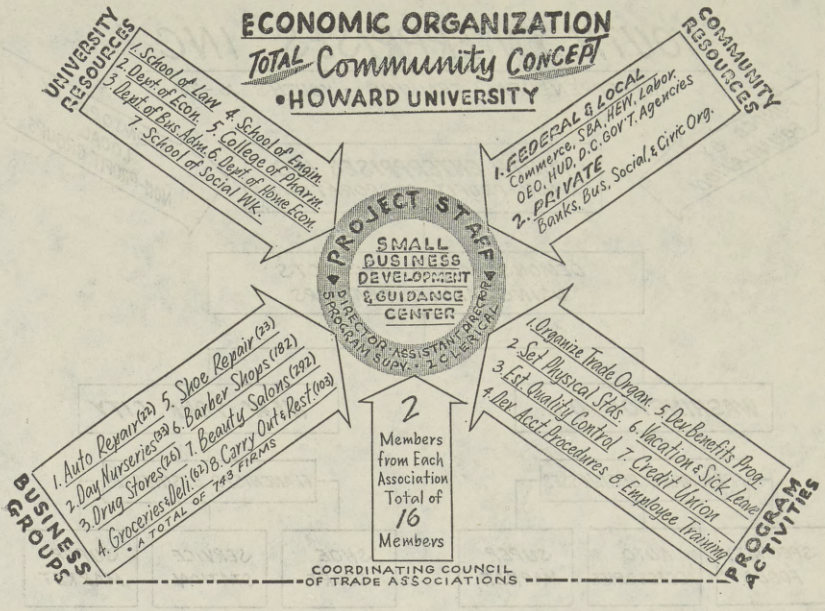


EXHIBIT D



This book could open
new economic opportunities for
YOU
through franchising

FRANCHISE COMPANY DATA

Lists franchisors who do not discriminate on the basis of race, color, religion, or national origin in the availability, terms, or conditions of their franchises.

Identifies 249 franchisors giving the following information:

- Description of operation
- Number and location by state of franchisees
- Equity capital needed
- Financial assistance available
- Training provided
- Managerial assistance available

Describes franchising.
Explains pertinent financial assistance programs.

Available FREE upon request from Sales and Distribution Branch, U.S. Department of Commerce, Washington, D.C. 20230, or Commerce Field Offices.

EXHIBIT E

YOUTH ENTERPRISES, INC.

ENTREPRENEURIAL TRAINING • YOUTHS 16-30

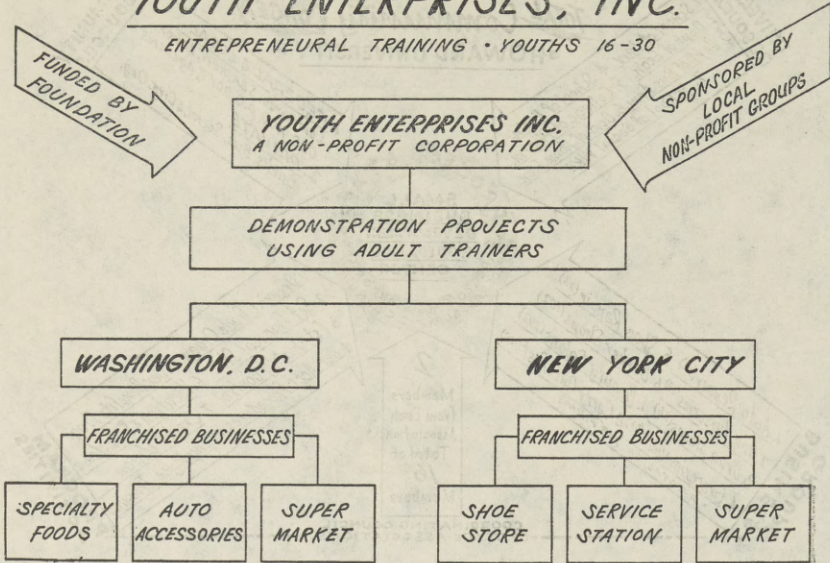
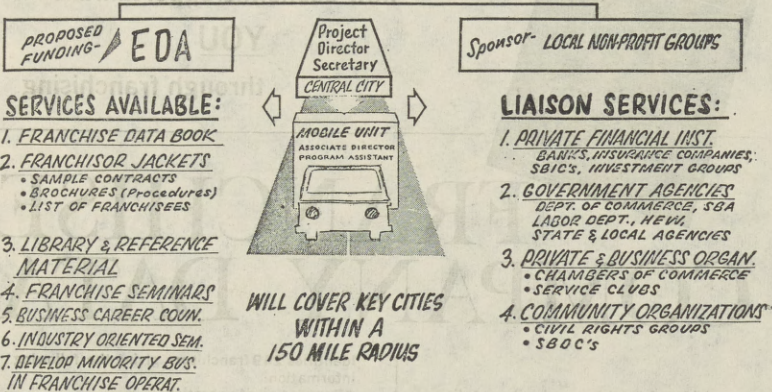


EXHIBIT F

FRANCHISE BUSINESS OPPORTUNITIES CENTER



*Available FREE upon request from Sales and Distribution Branch, U.S. Dept. of Commerce, Washington, D.C. 20530, or Commerce Field Offices.

