

ECONOMY

Conversion inexperience

Tabloid television—and some federal bucks—helped Dana Spencer convert a small piece of the military-industrial complex to peaceful purposes. Though his project is the equivalent of beating a penknife into a garden trowel, it is nonetheless a triumph in an endeavor—military conversion—that is talked about far more than it is practiced.

With few government programs in place, defense firms are showing little interest in civilian life.

By David Moberg
LOS ANGELES

Spencer is a manager at Hi-Shear Technology Corp., a small Southern California aerospace contractor that has lost nearly half its workforce during recent cutbacks in military procurement. In 1992, as he watched rescue workers on TV open a crashed car with a giant “jaws of life” metal cutter, he suddenly thought,

“Heck, we could do better than that.”

For nearly two decades Hi-Shear had produced a device that used a small explosion to propel a blade that sheared heavy bolts linking the stages of a missile as they separated in flight. Pursuing Spencer’s hunch, company engineers designed a rescue cutter that would use the same technology to cut through twisted auto wreckage. In 1993 the company won \$780,000 in grants under the federal government’s Technology Reinvestment Project (TRP). Administered by the Defense Department’s Advanced Research Projects Agency (ARPA), TRP aims to fund “dual use” technologies that companies can produce for both military and commercial markets. Although its director specifically says TRP is not about conversion of the defense industry (and the project sets its priorities according to military needs), TRP is widely regarded as the heart—albeit a weak heart—of the Clinton administration’s conversion strategy.

Hi-Shear sold its first cutters to the local fire department in Torrance, Calif., earlier this year. Since Hi-Shear’s cutter is lighter,

cheaper and more versatile than the competition’s, the company hopes to both divvy up the existing market and expand demand for rescue equipment. Early production required no new hiring, but Hi-Shear executives expect its rescue cutter will soon generate around 40 new jobs plus outside machine-shop work. They also hope their pyrotechnic device can be used in other products, such as auto airbags and high security locks.

Yet Hi-Shear’s shift from Cold War contracting to mainstream commerce required more than simply adapting aerospace technology to mundane uses. “It required a radical change,” says president Tom Mooney. In producing for a commercial market, “you’re continually re-engineering to get the product to work better for less cost. If you build for the government, once you get something that works, they don’t ever want to change it.” Unlike Hi-Shear, many defense firms simply haven’t been able to figure out how to compete in conventional markets. Others, especially prime defense contractors such as McDonnell Douglas, Northrop Grumman and Martin Marietta (which is merging with Lockheed), have never really tried.

Despite the loss of about 1.2 million defense jobs since the late ’80s, managing the transition from the military boom of the Reagan years to the post-Berlin Wall world of the ’90s has not been a central political issue. Since peaking

This story is the first in a three-part series on attempts to restructure America’s military-industrial complex. The first two stories will deal with efforts by defense contractors to retool for civilian work. The final story will focus on the closing of American military bases and the communities that are learning to live without them. This series was made possible by a grant from the John D. and Catherine T. MacArthur Foundation.

in 1985, defense budget authority—the money Congress authorizes for immediate military spending and future weapons purchases—has dropped by about 35 percent (although actual spending peaked later and has dropped more slowly). California—where defense spending doubled in the '80s, then fell by about one-fifth—was among the areas hardest hit, even though it still gets 20 percent of all defense dollars.

These defense layoffs contributed to the lingering national recession of the early '90s, though the effects were felt most acutely in California and the Northeast. Neither the government nor the biggest defense contractors were able to devise programs to redirect the industry's efforts to peaceful ends. Many prime contractors, especially in aerospace, decided instead to shrink and consolidate, hoping to grab a larger share of a smaller market—rather than wait for it to grow again.

Conversion was political anathema to the Bush administration (and many in Congress), a form of dreaded “industrial policy.” That kneejerk response failed to recognize that defense spending itself has been the nation's covert industrial policy since the end of World War II, giving a major

took lower-paying jobs, redefined themselves from “unemployed” to a “consultant,” or simply dropped out of the labor market prematurely.

