

BLACK ENTREPRENEURSHIP IN THE U.S.: AN HISTORICAL APPRAISAL,  
CONTEMPORARY PROBLEMS AND FUTURE PROSPECTS  
(A Study in Demand for Entrepreneurship)

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ABSTRACT

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The study is concerned with the development of entrepreneurship at the grassroots level. A school of social scientists believes that in the development of this type of entrepreneurship, "supply determinants", i.e. socio-cultural factors and experience which determine a subgroup's or individual's ability to perceive entrepreneurial opportunities engendered in the process of economic development, are more important than "demand determinants", i.e. governmental actions and programs geared to entrepreneurial promotion. This study however takes a contrary view that demand determinants are more important. In support of this viewpoint, the entrepreneurial experience of American Negroes is used as a frame of reference.

To evaluate the significance of socio-cultural and institutional factors in the development of black entrepreneurship since the Civil War, the Southern socio-economic environment, the attitude of the Federal Government toward Negro economic progress, the impact of the trade union movement and goals of race-advancement organizations are examined. Our analysis shows that the hostile Southern environment, the passive federal attitude toward black economic progress, and the exclusion of most blacks from the mainstream of the trade union movement militated against the development of black entrepreneurship. What is more, black leaders failed to address themselves to the key economic issues that would have enabled blacks to achieve economic integration and progress.

To understand the contemporary characteristics and problems facing black entrepreneurs, and to devise appropriate programs to assist them,

52 black businesses in Boston, selected on the basis of "better performance", are employed as a case study. The study identifies seven types of enterprise and finds that they differ with respect to employment levels, wage rates, extent of capitalization, use of federal loans, physical assets, sales, insurance premiums, etc. Among the entrepreneur's many problems, inadequate sources of finance and employee-related problems are most pressing. It is further discovered that as "organization-makers", they exhibit some common characteristics, namely (1) they come from average Negro homes; (2) most of them have had worthwhile work experience in the white business sector; (3) 54% of them possess second businesses; (4) they are less involved in community affairs; and (5) most of them went into business for the purpose of reaping the fruit of their own labor and making money.

Finally, in search for workable solutions to black business problems, federal assistance programs for minority businesses are evaluated, and it is concluded that overhauling of existing programs is overdue and that the private sector has a crucial role to play. Furthermore, it is argued that long range solutions should be conceived within the framework of a national urban policy. On the basis of the Boston survey, "incremental" solutions are proposed for tackling such immediate problems as inadequate loans, poor fringe benefits for employees, high cost of relocation and dual entrepreneurship.

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TABLE OF CONTENTS  
(continued)

	<u>Page</u>	
CHAPTER THREE (continued)		
Implications of the Five Cases to U.S Minority Entrepreneurship .....	47	
A Demand Model of Grassroots Entrepreneurship: A Graphical Analysis .....	48	
Economic Viewpoint .....	57	
Socio-Anthropological Viewpoint .....	61	
Anthropo-Psychological Viewpoint .....	65	
 <u>PART II: BLACK ENTREPRENEURSHIP: AN HISTORICAL</u> <u>APPRAISAL</u>		
CHAPTER FOUR. SOUTHERN AND FEDERAL INFLUENCES IN THE DEVELOPMENT OF BLACK ENTREPRENEURSHIP .....		75
The Agricultural Sector and the Development of Black Entrepreneurship .....	75	
Conditions of Wage Labor The Tenancy System Credit System		
The Impact of the Southern Tradition .....	88	
Federal Attitude Toward Black Entrepreneurship: Historical Cases .....	92	
The Reconstruction and Negro Economic Progress .....	93	
Southern Tenants and the New Deal .....	97	
CHAPTER FIVE. TRADE UNIONS, BLACK LEADERSHIP AND BLACK ECONOMIC PROGRESS .....		105
Trade Union-Negro Relations Before World War II .....	105	
Recent Trends in Union-Negro Relations .....	110	
The Role of Black Leadership .....	112	

TABLE OF CONTENTS  
(continued)

	<u>Page</u>
CHAPTER SIX. TRENDS AND FACTORS IN BLACK ENTREPRENEURSHIP..	126
Pre-Civil War Black Enterprises .....	126
Decline in Agriculture and Growth of Urban Negro Population .....	128
Growth of Urban Negro Entrepreneurship .....	136
The Negro and the Urban Economy: 1863-1890	
The Negro and the Urban Economy: 1890 to the Second World War	
Post-War Trends and Factors in Black Entre- preneurship	
Black Entrepreneurship and Black Financial Institutions	150
 <u>PART III: A STUDY OF BLACK ENTERPRISES IN BOSTON</u>  	
CHAPTER SEVEN. MORE PROMISING BLACK ENTERPRISES: SOME BASIC CHARACTERISTICS AND MAJOR PROBLEMS....	158
Intentions of the Study .....	158
General Characteristics .....	159
Business Types and Location	
Sex and Age	
Place of Origin	
Religion	
Forms of Ownership	
Age of Businesses	
Inter-enterprise Analysis .....	169
Employment and Wages	
Employee Benefits	
Equity Capital	
Physical Assets and Loans	
Annual Gross Sales	
Fire and Theft Insurance	
Planning Efforts	
Floor Space	



TABLE OF CONTENTS  
(continued)

	<u>Page</u>
<u>PART IV: CONCLUDING NOTES</u>	
CHAPTER NINE. IN SEARCH FOR SOLUTIONS .....	276
The Private Sector and Promotion of Black Entrepreneurship .....	276
Performance of the Public Sector .....	280
Adequacy of Demand Determinants.....	281
The Role of State and Local Governments .....	286
Need for an Autonomous Community Development Bank .....	291
Recommendations Emanating from the Boston Study .....	293
Effective Ways to Involve the Private Sector .....	297
Research Agenda .....	298
Long Range Urban Growth Considerations .....	299
Concluding Remarks .....	301
THE APPENDICES	
A. Entrepreneurship: Variations in Functional Definition .....	303
B. Research Methodology .....	310
C. Marginal Results of the Boston Survey.....	317
D. Letter of Introduction .....	336
E. Major Federal Programs Assisting Minority Entrepreneurship .....	337
BIBLIOGRAPHY .....	343
ACKNOWLEDGEMENT .....	363
BIOGRAPHY .....	364



LIST OF TABLES

	<u>Page</u>
Table 6-1: Percent Distribution of Farms by Tenure and Color in the U.S., 1900-1964.....	129
Table 6-2: Percent of Cotton Harvested by Machine and by Hand for Selected Years.....	133
Table 6-3: Occupational Structure of Negroes in 1890.....	139
Table 6-4: Percent Distribution of Gainfully Employed Ten Years and Over by Race and Occupation, 1910-1930.....	140
Table 6-5: Percentage of Population Residing in Urban Areas by Race, 1870-1960.....	144
Table 6-6: Negro Self-employed Businessmen 1950-1960.....	148
Table 7-1: Types of Business Interviewed.....	160
Table 7-2: Average Age of Proprietor and Average Age of Enterprise by Type of Enterprise.....	162
Table 7-3: Ownership and Origin of Business.....	166
Table 7-4: Average Age of Enterprise and Employment by Type of Enterprise.....	173
Table 7-5: Some Employment Characteristics.....	174
Table 7-6: Employment in Less Competitive and More Competitive Sectors.....	175
Table 7-7: Employment by Type of Enterprise.....	175
Table 7-8: Employment and Wage Structure.....	177
Table 7-9: Number of Enterprises Reporting Vacation and Sick Pay.....	180
Table 7-10: Average Equity, Physical Assets and Sales by Type of Enterprise.....	182
Table 7-11: Physical Assets, Loan and Equity Capital Relationship, by Type of Enterprise.....	187
Table 7-12: Loans Received by Type of Enterprise.....	189

LIST OF TABLES  
(continued)

	Page
Table 7-13: Fire and Theft Insurance by Type of Enterprise .....	192
Table 7-14: Average Employment, Floor Space and Floor Space per Worker by Type of Enterprise.....	195
Table 7-15: Ranking of Major Problems Facing Businessmen Interviewed .....	212
Table 7-16: Problems Facing Black Enterprises in Four Cities.....	213
Table 7-17: Training Periods for Workers by Type of Enterprise.....	216
Table 8-1: Occupations of Fathers and Entrepreneurs Compared.....	226
Table 8-2: Occupations of Boston Blacks and Respondents Compared.....	228
Table 8-3: Reasons for Going into Business.....	258
Table 8-4: Reasons for Going into Business: Grouped Response.....	259
Table 8-5: Level of Significance in Relation to Education and Place of Origin.....	267

LIST OF FIGURES

	<u>Page</u>
Fig. 6-1: Percent Distribution of Farms by Tenure and Color, 1900-1964.....	130
Fig. 6-2: Percentage of Population Residing in Urban Areas, 1870-1960.....	145
Fig. 7-1: Average Age by Type of Enterprise.....	168
Fig. 7-2: Average Employment by Type of Enterprise.....	168
Fig. 7-3: Average Monthly Wages by Type of Enterprise...	178
Fig. 7-4: Floor Space per Worker.....	196

## CHAPTER ONE

### INTRODUCTION

The problem of reviving the economy of U.S. central cities appeals to different constituencies and for different reasons. To local politicians, it boils down to finding all possible means of strengthening the cities' economic bases so that reliance on federal aid may be reduced to a minimum. State and national politicians are equally concerned about the weakening economic bases, but in addition, political pressures compel them to pay frequent attention to the rising unemployment levels. To the large corporations, the central cities will for the foreseeable future continue to be the bastion of American capitalism.<sup>1</sup> They realize that relocation of their businesses in the suburbs and smaller cities will not provide them with a lasting answer to ever-increasing operation costs, and consequently they deem it advantageous to put to maximum use the accumulated inner-city physical assets. At the extreme end of the "interest continuum" are the urban blacks.<sup>2</sup> To them, a return to the old rural South is an anathema; they want to be urban dwellers and consequently demand that a piece of the economic action be given to them.

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<sup>1</sup> Robert L. Morris, "Downtown: The Pulse Strong or Weak?", Nation's Cities, Vol. 5, No. 10 (1967), pp. 28-31.

<sup>2</sup> In this study, the word blacks will be used interchangeably with the word Negroes. The author is aware of the preference different black groups have for each of the two.

A lot of debate rages over how best blacks could be brought into the mainstream of American life. National consensus is lacking, for as Anthony Downs rightly points out, "our society abounds with arrangements that provide special economic advantages to those who are already privileged, presumably in order to evoke socially desired behavior from them."<sup>3</sup> In accordance with such entrenched arrangements, and since the demands of economic powers in the society keep on mounting with the passage of time, one begins to understand why economic advantages cannot be easily bestowed on the underprivileged such as the blacks and other minority groups.

The South has sought to justify the vestiges of slavery for over a century, such that civil rights protests are regarded in the region as unimportant or as an encroachment upon the privileges of whites. The North, on the other hand, has merely tried to accommodate Negroes who were considered aliens for several generations. Consequently, the Northerners never addressed themselves to the Negro problem until the devastating riots of Watts, Detroit and other cities took their unprecedented tolls in the mid-sixties.

Social and economic pressures have built up to such a point that the Negro problem can no more be relegated to a secondary importance. While in 1860, almost all the nation's 4.4 million Negroes lived in the rural South, by 1960 their number had increased to about 19 million, and were found in all the fifty states, although the southern states contained 54% of them. They have also become more

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<sup>3</sup>Anthony A. Downs, "Alternative Futures for the American Ghetto," Daedalus, Vol. 97, No. 4 (Fall, 1968), p. 1370.

urbanized than rural. In the North and West, three-fourths of the white population live in urban areas, but all the Negroes are urbanized in the two regions. Even in the South, three out of every five Negroes live in urban areas.<sup>4</sup> For large metropolitan areas with a population of one million and over, Negroes account for 25%, compared with their 11% share of the total population.<sup>5</sup> Hence, a major problem facing the nation is the rapid urbanization of the Negro whom the urban economy is not fully prepared to accommodate. To elaborate this point, the rate of unemployment among Negroes is usually twice that of whites. In the first quarter of 1970, for example, the unemployment rates among whites was 3.8%, compared with 6.8% for blacks.<sup>6</sup> Often official figures on unemployment do not include those who are underemployed and those who out of frustration have stopped looking for jobs. In 1966, a special study conducted by the Department of Labor in low-income neighborhoods of nine large cities revealed that the number underemployed in these areas was two and one-half times greater than the number unemployed. Altogether the underemployment and unemployment rates were 32.7%.<sup>7</sup>

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<sup>4</sup>U.S. Dept. of Labor, The Negroes in the United States (Bulletin No. 1511). Washington, D.C.: U.S.G.P.O., June 1966, p. 1.

<sup>5</sup>Laboratory for Environmental Studies, M.I.T., Ways of Providing New and Improved Job Opportunities for the Urban Ghetto Poor. Cambridge, December, 1968, p. 8.

<sup>6</sup>U.S. Dept. of Labor, Monthly Labor Review (June 1970), p. 96.

<sup>7</sup>The National Advisory Commission on Civil Disorders, Report of, New Times Edition, 1968, p. 257.

A cursory examination of the types of job normally available to Negroes is equally disappointing. In 1965, they accounted for 4.7% of white collar workers, 11.9% of blue collar workers, 14.7% of farm workers and 26.3% of service workers,<sup>8</sup> as compared with their share of over 11% of the total population in that year. Being the last to be employed and first to be fired, Negro workers have traditionally commanded lower wages than whites, and it reflects the semi-skilled or unskilled types of job the average Negro worker has an access to. Comparing the top 20% of U.S. population with the bottom 20%, Professor L. C. Thurow points out that since the last World War, the gap between the two groups has widened from \$8,600 to over \$12,000, and this implies that the gap between black and white families has widened from \$2,000 to over \$3,000.<sup>9</sup> He further remarks that in a recession black incomes are approximately 50% of white's, increasing to 60% in times of full employment.<sup>10</sup> More startling are absolute income earnings. In 1961, six out of every ten Negro families had an income of less than \$4,000 per year, but six out of every ten white families earned above \$4,000. Low quality job, job ceiling and low income have conspired to victimize Negroes to the extent that

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<sup>8</sup>U.S. Dept. of Labor. The Negroes in the United States, op. cit., Table IIB-1, p. 107.

<sup>9</sup>Lester C. Thurow, A Statement made at Hearings before the Joint Economic Committee of the Congress of the U.S. on Employment and Manpower Problems in the Cities: Implications of the Report of the National Advisory Commission on Civil Disorders. 89th Congress, 2nd session, May 28, 29, June 4, 5 and 6, 1968. Washington, D.C.: U.S.G.P.O., 1968, p. 139.

<sup>10</sup>Ibid.

they cannot maintain middle-class standards as most whites do.

If discrimination in jobs were to be disregarded as a factor contributing to low economic status of Negroes, it would seem that their lower educational attainment has been a major set-back in procuring good jobs. In 1964, 16% of Negro males aged twenty to twenty-four had one or more years of college. Comparing this age group with the same proportion of white males aged fifty-five to sixty-four who received their college education thirty-five to forty years ago, Rashi Fein points out that a gap of over thirty-five years in educational attainment exists between whites and blacks.<sup>11</sup> But to disregard the question of discrimination in jobs makes the argument reductio ad absurdum.

To a very large extent, the American socio-economic system does not favor the dynasties of Lincolns, Roosevelts, Nixons, Fords, Rockefellers, etc., and whereas a hardworking average white can always hope to improve his socio-economic position at some future date, it is not always so for the average Negro. Indeed, Gunnar Myrdal does not exaggerate when he describes the Negro problem as a "class" and a "caste" problem.<sup>12</sup> The basis for class differentiation in the American society is that it favors wide differences in wealth among families, while at the same time it disallows any system

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<sup>11</sup>Rashi Fein, "An Economic and Social Profile of the Negro American," in Talcott Parsons and Kenneth B. Clark (eds.), The Negro American. Boston, Houghton Mifflin, 1965, p. 113.

<sup>12</sup>Gunnar Myrdal, The American Dilemma. New York: McGraw-Hill, 1964 (paperback edition), chs. 9 and 10, pp. 205-229.



of privileges and special treatment to be meted to specific groups. Thus, in the face of discrimination in jobs, education and housing, the political machinery has been ineffective in meeting the needs of those groups victimized by discrimination, and the victims, notably Negroes, Puerto Ricans and Mexican Americans, are forced into the lower class category.<sup>13</sup> The "class problem" of Negroes is exacerbated by the slave tradition with which they are associated. It is this tradition which has created the Negro "caste problem." In general, Negroes lack group solidarity, one of the common strategies minorities in many societies employ to improve their socio-economic status.

A question frequently posed by concerned observers is whether American Negroes can, within some limits, control their own economic destiny, relying on such methods as group solidarity in running community-owned enterprises, economic integration with the white business sector through various job programs and individual entrepreneurship. This work is purposely concerned with individual entrepreneurship, a fertile but untapped means through which some Negroes can upgrade their economic status.

#### Purpose and Scope of the Study

The purpose of this study is to demonstrate that socio-cultural factors alone do not determine entrepreneurial capabilities within a nation or among an ethnic group, but we should also take into

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<sup>13</sup>For problems posed by the lower class in American society, see Edward C. Banfield, The Unheavenly City: The Nature and Future of Our Urban Crisis. Boston: Little and Brown, 1968.

account deliberate public policies to promote entrepreneurship. In explaining the development of entrepreneurship at the grassroots level, several social scientists contend that supply determinants, i.e. socio-cultural history and experience which enable a sub-group or individuals to perceive entrepreneurial opportunities engendered in the process of economic development, are more important than demand determinants, i.e. governmental actions and programs geared to entrepreneurial promotion. This study, however, takes a contrary view that demand determinants are more important. In support of this stand, the entrepreneurial experience of American blacks is used as a point of reference.

The study is divided into four parts. The first part poses the economic problem of American blacks in terms of (1) job placement, job upgrading, and job training; (2) community development and self-determination approach using community resources and outside help; and (3) independent entrepreneurship. It is argued that we still do not know the relative merits of all the three approaches, and therefore we should pay enough attention to independent entrepreneurship. In support of this line of thought, the experiences of five countries in relation to entrepreneurial promotion (demand determinants) at the grassroots level are discussed. Further, the theoretical arguments put forth by social scientists in support of "supply determinants" are examined, and a disquieting conclusion is reached that the "supply approach" contains too many loopholes to be accepted as a working hypothesis.

Part II is primarily concerned with historical factors that account for the current level of entrepreneurship among American blacks. These factors are the Southern environment, federal attitude toward black economic problems, trade unionism and black leadership. The Southern environment, dominated by its slave tradition, is examined from the angle of the tenancy-plantation system and its attendant credit practices, and it is argued that the environment was economically and socially too hostile to promote black entrepreneurship. With respect to federal attitude toward black economic development, two historical periods, namely the Reconstruction era and the Great Depression - periods when Negroes had to face the most severe economic hardships - are examined. Our analysis reveals that the federal political machinery was "almost passive" to the economic plight of Negroes, to the extent that it chose to back the landed aristocracy on the most vital economic issues. Put in another way, demand determinants were simply not at work.

In appraising the role of the trade union movement in black economic progress, it is discovered that occupational immobility among Negro workers was a direct consequence of their being left out of the mainstream of the movement; and in the absence of worthwhile work experience, the development of black entrepreneurship at the grassroots level remained a misnomer. While the black worker was facing the hostile Southern environment, inaction of the government and unfriendly trade unions, we find that the different types of black leadership which emerged at the turn of the century

and thereafter were motivated by different goals. They either promoted black entrepreneurship in the wrong direction or adopted a rapprochement with white employers and trade unions. The review of the historical factors suggests that the present low level of black entrepreneurship has its roots in "institutional constraints" which either discouraged or remained passive to black economic development.

A case study of contemporary black entrepreneurship in Boston is the content of Part III. The study, which was carried out last summer and part of the fall, focuses on the "more promising" black entrepreneurs in Boston. The reason for selecting this group is that they are potential agents of economic development. The Boston study has two parts. The first part concentrates on the characteristics and problems of the seven types of enterprises identified in the study. Among other things, our intention here is to provide some basic data for decision-making and planning. The study finds that the seven types of enterprise differ with respect to employment levels, wage rates, extent of capitalization, use of federal loans, physical assets, sales, insurance premiums, etc. It is further revealed that among the many problems black businesses face, insufficient equity capital, working capital, long-term loans and employee-related problems are most paramount.