EXHIBIT G

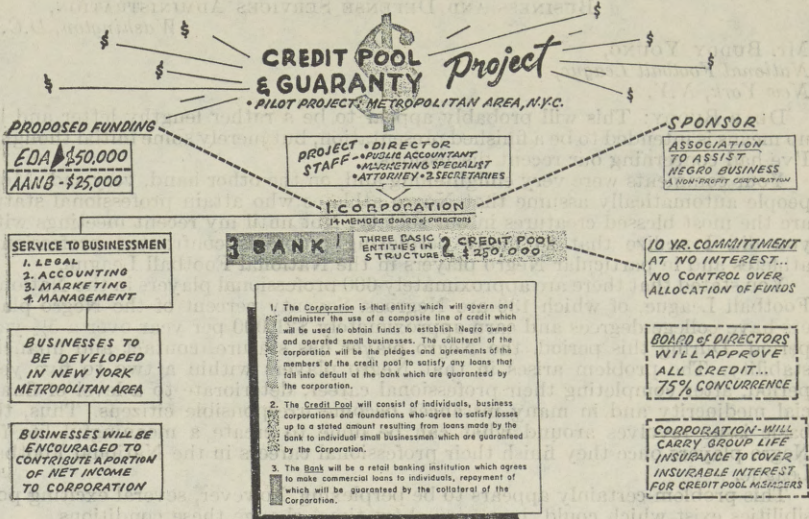
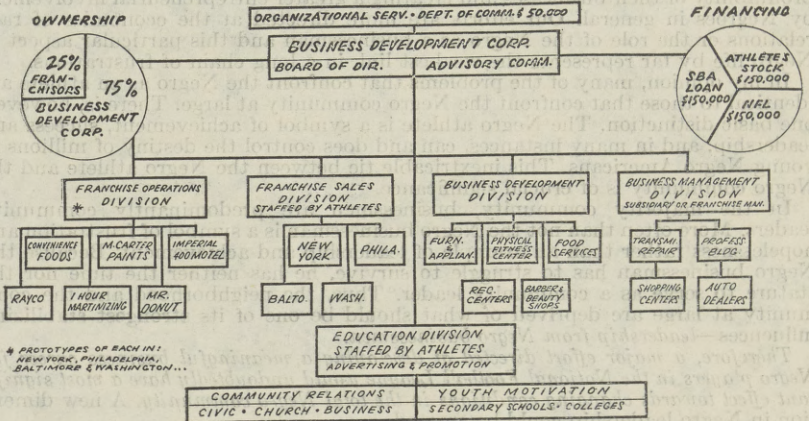


EXHIBIT H

NFL ATHLETE'S ECONOMIC DEVELOPMENT PROJECT



U.S. DEPARTMENT OF COMMERCE,
BUSINESS AND DEFENSE SERVICES ADMINISTRATION,
Washington, D.C.

Mr. BUDDY YOUNG,
National Football League,
New York, N.Y.

DEAR BUDDY: This will probably appear to be a rather lengthy letter and by no means is intended to be a finished presentation, but merely some initial thoughts I've had concerning our recent discussions.

Your comments were very enlightening and, on the other hand, very sad. Most people automatically assume that Negro athletes who attain professional status are the most blessed creatures in our society. Not until my recent meetings with you did I realize that so many perplexing problems confronted professional athletes and in particular Negro players in the National Football League.

You stated that there are approximately 600 professional players in the National Football League, of which 136 are Negroes. Seventy percent of the Negro players have college degrees and earn approximately \$21,000 per year over a 5½ year period. During this period, the Negro player has stature, contact and financial stability. The problem arises in that Negro players within a two to five year period, after completing their professional career, deteriorate to a level of financial mediocrity and in many instances become irresponsible citizens. Thus, the basic issue revolves around what can be done to create a meaningful life for Negro players once they finish their professional careers in the National Football League.

This problem certainly appears to be perplexing, however, several exciting possibilities exist which could, in a very short time, change these conditions.

I am not sure that the resources available within the Department of Commerce, or the Federal government, can completely resolve the athlete's dilemma. Therefore, many of my comments will be directed at both public and private resources.

As Assistant Director of the Office of Equal Opportunity and, specifically, in charge of the Business Information and Affirmative Programs Division, I am primarily concerned with developing programs and techniques designed to bring about a greater participation by minority group members in industry and commerce. This includes assisting Negro businessmen in improving the efficiency and profitability of their businesses and creating a greater entrepreneurial involvement by Negroes in general. Our efforts are more directed at the economics of race relations or the role of the Negro as a businessman and this particular aspect of Negro life by far represents the weakest link in a long chain of frustrations.