The failure to more systematically employ defense industry workers and resources in new tasks has, along with pressures from the Pentagon and conservatives, made further defense cuts more difficult to pursue. Over the first two years of his administration, Bill Clinton dramatically slowed the rate of decline in defense spending. Now, with Clinton's capitulation to Republican demands for a beefed-up military, real defense spending will probably start growing again. Yet even at current levels, as the Washington-based Center for Defense Information notes, U.S. military spending is already close to the average maintained during the Cold War.

During the 1992 presidential campaign, when talk of a peace dividend was politically fashionable, Clinton promised additional investment in public infrastructure and education, which could have helped the economy absorb defense workers. Instead, nearly all the savings from defense cuts have gone into deficit reduction. In a March 1993 speech before Westinghouse workers, Clinton

promised to spend \$19.5 billion over five years for defense conversion. He proposed policies to develop new technologies from military research, some new money to aid workers and communities in managing base closings, and, to a lesser extent, defense-industry shrinkage.

But most of the package consisted of old programs, such as early retirement payments, in new wrappings. Even with its budget tripled to \$30 million, the Pentagon's Office of Economic Adjustment received only half of the money allotted to Junior ROTC. (Incredibly, JROTC is counted as a conversion program.) Michael Oden, a fellow in Rutgers' Project on Regional and Industrial Economics, concluded that from 1990 to 1994 only \$2.3 billion in Pentagon spend-

ing could plausibly be counted as conversion spending. That is equal to the development cost of one Sea Wolf, a nuclear submarine that George Bush killed but Bill Clinton resurrected. “It's obvious this isn't a particularly serious program when you look at the spending compared to the cuts,” Oden says.

One of the few new ventures established by the Clinton administration is TRP, the program that helped Hi-Shear implement its conversion plans. TRP has received roughly half a billion dollars a year from fiscal 1993 through 1995



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boost to civilian aircraft, communications and electronics industries (including computers), as Ann Markusen and Joel Yudkin argued in their perceptive 1992 book, *Dismantling the Cold War Economy*.

The prevailing view was, as ever, “leave it to the market.” Eventually jobless rates did decline nationwide, though less so in areas like Los Angeles, where official unemployment in October was 7.8 percent—nearly 50 percent higher than the national average. But these figures don't reveal the extent to which many defense workers

to underwrite dual-use research and provide technical assistance and training in manufacturing.

Yet as a conversion strategy, TRP is deeply flawed. It is run by the military and dominated by military objectives (for example, neither energy efficiency nor mass transit qualify as dual-use objectives). Dominick Bertelli, coordinator of a labor and community coalition known as the Workplace Economic Conversion Action Network, argues that TRP is simply a way for the military "to continue work it would have been doing anyway [by putting] a civilian face on it."

Most TRP money goes to big firms that have shown little interest in commercial reorientation; only this fall did Congress make job creation an objective for TRP and allow labor unions to apply for funds. Rutgers' Oden also argues that, with rare exceptions, it is very tough for companies to make products that meet both military needs and commercial demands at the same time. Airplane production is one of the few areas where dual-use production makes some sense, but unfortunately for aerospace workers airlines were losing money and scaling back orders precisely when defense cuts hit.

In addition, neither Congress nor the Pentagon has dramatically reformed the military's burdensome procurement practices that discourage buying off-the-shelf products. Procurement reformers had hoped that the Pentagon could simply buy more off-the-shelf commercial technology.

More fundamentally, even at its best TRP focuses on developing specific critical technologies, a strategy pursued more broadly through programs of the Commerce Department and the national laboratories. But developing new technologies is only one aspect of conversion, and in most cases not the most important. Technology development usually takes many years to yield significant employment. For workers and communities, the highest priority is job creation. And for many businesses, the highest priority is directing the managerial and workplace culture away from the strange world of military production.

Finally, TRP's obsession with figuring out nifty uses for military technology—which often has no civilian market—is not the socially or economically most productive approach to conversion. Government, working with business and labor, needs instead to define new social needs and help develop industries to satisfy them. Assume, for example, that energy efficiency is both an environmental and economic imperative, as well as a market opportunity. A positive conversion strategy would draw on the talent and resources released by the shrinking defense industry to promote sustainable technologies different from the narrow, military-dominated approach to production. It would generate more jobs as well, especially in the short run.