The second part of the Boston study is concerned with the entrepreneur himself as an organization maker. Our interest in this connection is to examine such aspects of "supply determinants" as

the entrepreneurs' family background, their involvement in community affairs, their work experience which prepared them for entrepreneurship, and reasons for going into business. A conclusion is reached that: (1) in terms of educational background and other middle class characteristics they are not different from the rest of Boston blacks, but they differ somewhat in terms of the entrepreneurial background of the family. (2) Most of them have had worthwhile work experience in the white business sector. (3) 54% of them carry on other businesses. (4) They are less involved in community affairs. (5) Most of them went into business for the purpose of reaping the fruit of their own labor and making money.

In the fourth part of the essay, an attempt is made to evaluate the impact of federal programs in promoting black entrepreneurship. It is disclosed that while the government is trying to solve some key problems, still the programs could immensely be improved. In search for more workable solutions, it is argued that the private sector has a crucial role to play. It is also argued that the problems of black businessmen are an integral part of central city problems, and therefore their solutions should be conceived within the framework of a national urban policy. In conclusion, the study makes specific recommendations for tackling such immediate problems as inadequate loans, lack of employee benefits, dual entrepreneurship, and so forth.

PART I

SOME FUNDAMENTAL ISSUES

Thus, even though some significant insights into the study of entrepreneurship have been contributed by both economists and other social scientists, it is still generally true that entrepreneurship as a subject for study lies in a no-man's land.

Alec P. Alexander (EEH, Winter  
1967, p. 136)

## CHAPTER TWO

### STATEMENT OF THE PROBLEM

Of the choices open to the Federal Government in any drive to improve the economic status of minority groups, three are of special importance. These choices may be identified as (1) job training, job placement and job upgrading; (2) incentives to community-owned economic organizations; and (3) encouragement to private or independent entrepreneurship. All the three choices have merits and demerits, and opinions differ considerably as to which choice will yield the best results for the society as a whole. In the following sections, the major issues posed by the three choices will be examined, and the need to pay special attention to independent entrepreneurship, the concern of this study, will be emphasized.

#### The Problem of Jobs

It has been argued that the issue is not so much making disadvantaged groups in the American society owners of means of production as ensuring that they have access to decent jobs which command decent wages. If it is a matter of creating jobs, so the argument goes, independent entrepreneurs are ineffective providers of jobs; but instead we should rely on business corporations with enough resources and capacity to launch large-scale employment-generating projects.

This belief is shared by the White House and the administration alike, as evidenced by the multiplicity of manpower training programs which have come into being since the passage of the Manpower Development and Training Act of 1965. Indeed, the capacity of the private sector to generate employment for both blacks and whites is enormous, given favorable economic trends. In 1960, for example, blacks comprised 2% of commercial bank employees, but by 1969 deliberate solicitations by bank authorities increased the black's share to 10% in most cities and 20% in some cities.<sup>1</sup> In 1968, automobile companies reported that 14.5% of their workers were blacks, and in production operations they comprised almost 25% of the work force.<sup>2</sup> Iron and steel industries managed to increase by a small margin black representation in their total work force from 9.7% in 1938 to 13.3% in 1968.<sup>3</sup>

The crucial problem in the private sector is not so much the discriminatory practices sometimes followed in hiring blacks, as difficulties in promoting them to higher positions through systematic training and job-upgrading. While avowed non-discriminatory hiring policies may be "advertised" by corporations in all regions of the country, there is little evidence that job training and upgrading are an integral part of their labor policies. In a 1970 survey in

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<sup>1</sup> Federal Reserve Bank of San Francisco, "Financing Inner City," Monthly Review, October 1969, p. 203.

<sup>2</sup> Herbert R. Northrup, Negro Employment in Basic Industry. Philadelphia: University of Pennsylvania Press, 1970, p. 78, p. 80.

<sup>3</sup> Ibid., p. 257 and p. 291.



connection with opportunities for black managers in over 300 major corporations, it was discovered among those reporting that Polaroid had the highest proportion of 4% of its managers as blacks. Some reported zero percentage. It was also discovered that the top-ranking black in each corporation was either in personnel, public relations or some sort of community affairs post. Further, most firms avoided a question related to target goals for black recruiting, training and promotion.<sup>4</sup>

Appeals from race-advancement organizations and the Federal Government to corporations to hire blacks with all shades of skill have caused some of the corporations to look into investment opportunities in ghetto areas. However, the experience of a few of them which have established subsidiary plants in these areas has not been encouraging enough.<sup>5</sup> Not only are their profit levels unpredictable or negative in some cases, but also white businesses in general are easy targets in times of inner city riots. Anthony Downs therefore rightly points out that creating new jobs in the ghettos will not

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<sup>4</sup>MBA Staff Report, "The Two Voices of Equal Opportunity," The Master in Business Administration, Vol. 4, No. 7 (April 1970), pp. 12-15.

<sup>5</sup>See New York Times, May 4, 1969, "Economic Development in Blighted Inner-City Areas is Running into Snags," p. 72; Wall Street Journal, Sept. 23, 1969, "Ailing Entrepreneurs," p. 1; Business Week, "Business and the Urban Crisis," Feb. 3, 1968, pp. 57-72; Newsweek, "Banks: Black Capitalism," Aug. 26, 1968, p. 71. See also Dean R. Ericson, Urban Minority Business Development: The Problem of Resource Channeling Through Intermediary Institutions. M.A. Thesis, Sloan School of Management, M.I.T., June 1969; The Conference Board, Business and the Development of Ghetto Enterprise. Report No. 517, New York, 1971; The Staff of the Wall Street Journal, Business and Blacks. Princeton, N.J.: Dow Jones Books, 1970.

occur in the future under normal market conditions.<sup>6</sup> In the absence of market inducements, legislative proposals were advanced in Congress<sup>7</sup> during the 1967-68 fiscal year to aid corporations interested in setting up plants in the ghettos. Although the proposals have not yet passed the Senate floor, it is evident that the mechanism for attracting industries to the ghettos goes beyond the bounds of tax rebates, assumption of labor training and land development costs by the public, and so forth. Perhaps a little bit of philanthropy on the part of business leaders, and rescheduling of national development priorities may get us out of the present impasse.

An alternative approach of bringing people to jobs located in the suburbs has equally been frustrating.<sup>8</sup> An automobile company in Detroit experimented in 1969 with free bussing of minority workers residing in the city's depressed areas to suburban assembly plants. But after a few weeks, the number of passengers per bus began to fall sharply, despite an assiduous campaign mounted by the company. The bussing had to be terminated because most of them were not used to getting up early and reporting daily for work. In view of various problems surrounding the practice of bussing workers, suburbaniza-

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<sup>6</sup>Anthony Downs, op. cit., p. 1336.

<sup>7</sup>The proposals were contained in Senate Bill 2088, introduced by Senators Robert Kennedy, Ribicoff, Javits, Bayh, Pearson and others on July 12, 1967 to the Senate Committee on Finance.

<sup>8</sup>For an interesting analysis of problems posed by suburban job location, see Phillip B. Herr and Aaron Fleischer, The Mobility of the Poor (a research monograph prepared for the Joint Center for Urban Studies of M.I.T. and Harvard University, September 1968).

tion of low-income housing has been suggested as a long-term solution. Proponents of suburban low-income housing argue that large-scale movement of plants and jobs to suburbs cannot be reversed, and consequently the spread of low-income housing throughout metropolitan areas will bring jobs closer to disadvantaged families. As a matter of fact, the Nixon administration has been swayed to this line of thought by its policy to provide land and housing development incentives to suburban municipal authorities interested in putting up low-income housing.<sup>9</sup> However, these authorities are more interested in strengthening their tax base by attracting industries, middle-income housing and shopping centers, instead of incentive-ridden low-income housing.<sup>10</sup> In the absence of a deliberate effort of the government to spread low-income housing, most suburban municipalities will not voluntarily initiate it.

President Lyndon B. Johnson, realizing the difficulty in attracting industries to the ghettos or bussing minority workers to suburban plants proposed in his State of the Union address of January 1968 a

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<sup>9</sup>The policy was outlined at a news conference in December 1970 by Mr. Romney, Secretary for Housing and Urban Development. The administration emphasizes that it is not prepared to penalize suburban governments which opt not to have low-income housing.

<sup>10</sup>For an incisive discussion of problems relating suburban low-income housing and related problems, see Anthony Downs, "Alternative Futures for the American Ghetto," *op. cit.*; J. F. Kain and J. H. Persky, "Alternatives to the Gilded Ghetto," *Public Interest*, No. 14 (Winter 1969), pp. 74-87; and Nathan Glazer, "Housing Problems and Housing Policies," *Public Interest*, No. 7 (Spring 1967), pp. 21-51. President Nixon's position on the issue can be found in the Herald Traveler (Boston), June 12, 1971, p. 1.

a program called Job Opportunities in the Business Sector (JOBS).<sup>11</sup> By this program, the Federal Government pays the cost of training and hiring hard-core workers in existing plants for a period of twelve months. Thereafter, the corporations are at liberty to put the workers on their payrolls or lay them off. In a number of cases, the corporations do not employ the workers after their training, due in part to trade union pressures. However, a major criticism against the program is that trainees are often trained in dead-end jobs. On the whole the program has achieved a limited success and this highlights some of the social and psychological road-blocks militating against job-generating programs.

#### Community Economic Development Corporations

Within the last few years, a school of thought comprising politicians, white businessmen and black leaders who believe that large economic organizations can accumulate more capital and wealth at a faster rate than small individual businesses are advocating for community-based economic development corporations. They argue that such corporations will bring into fruition the wished-for concept of "black capitalism" as a force to reckon with in the economy. Therefore, since the passage of the Civil Rights Act of 1964, ghetto-based de-

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<sup>11</sup> An outline of the "JOBS" program can be found in the "President's Report," Congressional Quarterly Weekly Report, No. 3, January 19, 1968, pp. 96-101. See also U.S. Senate, Committee on Labor and Social Welfare, The JOBS Program: Background Information. Report prepared for the Subcommittee on Employment, Manpower and Poverty. Washington, D.C.: U.S.G.P.O., 1970.

velopment corporations have been initiated in over a dozen cities, with the full support of liberal Senators and local politicians.<sup>12</sup> The aims of the corporations differ widely. While some concentrate on profit-making ventures, others, in addition to business ventures, have set up management training centers for black businessmen and skill training centers for those who want to work but lack skills. Some of the corporations have also involved themselves in arranging capital for businessmen.

A few critics would reject the fact that the community-based corporations are enabling a substantial number of blacks to play and learn leadership roles or reinforce their leadership capabilities, which are notoriously limited in the black communities. However, only a handful of the corporations are known to be economically viable.<sup>13</sup> One of the main reasons for the little success achieved

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<sup>12</sup>Examples of community-based development corporations are Model Inner City Community Organization in Washington, D.C.; Bedford-Stuyvesant Restoration Corporation in Brooklyn, N.Y.; Harlem Commonwealth Council; National Economic Growth and Reconstruction Organization in New York; 10-36 Zion Investment Association in Philadelphia; Greater Philadelphia Enterprises Development Corporation; Detroit Economic Development and Services Corporation; Inner City Business Improvement Forum in Detroit; Greenpower Foundation in Watts, Los Angeles; Freedom Industries and State Enterprises in Boston. See also Center for Community Development. Profiles in Community Based Economic Development. Cambridge, 1971.

<sup>13</sup>A brief review of the performance of a cross-section of the corporations can be found in Laboratory for Environmental Studies, M.I.T., Ways of Providing New and Improved Job Opportunities for the Urban Ghetto Poor (a preliminary report on the Urban Ghetto Study Program), Cambridge, December 1968, Appendix A. For the most up-to-date and more comprehensive study, see The Conference Board, op. cit.; Martin Skala, "Inner-city Enterprises: Current Experiences," in W. F. Haddad and G. D. Pugh, Black Economic Development. Englewood Cliffs: Prentice-Hall, 1969, pp. 151-171.

so far is that in a short span of time they have dissipated their efforts over either many ventures or have assumed community welfare functions which are incompatible with profit-maximization goals or advantages of economies of scale. Besides, they lack well trained personnel for such vital areas as marketing, planning, advertising and accounts.

Another discouraging feature about them is that they are heavily financed from external sources. For example, the much publicized Bedford-Stuyvesant Restoration Corporation received 77% of its operating capital of \$9 million in 1968 from federal sources.<sup>14</sup> Other corporations have to rely on philanthropic contributions of large corporations and banks, and this is unquestionably not a healthy state of affairs.

It has been argued that by investing in the shares of the corporations, blacks will not only extricate themselves gradually from chronic financial dependence on white banks as sources of business loans, but will be earning more through dividends. But this has not happened. To be sure, the case of the ghetto economy is comparable to developing countries which have to rely on external investors or foreign aid to develop their economies. If the aid continues for a considerable number of years, such countries do not only lose their economic independence but also risk their political sovereignty. Efforts of black leaders to involve large corporations

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<sup>14</sup>Louise Campbell, "Communities: Bedford-Stuyvesant, Part II," City, May 1968, p. 24.

and to rely on them for most of their needs only lengthens the process of 'decolonization,'<sup>15</sup> and therefore it becomes more difficult for ghetto dwellers to obtain significant control over the development of their own community. Moreover, the more blacks lose economic control of their community, the more attenuating their ailing political influence becomes.

Nevertheless, the difficulties that have to be overcome before the corporations can become economically independent and viable underscores the need and urgency to upgrade the socio-economic status of minority groups. Economic development in whatever form cannot be an end in itself. It should reinforce community's social and political goals. Writing on economic development of Harlem, Thomas Vietorisz and Bennett Harrison rightly indicate that "when emphasis is placed on economic development as a catalyst of social and political change, project recommendations cannot be made primarily on the basis of commercial profitability."<sup>16</sup> It is for this reason that proponents of community-based corporations see nothing wrong with the use of federal funds for skill training programs and for technical and managerial assistance, provided such incentives are directed toward social and economic goals. If federal and other types of aid to the corporations enhance the chance of blacks self-

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<sup>15</sup>See an interesting discussion on this theme by Richard A. Cloward and Frances F. Piven, "Corporate Imperialism for the Poor," Nation, October 16, 1967, pp. 365-367.

<sup>16</sup>Thomas Vietorisz and Bennett Harrison, The Economic Development of Harlem. New York, Praeger Publishers, 1970, pp. 68-69.

determining their own social, economic and environmental destiny, then it could be argued that more financial aid is called for, especially at this time when a sizeable number of the corporations across the country are being hit by the present economic recession.

Programs for creating more jobs for economically disadvantaged members of the society and for guiding the growth of mushrooming community-based development corporations provide limited opportunities for individuals to create their own success stories in the nature of "independent entrepreneurship."<sup>17</sup> The American economy was founded on this kind of entrepreneurship, and the economy still feeds enormously on it, despite the astronomical growth of large corporations. In the next section, we shall make a case for independent entrepreneurship as one of the possible paths to attain economic development goals for the ghetto.

### Independent Entrepreneurship

Critics, skeptical of economic viability and necessity of individual black enterprises argue that the failure rate<sup>18</sup> among these enterprises is so high that the government might as well

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<sup>17</sup>An independent entrepreneur has been defined as "a man who has created out of nothing an ongoing enterprise." See Orvis Collins and David G. Moore, The Organization Makers. New York, Appleton-Century-Crofts, 1970, p. 85.

<sup>18</sup>The failure rate among small businesses that are just starting is about 50% for the whole nation. Among black business the rate is known to be higher than the national average. See U.S. News and World Report, Vol. 69, No. 21, November 23, 1970, p. 42.



concentrate on upgrading job opportunities and wages for minority workers, and providing maximum incentives to community-based corporations. They further argue that other ethnic groups such as the Irish, Italians, and Jews were initially confronted with economic hardships of one type or another, and were similarly subjected to racial troubles. But, as the critics contend, they have emerged victorious on their own.

In answer to these critics, first, it is worth noting that the circumstances which normally lead to the failure of black businesses are gradually changing. The odds against minority enterprises, e.g. limited access to conventional business loans, lack of managerial and technical skills, general counseling services, etc. are being eliminated by federal assistance programs, though at a very slow pace. Further, the semi-closed and impoverished market in which the black entrepreneur used to operate in is now beginning to open up and to show signs of incipient prosperity. In a 1963 survey of 15 major metropolitan areas, 5.9 million Negroes in 1.6 households had a total net income of about \$7 billion, i.e. \$4,159 per household and this represented a marked improvement over the previous decade.<sup>19</sup> The study points out also that the total Negro population in the U.S. had a total spending power of \$21.9 billion in 1963. Therefore, if we consider 78 major cities with 25% of their total

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<sup>19</sup> Bernard Howard & Co., The New Dimensions of the Negro Market. (An appraisal of Negro buying power in 15 major metropolitan market areas.) New York, 1963, p. 2.

population being Negroes, then Negroes' share of downtown department and retail trade amounted to 30% of the total in 1963.<sup>20</sup> A rather startling conclusion reached by the study is that the typical Negro family is young and is often a first-acquisition consumer, "spending a far greater proportion of its total income on goods and services ... than its white counterpart (and) tends to be a better consumer than the typical white family with twice its income."<sup>21</sup>

The rising Negro income could also be looked at from another angle. In 1939, the median income of Negro men was 41.4% of the median income of white men. But by 1960 the proportion had risen to 59.9%. Equally important is the faster rate of growth of the Negro population. Between 1950-1960 for example, while the total U.S. population grew by 18.4%, the Negro population went up by 25.4%. No doubt the Negro population and market have been expanding, and it stands to reason that Negroes develop their entrepreneurial skills and talents pari passu, if not more, such that part of the dollars earned may stay within the ghetto areas. Unfortunately the development of black entrepreneurship has severely lagged behind the rate of capital accumulation in these areas. What is more, the economic history of blacks has not favored independent entrepreneurship. Charles E. Silberman rightly points out that the reasons for the economic plight of the Negro in the United States lie very deep

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<sup>20</sup> Ibid.

<sup>21</sup> Ibid., (unpaged).

in their history, and that if blame is to be assessed it will have to be placed on white society.<sup>22</sup> As we shall see in Part II, post-Civil War events in black economic history have been marked by a naked struggle for survival in a society whose wealth and prosperity are even closer to recent immigrants from Europe than to minority groups. Comparing blacks with other ethnic groups, Eugene P. Foley poses the problem succinctly in the following way:

But these others had a system of social organization that the Negroes have never had in their strong family traditions, and their churches and synagogues. In addition, each of the other ethnic groups were inspired and motivated by an honored culture which stimulated high aspiration and expectations as well as a lofty sense of self-esteem. One thing more those groups possessed which Negroes have lacked until very recently and have badly needed in order to protect themselves in a hostile environment - group solidarity.<sup>23</sup>

As victims of technological progress, the socio-economic position of blacks in the American society has been made more shaky and less enduring. Since the industrial revolution, each major technological progress has spelt disaster for the average black worker.<sup>24</sup> The

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<sup>22</sup>C. E. Silberman, "The Economics of the Negro Problem," in Eli Ginzberg (ed.), The Negro Challenge to the Business Community. New York, McGraw-Hill, 1964, p. 22.

<sup>23</sup>Eugene P. Foley, The Achieving Ghetto. Washington, D.C., The National Press, Inc., 1968, pp.16-17.

<sup>24</sup>Technological changes in industry since World War II have resulted in 97% increase in white-collar jobs, vis-a-vis blue collar jobs which have been declining. Hence a black adult with a lower educational attainment than an average white worker usually bears the brunt of technical transformation. See Charles E. Silberman, op. cit.

mechanization of Southern farms in the early decades of this century deprived many black laborers of their livelihood. Even the introduction of the washing machine drastically reduced the number of female black domestic workers. And yet the society has not sufficiently prepared them to cope with all these changes through the acquisition of good education, work skills and effective participation in several economic sectors.