In my opinion, many of the problems that confront the Negro as an athlete are identical to those that confront the Negro community at large. There is, however, one basic distinction. The Negro athlete is a symbol of achievement, success and leadership, and in many instances, can and does control the destiny of millions of young Negro Americans. This inextricable tie between the Negro athlete and the Negro community is of crucial significance.

In the majority community, businessmen are predominantly community leaders. More often than not the Negro businessman is a symbol of frustration and hopelessness rather than an example of leadership and achievement. Because the Negro businessman has to struggle to survive, he has neither the time nor the stature to serve as a community leader. Thus, the neighborhood and the community at large are deprived of what should be one of its strongest stabilizing influences—*leadership from Negro businessmen.*

Therefore, a major effort directed at developing a meaningful business career for Negro players in the National Football League would undoubtedly have a most significant effect towards changing conditions in the total Negro community. A new dimension in Negro leadership could be created.

To deal with specifics, I would suggest that there be organized an "Executive Counseling Service"—to provide assistance to Negro players in the National Football League (and possibly whites, too) in the areas of (1) manpower utilization, (2) education, and (3) business opportunities. Specialists should be hired in each of these three areas.

In the area of manpower utilization, employment specialists would solicit and/or coordinate employment activities for players during their off-season periods and seek full time employment responsibilities for interested players once they have completed their football careers. This total employment effort should be directed at achieving a maximum utilization of a player's present and potential talents and abilities, including personal rehabilitation if necessary.

In the area of education, assistance would be provided in the following areas: (1) to those players seeking job opportunities but who are not qualified to achieve their goals without additional education; (2) to those players desiring a degree or graduate training; (3) to those players desiring entrepreneurial outlets but who have limited education; (4) to those players who cannot expect to achieve any meaningful existence without additional education; and (5) to those players having a college degree but not in fields in which they desire to work or where opportunities are limited.

In the area of entrepreneurial involvement or business opportunities, a host of possibilities exist. This is primarily due to the fact that Negro players, while in the League, as opposed to the majority of persons in the Negro community, have the stature, contact and financial resources to become involved in meaningful business activity. Among the many business opportunities are the following:

(1) The franchise industry represents a tremendous possibility for Negro players to become business operators. The U.S. Department of Commerce publishes a list of some 250 franchise businesses, which agree not to discriminate in issuing franchises on the basis of race, color or national origin. Few Negroes have taken advantage of these opportunities because of financial difficulties, etc. Major franchisors have expressed a keen interest in meeting with professional athletes to discuss franchise possibilities. The Counseling Service could initiate the operation of a franchised business for a player (or players in partnership) while he is still in the League, by hiring trained management persons. In this way, the business could be well on its way by the time a player is able to spend full time in the business.

(2) Major distributorships in the automobile, brewing, and soft drink industries have been available for some time and, again, few minority group members have participated for a host of reasons. Professional athletes would certainly represent prime prospects because of their leadership role.

(3) Most major urban areas are noticeable lacking in recreational facilities. Professional athletes might very well develop or organize new franchise operations such as roller skating rinks, ice skating rinks, swimming pools, health clubs, etc. which they could own or sell franchise rights to others.

(4) In the Negro business community, the U.S. Department of Commerce has been working to assist Negro businessmen. Thus, many Negro businessmen are enlarging their existing facilities and merging with other firms to improve their competitive position. As a result, many new investment possibilities exist with Negro business firms.

To initiate this project, I would suggest that there first be established an "investment fund". Each Negro player in the League should be asked to purchase a minimum of \$1,000 in stock. This could result in a minimum of \$136,000 or more in initial working capital. This investment fund would be used for a host of activities, including (a) loans to players; (b) business investments; (c) stock purchases, etc. In addition, I would ask the National Football League to pay the staff costs involved in the "Executive Counseling Service". The National Football League might assess each team in the League a percentage cost factor based on the number of Negro players, with a matching amount being contributed by the League. Alternate methods of financing exist, but this method would be the least difficult.

This program represents a next step, a new phase for the Negro athlete and the Negro business community. It is a step that must be taken if the Negro is to begin to enter significantly into our economic system. While the personal benefits derived from this experiment are impressive, they are only a by-product to the primary purpose. Through these kinds of endeavors, wider horizons will be perceived, confidence will be gained and success enhanced. The knowledge, experience and training gained by Negroes participating in these types of activities will act as a lever to initiate and motivate a new set of positive forces in the Negro community.

It is fully realized that this approach does not represent an all encompassing cure for the Negro athlete. It does, however, represent a new way in which significant gains can be made toward strengthening the economic life of Negro players in the National Football League and the Negro community.

Sincerely,

ABRAHAM S. VENABLE,
Assistant Director, Affirmative Programs Division.