Bertelli is ready to scrap TRP. "It creates the illusion of conversion without delivering," he says. However, Oden argues that about a third of TRP spending has been innovative and productive. Unfortunately, that part will be most vulnerable to Republican attacks as "industrial policy."

Even at their best, TRP and related federal programs operate on such a small scale that they have only marginal influence. At this point, most conversion of industry, or lack thereof, relies on private business decisions about their market opportunities. On their own, military producers are responding with strikingly different strategies depending on where they fit in the old hierarchy of prime contractors, subcontractors and suppliers.

The consulting firm of A.T. Kearney reported in a 1993 study that about 80 percent of prime contractors—McDonnell Douglas, Northrop Grumman, et al—were primarily sticking with defense markets, with about 10 percent expanding to other government customers and 10 percent converting to commercial markets. Unlike the lower rungs of the defense industry, the prime contractors also strongly believed new "threats" would emerge to revive the military business.

The story was much different with the small to mid-sized subcontractors and suppliers. Among those firms, 46 percent were expanding to other government customers, 25 percent were staying with defense and 29 percent were converting to non-government markets. Three-fifths of the smaller suppliers, however, were converting away from defense to commercial work, with one-fifth pursuing other government markets and another fifth remaining mainly in defense.

Conversion advocates had long argued for advanced planning, involving worker committees, to prepare for civilian work, but the defense industry was largely opposed, Congress never passed proposed legislation requiring planning and the theory was never tested.

Yet perhaps planning would not have worked with some defense companies. There is widespread belief among both critics and stalwarts of the industry—such as former Lockheed chairman Roy Anderson—that many prime contractors are culturally and organizationally incapable of dramatic change. Some companies, like Lockheed, have pursued other government markets, opting for a strategy of diversification rather than conversion. Others, like Hughes Electronics and Rockwell, already had some ties to commercial markets and are expanding commercial work.

But even when engineers have identified commercial possibilities for defense technologies on their shelves, executives often see these products as far removed from their traditional core business. They are also typically uninterested in small to medium-sized markets. At one conference, Lockheed's director of development reportedly said the company was staying in aerospace because "we need five \$500 million businesses, not 50 \$50 million businesses."

The best hope to overcome this resistance, many strategists believe, is to spin off new small businesses owned by some of the former prime contractor employees and possibly helped by the parent with initial financing or else simply selling the ideas to another business. For example, TRW spun off a software division, in which it has a diminishing financial stake, which has turned into Sybase, a fast-growing, \$1.5 billion firm.

In many cases, however, it is hard for these spin-offs to find initial capital. Fred Haney, a former venture capitalist who failed to get TRP funding for his plan to develop businesses that could commercialize military technology, has found that small businesses can't easily raise needed money, and big companies won't invest unless there's a huge, strategically relevant market. For example, Titan Corporation in San Diego thought its Star Wars-funded X-ray work could be translated into an "X-ray needle" that would treat tumors from inside the body. But, Haney said, the company couldn't find a buyer and "didn't want to spend more money, which is pretty typical."

One defense company spin-off success is NuReality, part of a complex of high-tech companies started by Tom Yuen, one of the co-founders of AST Research, a highly successful computer business. NuReality began as a division of Hughes Electronics, which is owned by General Motors. The division spent \$10 million over eight years in developing sound systems for Boeing 747s. But Hughes management changed and decided to divest any non-core business with less than \$50 million in sales.

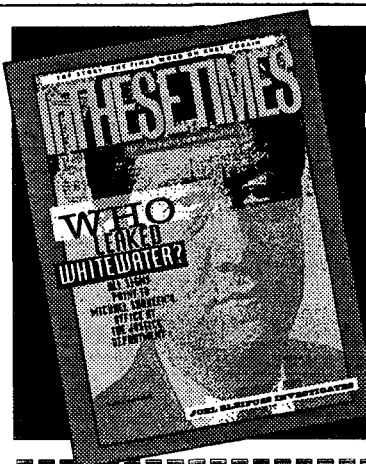
A team of Hughes employees and outside investors bought the division in 1993, but they were undercapitalized. Yuen heard the remarkable three-dimensional sound their technology produced and bought a majority share. He then formed NuReality to produce speakers for high-end and mid-range audio systems, computers and video games.