The legitimacy of the claim of Negroes to a share of the urban economy is reflected in their participation rate in business and in their share of business ownership, after playing various economic roles for over three hundred years. A few statistics might throw light on the amount of progress Negroes have so far made in business. Of the total civilian labor force of 68 million in 1960, 8% were engaged as non-farm managers, officials and proprietors. Of the 68 million, 6.6 million or about 10% were Negroes, but only 1.5% were in these managerial categories. In the same year, about 2.4 million people were self-employed, and only 2.5% of them were Negroes,<sup>25</sup> as compared with their 11% share of the total population.

Individual cities tell similar stories. For example, the total Newark, N.J., population is about 400,000, more than half of whom are blacks. Of the city's 12,172 licensed businesses only 10% are Negro-owned.<sup>26</sup> Negroes comprise 63% of Washington, D.C.'s 800,000

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<sup>25</sup>U.S. Census of Population, 1960, "Occupational Characteristics," 1963, Table 3.

<sup>26</sup>Theodore L. Cross, Black Capitalism: Strategy for Business in the Ghetto. New York: Atheneum Press, 1969, pp. 60-61.

population but own less than 13% of the licensed 11,755 businesses.<sup>27</sup> Boston has a population of about 600,000, 15% of whom are Negroes. Its center city area contained 2,552 businesses in 1969, and of this number 143 or 6% were Negro-owned.<sup>28</sup> Identical examples can be cited from all the major cities.

The types and volume of business owned by Negroes are equally discouraging. Chicago's three million inhabitants comprise over one million Negroes. Of over 92,000 businesses in the city in 1969, 89,158 or 96.9% were in the hands of whites. There were only 4 black automobile dealers, about a dozen black manufacturing firms and a handful of department, clothing and shoe stores.<sup>29</sup> In 1969, 76,176 retail establishments with gross sales of \$10.5 billion and 410,174 employees were recorded in New York City, with 29.3% of its 10 million inhabitants composed of minority groups. Of these retail businesses, about 5,000 (or about 7%) were minority-owned and had gross sales of \$300 million and 15,000 employees. In comparison with the minority share of the city's total population, minority retail establishments should have numbered 22,830, should have accounted for \$3.1 billion of the sales and should have engaged 123,000 persons.<sup>30</sup> Similar small

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<sup>27</sup> Ibid.

<sup>28</sup> Boston Urban Foundation, Center City, Vol. II (A Report prepared by the Urban Research Inc., Boston). Boston, September 1969, p. C-6.

<sup>29</sup> Chicago Economic Development Corporation, Annual Report, 1969, p. 6.

<sup>30</sup> Capital Formation Inc., New York, Annual Report, 1969, pp. 6-7.

shares could be traced in the city's service establishments. The total service establishments numbered 55,230 in 1969, and had gross sales of \$7 billion and 333,931 employees. Of this number, about 3,000 were estimated to be minority-owned; their total gross sales were put at only \$275 million and they engaged only 900 employees.<sup>31</sup>

One could go on citing such depressing statistics to show how far the Negro has climbed up the socio-economic ladder after one hundred years of emancipation. As a matter of fact, since the Second World War, the share of Negroes of the total self-employed businessmen has been declining. As justifiable as their claim to effective participation in the economy may be, black businessmen can do a lot to improve their businesses and their competitive position by simply "playing according to the rules of the game." In a consumer opinion survey carried out in Nashville, Tennessee, the needs of black businesses were listed in the following order of magnitude: wide variety of merchandise, lower prices, improved service, cleanliness, parking space, delivery service, trained personnel, trading stamps, advertising, large building, friendlier workers and credit service.<sup>32</sup> While some of these shortcomings are embedded in the socio-economic system and cannot be solved through personal efforts, others are within the sphere of competence of an average black businessman. For example, the need to keep business premises clean, carry a variety of

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<sup>31</sup> Ibid.

<sup>32</sup> Louis H. Schuster, et al., Business Enterprises of Negroes in Tennessee. (A report prepared for SBA.) Washington, D. C., 1961.

merchandise, improve delivery service and to inspire workers are the businessman's own burden, and cannot be solved by any doses of governmental assistance. The root of these shortcomings can be traced to the lack of business tradition and severe dearth of managerial talents.

Apart from the personal input of the black businessman, the ghetto environment and institutional constraints impose severe road-blocks. In general the ghetto economy operates in an environment different from the rest of the urban economy. It is characterized by a high-cost credit merchandising and generally higher level of prices. Sheer poverty often compels some black families to buy basic consumer goods and services on credit basis. Under this circumstance, ghetto businessmen, both black and white who subscribe to the credit practice, usually assign mark-up prices to their goods and services to minimize risks embedded in the practice. Doing business in the ghetto requires a kind of ethics possessed by local indigenous traders in a typical small West African town, where business prosperity depends on the extent to which traders can generously extend credits to their townfolk all of whom may belong to the same intricate network of the extended family system.

With respect to institutional constraints, black businessmen do not have the same advantages as white businessmen in buying goods at wholesale prices, in penetrating the richer white market for both consumer and producer goods, and in having easy access to long-term

loans, working capital, credit extension, and insurance.<sup>33</sup> Besides black entrepreneurs have loose political contacts and business connections.

### Is Independent Entrepreneurship the Answer?

Independent entrepreneurship is decidedly not the ultimate answer to black economic problems. We have already touched on two other approaches, namely (1) job training, job procurement and job upgrading; and (2) community development corporations. It is not the intention of the author to treat these two approaches in this essay. It suffices for our purpose to note that our experience with all the three is not rich enough to rule out any of them. The author is interested in independent entrepreneurship simply because it has not been nurtured to the full within the context of American capitalism and the frontier spirit that have made America what it is today.

The need to upgrade the level of black entrepreneurship stems from three main lines of argument. First, the small number of blacks in business and the proportion of business wealth they control are incompatible with their aspiration for civil and economic equality. Second, as long as blacks continue to contribute marginally in the major economic sectors, the ghetto, as a socio-economic unit, will increasingly face the "balance of payment problem." Third, the

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<sup>33</sup>St. Clair Drake and Horace R. Cayton, Black Metropolis: A Study of Negro Life in a Northern City, Vol. 2. New York: Harper and Row, 1962, ch. 16, pp. 430-469. See also Theodore L. Cross, op. cit., p. 53 et seq.



flight of white-owned businesses from the ghetto is creating a gap in the area's entrepreneurial opportunities which should necessarily be filled. These three grounds provide rationes decidendi on black entrepreneurial promotion.

In any event, independent entrepreneurship cannot be expected to work wonders if federal financial assistance, good working relationship with the white business community and support from all the three levels of government are wanting. With the enforcement of anti-racial discrimination laws, channels are being opened for integration. But while integration is rapidly widening the urban market for black consumers, the reverse situation does not hold. Unless integration is encouraged in the economic sphere by absorbing independent black entrepreneurs in the entire urban economy, they will soon lose the little control they now exercise over such traditionally favored areas as funeral homes, hair-dressing and insurance. Maurice H. Stans, Secretary of Commerce, once said:

Our first responsibility in the Government is to see that everybody has a job and the security of a paycheck. But that isn't full participation in the American system. Until a man also has the choice of owning his own establishment - being an employer, a capitalist, a 'success story' - he is not a full participant in the American system.<sup>34</sup>

In the next chapter, we shall consider the policy implications of promoting entrepreneurship from the grassroots level. Though the discussion will be theoretical for the most part, the underlying practical lessons shall be given due attention.

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<sup>34</sup>U.S. News and World Report, November 23, 1970, op. cit., p. 42.

## CHAPTER THREE

### GRASSROOTS ENTREPRENEURSHIP: A THEORETICAL AND PRACTICAL EXPLANATION

The entrepreneur has been assigned various functions since the time of Adam Smith.<sup>1</sup> He has been conceived of as a master who manipulates materials and workmen,<sup>2</sup> as an adventurer who undertakes risks,<sup>3</sup> as an innovator who carries out new combinations,<sup>4</sup> and as a surrogate for business organization.<sup>5</sup>

For our own purpose, we may sum up the functional definition of entrepreneurship in the following way: that it is both a risk-taking and "innovative" or "copying" process in which projected ideas, one's

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<sup>1</sup> For a discussion of the functional definition of entrepreneurship, see Appendix A.

<sup>2</sup> Adam Smith, The Wealth of Nations (Book 1, Gateway Edition). Chicago: Henry Regnery Co., 1967 (reprint), pp. 116-117.

<sup>3</sup> Among economists who regard the entrepreneur as a risk-taker are:  
(a) Alfred Marshall, Principles of Economics. London: MacMillan Company, 1961 (edition), p. 293.  
(b) Frederick B. Hawley, who contends that the reward to the entrepreneur as a risk-taker is his profit. See F. B. Hawley, "The Risk Theory of Profit", QJE, Vol. 7 (July 1893), pp. 459-479.  
(c) Frank H. Knight, who slightly departs from Hawley and argues that profit "is a unique kind of risk which is not susceptible of measurement." See his Risk, Uncertainty and Profit. New York: Sentry Press, 1964 (edition), pp. 22-48.

<sup>4</sup> Joseph A. Schumpeter, The Theory of Economic Development. New York: Oxford University Press, 1961 (edition), p. 74.

<sup>5</sup> Frederick Harbison, "Entrepreneurial Organization as a Factor in Economic Development," QJE, Vol. 70, No. 3 (August 1956), pp. 364-379.

own skill, capital and labor (which may be hired) are combined in concert with a worthwhile management practice to achieve rewarding goals.

The decision-making involved is a rational one, to all intents and purposes. The goals, according to Collins and Moore,<sup>6</sup> are often unclear and diffuse, but nevertheless the expected rewards are sufficient to sustain the process.

"Relative success" of an enterprise has not been assigned an explicit importance in the definition. For one thing, businessmen have different goals, as indicated above. The profit-maximizer would go after high profits. The businessman who is searching for social prestige through business would probably settle for small profit margins in order to employ more people in the community. In other words, he would like to satisfy<sup>7</sup> rather than maximize. Belshaw lucidly warns us not to be blinded by such time-honored criteria as profit rate per unit of investment, rate of expansion, etc. but we must consider, inter alia, the objectives of the entrepreneur and "the degree to which the social and financial costs of the undertaking

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<sup>6</sup>Orvis Collins and David G. Moore, The Organization Makers: A Behavioral Study of Independent Entrepreneurs. New York: Appleton-Century-Crofts, 1970, p. 91.

<sup>7</sup>A number of economists hold to this viewpoint. Interesting arguments have developed in connection with firms pursuing different goals simultaneously; for example, maximization of profits versus necessity to control a portion of a known market. For some of these arguments see Herbert A. Simon, "Theories of Decision-making," AER, Vol. 49, No.3 (June, 1959), pp. 253-283; Julius Margolis, "The Analysis of the Firm: Rationalism, Conventionalism and Behaviorism," Journal of Business, Vol. 3, No. 3 (July, 1958), pp. 187-199.

contribute to the general and financial well-being, either of the participating group, or of the neighborhood society of which it is a part, or of the political unit."<sup>8</sup>

The rate at which an economic system generates successful entrepreneurs capable of playing useful economic roles depends significantly on the historical processes, institutional framework, economic opportunities and cultural milieu that interact to create an entrepreneurial class. The interaction takes the form of forces generating demand for and supply of entrepreneurs. To this theme we shall now turn.

#### Demand-Supply Dichotomy

The theories and reasons usually advanced to explain the growth of entrepreneurship generated in the development process have tended to lean on the side of supply, i.e., culturally determined factors, factors in personality development, and one's capacity to perceive investment opportunities. In other words, the supply curve is assumed to be inelastic to some extent, so that to increase the level of entrepreneurship, one has to manipulate the supply curve more than the demand curve. It is this grave bias which is being questioned in this section.

As we shall see later, the theories and various analytical discussions on the supply of entrepreneurship are buttressed on socio-anthropological and anthropo-psychological factors which are either

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<sup>8</sup>Cyril S. Belshaw, "The Cultural Milieu of the Entrepreneur: A Critical Essay", EEH, Vol. 7, No. 3 (February 1955), pp. 161-162.

too universal to be applied to diverse cultural milieux, or may be inappropriate for particular stages of economic development. A dynamic economic development policy geared to the promotion of entrepreneurship cannot overlook such issues as creation of a capital market, technical aid, education of entrepreneurs, foreign trade policy which provides export incentives to local producers, supportive administrative services, etc. These incentives determine "effective demand" for entrepreneurs, and could be more decisive in raising the level of entrepreneurship than supply factors.<sup>9</sup>

It is hypothesized here therefore that at pre-industrial stages of economic development of a nation (or a subgroup within a nation, e.g. American blacks), determinants of demand for entrepreneurship are critical in bringing about supply responses and not vice versa; that specific governmental actions or events (e.g. passage of legislations favoring entrepreneurship, establishment of development banks, political independence, etc), are sufficient conditions to stir a new awareness in existing and potential entrepreneurs to respond to investment opportunities, notwithstanding all socio-cultural constraints. Thus in promoting entrepreneurship at the grassroots level, "demand determinants" provide the driving force.

Our hypothesis has two major implications which should briefly be explored. First, such political events as attainment of political

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<sup>9</sup>See for example W. Arthur Lewis' explanation of the importance of economic institutions in economic development in his Theory of Economic Growth. New York: Harper Torchbooks, 1970 (reprint), ch. 3, pp. 57-163. Elsewhere he asserts: "What is deficient is not the spirit of enterprise, but the experience of administration," p. 196.

independence, a passage of a bill reserving specific economic sectors for indigenous entrepreneurship, and a bill that makes government loans easily accessible to disadvantaged social groups can change people's attitude toward entrepreneurship. This implies then that at the early stages of economic development of a nation or a social group, the process of political development entails higher economic expectation of an average man than it is normally perceived by both the economist and the politician. Bluntly stated, a sense of economic responsibility of citizens is a concomitant sequel of political development, *ceteris paribus*.

Second, some governmental actions are more rewarding than others, depending on the stage of economic development the nation finds itself. For example, at an early stage, rapid expansion of the capital market may not necessarily promote entrepreneurship, whereas aid to businessmen in business education, legal matters and small loans advanced through a development bank may propel entrepreneurship in the right direction.<sup>10</sup> It is a difficult task prescribing which governmental actions should be employed for specific stages of economic development. The interest of the government in promoting entrepreneurship,

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<sup>10</sup>As an alternative to formal promotional programs, some governments sometimes resort to the price mechanism to motivate people. For example, prices of important commodities may be raised to encourage more economic participation and output. See E. Dean, "Economic Analysis and African Response to Price," Journal of Farm Economics, Vol. 47 (May 1965), pp. 402-409, and Walter P. Falcon, "Farmers Response to Price in a Subsistence Economy: The Case of W. Pakistan," AER, Papers and Proceedings, Vol. 54, No. 3 (May 1964), pp. 580-591.

diversity of economic opportunities, political stability, the traditional attitude of different social groups toward entrepreneurship and so on could in turn influence the realization of these actions. The author believes strongly that in choosing among alternative courses of action, "trial by error" approach<sup>11</sup> may yield the best results.

In the next section, we shall briefly examine the experiences of five selected countries where assistance programs have been launched in the past to promote entrepreneurship. It is hoped that their experiences will demonstrate the effectiveness of some demand determinants. Owing to the lack of adequate data on the impact of the programs on economic development of the selected countries, we shall not attempt to evaluate the programs in detail. Instead, emphasis will be placed on how indigenous citizens responded to new economic opportunities created by the programs.

### Experiences of Selected Countries

#### Case 1: State of Madras, India

Starting with the State of Madras, India, James J. Berna<sup>12</sup> reports about how a government policy to aid cottage and small-scale industries was able to influence the Brahman caste who traditionally were not in business to turn suddenly to business ventures. In brief,

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<sup>11</sup>This approach could be considered as a rational decision-making process according to Herbert A. Simon. See his "The Architecture of Complexity," Proceedings of the American Philosophical Society, Vol. 106, No. 6 (December 1962), pp. 467-482.

<sup>12</sup>James J. Berna, Industrial Entrepreneurs in Madras State. London, Asia Publishing House, 1960.

the aid programs consisted of two types. The first was begun after independence in 1947 by the Government of Madras. It concentrated on the training of village workers to assist cottage industries; it provided loans for land, building, machinery, equipment and materials, and helped businessmen market their products. The second, and probably more important type of aid was extended by the Government of India's Small Industries Service Institute and National Small Industries Corporation in the period 1954-56. Programs consisted of the following:

1. technical service, research and training;
2. establishment of pilot projects;
3. establishment of industrial estates;
4. a hire purchase arrangement for the purchasing of machinery and equipment through a loan scheme. For example, a down payment of about 1/5 of the price of machinery was required of small industries; and
5. tariffs and import licence policy to protect infant industries.

In his study of 52 light-engineering firms employing between 50 and 250 persons in the State of Madras, Berna discovered that among the proprietors, twelve were graduate engineers and also first generation entrepreneurs. Of the twelve, five were Brahmans who according to their caste, did not belong to families of entrepreneurs. He explains it this way: "Entrance into manufacturing industry is at a wide remove from traditional Brahman activity, which in modern times has traditionally lain in the fields of education, government



service and the professions."<sup>13</sup>

One could explain the response in the following manner. Under colonial rule incentives to industrial entrepreneurs were almost non-existent. The major services of wealth in the State were land ownership, high positions in the civil service and the professions. The Brahmans, unlike other castes, had the greatest access to all these sources of wealth which in turn brought them prestige and power. With attainment of political independence in 1947, a historical event filled with all sorts of expectations, and with the inauguration of the assistance programs, there emerged a new class of non-Brahman industrialists who through acquisition of wealth were in a position to challenge the prestige and power denied them for ages.<sup>14</sup> Thus the only avenue the Brahman could take to maintain the status quo was to strengthen their sources of wealth by turning to business ventures. Commenting on Bernal's study, Hoselitz suggests that the creation of a new generation of Brahman industrialists could be attributed to the present high value they ascribe to economic development with the

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<sup>13</sup> Ibid., p. 70. Clifford Geertz's account of how the nobility of Trabanan, on the Island of Bali, Indonesia, sought to strengthen their economic power after the Dutch took over the reins of government parallels the experience of Madras Brahmans. Before the arrival of the Dutch, the Bali nobility controlled both political and military leaderships, in addition to their being the major landowners. Colonial rule compelled them to resort to commerce and industry in order to maintain the status quo. See Clifford Geertz, Peddlers and Princes. Chicago: University of Chicago Press, 1963, pp. 82-141.

<sup>14</sup> In 1967, for example, the first non-Brahman Head of State, was elected and the present Head is also a non-Brahman. This reflects the increasing political power being wielded by the non-Brahmans, in addition to promising strides in business.

backing of the government.<sup>15</sup>

Case 2: Pakistan

Papanek's study<sup>16</sup> of a randomly sampled 250 Pakistani industrialists employing 20 or more persons supports the demand hypothesis. One of the major conclusions he reaches is that "the development of industrial entrepreneurs may depend largely on economic incentives which are determinable by government policy."<sup>17</sup> In this study, it is shown that people whose primary occupation before 1947 (or before entering industry if this was later) was trade, accounted for almost half of the entrepreneurs. The main explanation was that the economic incentives enabled the more energetic traders to enter manufacturing since business was already their chosen line of occupation. The study also points out that the traditional trading class or caste in control of industry came from five small communities, although they comprised just one-half of the total population.<sup>18</sup>

Papanek finds further evidence that even the Muslims who at the time of independence in 1947 formed only a small proportion

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<sup>15</sup>Bert F. Hoselitz, "Entrepreneurship and Traditional Elites," EEH, Vol. 1, No. 1 (Fall 1963), pp. 38-41.

<sup>16</sup>Gustav F. Papanek, "The Development of Entrepreneurship," AER, Papers and Proceedings, Vol. 52, No. 2 (May 1962), pp. 46-58.

<sup>17</sup>Ibid., p. 57.

<sup>18</sup>Ibid., p. 54.

of trade and manufacturing class developed a vigorous entrepreneurial group, and by 1958, a span of only 10 years, their number had increased.<sup>19</sup> The lessons we gather from the Pakistani experience are twofold. First, given the right incentives, it is relatively an easy task for a government to direct the entrepreneurial potential of a social group towards a more rewarding area of entrepreneurship that support economic growth. Second, given the right economic incentives, a social group, like the Muslims, who have traditionally been found in small numbers in business, could be enticed into business in promising numbers, notwithstanding their neutral traditional attitude toward business and money-making.