EXHIBIT I

THE MBA—MOBILIZING DORMANT RESOURCES: NEGRO ENTREPRENEURS,
MAY 1967

(By Abraham S. Venable)

The Negro needs a stake in the economic future of this country. A new program spearheaded by the Department of Commerce is helping him build his own businesses.

Over the past several months it has become apparent that businessmen will play an increasingly important role and will assume greater responsibility for improving race relations in our nation. Both Negro and white leaders generally recognize that legislation alone cannot be an all-encompassing promoter of social and economic change. In addition, they realize the effective limits and diminishing returns of governmental action.

With the passage of the Civil Rights Act of 1964, the Voting Rights Act and other impending civil rights legislation, Negro leaders now, more than ever, are addressing their demands not to the legislature or courts, but to community associations, labor unions and business organizations. Consequently, the business community is now bearing a larger share of the burden in resolving civil rights matters because business is best able to take responsibility for improving job opportunities at both lower and higher management levels, and business can best organize and administer job training programs designed to qualify Negroes and other minority workers for better jobs. In addition, the business community has a real stake in setting the tone and style for a new acceptance of minority groups on all levels of our nation's economic life.

The Department of Commerce is deeply concerned with the role of the Negro in industry and commerce. In addition, the presence of the Community Relations Service in the Department for approximately 20 months identified the Department and the concept of equal opportunity in the minds of businessmen and civil rights leaders. If the concept of equal opportunity were truly a reality, our Gross National Product would be approximately \$27 billion higher or a 4 percent increase. This, of course, assumes that both unemployment rates and productivity levels for the Negro and white labor force were equal.

No one has estimated what this means in loss of markets and manpower to individual businesses and no one could calculate the loss in human value to our society. It is only proper that the Department of Commerce take a closer look at how it might help correct this situation.

THE AFFIRMATIVE ACTION PROGRAMS

The U.S. Department of Commerce is the business agency of the Federal Government and its primary mission is economic growth and advancement within the framework of the free enterprise system. In carrying out this responsibility, the Department has established over the years intimate relationships with a large cross section of the total business community. It is certainly the existence of these close ties with the business community which represents the fundamental basis and rationale for its involvement in the economic aspects of race relations.

In the Business and Defense Services Administration, the Agency with primary responsibility for promoting domestic commerce, the Department established the Affirmative Action Programs Staff. It seeks to bring about equal opportunity for American citizens by fostering and developing within the business community affirmative programs for implementing the spirit and intent of our civil rights laws.

The major emphasis at this time is directed at the development of programs especially designed to assist minority group businesses.

In carrying out our programs, we make the following assumptions:

(1) Most Negro-owned businesses are in the service and trade industries and are very small. They compare in size with many other businesses as they were 30 or 40 years ago and are conducted at a rather low level of efficiency, organization, and profitability. Most minority group members have not been a part of the American industrial and economic revolution which has propelled American business efficiency to unexcelled heights. The result is that even in a period in which industry's profits are higher than they have been in the history of our country, the Negro businessman is struggling to survive.

(2) Recent racial disturbances in our major urban areas have heightened the cry from civil rights leaders that until the Negro has a stake in the

economic future of America—as meaningful as that of whites—racial unrest will continue.

(3) In the white community, businessmen are predominantly community leaders. Because the Negro businessman has to struggle to survive, he has neither the time nor the stature to serve as a community leader. Thus the neighborhood and the community at large are deprived of what should be one of their strongest stabilizing influences.

(4) More often than not, many Negro businessmen are a symbol of frustration and hopelessness rather than an example of achievement, success and leadership. As a result, "business" per se is not a polite word in the Negro community, and Negro parents as a rule tend to discourage their children from pursuing business careers either as employees or as entrepreneurs.

With this as basic background, our approach has been one of coordination and communication. The Department does not attempt to establish a new set of business rules for minority group members, rather, it is working to help Negro businessmen and other minority groups become more aware and make greater use of public and private resources that are available to assist business. We emphasize the proven techniques which the majority business community has used to achieve its economic objectives.

DEMONSTRATION PROGRAMS—A CASE STUDY

In an effort to improve the efficiency and profitability of businesses owned and operated by minority group members, a series of demonstration programs have been initiated to show the merit of organizational techniques widely proven by American businessmen. One such experiment involves the organization of independent, minority group businesses—which sell identical products or services—into self-help groups to allow for greater efficiency through combined purchasing, group advertising, maintenance of quality workmanship and attractive shop appearance.

In July, 1966, the Department's Economic Development Administration funded a one-year experiment at Howard University, conducted through its Small Business Guidance and Development Center, in organizing local dry cleaners into a homogeneous group for their collective and individual advantage.

Such an "Economic Organization Concept," embodies the cooperative joining of business firms into a trade association—through which a standardization of operational procedures and marketing techniques are initiated to allow the individual participating firms an opportunity to up-grade themselves, over a given period of time, to meet the minimum operational standards and requirements for any possible successful survival in the general market—the total effort being directed at maximizing efficiency and profit.