Yuen has hired some laid-off defense engineers and workers, relied on former defense worker consultants for research, and taken advantage of slack times at local electronic subcontractors to do much of the preliminary assembly work. Although Yuen's four companies now employ only about 50 workers, the number may double next year. And additional jobs have been created in what he calls the company's "virtual" manufacturing and engineering divisions—the network of suppliers, contractors and consultants in Orange County that he works with.

Despite Yuen's hope for his own and other start-up companies emerging from the defense industry wreckage, he sees a bleak landscape for most workers. "Unfortunately, I don't think there is a solution," he said. "Many new victims will be created as we go through downsizing, not just of the military. We are forced by global competition to be efficient. People realize they are putting in longer work hours with increased stress and pressure. It's reducing the quality of life, but there's not much that can be done about it." Yet advocates of more aggressive conversion initiatives say something can be done about it: government can define new public missions and thereby generate new industries and employment.

For the small traditional defense suppliers and subcontractors, who would be delighted with a product that earned \$50 million a year, the choice is usually convert to commercial work or die.

Such conversion usually requires radical revamping of the whole business. For example, since the '80s the defense share of metal machining and forging work at Ace Clearwa-



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ter Enterprises in Torrance has shrunk from about 30 percent to 8 percent of the company's business. Though sales have been flat, Ace Clearwater president Kellie Dodson, the owner's daughter, has invested in computer-aided design and computerized coding of all work to control costs. After getting advice from the California Manufacturing Technology Center, a training and technical assistance program funded through TRP, she hired its consultant as her "director of change."

Producing for the commercial market is unstable, making it hard to plan investments in capital and training. Ace Clearwater vice president Gary Johnson says as his corporation seeks greater flexibility, "we've got to make parts faster and cheaper—and fewer," Johnson says. "We used to get orders for 600 parts. Now it's more likely 16."

Ace Clearwater's negotiation with a furniture maker demonstrates how the absence of the long-term relationships that are common in defense work makes business difficult. Tired of problems with a Taiwan supplier, the furniture company started talks with Ace Clearwater about making metal table legs. Dodson thought she had a deal, but outside investors bought the company and opened a plant in Mexico. Then the furniture company returned again to Ace Clearwater for bids but wouldn't promise a five-year contract.

"There was no sense of loyalty, commitment, long-term agreement," she said. "This is particularly shocking when you're coming from aerospace. On the table legs, they'd have moved for half a cent." After a year and a half of talks and expenses, Dodson said she wasn't interested in any deal.

Many business strategists now celebrate small, entrepreneurial firms as the only hope for conversion. But these small firms virtually always exist in webs of relationships, often within a particular industry. Major firms tend to set the direction for the industry, even if it's by deciding whether or not to buy innovations from the small companies. The chaotic relations among businesses in the United States, typified by Ace Clearwater's experience, make relying on small firms to bring about conversion a risky proposition.

Yet there are ways that the government can play a role in nurturing alliances that can hasten conversion or the emergence of new industries. The government can mobilize resources—by funding research and development as well as guaranteeing initial purchases—to help launch new industries or products.

By far the most ambitious alliance drawing on this model is Calstart, the brainchild of entrepreneur Lon Bell, a former rocket scientist who has already succeeded in converting military technology to car airbag construction. Launched with modest government support in July 1992, and now involving about 86 companies and other organizations, Cal-

start's mission is to create good jobs in California, clean the air and improve the state's global competitiveness by building an advanced transportation technology industry.

The California Air Resources Board has mandated that by 1998 2 percent of all new cars sold in California (about 40,000) must emit no pollution. By 2003 non-polluting electric vehicles must make up 10 percent of the market. Since a consortium of Northeastern states wants to establish the same standards (though the U.S. Environmental Protection Agency is delaying its approval of the plan), roughly half the U.S. car market would require some electric vehicles. Even without the Northeast market, Calstart has estimated that an electric vehicle industry would create 55,000 jobs in the state by the year 2000.

Conversion advocates argue that only the creation of a new industry, such as the electric car market, can provide an alternative to defense work. Simply relying on the haphazard innovations of small entrepreneurs will not work. Although there is a need for non-polluting transportation, development of the industry needs a boost from government. "If there were no mandate" to build electric cars, says Calstart president Michael Gage, "I'm pretty sure we wouldn't exist."