### Case 3: Turkey

The experience of Turkey exemplifies how political events, working in concert with economic incentives provided by the Government, can drastically change people's attitude toward, and evaluation of their economic roles.<sup>20</sup> The first historical hallmark was the establishment of the Republic in 1923, when about 80% of commerce, finance and small industries were known to be in the hands of the Greeks and Armenians.<sup>21</sup> Kemal Ataturk's social reform during the

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<sup>19</sup> Ibid., p. 49.

<sup>20</sup> See Alec P. Alexander, "Industrial Entrepreneurship in Turkey: Origins and Growth," Economic Development and Cultural Change Journal, Vol. 8, No. 4 (July 1960), pp. 349-365.

<sup>21</sup> Ibid., p. 350.

Republic years led to a decline in the alien population. Their departure caused a vacuum in especially trade and commerce, and consequently it fell to the lot of the Turks to fill the gap. The government responded in several ways. For example, it established in 1924 a business bank, Is Bankasi, to advance loans to businessmen. The establishment of new state enterprises which indirectly became a springboard for independent entrepreneurship was another. In short the creation of an entrepreneurial class in the period 1923-50 was the result of promotional programs designed to arouse people's interest in economic development.

A second event in the Turkish experience was the assumption of power by Celal Bayar in 1950. The period marked a new phase and a new strategy in entrepreneurial promotion. To all intents and purposes, Bayar pursued policies catering largely for interests that had been neglected by the Republicans.<sup>22</sup> He initiated a number of programs to aid businessmen, e.g. business loans through the Turkish Development Bank created in 1950, lowering of corporate taxes, and liberalization of imports during the period 1950-52. Alexander sums up the impact of Bayar's programs this way: "In 1950, it was the active presence of a business community and of other middle class elements, grown largely as a result of the policies of the new regime which became decisive factors in the political change leading towards

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<sup>22</sup>Lloyd Rodwin, Nations and Cities: A Comparison of Strategies for Urban Growth. Boston, Houghton Mifflin, 1970, p. 73.

greater economic and political liberalism."<sup>23</sup> In brief, Bayar's economic policies were conducive to the development of entrepreneurship, because, as the author sees it, the right incentives were provided to neglected social groups, especially the lower class, whose economic aspirations were enlivened by a sudden event, namely, a change in government.

#### Case 4: Philippines

Carroll's study<sup>24</sup> of 92 Filipino manufacturing firms employing 100 or more persons provides us with a further supporting evidence of our demand hypothesis. Commenting on the growth of Filipino-owned manufacturing plants in the 1950's, he suggests that very probably the necessity of import license or dollar allocations and the manner in which they were made available tended to accelerate this development.<sup>25</sup> Economic incentives provided by the government in the 1950's included exemptions from import controls, and it is reported that in 1953 alone 122 exemptions were granted, and that by the end of 1958, 1,083 grants and tax exemptions were received by 862 firms.<sup>26</sup> Also

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<sup>23</sup>Alec P. Alexander, "Industrial Entrepreneurship in Turkey: Origins and Growth," op. cit., p. 358.

<sup>24</sup>John J. Carroll, The Filipino Manufacturing Entrepreneur: Agent and Product of Change. Ithaca: Cornell University Press, 1965.

<sup>25</sup>Ibid., p. 127.

<sup>26</sup>Ibid., p. 35.

during the decade, the government made credit available to prospective industrial entrepreneurs through special banking arrangements, and financing agencies. It is no wonder then that 53 out of the 92 firms interviewed were created in the period 1950-60. Of the 53, only two reported that they did not receive government assistance from the start. Ten out of the 17 created between 1945-1949 also had government support, and none of the 22 created before 1945, i.e. the colonial period, had any support.<sup>27</sup> Carroll rightly sums up the overpowering impact of determinants of demand thus: "Filipino entrepreneurs were not slow in responding to incentives and opportunities such as these. They seem to have developed a form of entrepreneurship far more political in its methods than that which appeared at similar stages of development in the western nations...."<sup>28</sup>

#### Case 5: Ghana

A recent experience of Ghana is similarly interesting. In 1968, the ruling military government passed a decree (Decree 323) which simply said that all aliens in retailing whose annual volume of business amounted to \$500,000 or less, or those in wholesaling grossing about \$1 million or less, should liquidate their businesses within two years after the passage of the decree. An Act, Ghanaian

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<sup>27</sup> Ibid., p. 179.

<sup>28</sup> Ibid., p. 179.

Business Promotion Act (Act 334)<sup>29</sup> was formally passed in June 1970 by the new civilian government, validating the decree with effect from September 1970. To implement the Act the government included in its 1970-71 budget, a \$1.5 million business loan program. An Agricultural Development Bank has also been established to advance loans to farmers. Productivity and technical aid centers have been established to provide the much needed technical services.

Like most former African colonies, excluding probably Nigeria, a greater part of the retailing and wholesaling have traditionally been controlled by aliens, notably large European firms, Syrians, Lebanese and Indians. It is interesting to note that Ghanaians who never dreamt of going into business turned into businessmen overnight after the passage of the Act. For example, it was reported that between August 1 and December 31, 1970, 1,820 new firms were registered, and this represented a 100% increase in the rate of registration.<sup>30</sup> Since then more new firms have been registered. Several civil servants who were holding very secure posts are reported to have resigned to go into business.

It is clear that Ghanaians were not simply unbusinesslike. It was a deliberate policy of the British Colonial administrators to use aliens in commerce and trade for various reasons. And although

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<sup>29</sup>The main goals of the Act are contained in Government of Ghana, Ministry of Information, Ghanian Business Promotion Act. (GPC/A271), August 1970.

<sup>30</sup>Ghanaian Times, January 13, 1971, p. 3.

independence was achieved in 1957, alien firms had so entrenched themselves that viable Ghanaian firms did not have a chance to thrive. Nor was Kwame Nkrumah, after coming into power between 1957-1966, interested in this line of politics, since some of the issues involved in the Ghanaian Business Promotion Act run counter to Pan-African politics which was his main preoccupation. In the Ghanaian case therefore, there was an event, i.e. a new civilian government sparking off an economic expectation, and the expectation was confirmed by the mass deportation of alien merchants and traders in late 1970. Coupled with this are government promotional programs to provide the necessary financial and technical support. In contrast, socio-anthropological and anthropo-psychological theories and explanations cannot lay claim to a possible removal of cultural bottlenecks by the Act, or to sudden changes in personality attributes as a plausible reason for such a mass supply response.

#### Some Negative Aspects of the Experience of the Five Countries

In the experience of the five countries discussed above, two common negative aspects of entrepreneurial promotion programs are discernible. First, the dearth of trained personnel in business management and administration creates a time lag between implementation of entrepreneurial promotion policy and supply of efficient entrepreneurs. Where such a policy causes the displacement of more efficient alien businessmen, economic growth may be retarded



in the few years following the implementation of the policy. If this happens, such sectors as trade and specialized services usually dominated by aliens may suffer severely. A few capable indigenous businessmen may monopolize these sectors, causing unstable high prices for several months. Kemal's regime experienced this problem in the late twenties and early thirties,<sup>31</sup> and Ghana is currently facing the same problem. In Pakistan, the government deliberately discriminated against British and Hindu businessmen in the issuance of import licenses in the early 1950's, resulting in windfall profits for some businessmen.<sup>32</sup>

Second, incentives geared to entrepreneurial promotion interfere with the working of the market mechanism, with the result that when the incentives are withdrawn, some industries become less viable. In the case of Pakistan for example, the removal of incentives by late 1950's caused annual returns of certain industries to drop from 50-100% to 20-50%.<sup>33</sup> Of equal significance are two interrelated issues, namely the duration of the incentives, and choice of economic sectors to receive the incentives such that the leading sectors are not impaired when the incentives are withdrawn.

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<sup>31</sup> Firouz Bahrapour, Turkey: Political and Social Transformation. Brooklyn, N. Y.: Theo Gaus' Sons, 1967, p. 72.

<sup>32</sup> Gustav F. Papanek, Pakistan's Development: Social Goals and Private Incentives. Cambridge: Harvard University Press, 1967, pp. 32-36.

<sup>33</sup> Ibid., p. 39.

### Implications of the Five Cases to U. S. Minority Entrepreneurship

The relevance of the five cases to U. S. minority entrepreneurship is constrained by the fact that entrepreneurial promotion in the five countries had (or have) a strong political base, and in some cases, e.g. Pakistan, Turkey and Ghana, it provides an essential pivot for nation-building. This has been possible as a result of ethnically homogeneous or less heterogeneous population of these countries. In contrast, the U. S. political climate is such that economic advantages are not easily bestowed on minority groups. Further, the need to use entrepreneurial promotion programs as a basis for nation-building is out of the question.

In any event, two major lessons can be learned from the five cases. First, certain promotional programs such as development banks and well-tailored technical assistance programs yield quicker entrepreneurial supply responses than other programs. Within the last five years, the thrust of minority business promotion in this country has been a comparatively easy access to loans through conventional banking channels. Also since 1968, SBA has been pushing ahead its 8A program (i.e. assistance to minority businesses in the procurement of federal contracts). Other avenues for promoting minority entrepreneurship are yet to be explored. Specifically, the use of development banks purposely geared to inner-city economic development has been ignored. Besides, technical assistance programs are too diffuse in scope and purpose to fulfill the present needs of minority groups.

The second lesson relates to the types of incentives usually required by grassroots entrepreneurs. Incentives should be tailored to meet the special needs of the growing number of black businesses. It is important that the incentives be made as temporary as possible, for the moment they become permanent black entrepreneurship will continue to have a very weak foundation.<sup>34</sup>

In the next section, we shall formally conceptualize how demand determinants operate, and we shall also make a strong case for these determinants as opposed to supply determinants, especially at the early stages of economic growth and development. In our analysis, we shall treat demand determinants as a single variable without specifying the merits and demerits of individual determinants such as loans, technical assistance, business education, etc.

#### A Demand Model of Grassroots Entrepreneurship: A Graphical Analysis

Assumptions: The following assumptions underlie the model, that:

1. The size of economically backward groups (or minority disadvantaged groups) in the society is not too large to prevent a possible "take-off" of economic development. As truly backward nations, in statu nascendi, have drastically decreased in number since the last World War, the problem of cultural roadblocks in entrepreneurial development is assumed to be not severe.

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<sup>34</sup>An oft-quoted example is the practice of SBA awarding minority enterprises contracts even though they often bid higher than their competitors.

2. The nation has a monetized economy, as opposed to a barter system, thus making room for responses to market incentives.

3. The socio-political climate does not seriously impede occupational mobility. Where immobility exists, it is assumed that it could be dealt with through legislative sanctions or administrative fiats.

4. The number of people who engage themselves in business in any given period provides encouragement to others with high expectation to go into business also. In other words, the response of supply to demand generates a "demonstration effect" which ipso facto increases the supply of entrepreneurs.

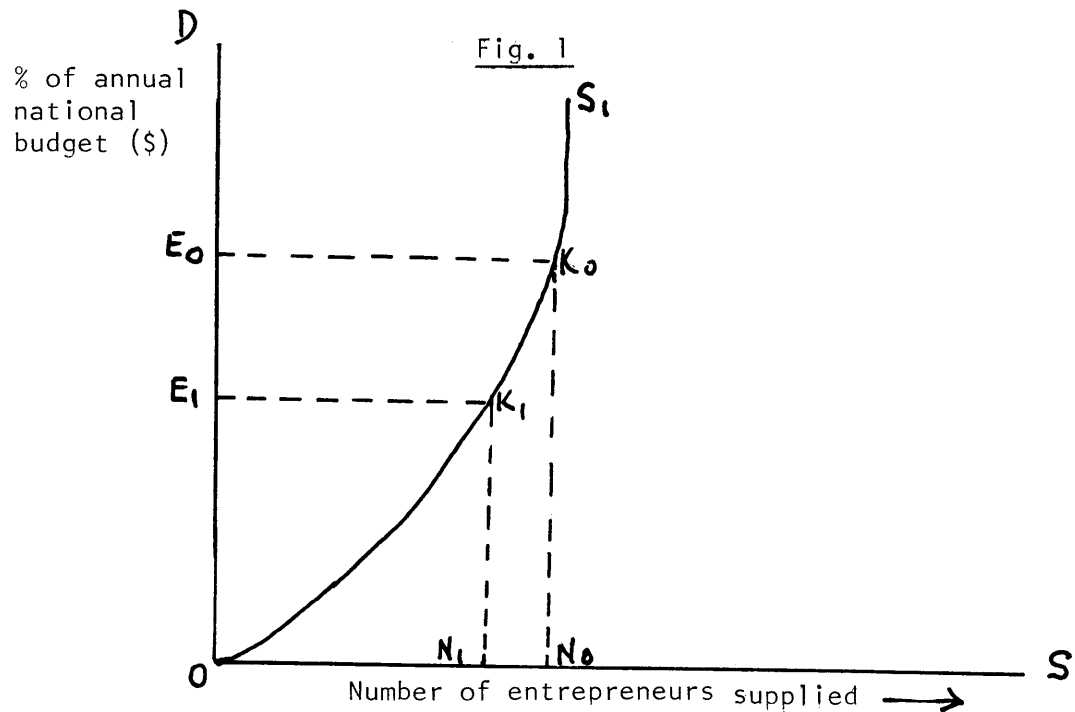
5. The government is willing to allocate funds for entrepreneurial promotion.

6. The government keeps corruption and administrative inefficiency at a minimum.

7. Potential entrepreneurs have access to a minimum amount of information.

#### Graphical Representation

In Fig. 1, the ordinate represents the dollar allocation of government funds for entrepreneurial promotion, expressed as a proportion of the total budget for a given planning period. The "entrepreneurial budget" is allocated for such competing programs as loans, education in entrepreneurship, technical assistance and administrative support. The abscissa indicates the number of entrepreneurs supplied in a given planning period. Thus for each level of budget allocation, the composition of promotional programs will ensure that a "projected"



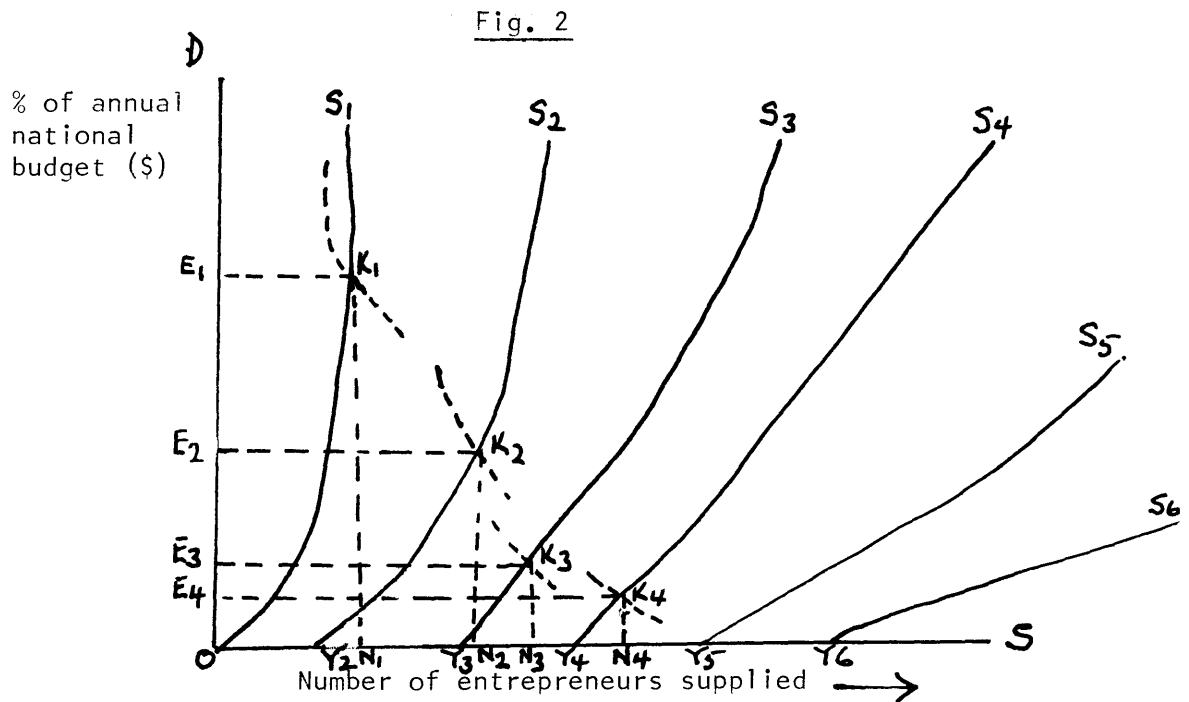
number of entrepreneurs will be supplied. In this connection, it is important to note that a higher level of budget allocation will not necessarily yield more entrepreneurs; rather for a given budget, a judicious selection of programs supported by articulated administration will determine the rate at which entrepreneurs will be supplied.

$OS_1$  is a supply curve representing the supply schedule for different levels of allocation. The two budget allocations,  $E_1$  and  $E_0$ , produce  $ON_1$  and  $ON_0$  entrepreneurs respectively. It is evident that the difference between the two levels of allocation, i.e. the extra amount of money expended to produce additional entrepreneurs,  $N_1N_0$ , reflects decreasing returns to investment. Expressed in another way, along segment  $K_1K_0$  on the supply curve, the capacity of the economy to produce more entrepreneurs by providing additional funds ( $E_1E_0$ ) is constrained by the fact that either promotional programs can only be expanded at

an increasing marginal cost, or new programs yield very little benefits. This is evidenced by the almost vertical shape of the supply curve above point  $K_0$ .

Fig. 2 shows a family of supply curves representing different planning periods. Of striking significance is the gradual change in the shapes of the curves as the economy develops. As pointed out above,  $OS_1$  representing the initial planning period, assumes a vertical shape at higher levels of allocation, but subsequent supply curves gradually flatten out, with less concave bases to the origin. To illustrate the significance of the shapes, let us consider four of them.

In the first planning period, budget allocation  $OE_1$ , translated into promotional programs, yields  $ON_1$  entrepreneurs. The allocation for the second planning period yields  $ON_2$  and the corresponding supply



curve is  $Y_2S_2$ . Suppose the government fails to make provision for promotional programs during the second planning period, then we should expect the number of entrepreneurs in the economy to fall below the level supplied during the first planning period as indicated by  $OY_2$ . Thus  $Y_2N_1$  measures the number of entrepreneurs who are likely to be out of business should the government fail to allocate funds for the second planning period.