Through an analysis of the small dry cleaners by Howard University, it was determined which areas represented the greatest problems. Once this was decided, the standardization of procedures was initiated, which included the following areas:

- (1) physical appearance or image control
- (2) quality control
- (3) accounting systems
- (4) employee and employer benefits program
- (5) employee training
- (6) customer service expansion, and
- (7) cooperative buying of wholesale supplies.

The vehicle selected for organizing the shop owners was the Capital Drycleaners Association, officially formed February 14. CDA now has 65 dues-paying members. To date significant progress has been made in six areas: (1) improvement of physical appearance of shops (2) review of records (3) insurance (4) employer and employee training (5) advertising and (6) publishing a newsletter. There are problems yet to be worked out, but the Association, with experienced officers, a strong board, 65 members and a developing program says much for the leadership and dedication of all involved in this project.

We have been greatly pleased with the initial success of the dry cleaning project and are confident that the desired objectives will be reached. Response from the individual dry cleaners has been enthusiastic. Cooperation of established trade associations, which represented a big question mark, has been most gratifying.

In our opinion, the Howard project has proven the feasibility of organizing local businesses for common economic goals.

EXPANDING THE SCOPE

With this experience behind us we plan in the near future to expand on this basic philosophy. We feel that the next logical step is to test the feasibility of this technique on a regional or national level and with a more sophisticated line of business. We are, therefore, considering the organization of minority group owned furniture and appliance stores from Boston, Mass., to Richmond, Va. into a self-help structure which will serve their collective and individual business needs.

The organizational concept to be followed would be the same as that adopted by Howard University in the dry cleaning project. We have held exploratory talks with firms in Washington, Baltimore, Philadelphia, Trenton, and New York City. The response of the store owners has been very encouraging. See Chart I.

While we feel it is crucially important to expand the economic organization concept to more sophisticated lines of business, we are equally convinced that the concept must be expanded to include more businesses in the service and trade areas. As previously mentioned, most Negro-owned businesses are in the service and trades areas. If any significant impact is going to be made in improving the plight of existing Negro businesses, we must focus primary emphasis on the service and trades industries. In planning a program along these lines we will broaden the scope of coverage to include additional lines of local business instead of following the one-line approach in the dry cleaning project. Consequently, there will be several trade associations organized simultaneously, each one emphasizing the standardization of those operation procedures representing the greatest problem areas.

After careful analysis of many different types of service and trade businesses, it was obvious that the problem areas were the same. Therefore, a multiple use approach, in organizing several business groups simultaneously would present no new problems and would allow for the rapid expansion needed to achieve total community coverage. To achieve uniformity and facilitate cross fertilization, the University will form a Coordinating Council of Trade Associations. Each group will designate two officers to serve. The Council will function as the basic guiding unit to achieve intergroup cooperation and as a sort of steering committee. In addition, we will attempt to create a much more significant involvement by the University and its total resources, most important, a direct student-teacher involvement. For example:

- (1) The Law school could help set up the Trade Associations and provide other legal assistance
- (2) The Business and Economics Department could carry out shop accounting reviews and devise a simplified system for possible use by all shops
- (3) The School of Engineering and Architecture could establish physical appearance standards and review the individual shops, and
- (4) The School of Social Work could provide guidance and social development assistance.

This total effort would be directed at creating a new level of involvement by the University in the economic problems of low-income persons. It is equally important that college students be involved in well directed action programs, so they have first-hand experience at *what business is* and *how*, from a practical standpoint, *business fits into the capitalistic economy*. The involvement of the University, its resources, and its students in the every day, bread-and-butter issues of the low-income business community, would form a sound basis for economic development of the distressed community. See Chart II.

URGENCY NEEDED

Economic organization of minority group businesses is a relatively new tool. It represents a more far-reaching and effective means of up-grading marginal business than programs involving guidance, counseling and training. This does not mean that these tools are unimportant. On the contrary, they are vital, but economic organization goes further, with the concepts of guidance, counseling and training built in. It provides the mechanism for the businessman to take full advantage of his training, enabling him to move up to a more efficient and productive level of operation. Economic organization is useful in single-line operations on the local level, as well as in multi-line businesses on a regional or national level.

We strongly believe that economic organization of minority group owned business represents an effective means of setting in motion self-perpetuating machinery which will allow the Negro community, eventually, to function and grow on its own as a vital part of the total business community.

The need for further demonstration, by leading universities, business organizations and philanthropic groups, is urgent, if we are to develop this technique to the point where it can be effectively utilized by interested minority and other marginal businessmen through the country.