Calstart was hopeful when at first it appeared that the Big Three were ready to join in the march toward electric vehicles. In 1991, GM promised early production of its Impact electric car. But then GM and the other automakers decided to fight the rules. Now they denounce electric vehicles as impractical, even though European and Japanese companies have been working hard on electric, hydrogen fuel cell and other low-polluting cars. Late last year, the Clinton administration caved into the car companies and joined the Big Three in a billion-dollar project designed to boost the efficiency of internal combustion engines.

Other federal programs are also skewed toward the established auto industry. The Department of Energy is the sole federal funder for fuel cells, which are very low-polluting electric power sources, and it grants money only to the Big Three. TRP also provided just one year of funding for a composite material consortium that was looking for low-cost mass-production technologies to use superstrong and light composites for cars and other products. When the funding ended, the consortium broke up. The Japanese are still working hard on this front.

California and the federal government have kicked in funds for Calstart, but most of the \$229 million invested thus far in the consortium has come from the private sector. Last year Calstart got only \$5.4 million of the \$42.4 million in TRP grants it had requested. "Clinton doesn't think we're real," a Calstart official says. "One Commerce Department official told us, 'You guys will screw it up for the people

Government, working with business and labor, needs to identify new social needs and develop industries to satisfy them.

who know what they're doing,' " namely the Big Three.

The Clinton administration's attitude not only ignores the Big Three's history of opposition to automotive engine innovation, it also ignores the considerable conversion potential from California's defense spin-offs—which could also spur the auto industry to action. For example, U.S. Flywheel Systems, a member of Calstart, is trying to adapt military work on gyroscopes to develop mechanical energy storage systems for electric vehicles.

Unfortunately, even some supporters are beginning to wonder if Calstart is real. "It's a think tank, not a do tank," one dismayed sympathizer says. Calstart claims to have generated about 1,200 jobs so far, but those are mostly managerial and professional. Its members are working on at least 16 distinct technologies, and it has produced a working electric-vehicle concept car and has delivered some electric buses. But some environmentalists think a battery-powered electric vehicle—the preference so far of Calstart—may not be as promising as a very light hybrid vehicle, using a fuel cell and an electric motor.

Calstart leaders always envisioned that California would create components, not launch a competitor to General Motors. But without the participation of a major auto firm and the promise of a final assembly plant, Calstart will have to content itself with production for limited if important niches—such as delivery vehicles or buses.

On the margins of Calstart, neither a member nor an enemy, sits Orange County's Taylor-Dunn, one of the world's largest electric vehicle makers. It started with golf carts, then shifted to production of electric vehicles for use in factories and other off-road locations. Jim Goodwin and his partner bought the ailing business in 1990. They promptly cut waste, pollution, inventories and lead time in making product changes. With new computer technology and more agile manufacturing tactics, they boosted production, profits and employment, drawing about one-third of new workers from defense.

Now 200 workers, who average \$15 an hour plus profit-sharing and are encouraged to cooperate in planning the work, turn out about 20 vehicles a day. But Goodwin claims the company does not have the money to test any new model to see if it meets highway safety standards. If he could, there's a potential \$2.5 billion market simply in replacing postal service vehicles, he says. He supports continued electric vehicle mandates, more state and federal aid, and federal purchases of electric vehicles to drive down the cost of production. But as one small company, he now must tend to his niche and can only dream of bigger markets to come.

Goodwin is a hero to writer Joel Kotkin of the Center for the New West, a think tank that extolls entrepreneurship. Kotkin sees him as a small businessman who is building things for the real market, not a fuzzy-headed visionary like the Calstart executives. But Goodwin's options are limited as a small entrepreneur, and unlike Kotkin he recognizes the value of government intervention and alliances like Calstart.

Even some critics of Calstart's performance so far agree

with consortium president Gage that it is a good model for conversion—even if Big Three opposition and federal foot-dragging have hurt their cause. The Calstart consortium encourages cooperation among a wide variety of participants, aims to develop a new industry that satisfies important social needs, and plans to employ both the technology and people of the shrunken defense industry. If Calstart hasn't succeeded on all counts so far, it is not due to the failure of those principles.