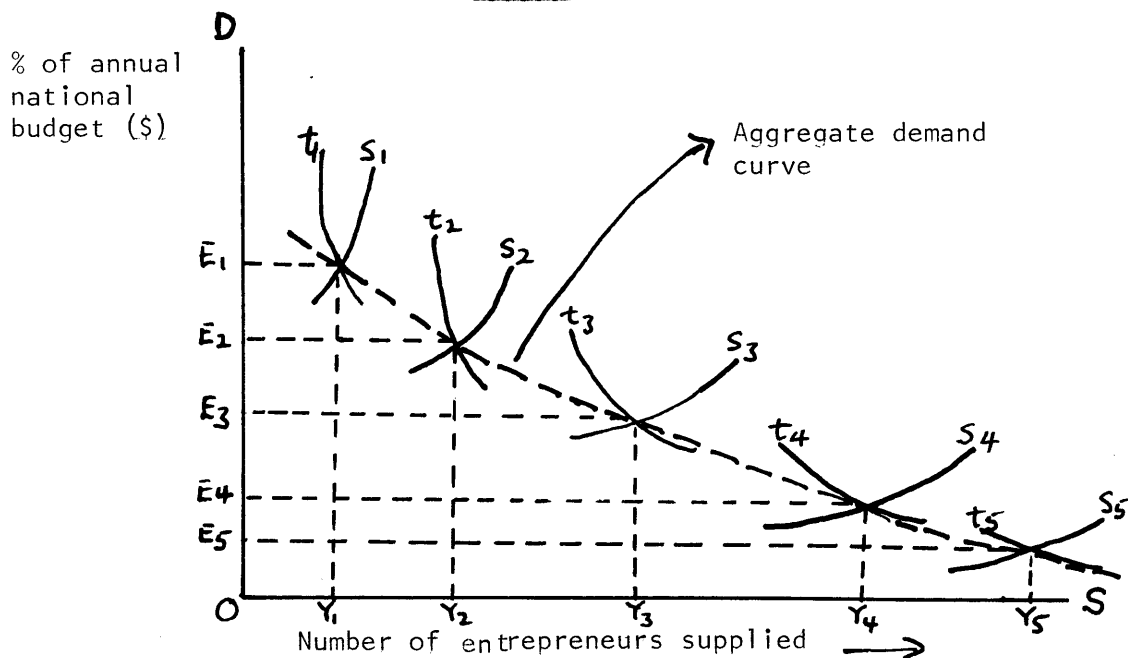
On the other hand if the government continues to allocate funds, the entrepreneurial capacity of businessmen will be enhanced to the extent that if promotional programs are curtailed or are temporarily halted during an advanced stage of development, the number of entrepreneurs will not reduce but will rather increase. In other words, continuous administration of the programs tends to yield a "demonstration effect" which propels the economy towards a higher level of entrepreneurship. To illustrate this point, consider  $Y_4S_4$ , i.e. the supply curve for the fourth planning period. If the government were to continue allocating funds for promotional programs, then budget level  $OE_4$  will yield  $ON_4$  entrepreneurs. Assuming that during this period the government decides to suspend the programs, the number of entrepreneurs that will remain in business will be equal to  $OY_4$ . Thus, as a result of the "demonstration effect" the number of entrepreneurs in the economy will increase by an amount equivalent to  $N_3Y_4$ . At any rate, the economy loses potential entrepreneurs equal to  $Y_4N_4$ . In short the economy stands to lose whenever promotional programs are halted or severely curtailed.

At an advanced stage of economic development, such promotional programs as subsidies to disadvantaged entrepreneurs, dissemination of

trade and other items of information and administrative overheads will still be required. However, it is argued here that as a proportion of the national budget, the entrepreneurial budget will gradually decrease over time as the gross national product increases.

In Fig. 3, a family of demand curves has been drawn to demonstrate how entrepreneurial programs generated by budget allocations relate to entrepreneurial supply. Curve  $t_1$  represents the demand schedule during the first planning period,  $t_2$  the second planning period, etc. Curve  $s_1$  represents the supply schedule during the first planning period,  $s_2$  the second planning period, etc. A point worth emphasizing is the fairly inelastic nature of both demand and supply curves at the early stages of development. The inelasticity is attributed to several economic and socio-cultural constraints. Thus their slopes must of necessity remain steep.

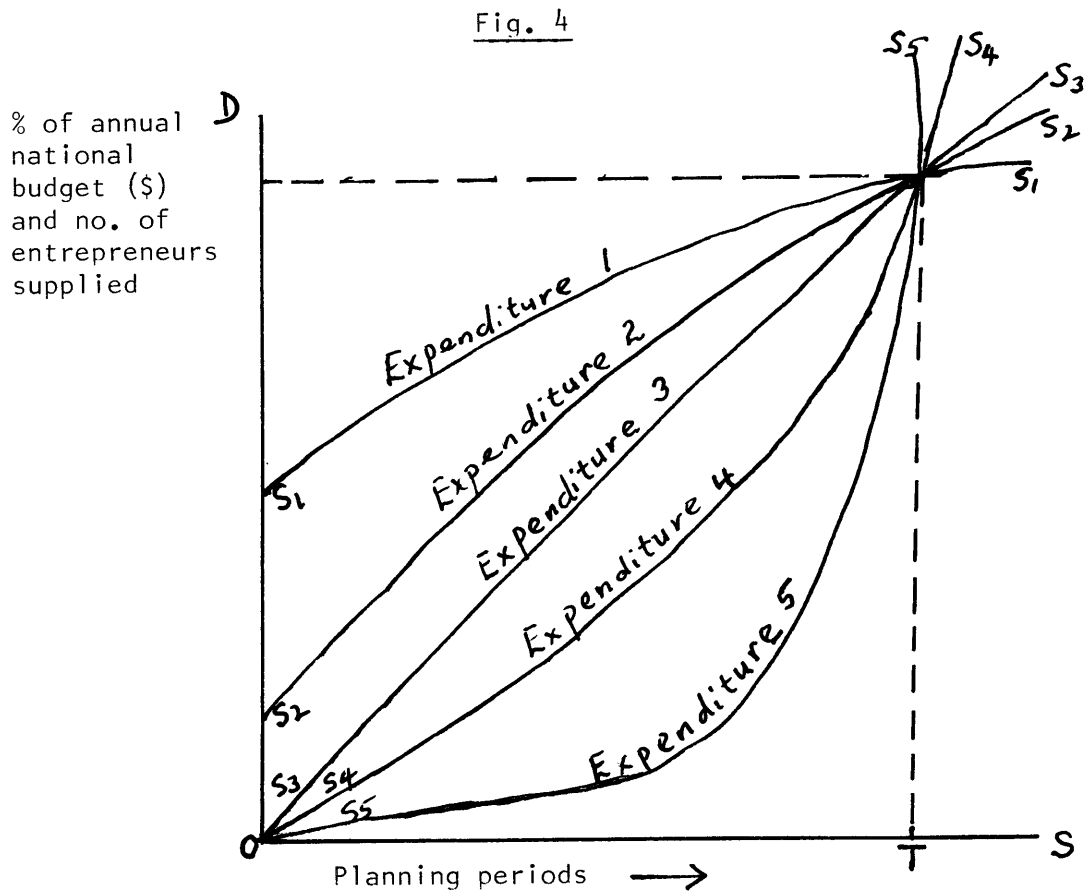
Fig. 3





Let us assume that we can project for several planning periods the level of entrepreneurial budgets, and that we can also predict the behavior of the government with respect to investment decisions on entrepreneurial promotion. On the basis of these assumptions, it is possible to derive an aggregate demand curve for the economy as a whole. Needless to point out, an infinite number of such curves can be drawn, depending on the basis of our predictions of the investment behavior of the government. Fig. 3 shows such a curve.

Fig. 4 depicts the relative effectiveness of programs created by different levels of allocation. On the basis of our earlier assumption that each level could be tailored to the supply of a specific



number of entrepreneurs, we can measure both expenditure levels and their attendant entrepreneurial supply on the ordinate, and planning periods on the abscissa. The expenditure level at each point on an expenditure curve should be interpreted in terms of combination of programs, with the result that some combinations are more effective than others.<sup>35</sup> It is evident from the diagram that of all the expenditure paths, path 1 is the most effective, and path 5 the least effective.

In conclusion, one may question practical realities of some features of the graphical analysis. For example, how real is the assumption that for each level of budget allocation we can roughly estimate

<sup>35</sup>In mathematical terms, the area under each expenditure curve can be expressed as an integral function, so that the larger the area, the more effective the combination of programs. Without attempting to solve the following equation, we can symbolically express the effectiveness of each path as follows:

$$\text{Maximize } \Psi = \int_0^T (W, N_t(\%, q, r, s, N_{t-1}, t) - E_t(\%, q, r, s) e^{-dt}) dt$$

where  $\Psi$  = objective function, viz entrepreneurial supply.

$W$  = weight attached to the selected programs

$N_t$  = entrepreneurs supplied in the present planning period.

$\%$  = proportion of annual national budget for promotional programs.

$q, r, s$  = proportion of entrepreneurial budget earmarked for different programs. (The number of programs could vary).

$N_{t-1}$  = number of entrepreneurs supplied in the previous planning period.

$t$  = duration of the planning period.

$E_t$  = level of present expenditure.

$e^{-dt}$  = rate of discount.

the number of entrepreneurs that can be supplied. However, we cannot gainsay the fact that promotional programs, under proper administration, can increase the level of entrepreneurship in the economy,<sup>36</sup> and in our attempt to conceptualize this tendency, we have resorted to the orthodox demand-supply approach.

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<sup>36</sup>In this connection, the position of the government is analogous to that of a monopsonist.

Economic Viewpoint

One of the exploratory writings with respect to the role of expectation in economics was initiated by G.L.S. Shackle.<sup>37</sup> He explains that the decision of an investor about whether investment should be made in one out of many feasible projects is determined by: (1) the expected gain or loss from each project (focus-values), just as a gambler treats his indifference curve; (2) date at which he expects the business to be in operation (focus-outcome), and (3) a projected date in future when the attractiveness of the project will increase or decrease (potential surprise).<sup>38</sup>

Although the investor is supposed to act rationally by his judicious evaluation of market conditions, he must also be a man with unflinching intuition and reliable powers of prediction to make the right type of judgement. The small number of people with such a mental calibre especially in the early stages of development may partly explain the slow rate of growth of entrepreneurial class, or the rather low level of business operation in developing nations, or among educationally disadvantaged groups in society. However, the main problem with the expectation approach is that it takes the market as given and relegates to oblivion all the institutional or external factors which influence day-to-day and long-run business operations, i.e. what has been referred to earlier as determinants

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<sup>37</sup>G.L.S. Shackle, Expectation in Economics. Cambridge: University Press, 1949.

<sup>38</sup>Ibid., Ch. 3, pp. 59-76.

of effective demand. Hence the approach is supply-oriented.

Another viewpoint is presented by H. Leibenstein.<sup>39</sup> He postulates three conditions that determine the growth of entrepreneurship: (1) The size of entrepreneurial class. The size does not only determine the importance and prestige of the group, but also the extent of the contacts and the degree of familiarity that potential entrepreneurs can have with members of the entrepreneurial group. (2) The level of per capita income. He states: "the lower the level of per capita income, the smaller the supply of entrepreneurship in response to the demand that may exist."<sup>40</sup> (3) The rate of growth of per capita income.

Without taking into account the pattern of income distribution, the level of per capita income as a condition is vague. Suppose the top ten per cent of a nation's population are high-income families the majority of whom are businessmen, and that they control 80% of the wealth in the nation. In this case, it is evident that the growth of entrepreneurship and the pattern of income distribution would be different had most of the businessmen come from the middle-class, constituting 30% of all families. Although the size is an important factor, it makes a lot of difference how much of the nation's wealth the entrepreneurial class controls. This will affect

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<sup>39</sup>H. Leibenstein, Economic Backwardness and Economic Growth. New York, John Wiley and Sons, 1959, Ch. 9, pp. 121-135.

<sup>40</sup>Ibid., p. 126.

their attitude toward other groups, politics and the government. It will also influence their willingness to let others rise up the entrepreneurial ladder. Further, Leibenstein does not tell us how critical indigenous investment is to the growth rate criterion. It is decisively important whether or not indigenous investment, vis-a-vis foreign investment, plays a leading role. Reliance on much foreign investment would require political stability to realize a desirable growth rate. Besides, the sectors in which foreign investment takes place would greatly determine the rate of diffusion of entrepreneurial spirit among the indigenous people.

To a large extent, Alec P. Alexander supports Liebenstein's viewpoint, except that he postulates three complementary conditions, namely, the availability of capital market, management and flow of information in the decision-making process.<sup>41</sup> Although these complementary conditions shed more light on the problem, the above comments on Leibenstein's viewpoints apply here.

Among a few economists who have attempted to weigh both demand and supply influences is A. O. Hirschman.<sup>42</sup> With respect to supply, he points out the pitfalls of both the "group-focused image of change" and the "ego-focused image of change" that inhibit economic progress. On the one hand, the group-focused image of change leaves

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<sup>41</sup>Alec P. Alexander, "The Supply of Industrial Entrepreneurship," op. cit.

<sup>42</sup>Albert O. Hirschman, The Strategy of Economic Development. New Haven: Yale University Press, 1958, Ch. 1, pp. 1-28.

little room for individual enrichment but seeks after collective benefits, and consequently it is "incompatible with any large-scale development aiming at a fundamental transformation and modernization of an economy."<sup>43</sup> On the other hand, the ego-focused image of change is often disguised in the nature of sheer luck, e.g. lotteries, and outwitting of others, and it also obstructs the development of the innovative individuals or entrepreneurs.<sup>44</sup>

By referring to "cooperative component of entrepreneurship,"<sup>45</sup> i.e. the ability to engineer agreement among all interested parties, enlisting the cooperation of official agencies in such matters as custom duties, permits, exchange control regulations, ability to develop an appropriate administrative mechanism, successful handling of labor and public relations, etc., Hirschman actually throws light on some of the major determinants of demand, so essential in registering supply responses. In short, the existence of investment opportunities do not ipso facto create demand for entrepreneurs, as some economists would make us believe. The quality of institutional arrangements or Hirschman's "cooperative component" dictates the pace at which these opportunities could be seized. We cannot agree more with W. Arthur Lewis when he affirms that "it is also possible that there may be institutional changes permitting greater freedom

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<sup>43</sup> ibid., p. 13.

<sup>44</sup> ibid., p. 16.

<sup>45</sup> ibid., p. 17.

of maneuver, without the underlying economic factors having changed."<sup>46</sup>

### Socio-Anthropological Viewpoint

Relying on two inter-related theories of action and roles formulated by Talcott Parsons and his colleagues,<sup>47</sup> both Alexander Gerschenkron<sup>48</sup> and Alec P. Alexander<sup>49</sup> have attempted to link the two theories to the development of entrepreneurship. The theory of action stipulates that the orientation of an action defines what specific social roles should be performed by individuals and the relation of individual's roles to one another. Such a 'need-disposition structure which controls one's responses to the expectations defining one's various roles is therefore one of the most fundamental aspects of any personality...."<sup>50</sup> Furthermore, through positive and negative

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<sup>46</sup>Op. cit., p. 147.

<sup>47</sup>Talcott Parsons and Edward A. Shils (eds.), Toward a General Theory of Action, Cambridge: Harvard University Press, 1962, especially Part 2.

<sup>48</sup>Alexander Gerschenkron, "Social Attitudes, Entrepreneurship, and Economic Development," EEH, Vol. 4, No. 1 (1953-54), pp. 1-19.

<sup>49</sup>Alec P. Alexander, "The Supply of Industrial Entrepreneurship," op. cit.

<sup>50</sup>Parsons, et al.; op. cit., p. 148. We may also note here Hoselitz's argument that in societies where "ascription of roles" predominate, social mobility is essentially possible not for individuals but for only the stratified groups; but where "achievement of roles" predominate individuals within any group may experience mobility, still leaving distinctions and differences between the stratified groups unchanged. See Bert F. Hoselitz, "Social Stratification and Economic Development," International Social Science Journal, Vol. 16, No. 2 (1964), p. 248.



sanctions (reward values and retribution values) the system ensures that role expectation is complied with. Hence, a conclusion is drawn that the value system becomes the crucial determinant of action.<sup>51</sup>

As the theory of role expectation defines which roles individuals in society should perform, Gerschenkron thinks the role theory fits more into static social systems, and that it does not help us interpret or explain the process of change.<sup>52</sup> He finally reaches a conclusion that social attitude toward entrepreneurs do not significantly affect the processes of industrialization unless they are allowed to become crystallized in governmental action.<sup>53</sup> In relating the role theory to the supply of industrial entrepreneurship, A. P. Alexander argues that role expectations are normatively defined along a positive-negative continuum. Consequently the entrepreneurs' position on the scale will condition the development of entrepreneurship.<sup>54</sup>

The major pitfall in the application of the two theories to the development of entrepreneurship is that social systems change over time. And if this is so, we are still left in doubt as to how role expectation changes over time. We need to know those mechanisms and strategies which can be employed to make

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<sup>51</sup>The explanation is that value systems do not change readily, so that economic development must break through the barriers of routine prejudice and stagnation, among which diverse attitudes towards entrepreneurship are important elements. For an amplification of this point, see Gerschenkron, op. cit., p. 9, et seq.

<sup>52</sup>op. cit., p. 3.

<sup>53</sup>ibid., p. 15.

<sup>54</sup>See his 'Supply of Industrial Entrepreneurship,' op. cit., p. 143.

the changes conducive to entrepreneurship fast enough.<sup>55</sup>

Ralph Linton<sup>56</sup> specifically refers to the constraints and obligations imposed by the extended family system as disincentives to individual economic profit. He affirms: "the greater the opportunities for individual economic profit provided by any socio-cultural situation, the weaker the ties of extended kinship will become."<sup>57</sup> This is definitely an understatement of the real facts.<sup>58</sup> It is not in all circumstances that the extended family system undermines individual economic profits. There are historical and contemporary instances in such countries as Nigeria and Ghana where financial and moral support given by members of the extended family to individuals in business turned dying enterprises into booming ones. Cocoa farmers in new cocoa areas of Ghana who migrated there from other parts of the

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<sup>55</sup> Thomas C. Cochran aptly points out that unless the dominant cultural themes and the resulting types of sanctions and social roles are understood, any assumed chain of causation is merely descriptive of a sequence rather than explanatory of real causal interaction. See his point of view in "Role and Sanction in American Entrepreneurial History," in Hugh G. J. Aitken, Explorations in Enterprise. Cambridge, Harvard University Press, 1965, pp. 93-112.

<sup>56</sup> Ralph Linton, "Cultural and Personality Factors Affecting Economic Growth," in Bert F. Hoselitz (ed.), The Progress of Underdeveloped Areas. Chicago: The University of Chicago Press, 1952, pp. 73-88.

<sup>57</sup> Ibid., p. 84.

<sup>58</sup> See, for example, Hirschman's arguments to the contrary in "Obstacles to Development: A Classification and a Quasi-Vanishing Act," Economic Development and Cultural Change, Vol. 8, No. 4 (July 1965), pp. 385-393. He explains that some of the obstacles we regard as impediments to development are really not impediments at all. Sometimes they are blessings in disguise, or they could be lived with.

country are known to have received financial support of one form or another initially from the extended family.<sup>59</sup> In fact it is not rare to find members of the extended family entering into business partnerships in some tropical African countries.

Our fears about socio-cultural influences militating against the development of entrepreneurship are allayed by Bert F. Hoselitz in his sober appraisal of the fact that although rigidities of caste and class structure may exist, they could be mitigated, if the government could protect property rights, regardless of claims of privilege, and if administration of laws could be assumed in an impersonal and equitable manner, regardless of influences of social class and economic power. In this way, he contends, objective conditions are being created for industrial entrepreneurship.<sup>60</sup> He further adds that creation of climate for entrepreneurship depends "on the one hand on establishing social institutions which make possible objectively the exercise of independent individual enterprises, and on the other hand, on allowing the maturation and development of personalities whose predominant orientation is in the direction of productivity, working and creative integration."<sup>61</sup>

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<sup>59</sup> See some of the accounts given in Polly Hill, Migrant Cocoa Farmers of Southern Ghana. Cambridge: Cambridge University Press, 1963, pp. 185-187.

<sup>60</sup> Bert F. Hoselitz, Sociological Aspects of Economic Growth. New York: The Free Press, 1960, p. 154.

<sup>61</sup> Ibid. With reference to Latin America in particular see Louis Kriesburg, "Entrepreneurs in Latin America and the Role of Cultural and Situational Processes," International Social Science Journal, Vol. 15, No. 4 (1963), pp. 581-594.

Opinions thus seem to confirm that socio-cultural impediments to the development of entrepreneurship can either be overcome or do not pose serious threats to people's attitude toward entrepreneurship. This leaves us with two problem areas. The first is the development of social and economic institutions and incentives to facilitate the development of entrepreneurship, i.e. the determinants of effective demand for entrepreneurship. The second is the development of personalities whose value orientation can accommodate innovative types of entrepreneurship. We shall turn next to some of the major issues which have been raised in connection with personality development.

#### Anthropo-Psychological Viewpoint

David C. McClelland has attempted to link both economic growth and development of entrepreneurship with motivational characteristics of individuals, or more accurately, "need for achievement."<sup>62</sup> His thesis is based on Freudian theory which traces the degree of the need for achievement to child rearing practices and to parent-child relations. The n-achievement theory attempts to demonstrate that some parental attitudes encourage early self-reliance and a high level of aspiration. These parental attitudes reflect values embedded in the total culture of a society and all its attendant ideologies. Referring to the level of entrepreneurship in developing nations, he asserts:

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<sup>62</sup>David C. McClelland, The Achieving Society. New York: Van Nostrand, 1961.