3. SUMMARY OF DEPARTMENT OF COMMERCE'S ECONOMIC DEVELOPMENT ADMINISTRATION PROJECTS IN INNER-CITY AREAS

EDA PROJECTS IN INNER-CITY AREAS

I. Projects which Help Cities Keep and Attract More Jobs in the Inner-City Area Which Will be Available to Poverty Area Residents

A major study of the City of Chicago was financed to find out why industries were leaving South Chicago, and what could be done to reverse the trend. The three-volume report, by the Mayor's Committee for Economic and Cultural Development of Chicago, is considered to be something of a classic and has been widely read. Following up on its recommendations, the City applied for and EDA technical assistance has been provided to maintain a staff which will consult with all the industries now in the area to help solve any problems which the City has power to solve. These include problems such as traffic flow, parking facilities, building regulations, public safety, and community attitudes. The City is giving a high priority to the preservation of these jobs, and industrial reaction in the area has been favorable. If the program proves successful, the City will take over financing of the staff.

In the City of Cleveland, technical assistance financed a study of vacant industrial buildings and land and their potential for creating employment. Out of this came the belief that a new high-rise building for multi-level industrial use in Central Cleveland would provide significant opportunities for employment. A detailed study of the feasibility of such a building has been undertaken as an EDA technical assistance project. Support is also provided to the Greater Cleveland Growth Corporation in a feasibility study of industries which might be attracted to inner-city areas.

In Oakland, California, feasibility studies of new marine terminal facilities, and a new hotel and convention center in downtown Oakland, point to substantial employment opportunities for inner-city residents if requisite investment is forthcoming. EDA public works support has already been provided for the marine terminal facilities.

In Philadelphia, the Office of Technical Assistance provided funds to study the feasibility of expanding the market for fabricated metal products in the Philadelphia area. Most of the fabricating plants are in the inner city. Also, support has been provided to an inventors laboratory which is developing new industries in the inner city.

In Miami, financing has been provided for a city-wide industrial development study that will focus on utilization of inner-city areas for job creation.

In San Francisco, we are supporting a study of industries that can most effectively locate in the Butchertown Industrial Park and provide employment to the hard-core unemployed residents of the adjoining Hunters Point area.

In San Diego, we are financing a feasibility study for location of commercial or industrial activities in a proposed industrial center in the inner-city, the Harbor-101 Industrial Park. It would be adjacent to many of the poverty areas.

In Brooklyn, a study of the re-use of the Brooklyn Navy Yard area to create new employment and a study of the industrial potential and training needs of the central Brooklyn area adjacent to the Navy Yard area are being funded.

In cooperation with the Model Cities program, EDA is financing studies in other cities to assist in locating employment potential which would be available to hard-core unemployed or opportunities for expanding industry in the inner-city. The cities include, Atlanta, Baltimore, Buffalo, Denver, Minneapolis, and St. Louis.

II. Projects which assist with Training and To Assist Cities in Coordinating Training and Job Information for Poverty Area Population

While the primary responsibility for training programs and job information lies with other Federal agencies, there are times when an EDA financed technical assistance project can break new ground, or assist in the coordination of existing programs, or can fill in a gap which appears in existing programs. Several local Opportunities Industrial Centers (OIC's) have needed assistance to round out

program financing. EDA has responded to this need by providing assistance at times in such cities as Philadelphia, Oakland, and Los Angeles.

In Cleveland, a training program for job development in the medical services field was designed with the assistance of EDA technical assistance.

In Oakland, California, a Coordinator of Manpower Training Programs was established in the Office of the Mayor in order to get maximum utilization of all Federal, state, and local programs and to make sure that adequate information was made available to the hard-core unemployed. EDA technical assistance financed the first year of this as a pilot project. If the program is successful, the City is expected to continue the financing. Other job development and training activities in Oakland have also been assisted with technical assistance.

In Philadelphia, a planning assistance grant was used partly to determine the effectiveness of Federally funded Manpower Development programs and to recommend improvement in coordination.

In cooperation with the Model Cities program, again, we are financing studies of the unemployed and underemployed in poverty areas in Cincinnati, Ohio and Rochester, New York, in order to develop more effective programs for providing training and job information.

Support has also been provided for Plans for Progress, which as you know is a nation-wide private organization of major employers attempting to increase employment opportunities for minority groups in major cities. The employers work, with high school vocational counselors in the cities to provide guidance and to help provide adequate training for hard-core unemployment areas.

III. Aid to Minority Businessmen to Help them Establish Business in Inner-City Poverty Areas and to Improve Management Skills so that they can Survive and Expand

EDA is supporting efforts in Philadelphia, Pittsburgh, New York, Cleveland, Milwaukee, San Francisco, San Antonio, Atlanta, and Washington, D.C. to help minority businessmen establish more businesses in inner-city poverty areas and to improve the management of minority-owned businesses in these areas.

Improvement of the quality of business management in these areas upgrades the whole community, and helps these businesses survive and provide more employment for local residents.