"Some people say conversion doesn't work very well," Gage says. "It doesn't if you don't have some reason to convert. [Also], competition isn't enough. Cooperation is vital, but competition with cooperation is a better tool. Sharing information is already pushing production quicker to market."

Calstart founder Bell—now president of Amerigon, an advanced transportation company he recently started—had hoped that the Calstart model would eventually spread to other industries, which could more efficiently utilize the nation's resources. While he underestimated the adaptability of defense technology to advanced transportation, he says, "I overestimated the willingness of corporations to consider new business ventures at a time of their economic decline or downsizing."

Amerigon at least has components it can sell to the auto industry, regardless of progress on electric vehicles. For example, it now offers a guidance system that tells the driver how to find a destination in response to spoken commands, drawing on data on a compact disc. Calstart boosters think they will also have a big chunk of a large "intelligent vehicle highway system," a technology that would, however, consolidate further the nation's auto dependency and do little for the environment.

Even if military spending rises again, political organization for conversion is essential. But rather than imagine that new work can always be found to keep workers employed in the same factory where they were engaged in military production, most conversion advocates now realize that they must help jump-start new industries and launch new public missions to replace defense. Also, while the big defense contractors have made it clear they have little interest in conversion, the smaller companies clearly need help with changing business culture, retraining workers and managers, acquiring capital, and in some cases developing new technologies. In many cases, they also need leadership, whether it's through an alliance of smaller firms or the initiative of major companies.

Government has a key role to play as well, argues Bell. "There's absolutely a role for government to facilitate initiatives that have societal impact, such as environmental concerns and transportation," he says. "Enlightened intervention can ease pain, speed the process and increase global competitiveness. How did Boeing get created?"

Next issue: How workers and their unions envision conversion.

BLACK AMERICA

Closing ranks?

Media attention lately has been focused on the discontent of white men. The anger and resentments of these men, mostly high school graduates with blue-collar skills, were said to be the main ingredient in the 1994 electoral upheaval that placed Congress in Republican hands. But if participants in the recently concluded National African-American Leadership Summit (NAALS) have their way, 1995 will be the year we hear from discontented black men.

Will black progressives and the Nation of Islam join together?

By Salim Muwakkil
CHICAGO

This was the third in a series of black leadership meetings organized by the Rev. Benjamin Chavis, who initiated the process before he was fired in August as executive director of the NAACP. The event, which took place here from December 9-11,

attracted about 75 participants from across the country and across the political spectrum. At the meeting's conclusion, the NAALS issued a 10-point action plan including a march by 1 million black men on Washington in October, targeted boycotts, an African-American development bank, public demands of reparations for the "holocaust of enslavement," and aggressive campaigns to counter negative media portrayals of blacks.

The audacious attempt to mobilize 1 million black men to march on Washington on October 15 is the centerpiece of the action plan. The march will be less a protest than a chance to "affirm our responsibility to care for the African-American community, to care for our families," says Chavis. Ironically, the idea for a civil rights-style march was initiated

by Minister Louis Farrakhan of the Nation of Islam (NOI). The NOI historically has been hostile to the social protest mode of the civil rights movement, and that hostility was mutual. The first two summits, held in Baltimore while Chavis headed the NAACP, sparked controversy precisely because of Farrakhan's involvement. But some observers argue that the NOI's new willingness to defy its own traditions is a product of those previous summit meetings.

"The problems of black people have not been placed on the back burner, they've been pushed off the stove," Farrakhan said at a news conference explaining the march's purpose. "No political party has responded properly to our needs. We intend to wake America up." Farrakhan reminded his audience that the Rev. Martin Luther King Jr. marched to desegregate the United States in the '60s, but said that America is more segregated today than it was then.

Since his August firing, Chavis has been traveling the country doing speaking engagements and focusing on the business of the NAALS. It is clear that he intends to parlay these occasional gatherings into the nucleus of a new organization; the group already has set up an office in Washington, D.C. During this period, he has also strengthened his relations with Farrakhan. Chavis' speeches now echo many of Farrakhan's themes of economic self-sufficiency and racial solidarity.

Farrakhan's influence on the Chicago meetings was apparent in everything from the theme of the discussions