Because they are often low in n-Achievement, they do not have a steady flow of entrepreneurial talent upward from the lower middle class which creates new businesses, and must recruit their business leaders primarily from the upper class where the capital and opportunity to go into business exist.<sup>63</sup>

The need-achievement thesis has gained support in some quarters. In his study of a sub-set of 84 spin-off companies from M.I.T. laboratories, Edward B. Roberts<sup>64</sup> attempts to determine the factors affecting new enterprise success, using the following indices: average sales, sales growth, projected sales, a weighted performance that combines company age and profitability with sales growth, Dun and Bradstreet ratings, and the entrepreneur's self-evaluation of the company's success. Finding close correlations between these factors, he proceeds to identify indices that separate higher performers from lower performers, namely, degree of technology transfer, educational level, business function, concern about personnel matters and the existence of a marketing department. Next he introduces "personality factors" that seem to correlate with high entrepreneurial success. On the basis of a Thematic Apperception Test,<sup>65</sup> he arrives at a

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<sup>63</sup> Ibid., p. 256.

<sup>64</sup> Edward B. Roberts, "A Basic Study of Innovators; How to Keep and Capitalize on Their Talents," Research Management, Vol. 11, No. 4 (1968), pp. 249-266.

<sup>65</sup> TAT was used in an interview of Michigan businessmen study by Roger Coup, in relation to, inter alia, their personal input that keep their business alive. For details, see Orvis Collins and David G. Moore, op. cit., pp. 33-38.

conclusion that the high performers have a high need for achievement and a moderate need for power, while lower performers have a low need for achievement and high or low need for power.

In spite of the apparent usefulness of the theory in some research endeavors, its pitfalls cannot easily be overlooked. To begin with, it places entrepreneurial functions on the upper class (see above quotation of McClelland). But it is equally true that low-income families who start out as petty-traders, hawkers, servicemen, etc., achieve higher social status when they become big merchants and industrialists. Another reservation is that it uses social stratification as a major point of reference,<sup>66</sup> and therefore underscores the value orientation of ethnic groups, e.g. in the choice of occupations, irrespective of their social class. As an illustration, we need really persuasive arguments to convince ourselves why the Ibos and the Ibibios of Nigeria are more enterprising than other tribal groups in Nigeria, or the Kwahus in Ghana,<sup>67</sup> apart from the oft-quoted reason that they belong to minority groups, and feeling discriminated, usually turn to business to succeed in life. On this point John R. Harris, in his study of 265 industrial entrepre-

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<sup>66</sup>In elaboration of this point, McClelland imposes two conditions: (1) if the minority are predominantly middle class, and (2) if they are prevented from entering higher prestige occupation. See McClelland, op. cit., p. 280.

<sup>67</sup>The Kwahus, numbering probably less than 100,000 in a country of 8.5 million people have for several decades been most enterprising sub-group within the larger Akan linguistic group.

neurs in Nigeria, makes it clear that it is impossible to distinguish among social, psychological and economic theories of entrepreneurial supply and consequently the differences in economic structure of the regions, exposure to western education and "modern" occupational experience could be a plausible explanation.<sup>68</sup>

Some objections have been raised by Fritz Redlich<sup>69</sup> in connection with certain underlying implications of the theory. One of these implications is that people with a high n-achievement are inclined beforehand to go into business, and the two are not the same by any means.<sup>70</sup> He also questions why McClelland does not separate achievement orientation from all other motives, since in reality there is no single motive which determines the actions of men, but rather a multiplicity of motives drawing men hither and thither.<sup>71</sup>

Alexander's objections are equally persuasive. He doubts whether a society with a high need for achievement necessarily breeds a large number of entrepreneurs, and whether the level of the need for achievement affects occupational choices.<sup>72</sup> In all probability, it is

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<sup>68</sup> John R. Harris, "Some Problems in Identifying the Role of Entrepreneurship in Economic Development," EEH, Vol. 7, No. 3 (Spring 1970), p. 367.

<sup>69</sup> Fritz Redlich, "Economic Development, Entrepreneurship and Psychology: A Social Scientist's Critique of McClelland's Achieving Society," EEH, Vol. 1, No. 1 (Fall 1963), pp. 10-35.

<sup>70</sup> Ibid., p. 12.

<sup>71</sup> Ibid., p. 17.

<sup>72</sup> Alec P. Alexander, "The Supply of Industrial Entrepreneurship," op. cit., p. 146.

possible for individuals with characteristics of high need for achievement, e.g. concern for professional excellence and standards, to manifest these traits in other occupational pursuits than in entrepreneurship.

Everett G. Hagen approaches the issue of the relationship between personality development, economic development and entrepreneurship from a slightly different angle. He explains in his theory of "withdrawal of status respect"<sup>73</sup> how the development of innovative or creative personalities is centered around revolt of some group in society against the traditional order. The revolt, he asserts, is a process in personality development occurring in the home environment of infancy and childhood, leading to creativity and diversity of functional roles which the non-elite can play. As a corollary, in traditional societies which cling to old values, the elite tend to be self-centered groups who do not only look down upon those below them, but also expect them to perform little "symbolic representational function." In such societies, he contends, the type of personalities that emerge are both authoritarian and non-innovative. To alter such traditional societies, the non-elite's position and function must be changed through a change in home environment in the course of a few or several generations. As he elaborates elsewhere, the change comes about when "a group that had a secure place in a traditional society comes to feel through a historical change that its values or

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<sup>73</sup> Everett E. Hagen, On the Theory of Social Change, Homewood, The Dorsey Press, Inc., 1962, especially Parts 2 and 3.



its contributions to society or both are no longer fully respected."<sup>74</sup>  
 The resultant effect is to cause sequential changes in personality over several generations, causing individuals to (1) be more creative than their predecessors, and (2) to give up traditional values.

The difficulty in interpreting the fundamental changes in motivation, ideology or customs over several generations is a real one.<sup>75</sup> Resentment and revolt against the traditional order and challenge against the powers of the elite can take many forms. One form is the search for creativity and independence and this in turn according to Hagen, causes innovative type of personalities to emerge. However, innovation is usually interpreted in terms of technological progress where such progress is embedded in value orientation and societal goals. But where such an orientation is absent creativity and innovation could take other forms.

Further, the theory of 'withdrawal of status respect' does not explain outstanding contributions of marginal or minority groups to the development of entrepreneurship in certain societies. Though such groups are usually associated with innovation, yet how they fit

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<sup>74</sup> Everett E. Hagen, a reply to Gustav F. Papanek's paper on "The Development of Entrepreneurship," AER, Papers and Proceedings, Vol. 52, No. 2 (May 1962), p. 60.

<sup>75</sup> Gustav F. Papanek has raised some doubts about the theory in connection with the development of entrepreneurship in Pakistan. See his "The Development of Entrepreneurship," AER, Papers and Proceedings, op. cit. Similar doubts with respect to the experience of Greece have been expressed by Alec P. Alexander, "Industrial Entrepreneurship in Contemporary Greece: Origins and Growth," EEH, Vol. 3, No. 2 (Winter 1966), pp. 101-120.

into the theory is subject to question.

Lastly, a major shortcoming of the theory is that it does not spell out the role of public policy in the process of personality development. As an illustration, building of educational institutions and health facilities, and the introduction of cash crops in some traditional societies could in one generation alter societal values, all of which are bound to affect both parent-child relationships and societal values. Needless to emphasize, the theory therefore attempts to throw light on supply and not demand for entrepreneurs.

However, we cannot easily ignore the significance of anthropological, social and psychological viewpoints in explaining the development of entrepreneurship. They do suggest that cultural influences, motivational factors and personality traits should be considered in our appraisal of the determinants of demand for and supply of entrepreneurs.

In the next five chapters, we shall explore the implications of our demand hypothesis with respect to black entrepreneurial development in the U.S. To streamline our discussion, we shall state some of the implications in the form of specific hypotheses. Other hypotheses (nos. 4 and 5 below) not specifically related to demand determinants are also included to throw more light on contemporary black enterprises. Our hypotheses are:

1. That since the Civil War, the efforts of the Federal government to advance the economic well-being of the black population have been piecemeal; and moreover they have been influenced by (a) short-

term response to economic recessions or crises, and (b) by the wind of political change, spearheaded by local political interests, the white business power, and trade unions.

2. That genuine forms of black leadership have never addressed themselves adequately to the problems of black entrepreneurship fed on white market, but instead they have, for the most part, followed a policy of reconciliation with white business and political leadership and with white liberals to solve black economic problems; or out of frustration some black leaders have favored a policy of economic self-sufficiency that breeds more poverty.

3. That the so-called "successful" black entrepreneurs, unlike the educated black elite or the successful white business elite, do not belong to any elite class, but are first generation urban entrepreneurs whose lack of business tradition and experience subjects them to various public assistance programs.

4. That there has been a transfer of entrepreneurship from the white business sector to the black ghettos; and that the success of a black entrepreneur is greatly dependent upon his work experience and satisfaction in the white business sector.

5. That the so-called successful black entrepreneurs are performing better than others precisely because they are exploiting their socio-cultural roles as members of community organizations to further their economic and occupational goals.

We shall consider in the following three chapters how effective public policies, i.e. demand determinants, have been in promoting

entrepreneurship among the black population in the U.S., and the extent to which the socio-cultural and socio-economic environment has favored and reacted to the development of black entrepreneurship. It is a task which will take us into the economic history of the black population since the Civil War, so that we may appreciate the major historical and policy-oriented factors that account for the current status of black entrepreneurship.

PART II

BLACK ENTREPRENEURSHIP: AN HISTORICAL APPRAISAL

While it is a great truth to say that the Negro must strive and strive mightily to help himself, it is equally true that unless his striving be not simply seconded, but rather aroused and encouraged by the initiative of the richer and enviroing group, he cannot hope for great success.

W. E. B. DuBois (The Souls of  
Black Folk,  
p. 58)

## CHAPTER FOUR

### SOUTHERN AND FEDERAL INFLUENCES IN THE DEVELOPMENT OF BLACK ENTREPRENEURSHIP

The extent to which any sub-group within a racially heterogeneous society attains a stable entrepreneurial success depends partly on equality of opportunity embedded in the economic system, partly on deliberate public policy specifically geared to correcting possible inequities in the system, and partly on the sub-group's cultural history. Thus viewed from the angle of American Negro economic history, economic opportunities Negroes have been exposed to since the Civil War, the impact of the Southern social environment, and the attitude of the Federal government toward economic well-being of Negroes are decidedly the most crucial historical factors underlying the current level of entrepreneurship among them. Our main task in this chapter is to examine the significance of each of these factors in the development of black entrepreneurship.

#### The Agricultural Sector and the Development of Black Entrepreneurship

Our major proposition in this section is that the slow development and current level of black entrepreneurship is the result of the failure of the agricultural sector to generate a sustained flow of capital into non-agricultural enterprises. A number of studies have

attempted to demonstrate that the agricultural sector is a poor source of entrepreneurial transfer to the urban economic sector.<sup>1</sup> Some of these studies underestimate the immense investment in urban real estate and petty commercial ventures by prosperous or enterprising farmers, especially in Latin America and tropical Africa. Further, well-to-do farmers are known in these world regions to provide good education for their children, some of whom eventually settle in urban areas as first generation urban entrepreneurs, relying sometimes on parental contributions in starting their businesses. The contribution of agriculture to urban entrepreneurship could therefore be both direct and indirect. Hence it is argued here that under ideal conditions, agriculture could be a potential source of capital for urban entrepreneurship.

In 1860, the Negro population in U.S. stood at 4,441,830,<sup>2</sup> and

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<sup>1</sup> See for example the comments of Yusif A. Sayigh, that unlike other economic sectors he finds that the farmers in his sample were recruited from the landlord class only. See his Entrepreneurs of Lebanon. Cambridge: Harvard Univ. Press, 1962, p. 80. T. C. Cochran also finds that his Puerto Rican business leaders were recruited from business and professional classes, with a few from among wealthy landowners, but none from the laboring or artisan class. See his The Puerto Rican Businessman, op. cit., pp. 120-121. J. J. Carrol similarly notes that the Filipino manufacturing class is characterized by intragenerational occupational mobility and that American firms have been the main source of entrepreneurial transfer for those who do not belong to the manufacturing class. See his The Filipino Manufacturing Entrepreneur, op. cit., p. 84.

<sup>2</sup> U.S. Bureau of the Census, Negro Population 1970-1915. Washington, D.C.: U.S.G.P.O., 1918, p. 58.

the Southern states probably contained well over 85% of them. In 1890, the first time census figures on occupations by race became available, three million Negroes ten years of age and over, or 3/5 of the entire Negro population, were wage earners, and of this group 3/5 were in agriculture. The South alone contained 96% of the agricultural wage earners.<sup>3</sup> Thus at Emancipation, probably over 3/4 were in agriculture.

In the light of the Post-Civil War conditions in the South, opportunities for economic advancement and maximum display of entrepreneurship were brighter in agriculture than in any other economic activity.<sup>4</sup> Why, we may ask, were Negroes not able to hold on to these opportunities? A full answer to this question covers this and the next chapter, but confining our discussion to agriculture alone in the following section, we shall endeavor to explain the constraints imposed on agricultural opportunities by conditions of wage labor, the tenancy system and its attendant credit system.

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<sup>3</sup>U.S. Bureau of the Census, Special Report on the Statistics of Occupations, 1890. Washington, D.C.: U.S.G.P.O., p. 18.

<sup>4</sup>For a discussive account of the progress Negroes made in agriculture during the period 1890-1930, see Lorenzo J. Greene and Carter G. Woodson, The Negro Wage Earner. New York: Russell and Russell, 1930, pp. 36-74. Literature on Reconstruction is replete with the varying dimensions of the economic opportunities that were available. For a concise account of such opportunities in agriculture see Thomas J. Woofter, Jr., Negro Migration: Changes in Rural Organization and Population in the Cotton Belt. New York: W. D. Gray, ch. 3, pp. 52-68. The dubious nature of the opportunities have been challenged by W. E. B. Du Bois in his Black Reconstruction in America. New York: Atheneum, 1969 (reprint), Ch. 7, pp. 182-236. As we shall later see, most criticisms against the Freedmen's Bureau in relation to conditions of Negroes pertain to the limited economic and to some extent political advantages the Bureau bestowed on the freed slaves.



### 1. Conditions of Wage Labor

Efforts of the Freedmen's Bureau to establish uniform wage rates on all plantations met with an extremely limited success. On several plantations, wage rates or other arrangements that served as a proxy for wages were so unsatisfactory and uncondusive to private savings that it required the notorious black codes<sup>5</sup> to ensure regular supply of Negro labor. Randle in his well-documented study of tenancy and farm labor in Mississippi in the 1890's came to the conclusion that a substantial number of Negro farm workers consumed more than they earned, and that the average Negro family became poorer and poorer after the War than before.<sup>6</sup> In support of this, he points out that before the War an able-bodied Negro in northern Mississippi was hired for an equivalent monetary expense of \$200-250 a year plus his board and clothes. By 1910 he was receiving about

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<sup>5</sup> Black codes, including vagrancy and apprenticeship statutes, were in vogue throughout the South, starting from 1865. They differed in purpose and severity of punishment. But in general, most statutes were geared to constant supply of black labor to plantations. The laws required both tenants and laborers to abide by contracts signed with plantation owners. Failure to abide by the contracts usually resulted in harsh punishments. The enforcement of poll tax of \$1.00 per head for Negroes in some states compelled the unemployed to work to meet their tax burden. Negro criminals also got their share of the black codes. They were sometimes employed in public works or contracted to plantation owners who required farm labor. For a discussion of the role of the codes in Post-War Southern agriculture, see James S. Allen, The Negro Question in the United States. New York: International Publishers, 1936, p. 56 et seq.; Du Bois, Black Reconstruction, op. cit., pp. 196-197.

<sup>6</sup> E. H. Randle, Characteristics of the Southern Negro. New York: The Neale Publishing Co., 1910, ch. 3. Had the Bureau agreed to landlords' offer of \$7 a month for male laborers and \$5 for female laborers, the freed slaves would have been worse off than in the days of slavery. See James S. Allen, op. cit., p. 55 et seq.

half that amount plus board.<sup>7</sup> The decline in wage rates in the South at the turn of the century is supported by the Department of Agriculture's study of 215 plantations, which shows that wage labor in 1913 received \$12-16 a month plus board or \$18-25 a month without board.<sup>8</sup>

Under conditions of declining wage rates while both cost and standard of living moved in the opposite direction, it is not surprising that a class of wealthy farm laborers never emerged and that the proportion of farm laborers declined more rapidly than other classes of farm workers. To amplify this point, while in 1860 almost all the 807,000 Negro farm workers representing 71.3% of all farm workers in the South were laborers, by 1910 they formed only 15.4% and 11.5% in 1930. In contrast, the proportion of Negro tenants rose from 22.7% in 1910 to 23.1% in 1930.<sup>9</sup>

We must also reckon with the psychological impact of Emancipation Proclamation of January 1863, which automatically created a large pool of unschooled, aimless but freed slaves who chose to become "temporary vagabonds" to express their newly won freedom. To several

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<sup>7</sup>Randle, *ibid.*, p. 128.

<sup>8</sup>C. O. Brennan, Relation of Land Tenure to Plantation Organization, U. S. Department of Agriculture, Bulletin No. 1269. Washington, D.C.: U.S.G.P.O., 1924, p. 27. An interesting aspect of the form in which wages were paid was a breakdown of wages into (a) materials supplied, which was usually 20%, and (b) cash. See John Lee Coulter, "Agricultural Laborers in the United States," Annals of the American Academy of Pol. and Soc. Science, Vol. 40, (March 1912), p. 43.

<sup>9</sup>Thomas J. Woofter, Landlord and Tenant on the Cotton Plantation (a research monograph for the Works Progress Administration). Washington, D.C., 1936, Table 3, p. 11.

of them, the desire to become small landowners through confiscation of former masters' lands, a rumour spread throughout the South during the War, far outweighed all economic advantages of job security entailed in sedentary wage labor. To some also, farm labor was a mere extension of slavery, since on a number of plantations the slave masters of the pre-War years became landlords after the War, maintaining the same farm workers. For all these reasons, tenancy emerged as Negroes' only hope of effective participation in the economy.

## 2. The Tenancy System

Until the 1920's, agriculture in the South was synonymous with cotton, cultivated mainly under tenancy. In fact, as late as 1920, 66.4% of all plantations in 11 Southern states were being operated under tenancy.<sup>10</sup> The rise of tenancy after the Civil War was a direct outcome of the failure of wage labor to meet labor requirements of the plantation economy. The historical association of Negroes with the cotton plantation economy made them a central element in the tenancy system. To give a proper orientation to our discussion, we shall first identify the three major groups of tenants<sup>11</sup> associated with the cotton plantation economy.

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<sup>10</sup>Brennen, op. cit., Table 3, p. 71.

<sup>11</sup>For a descriptive account of the tenancy system see ibid.; Woofter, Negro Migration, op. cit.; Woofter, Landlord and Tenant on the Cotton Plantation, op. cit.; Lewis C. Gray, "Southern Agriculture, Plantation System and the Negro Problem," Annals of the American Academy of Pol. and Soc. Science, Vol. 40 (March 1912), pp. 90-99; James S. Allen, op. cit., ch. 3. The definition of the three classes can be found in U.S. Bureau of the Census, Negro Population 1790-1915, op. cit., pp. 568-569.

The first group comprised share-croppers who supplied the labor and one-half the fertilizers used, while land, cabins, tools, work animals and their feed, seed, garden plots for croppers' own use and the other one-half of fertilizers used were furnished by the landlord. In exchange, the croppers received 50% of the harvest, and out of their share the landlord deducted for all food, clothing, shelter, fertilizers and other supplies received during the season.

Of the three groups, share-croppers had the least entrepreneurial opportunities. Day-to-day decisions and supervision resided with the landlord. They actually did not control any means of production, and their prosperity usually depended on four features: (a) desire to cultivate their own food crops, (b) family size which determined the supply of additional labor, (c) the level of cotton prices, and (d) the fairness of the landlord.<sup>12</sup>

The second group comprised share-renters who furnished their labor, work animals, tools and seeds, while the landlord provided land, buildings and fuel. Where fertilizers were used, the cost was met in proportion to each party's share of the crop. In return the share-renter received between 1/4 - 1/3 of the harvest. By virtue of his control over part of the means of production the renter could exercise some entrepreneurial decisions although he was still under

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<sup>12</sup>The fairness of the landlord in promoting the economic interest of his tenants, i.e. by giving them their due share of the output was a crucial factor in landlord-tenant relations. Most tenants could just break even. For a further discussion of this issue, see Gray, ibid., pp. 96-97.

the supervision of the landlord. However, since a majority of share-renters did not have the financial means to meet the cost of supplies, they depended on the landlord to fulfill contract requirements, and therefore they frequently fell into the same 'obligation trap' as the share-croppers.