In Philadelphia we are supporting a neighborhood leadership group, headed by the Chairman of the Police Advisory Board and two Negro insurance men which is trying not only to hold but to increase the number of businesses in the North Philadelphia area. Support for the Greater Philadelphia Enterprises Corporation, as it is called, as a pilot project, enables it to employ professional staff to assist businesses that are interested in locating in the area or that are trying to expand within the area. The group is working with organizations which represent the major business and educational leaders in the city in trying to improve the industrial and business climate in this area. The Greater Philadelphia Enterprises Corp. hopes to encourage a community attitude in North Philadelphia which will be favorable to the location and expansion of business. The leaders are conscious that insurance rates must be brought down if businesses are to survive. They are trying to communicate to the population that vandalism and other acts which raise insurance rates tend to drive out jobs.

In Pittsburgh, EDA technical assistance has supported the Business and Job Development Corporation which is trying to improve business operations among minority businessmen in the Hill District poverty area. In its early days, the organization screened applicants for small SBA loans and provided training classes for minority businessmen. Its current program is considerably broader. Among other things it is working to generate financial support for rehabilitation and modernization of store fronts in the Hill District, to develop a more effective business and professional organization in the Hill District, to promote industrial development in an adjacent location which will provide jobs for Hill District residents, and to develop a shopping center complex serving the Hill District.

In Cleveland, we are providing continuing support for the Cleveland Business and Economic Development Center, which is the only organization working for the development and diversification of small businesses in the poverty areas there. It was originally established as the Cleveland Small Business Opportunity and Development Corporations and screened applicants for SBA small loans and provided them with management counselling. This function has at present been greatly reduced and a new program established. The present program provides on-site counselling to individual businesses, holds neighborhood seminars or clinics in target areas on business management, holds management training courses in cooperation with existing colleges and universities, and conducts a middle management training program. It is seeking private sources of financial assistance and

loans and will conduct a program of research on possible neighborhood business development. An unusual feature is the business security program to assist small businesses in the area to obtain a greater degree of security. The Program Officer's evaluation report on the project is revealing. He states "Insurance is unavailable in many cases and the rates when obtainable are prohibitive. It is realized that a climate of safety must prevail in order to maintain existing businesses, attract neighborhood customers, encourage business expansion, and new businesses in these business districts."

In Washington, D.C., technical assistance has supported a small business guidance and development center at Howard University to provide training courses and the development of training literature for potential small businessmen who would be operating in minority areas. Many of these courses and materials are designed for people who have had minimum education and have not had the opportunity to develop effective managements skills.

A special program administered by the center was the economic organization of minority dry cleaners into the Capitol Dry Cleaners Association in Washington, and the provision of training in physical appearance, operations, personnel administration, purchasing and advertising. The result has been a notable improvement in the operation of dry cleaning establishments in the poverty areas. This dry cleaners program was developed by the Affirmative Action Program staff of the Business and Defense Services Administration of the Department and financed and partly monitored by the Urban Projects Division in the Office of Technical Assistance in EDA. The program is now being extended to other lines of retail and service activities in the District.

Another project originated by the Affirmative Action Program staff of BDSA and financed by technical assistance in EDA is the Regional Economic Organization of Furniture and Appliance Stores in poverty areas in major cities from New York to Richmond. It is being administered by the Interracial Council for Business Opportunity.

At Atlanta University in Atlanta, the Regional Economic Development and Business Service Center has been supported for several years. This organization is providing training courses for local minority businessmen and providing counselling. It is also performing feasibility studies, where appropriate, on the possibility of establishing new businesses or expanding them in urban poverty areas in and around Atlanta.

OFFICE OF TECHNICAL ASSISTANCE, URBAN PROJECTS DIVISION

URBAN PROJECTS APPROVED OR CONTINUING IN FISCAL 1967

CATEGORY I.—HELPING CITIES KEEP AND ATTRACT MORE JOBS IN THE INNER-CITY AREA WHICH WILL BE AVAILABLE TO POVERTY AREA RESIDENTS

| City/area | Project No. | Amount | Description |
|---------------|--------------|-----------|-------------------------------------------------------------------------------------------------------|
| Atlanta | 04-6-09090 | \$100,000 | Model city neighborhood project. |
| Cleveland | 03-6-09056 | 100,000 | Multistory industrial building study. |
| Denver | 08-6-09136 | 73,333 | Economic development study of poverty area. |
| Massachusetts | 01-6-09042-1 | 157,500 | Boston University, area development center. |
| San Diego | 07-6-09048 | 35,000 | Harbor-101 industrial study. |
| Baltimore | 02-6-09065 | 83,000 | An industrial development corporation in Baltimore. |
| Do | 02-6-09065 | 17,000 | Maryland Industrial Corp. |
| Miami | 04-6-09072 | 100,000 | Citywide industrial development study and labor Force analysis. |
| Do | 04-6-09073 | 80,000 | Central produce market study. |
| Philadelphia | 02-6-09027 | 65,000 | Study of feasibility of expanding market for fabricated metal products in the Philadelphia, Pa. area. |
| Do | 02-6-09032 | 165,950 | Individuals who need help in the development of their ideas into manufacturable, marketable products. |
| Do | 02-5-09035 | 79,223 | Planning assistance grant for Philadelphia. |
| Do | 02-6-09025 | 66,810 | Job development in north central Philadelphia through industrial and commercial expansion. |
| Brooklyn | 01-6-09075 | 180,000 | Central Brooklyn grant and study. |
| Do | 01-6-09069 | 58,750 | Brooklyn Navy Yard. |
| Do | 01-6-09070 | 142,480 | Do. |
| Buffalo | 01-6-09101 | 30,000 | Broadway-Filmore project. |
| Chicago | 06-6-09128 | 240,000 | 2 in 1. |
| Cleveland | 03-6-09093 | 75,000 | Assistance to disadvantaged areas in Cleveland. |
| Minneapolis | 06-6-09166 | 98,150 | 1-year study. |
| Newark | 02-6-09007 | 70,300 | Planning grant. |
| St. Louis | 06-6-09129 | 125,000 | St. Louis industrial study. |
| Do | 06-6-9110 | 40,000 | East St. Louis sewage feasibility study. |
| San Francisco | 07-6-09058 | 70,000 | Study industries desirable for Butchertown Industrial park. |