The third major group was made up of cash-renters who paid a fixed rent per acre in cash or a fixed amount of harvest as their rents. In contrast with the other two groups, they were responsible for all inputs. Where they were indebted to the landlord for supplies advanced to them, some amount of supervision was exercised. By controlling means of production, and by taking various entrepreneurial decisions, they formed the real base for the growth of black entrepreneurship outside the small landowning class.

Growth of income among tenant classes in the four decades preceding the Second World War was so negligible that it is debatable whether tenants were in a position to save enough to buy their own lands. In 1913, for example, the average income of share-croppers was \$333, but it fell to \$312 in 1936. Share-renters commanded an average income of \$398 in 1913, while cash-renters in the same year received an average income of \$476. But in 1936 both classes averaged only \$417.<sup>13</sup>

Moreover, between 1900 and 1937 when tenancy reached its peak in the agricultural sector, the rate of growth of tenancy among Negro families compared with white families was negligible. To amplify this

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<sup>13</sup>Woofter, Negro Migration, op. cit., p. 74.

point, 75% of Negro agricultural labor force in the South were tenants in 1900, but by 1937 the proportion had increased to only 77%. During the same period, the proportion of white tenants of the total white agricultural labor force in the region rose from 36% to 46%.<sup>14</sup>

Proponents of the agricultural ladder theory<sup>15</sup> fail to provide us with a convincing explanation of the numerical decline in Negro landownership during the two comparatively prosperous decades 1910-1930 when in the seven leading cotton states<sup>16</sup> the proportion of Negro landowners of the total agricultural labor force fell from 5.9% to 5.1%. On the other hand, the whites' share also fell from 25.1% to 23.0% during the same period,<sup>17</sup> but whereas a white landowner "losing out"

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<sup>14</sup>Public Affairs Committee, Farmers Without Land (Publication No. 12). New York, 1937, p. 13.

<sup>15</sup>The theory sought to explain that the increase in the number of tenants between 1900 and the beginning of the Second World War was an indication of occupational mobility by which a farmer climbed from the landless laboring class to a position of a full-fledged landowner. The theory assumed that tenants were recruited from the laboring class and not from the small landowning class who lost out through debts. This assumption was not quite correct. For example, outside the South the number of farmers between the ages 25 and 35 declined from 652,000 in 1910 to 449,000 in 1930; yet the ratio of tenancy among farmers of this age increased from 47 to 59% in the same period. See ibid., p. 8. For an advocacy viewpoint on the theory, see Woofter, Negro Migration, op. cit., pp. 24-26. The 1925 U.S. Census of Agriculture, 1925, indirectly suggests that the theory did work in the 1920's. The report indicates that out of nearly 194,000 colored farm owners in the South, more than 1/4 of them had purchased their farms since 1919. And of the 612,250 tenants in 1925, 616,710 or about 7/8 had rented their lands since 1919. See U.S. Census of Agriculture, 1925, p. 88 et seq.

<sup>16</sup>These states are Alabama, Arkansas, Georgia, Louisiana, Mississippi, North Carolina and South Carolina.

<sup>17</sup>Woofter, Landlord and Tenant on the Cotton Plantation, op. cit., Table 3, p. 11.

could easily convert his status to that of a cash-renter or a farm manager, a Negro landowner confronted with bankruptcy usually found himself lower on the occupational ladder.

An important point to be noted in connection with landownership among Negroes is that its growth depended largely on improvements in tenancy under normal and stable market conditions undisturbed by periods of exceptionally good cotton prices. Hence, assuming that landowners had found it economic to hold on to their lands at the beginning of this century because of easy access to credit and good cotton market conditions, occupational mobility would have been more constricted for Negro tenants and a large proportion of them probably would not have had any chance of retaining their jobs. The main reason was that major improvements in cotton prices and credit financing attracted more whites into tenancy but spelt doom for Negroes, simply because some plantation owners preferred white tenants, if available. Land speculation also tended to be rampant on such occasions. This meant that the best opportunities for Negroes to have strengthened their rural entrepreneurial base occurred during the period 1865-1900 when labor shortages, low agricultural land values and more stable cotton prices provided the necessary conditions for Negro landownership.

To be sure, decline in landownership due to increasing operational costs, stagnant tenant incomes, excessive land speculation and lack of easy credit after the turn of the century clearly decided the fate of rural black entrepreneurship, the development

of which would have provided a firmer foundation for urban black entrepreneurship. Of these factors,<sup>18</sup> the credit system, intricately woven into the cotton plantation economy, created the most excruciating roadblock to rural black entrepreneurship. To this issue we now turn.

### 3. Credit System<sup>19</sup>

Before the development of modern banking, merchant credit, using agricultural output as lien, was a major source of finance for plantation agriculture. In most cases, landlords obtained credit directly from merchants and later from both merchants and banks, and the landlords in turn provided tenants with credit and necessary advances to purchase various inputs. Rarely could tenants borrow directly from either a bank or a merchant. On the 237 plantations studied by Brennen, 98% of the Negro tenants and 90% of the white tenants were

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<sup>18</sup> Environmental and social factors nonetheless were equally decisive. Rupert B. Vance's study shows a close relationship between distribution of races on the one hand, the soil characteristics and types of agriculture on the other. Poor soils on which Negro families were found were characterized by decades of monoculture, soil erosion and leaching especially on the sandy soils. All these required heavy expenditures in fertilization which many farmers could not afford. See Rupert B. Vance, Human Geography in the South. Chapel Hill: University of North Carolina Press, 1932, ch. 5, pp. 77-108. The social factors will be dealt with later on.

<sup>19</sup> For an interesting discussion of the system before the Second World War, see C. O. Brennen, op. cit., pp. 60-65; Woofter, Landlord and Tenant on the Cotton Plantation, ch. 4, pp. 49-64; Myrdal, American Dilemma, op. cit., pp. 232-234; L. C. Gray, Southern Agriculture, op. cit.; David L. Wickers, Farmer Bankruptcies, 1898-1935 (Circular No. 414, U.S. Department of Agriculture), Washington, D. C., September 1936.



supplied with advances.<sup>20</sup> He also found out that in 1920 and 1921, the average amount of credit advanced to share-croppers was \$289, and \$555 to share-renters.<sup>21</sup> In essence, the advances amounted to about 90% of the tenants' potential income, leaving barely 10% for their own use.

The credit system had a number of defects. First, it led to perpetuation of debt<sup>22</sup> for both tenants and landowners. In the seven cotton states studied by Woofter, mortgage debts on both plantations and small farms increased by 167% from 1910 to 1920, 33% during the period 1920 to 1925, and 8% from 1925 to 1928.<sup>23</sup>

Second, it created disincentives for tenants to save, and constituted the main impediment against various forms of capital accumulation among Negro farm workers most of whom through sheer illiteracy and thriftlessness did not know how to budget, reduce operational costs and to meet credit requirements. This brought in its train the inevitable "exploitation of sheerest type, high prices for supplies, high interest charges, sometimes falsification of accounts."<sup>24</sup>

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<sup>20</sup>Brennen, op. cit., p. 61-62.

<sup>21</sup>Ibid.

<sup>22</sup>For a quantitative analysis and inter-regional comparison of the incidence of bankruptcies across the nation, see Wickers, op. cit.

<sup>23</sup>Woofter, Landlord and Tenant on the Cotton Plantation, op. cit., p. 51.

<sup>24</sup>Gray, "Southern Agriculture," op. cit., p. 96.

The third and probably the worst outcome of the credit system was the practice of peonage by which Negro farm workers indebted to their landlords were compelled by law to be retained until the debts were paid by offering their labor. Merchants or banks held the first lien against the total crop output. Thus, in times of low prices, the tenant was first to be affected and usually could not break even. According to Raper and Reid, loans advanced in the late 1930's by landlords commanded interest rates of 10% for three months, or an equivalent of 35% per annum.<sup>25</sup> The negative effect of the credit system and the attendant peonage practice on the economic progress of Negroes is summed up by Lewis C. Gray thus:

The vicious system which forces the Negro to hypothecate his labor to obtain credit results inevitably in divorcing the planter's interest from those of his tenant. The Negro is retained chiefly by keeping him in debt. Not only does this intensify the tendency to petty exploitation, but Negro thrift becomes contrary to the planter's interest.<sup>26</sup>

Even when the Supreme Court of U. S. declared peonage unconstitutional in 1911, some Southern states got round the issue by passing laws to the effect that landlords who employed Negroes indebted to other landlords automatically became responsible for the debts.

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<sup>25</sup> Arthur F. Raper and Ira De A. Reid, Sharecroppers All. Chapel Hill: Univ. of North Carolina Press, 1941, p. 22.

<sup>26</sup> Gray, op. cit., p. 97. For a vivid account of the disadvantages of peonage, see George K. Holmes, "Peons of the South," Annals of the American Academy of Political and Social Science, Vol. 4 (Sept. 1893), pp. 265-274.

In short, the credit system was a stumbling block against the rise of tenants on the agricultural ladder. For both landlords and tenants, it did not provide any motivation for diversification and innovative farming since it was tied to specific marketable crops approved by merchant creditors and banks. The tenancy and credit systems no doubt conspired against Negro entrepreneurship, but the two economic institutions could not have thrived without a conducive and fertile civic environment to support them for nearly three generations. A brief look at this environment may provide us with a greater insight.

#### The Impact of the Southern Tradition

The problems of the American Negro spring from two main sources: his color and his slave history. Of the two, color is a more decisive factor. The Irish and Italians, for example, were probably one shade better off economically than Negroes after Reconstruction, but they have reached a position of even electing Presidents from their ranks. Probably it is color and not so much religion nor political ideology which is the greatest enemy of mankind. The South carries a stigma of its own simply because the black and white cultures converged in the region to share a common experience under capitalism which accords due respect to and perpetuates the "dynasty of the affluent privileged class."

Before the Civil War, the landlord had complete responsibility for the welfare of his slaves. The plantation economy engendered

a set of mores which were not easily dislodged after slavery was abolished. These mores were fed on a social structure that in itself was an outcome of both the slave institution and the agrarian economy. When slavery was finally abolished, the economy was firmly entrenched in a three-tier social structure.<sup>27</sup> At the top were the landed aristocracy. At the bottom were vast numbers of Negroes and poor whites. In between the two were small landholding independent and self-sufficient yeomen. As separate as these classes were, a sense of unity and dedication to the biological precept of the "survival of the fittest" gave both rich and poor whites a common rallying point, with the Negro serving as the common foe.<sup>28</sup> Cash explains that the Civil War had the effect of uniting the eleven secessionist states,<sup>29</sup> and although abolition of slavery was not the

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<sup>27</sup>For a description of the three classes, see William H. Nicholls, Southern Tradition and Regional Progress. Chapel Hill: Univ. of North Carolina Press, 1960, pp. 34-42.

<sup>28</sup>This is clearly reflected in the politics of the South. Professor Key explains the situation in the following way: "In its grand outlines the politics of the South revolves around the position of the Negro. It is sometimes interpreted as the politics of cotton, as a politics of free trade, as a politics of agrarian poverty, or as a politics of planter and plutocrat. Although such interpretations have a superficial validity, in the last analysis the major peculiarities of Southern politics go back to the Negro." See V. O. Key, Southern Politics. New York: Alfred A. Knopf, 1949, p. 5. James M. Dabbs has remarked that democracy was more widely practised among Southern whites in the post-bellum years than anywhere else in the country. See his The Southern Heritage. New York: Alfred A. Knopf, 1958, ch. 15.

<sup>29</sup>W. J. Cash, The Mind of the South. New York: Alfred A. Knopf, 1941, pp. 65-70. On this theme see Key, op. cit., pp. 3-12.

prime cause of the War,<sup>30</sup> by being made one of the War aims later, Negroes automatically became victims of the wrath of the secessionists.

In brief, the "Southern tradition,"<sup>31</sup> characterized by an agrarian way of life, rigidity of the social structure and involuntary conspiracy of whites to keep blacks at the bottom of the social ladder prevented the growth of Negro landowning class. Admitting that thriftlessness and infrugality was sufficiently widespread among Negro families and could have militated against them in their bid to partake effectively in the agrarian economy, the more ambitious had no way of overcoming the vestiges of slavery. Raper in his study of Greene and Macon Counties, Georgia, vividly files this report:

Landownership - even now - can be most exacting and highly selective procedure: the would-be-owner must be acceptable to the white community, have a white sponsor, be content with the purchase of acreage least desired by the whites, and pay for it in a very few years.<sup>32</sup>

He goes on to explain that Negroes who had purchased more than 25 acres, nearly nine-tenths reported that they bought their parcels

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<sup>30</sup> C. Vann Woodward identifies three aims of the War as (a) to keep the country united, (b) to ensure freedom, and (c) equality among citizens. There was no problem in keeping the union, but the crux of the matter pivoted on the two democratic principles - freedom and equality which often ride on a collision course wherever white and black races are compelled to share a common cultural heritage. See his The Burden of the South. Baton Rouge: Louisiana State Univ. Press, 1960, pp. 69-87.

<sup>31</sup> For an incisive discussion of agrarian values underlying the Southern tradition see Nicholls, op. cit.; Cash, op. cit., James M. Dabb, op. cit., Edwin Mims, The Advancing South. Garden City: Doubleday, Page & Co., 1926.

<sup>32</sup> Arthur F. Raper, Preface to Peasantry. Chapel Hill: Univ. of North Carolina Press, 1936, p. 122.

from white men, mostly through the whites' own initiative.

Of equal significance was the relative poverty of the region. The gap between the North and the South did not begin to close until after the First World War. In 1880 for example, per capita wealth based on property values was \$376 for the South compared with \$1,186 for the rest of the nation. Also combining all the property values, the South's total wealth was 27% of the Northeast States.<sup>33</sup> In an environment stricken with poverty, the rich were tempted to hold on to what they had by maximum exploitation of both poor whites and the black population. The Northern capitalists, in their capacity as merchants and creditors of the plantation system and as forebearers of Southern industrialization, played no small part in the "exploitation game." The use of black workers by the Northern capitalists in Northern factories, railways and other areas of economic activity to break strikes was part and parcel of the game.<sup>34</sup>

It is to be noted that the Southern tradition could not have survived all these decades without the tolerance and sometimes the sanction of the federal political machinery of which it is a part.

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<sup>33</sup>C. Vann Woodward, The Burden of Southern History, op. cit., p. 17. It should further be noted that in 1900, the South still maintained its 37% share of value added by manufacture as it did in 1860, although its per capita income remained at 43% of the rest of the nation between 1860-1900. See Nicholls, op. cit., pp. 27-28.

<sup>34</sup>For a rather brief account of how Northern capitalists induced black workers to migrate to Northern cities, see Carl Kelsey, "Some Causes of Negro Migration" in Charities Organization Society, Negroes in the North. New York: Charities Publication Committee, 1905, pp. 15-17.

We shall briefly examine in the next section the attitude of the Federal Government during two critical historical periods when through legislation and administrative fiats the tide could have been turned in favor of the poor.

#### Federal Attitude Toward Black Entrepreneurship: Historical Cases

Our hypothesis as stated in Chapter 3 is that since the Civil War, the efforts of the Federal Government to advance the economic well-being of the black population have been piecemeal; and, moreover, they have been influenced by (a) short-term response to economic recessions or crises, and (b) by the wind of political change, spearheaded by local political interests, white business power and trade unions.

An implicit assumption underlying the hypothesis is that the Federal Government alone has the resources and the will to solve black socio-economic problems, and that state and local political powers and more powerful economic institutions do not only lack the initiative but are also disinterested. The state and local political institutions unquestionably see the problem as a national one. Since the Civil War, the federal political machinery has constantly assumed that the private sector is powerful enough to solve economic problems of Negroes and the only occasions well-intentioned programs have been designed with specific foci by Washington to combat economic hardships among Negro families have been periods of economic and political crises. These periods are (a) the Reconstruction era, (b) the Depression years of the 1930's and (c) the early 1960's when

the Democrats were called upon to offer a well-tailored answer to the Civil Rights Movement, and out of this emerged the 1964 Civil Rights Act. We shall confine our discussion briefly to the Reconstruction and Depression periods and explore how the Federal political machinery saw black economic problems.

### The Reconstruction and Negro Economic Progress

Before the Emancipation Proclamation in January 1863, the Radical Republicans in Congress successfully influenced the passage of the Confiscation Act of authorizing the President to seize all estates, property, money, stocks, credits, etc., belonging to the rebels in the Confederate States. In March 1865, the Bureau of Refugees, Freedmen and Abandoned Lands (Freedmen's Bureau) was established by law under the War Department to manage the confiscated and abandoned lands, to supervise the supply of labor to plantations, to supervise labor relations between the freedmen and their employers, and to organize relief and other social welfare services for refugees and the freedmen. The Act also provided that branches of the Bureau be established in each of the Southern states under a military commissioner.

The Freedmen's Bureau Act, had it been aimed at bringing about profound economic improvements of the freedmen and the white refugees, could have served as a landmark in bridging the wide economic gap between the rich and the poor in the region.<sup>35</sup> To all intents and

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<sup>35</sup>For best references on the nature and evaluation of the activities of the Bureau itself within the framework of Reconstruction, see Paul S. Pierce, The Freedmen's Bureau. Iowa City: Univ. of Iowa Press, 1904; George R. Bently, History of the Freedmen's Bureau. Philadelphia: Univ. of Penn. Press, 1955.



purposes, it was geared to a political goal<sup>36</sup> and lacked any long-term economic purpose. To begin with, Emancipation was proclaimed in January 1863, but it took Congress over two years to agree on an economic plan<sup>37</sup> for the freedmen and the refugees.

Second, the Act made it clear that redistribution of the confiscated and abandoned lands as gifts to the freedmen and refugees was not contemplated. Rather, it authorized the military commissioners to assign 40 acres to the needy families at an annual interest rate of 6% based in 1860 land values.<sup>38</sup> Altogether about 900,000 acres were under the control of the Bureau in 1865, and considering the fact that the freedmen alone numbered about 3.5 million, not to speak of over 400,000 land-thirsty white refugees, a Negro family of five could hardly have obtained an acre of farmland. To make things worse, in selling these farmlands the best lands went to large operators and Northern speculators.<sup>39</sup> Assuming that enough lands were available

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<sup>36</sup>We should note that the final Act was a compromise between the plan devised by the Radicals in Congress to weaken the power of the Southern landed aristocracy and the plan of President Andrew Johnson and the Conservatives to bring the Confederate States back to the Union. For a balanced account of the attitude of President Johnson toward the Bureau, see Eric L. McKittrick, Andrew Johnson and Reconstruction. Chicago: University of Chicago Press, 1960, especially chs. 5-7; Robert Cruden, The Negro in Reconstruction. Englewood Cliffs: Prentice-Hall, 1969, chs. 1-2; Du Bois, Black Reconstruction, op. cit., ch. 7.

<sup>37</sup>James S. Allen, Reconstruction, the Battle for Democracy. New York: International Publishers, 1937, p. 50.

<sup>38</sup>Ibid., p. 51.

<sup>39</sup>Before the passage of the Bureau's Act an experimental program in resettlement had been tried in three districts under "Yeaman Plan" passed in Congress in July 1864.

for ambitious, needy families to farm, they were too poor to buy lands and farming equipment on their own. However, the greatest blow received by the Bureau in its land redistribution program was an executive order of September 1865, Circular No. 15, authorizing the Bureau's Commissioner, Oliver Howard, to restore to pardoned rebels all abandoned and condemned lands not actually sold.<sup>40</sup> In some extreme cases, President Johnson himself restored lands when he realized that the Bureau's officials were dragging their feet.<sup>41</sup>

Congress sought to pacify the landless yeomen, refugees and the freedmen by the passage of the Homestead Act in 1866, affecting unsettled lands in Alabama, Florida, Arkansas, Mississippi and Missouri. But the resistance put up by planters in these states was so vehement that by the late 1860's only 4,000 refugees were known to have benefitted from the Act.<sup>42</sup> In fact the resistance should have been foreseen, in view of the fact that the landless were always seen by the rebel planters as allies of the Union army. There was only one practical course open to the Federal Government: outright purchase of land from legal owners for redistribution.