CATEGORY II.—TO ASSIST WITH TRAINING AND TO ASSIST CITIES IN COORDINATING TRAINING AND JOB INFORMATION FOR POVERTY AREA POPULATION

| City/area | Project No. | Amount | Description |
|---------------|-------------|----------|-----------------------------------------------------------------|
| New England | 99-6-09040 | \$20,000 | Manpower survey. |
| San Antonio | 08-6-09097 | 65,000 | Project Speed. |
| San Diego | 07-6-09122 | 57,000 | Manpower coordinator. |
| United States | 99-6-09046 | 150,000 | Plans for progress. |
| Camden | 02-6-09060 | 10,218 | Job development, assistance for southern New Jersey OIC. |
| Cincinnati | 03-6-09107 | 89,500 | Subemployment survey. |
| Miami | 04-6-09072 | 100,000 | Citywide industrial development study and labor force analysis. |
| Philadelphia | 02-5-09035 | 79,223 | Planning assistance grant for Philadelphia. |
| Do. | 02-6-09026 | 84,220 | 2 in 1 program in Philadelphia. |
| Brooklyn | 01-6-09075 | 180,000 | Central Brooklyn grant and study. |
| Cleveland | 03-6-09086 | 68,200 | Medical job development in Cleveland. |
| Detroit | 06-6-09157 | 100,000 | Transportation study. |
| Los Angeles | 07-6-09076 | 77,000 | OIC. |
| Oakland | 07-6-09075 | 2,500 | 1st annual East Bay job fair. |
| Do. | 07-6-09032 | 10,000 | Organization and administration of job development activities. |
| Do. | 07-6-09108 | 54,691 | Job development activities in Oakland. |
| Do. | 07-6-09084 | 27,935 | Community employment program. |
| Rochester | 01-6-09107 | 93,750 | Subemployment survey program. |

CATEGORY III.—AID TO MINORITY BUSINESSMEN TO HELP THEM ESTABLISH IN INNER-CITY POVERTY AREAS AND TO IMPROVE MANAGEMENT SKILLS SO THEY CAN SURVIVE AND EXPAND

| City/area | Project No. | Amount | Description |
|----------------------------|--------------|----------|--------------------------------------------------------------------------------------------|
| Cleveland | 03-6-09099 | \$87,150 | Cleveland Business and Economic Development Corp. |
| Los Angeles | 07-6-09109 | 150,000 | Project Earning Power. |
| San Francisco | 07-6-09057 | 182,000 | PACT. |
| United States | 01-6-09090 | 150,000 | Business leadership training. |
| Do. | 99-6-09046 | 62,700 | Regional economic organization furniture and appliance stores. |
| Washington, D.C. | 99-6-09010-1 | 149,755 | Small business guidance and development center. |
| Do. | 99-6-09046A | 78,908 | Economic organization, total community concept. |
| United States | 99-6-09006 | 312,000 | Atlanta University Regional Economic Development and Business Service Center. |
| Milwaukee | 06-6-09021C | 56,800 | Milwaukee Small Business Opportunities Corp. |
| Philadelphia | 02-6-09025 | 66,810 | Job development in north central Philadelphia through industrial and commercial expansion. |
| Do. | 02-6-09023 | 36,488 | Extension of Philadelphia SBDC, July 1, to Oct. 31, 1966 |
| Pittsburgh | 02-6-09033 | 137,647 | A program of small business assistance and neighborhood economic development. |
| New York City | 01-6-09085 | 100,000 | SBDC. |
| Baton Rouge | 08-6-09045 | 79,054 | Center for Economic Development and Technical Assistance at Southern University. |
| Fall River and New Bedford | 01-6-09102 | 59,096 | Commonwealth resources for economic advancement training and education (CREATE). |
| United States | 99-6-09042 | 93,859 | National Business League. |