Third, what made the Bureau's scope of authority over the economic destiny of the freedmen and the refugees shortsighted was its exclusion from the War Department's budget allocation during the first year of its existence. It was told to survive on the income

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<sup>40</sup>G. R. Bentley, op. cit., p. 95.

<sup>41</sup>Ibid., p. 101.

<sup>42</sup>P. S. Pierce, op. cit., pp. 129-131.

from the sale of confiscated lands. Du Bois sums up the problem of the Bureau thus:

It was so limited in time that it had small chance for efficient and comprehensive planning. It had at first no appropriate funds, but was supposed to depend on the chance accumulations of war time.... Further than this it had to use a rough military machine for administering a delicate social problem.<sup>43</sup>

As far as Andrew Johnson and his conservative Republican followers were concerned, the Bureau was an ephemeral organization created to meet exigencies of war, and was therefore programmed to die with full restoration of the Confederate States in the Union. Probably the most useful work done by the Bureau was the recruitment of jobless Negroes for wage labor and regulation of wage rates,<sup>44</sup> supported largely by its court functions which made it possible for the freedmen to exercise their civil rights under the 13th Amendment.<sup>45</sup> The Bureau was ultimately compelled to focus its energies on reducing extreme hunger and destitution among its client population. It is no wonder then that it was never prepared to establish a minimum wage rate, believing that the market mechanism was under the circumstances superior to public regulation.<sup>46</sup>

The failure of Congress to come up with a meaningful and long-

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<sup>43</sup>Du Bois, *Black Reconstruction*, op. cit., p. 223.

<sup>44</sup>Pierce, op. cit., p. 132.

<sup>45</sup>For an account of how the courts operated, see Bentley, op. cit., pp. 152-168.

<sup>46</sup>Pierce, op. cit., p. 138.

range land ownership plan for the freedmen and the refugees and the limited resources of the Bureau reflected the ambition of Andrew Johnson to satisfy all the desires of the Southern planters and the landed aristocracy for the sake of the Union.<sup>47</sup> The alliance that developed in the 1870's between the Radicals (i.e. the abolitionists as well as the protectors of the freedmen), and the ex-Rebels, culminating in the election of President Hayes,<sup>48</sup> foreshadowed a century of economic doom of American blacks. In the next section, we shall take a brief look at how the Federal Government handled black economic problems during the Depression, another period of economic crises.

#### Southern Tenants and the New Deal

The Great Depression provides us with a good example of how sensitive the federal legislative and executive machinery is to the economic problems of the poor. The Depression exerted its toll on all economic sectors, but low-class workers such as Southern cotton tenants probably suffered most. Needless to emphasize, economic problems of Southern tenants in the Depression pivoted on the Negro. According to two surveys authorized by the Works Progress Administration in relation to problems of plantation agriculture, technological changes alone caused

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<sup>47</sup>Note also that his unflinching support for the 14th Amendment basing suffrage on ownership of real estate, possession of fixed income and level of education was a clear indication of his rejection of Negro political freedom.

<sup>48</sup>For circumstances leading to the union between the two opposing camps. see C. Vann Woodward, Reunion and Reaction. Boston: Little, Brown and Co., 1951.

an 8% drop in the demand for labor such that the number of resident families per 1,000 acres of cropland decreased from 37 to 34 during 1934-1937.<sup>49</sup> A 1937 President's Committee on Farm Tenancy candidly remarked that "no agency with adequate powers has been charged with correcting undesirable relationship to the land and the consequences of system of land tenure."<sup>50</sup> Instead of highlighting how Negro farmers and farm workers fared under Federal economic relief programs<sup>51</sup> in the Depression, we shall briefly discuss the activities of the Cotton Section of the Agricultural Adjustment Administration<sup>52</sup> which attempted on a

<sup>49</sup>Major findings of the study are contained in T. J. Woofter and A. E. Fisher, Plantation South Today (a study prepared for WPA). Washington, D.C.:U.S.G.P.O., 1940, pp. 7-18. It is worth noting that in 1930 nearly 4/5 of all Negro farm workers did not own land, as compared with 3/4 at the turn of the century. Of the non-landowning class 3/5 were share-croppers. See Arthur F. Raper and Ira De A. Reid, Sharecroppers All. Chapel Hill: Univ. of North Carolina Press, 1941, p. 64.

<sup>50</sup>National Resource Committee, Farm Tenancy. (Report of the President's Committee.) Washington, D.C.: U.S.G.P.O., Feb. 1937, p. 11.

<sup>51</sup>Important economic programs that benefitted Southern farmers but will not be discussed included (a) The Farm Credit program (1933) to provide low-interest credit to farmers through locally organized Production Credit Corporations; (b) Rural Rehabilitation (1934) under the Federal Emergency Relief Administration to advance credit to farm families; (c) Farm Security Administration (1937) to provide 3% interest loans to tenants, amortized over a 40-year period.

<sup>52</sup>For a comprehensive account of the activities of the Cotton Section, see David E. Conrad, The Forgotten Farmers: the Story of Sharecroppers in the New Deal. Urbana: Univ. of Illinois Press, 1965; Edwin G. Nourse, Joseph S. Davis and John D. Black, Three Years of the Agricultural Adjustment Administration. Washington, D.C.: The Brookings Institution, 1937; Raymond Wolters, Negroes and the Great Depression. Westport: Greenwood Publishing Corp., 1970, pp. 3-82; T. J. Woofter, The Landlord and the Tenant, op. cit.; Henry I. Richards, Cotton Under the Agricultural Adjustment Act. Washington, D.C.: The Brookings Institution, 1934.

broad scale to deal with problems of Southern tenants.

The Agricultural Adjustment Act of 1933 was designed purposely to boost up agricultural prices through crop production control. In brief, the Act authorized the administering agency, the Agricultural Adjustment Administration (AAA), to disburse benefit payments to individual farmers who voluntarily chose to restrict the production of specific crops to an agreed per cent of their total acreage. The intention of the government was to pass on the benefit payments to processors and consumers of cotton. In 1934, however, an amendment was made specifying that 40% of the land of participating farmers be kept out of production in exchange for rental payment of 3.5 cents for each pound of cotton not produced and additional "parity payments" of not less than one cent per pound.

No doubt, the adjustment program increased the income of cotton farmers in the three years (1933-35) the program was put into effect.<sup>53</sup> Partly as a result of the program, the price of a pound of cotton was selling for 9.4 cents on December 1, 1933, as compared with 5.7 cents per pound a year earlier. The gross income from cotton seed increased from \$431 million in 1932 to \$670 million in 1933.<sup>54</sup> Thus the intention of the program to increase the overall income of farm workers was unquestionably a good idea. However, the real problem was created by the wording of the Act which left enough room for the Secretary of

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<sup>53</sup>For an account of the income effect of the program on farmers, see Nourse, Davis and Black, op. cit., pp. 293-301.

<sup>54</sup>Wolters, op. cit., p. 10.

the Department of Agriculture to maneuver. For example, it permitted him to make regulations with the force of law to control the planting, harvesting and marketing of commodities through contracts and agreements, to adjudicate appeals from his own decisions and so forth.<sup>55</sup>

The contracts and agreements signed with landlords left much to be desired. The landlords, by virtue of keeping the books and managing the sale of crops, held the economic destiny of tenants and laborers in their hands. Instead of ensuring that tenants received a fair share of the adjustment benefits, the AAA's cotton contracts permitted only the landlords to receive the benefits, out of which tenants also received their individual shares in accordance with their contract agreements with the landlords. In practice things did not happen this way.<sup>56</sup> The only precaution taken by AAA to ensure that tenants were treated well was that it could request landlords to show receipts for payments distributed to tenants, and where foul play was suspected, landlords could run the risk of having their benefits suspended. Notwithstanding this caveat, Raymond Wolters estimates that on a hypothetical forth-five acre farm, the income of the landlord rose by 73% between 1932 and 1935, compared with 27% for share-croppers.<sup>57</sup>

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<sup>55</sup>Conrad, op. cit., p. 36.

<sup>56</sup>There were several cases in which landlords applied tenants' benefits to outstanding debts. Later AAA tightened contract agreements to minimize this tendency. See Conrad, op. cit., p. 66. Even then, AAA was relaxed in connection with tenants' share of benefits for unploughed acreage, conditions under which tenants could be evicted, etc. See Wolters, op. cit., pp. 21-38, and Conrad, op. cit., ch. 4.

<sup>57</sup>Wolters, op. cit., p. 22.

Inasmuch as we may want to accuse AAA for indiscreet administration of the program by favoring landlords in contract agreements, much of the blame should be put on the political machinery of Roosevelt. David E. Conrad rightly poses the problem this way:

Not a voice was raised (in Congress) to protest that drastic acreage reduction might mean the difference between a bare living and no living at all for marginal and submarginal farmers. No one warned that it would bring about the eviction and displacement of thousands of tenant farmers and share croppers and the firing of many farm hands.<sup>58</sup>

Of course, working at the back of the scene was President Roosevelt who wanted to abide by his campaign promises to farmers to whom he owed part of his election victory. Sidney Baldwin quotes the President as saying: "One of the first things I am going to do is to take steps to restore farm prices. I am going to call farmers' leaders together, lock them in a room, and tell them not to come out until they have agreed on a plan."<sup>59</sup> Roosevelt was obviously more interested in the landed class than disadvantaged tenant and laboring classes.

And so, without benefitting a majority of tenants,<sup>60</sup> the program was brought to an abrupt end in 1935 in the midst of an administrative chaos.<sup>61</sup>

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<sup>58</sup>Conrad, op. cit., p. 36.

<sup>59</sup>Sidney Baldwin, Poverty and Politics. Chapel Hill: Univ. of North Carolina Press, 1968, p. 50.

<sup>60</sup>Conrad reports of a 1933 study by Harold Hoffsomer, indicating that in one Alabama county 43% had received benefits, but three-fourths of them had used the money to pay debts, and 60% of these had been forced to do so by their landlords. Op. cit., p. 81.

<sup>61</sup>This is referred to as the purge of the Triple-A in February 1935, and it affected mainly the legal branch. See Richard S. Kirkendall,



In other economic programs (of the 1930's see footnote 51) tenants and small landlords were equally unfortunate. It was for this reason that the National Resource Committee proposed a comprehensive program in 1937 to help tenants and marginal farmers. The program included (a) methods of facilitating acquisition, improvement and disposition of land, and for purchasing of stock and equipment; (b) a loan scheme (c) measures to help marginal landowners losing their farms through foreclosure; (d) farm rehabilitation; (e) measures to discourage land speculation; (f) program to retire marginal lands from their present use, and (g) upgrading the standard of living of laborers.<sup>62</sup> It is not certain whether these recommendations were actually followed before the outbreak of the War. At any rate, the Committee made its report in February 1937 when the economy had started to recover and the policy-makers probably fell into the usual temptation of letting the market mechanism and entrepreneurial supply determinants take care of the economically disadvantaged.

All this is not to say that the federal political machinery was always insensitive to the economic needs of Negroes in the pre-War 11 years. At least available records show that the Department of Agriculture was active in the extension work. By 1923, 15 Southern states were being served with extension programs on 28,606 Negro

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Social Scientists and Farm Politics in the Age of Roosevelt.  
Columbia: Univ. of Missouri Press, 1966, pp. 101-105.

<sup>62</sup>For a full discussion of the recommendations, see The National Resource Committee, Farm Tenancy, op. cit., pp. 11-24.

farms, supported by 5,807 demonstration projects.<sup>63</sup> But compared with farm credit and other facilities available to large planters, federal support for Negro landowners before the Second World War was in fact miniscule. To illustrate this point, federal expenditure on extension services to Negroes rose from \$4,184 in 1908 to only \$385,085 in 1923.<sup>64</sup>

Another beneficial federal program worth mentioning was the Federal Loan Bank, where both blacks and whites could borrow to purchase livestock, fertilizer, land already purchased or negotiated for, to settle mortgage loans, to undertake drainage schemes, and so on. Counties were divided into 12 districts, and loans were advanced through a nationwide association called the National Farm Loan Association, the membership of which was a condition for receiving loans varying between \$100 and \$10,000. How Negroes fared under this program is generally not clear.

Two periods in the economic history of Negroes have sketchily been projected to demonstrate that the present-day low economic status of Negroes has greatly been shaped by the cultural milieu and by public policy that constantly neglected the need and the necessity to design economic programs specifically for the underprivileged in critical periods when they could have gained most from federal assistance. A political system that assumes that the entrepreneurial supply mechanism, i.e. sheer presence of economic opportunities, can

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<sup>63</sup> See J. A. Evans, Extension Work Among Negroes, Department of Agriculture, Circular 355, Washington, D.C.: U.S.G.P.O., September 1925.

<sup>64</sup> Ibid., p. 6.

be relied upon at all times, or this failing, entrepreneurial "demand motivations" such as the Reconstruction land restoration and AAA programs, should be showered mostly on economic leaders to make them behave in a manner conducive to political stability and cohesion, is tempted to relegate to oblivion the needs of the poor. This was certainly the case in the U.S. pre-War II economic scene. For, as we saw in chapter two, grassroots entrepreneurship feeds largely on demand motivations. The role of these motivations should be borne in mind as we proceed in the next chapter to examine the impact of the trade union movement and Negro leadership in the development of black entrepreneurship.

## CHAPTER FIVE

### TRADE UNIONS, BLACK LEADERSHIP AND BLACK ECONOMIC PROGRESS

#### Trade Union-Negro Relations Before World War II

Trade unionism can influence the development of black entrepreneurship in two ways: first, access to union membership ensures a minimum job security and better wages through collective bargaining; and second, worthwhile work experience in unionized firms can lay a foundation for independent entrepreneurship.

It is often said that as late as the 1930's, only 10% of American workers were members of unions, and therefore discrimination against Negro workers by local unions could not have severely affected Negroes in procuring jobs. However, the point is that it was this small group that proved powerful enough to influence the hiring practices and other labor policies of corporations.

The involvement of Negroes in the trade union movement dates back to the Reconstruction era when in 1869 Negroes were represented at the convention of the National Labor Union (NLU). Although the NLU adopted a more liberal attitude toward Negro workers at the national level, at the local level it was quite a different story. In fact, the formation of the National Labor Convention of Colored Men<sup>1</sup> in 1869 was in

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<sup>1</sup>It is to be noted that this was not the first Negro trade union. The first, the American League of Colored Laborers, was formed in New York in July 1850. See Charles H. Wesley, Negro Labor in U.S., 1850-1925. New York: Vanguard Press, 1927, p. 55.

response to the discriminatory practices of local unions.<sup>2</sup> Spero and Harris explain the animosity between black and white workers in the decades following the Civil War thus:

The two races must not mix or compete, but if economic pressure does throw them into competition, Southern society seeks to minimize the situation by ranking the white man's job above the Negro's. This of course, is seldom a conscious operation. The system, the result of long established social habit, works automatically.<sup>3</sup>

Further, the strong affiliation of Negro workers with the Republican party resulted in Negro political and labor leadership fusing together in such personalities as Governor P. B. S. Pinchback, Alexander Crummel, Frederick Douglass and J. M. Langston.<sup>4</sup> Consequently, Negro workers became an easy target for discrimination by both the Democratic Party and the Knights of Labor, an amalgam of skilled craftsmen and tradesmen that was replaced in 1886 by AFL. In the North, the plight of Negro workers was aggravated by the tactics of employers using them to break strikes. Therefore, in the eyes of Northern white workers, Negro workers were mere opportunists and not allies.

It is important to stress that until the Second World War, Negro urban workers were best represented in those non-agricultural occupations to which they had traditionally been attached, especially in

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<sup>2</sup> Ibid., pp. 157-165.

<sup>3</sup> Sterling D. Spero and Abram L. Harris, The Black Worker: The Negro and the Labor Movement. New York: Columbia Univ. Press, 1931, p. 170.

<sup>4</sup> For an account of this alliance, see Wesley, op. cit., pp. 156-191.

lumbering, cotton milling and stevedoring. In lumbering, for example, the second most important occupation for male Negro workers, 60% of the 260,000 persons employed in the industry in the South were Negroes in 1909. Yet, the ratio of unskilled Negro workers to skilled ones was 9:2. In the sawmills, they outnumbered the whites by a ratio of 6:4 on unskilled jobs, but whites outnumbered blacks 2:1 on skilled jobs.<sup>5</sup> The persistence of poor working conditions was due to limited unionization in the entire industry. Workers were virtually impotent to form unions because labor was cheap, and could be drawn from the tenant class. In 1928, for example, weekly wage rates ranged from only \$8.48 to \$11.90.<sup>6</sup> In fact, by 1933, local unions existed only on the West coast.

Herbert J. Lahne also files a similar report on the cotton mills in the South where 80% of the laborers were Negroes, but in actual cotton manufacturing, they accounted for only 8% of the job slots in 1920.<sup>7</sup> Similar instances abound in other occupations, but it suffices to note that in the absence of worthwhile work experience, and under conditions of entrenched occupational immobility, desire to enter independent entrepreneurship was only a dream in the minds of a

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<sup>5</sup>Vernon H. Jensen, Lumber and Labor. New York: Farrar & Rinehard, 1945, pp. 76-77. See also John C. Howard, The Negro in the Lumber Industry, Report No. 19, Industrial Research Unit, Univ. of Penna. Philadelphia: Univ. of Pennsylvania Press, 1970.

<sup>6</sup>Ibid., p. 83.

<sup>7</sup>Herbert J. Lahne, The Cotton Mill Worker. New York: Farrar and Rinehart, 1944, pp. 81-82.

majority of Negro workers. In a nutshell, limited skills and restricted economic opportunities to which a majority of Negro workers were exposed conspired to produce low-level entrepreneurship in pre-World War I years.

Herbert Q. Northrup has identified five factors that determined union racial policies during the first part of the century, namely (1) industrial environment, (2) the philosophy of the union and/or its leaders, (3) availability of labor in terms of employment opportunities, (4) the degree of the national union control over its local affiliates, and (5) the racial policies of rival unions. He cites as an example the case of the automobile and iron and steel industries where unionism could not succeed until the industrial form of organization was adopted by CIO. Since the bargaining strength of industrial unions depended on their ability to enroll all workers in an industry, vis-a-vis craft unions, Negroes had to be admitted freely.<sup>8</sup>

Nevertheless, we must be cautious in imputing Negro occupational immobility to the discriminatory practices of unions. To begin with, unionization was meaningful to the extent that the Negro workers were educated and skilled enough to enhance their bargaining power. But this was not the case. Loosened from their plantation environment into a technology-ridden urban environment, opportunities for better jobs would normally have been limited in <sup>the</sup> absence of trade unionism. Second, urbanization of the Negro did not occur on a large scale until

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<sup>8</sup> See Herbert R. Northrup, Organized Labor and the Negro. New York: Harper & Brothers, 1949, pp. 232-235 et seq.

the First World War. Before then, trade unionism would have been more meaningful in the agricultural sector, except that the plantation-tenancy institution simply did not lend itself to collective bargaining.

During the first quarter of this century, the Negro worker was torn between, on the one hand, the contempt of the white worker and the ephemeral tolerance of the employer so long as the latter found the Negro willing to accept low wages for temporary jobs and to stay away from strikes; and, on the other hand, the helplessness of the political machinery to solve the Negro labor problem through legal means. For one thing, the battle was not so much between Negro workers and the unions as between the employers and the unions, especially in the pre-Depression years when effective labor laws were non-existent to control collective bargaining. To all intents and purposes, the federal political machinery was simply content to devote its energies to minimizing employer-union conflicts. To have added the Negro problem to its priority list would have caused a political mess. In any event, Negro workers found CIO a better ally than AFL, which did not only neglect its Negro members but also continued to encourage the formation of segregated unions.<sup>9</sup> Especially in the South, this was made possible by the disfranchisement of Negroes in the 1880's and the passage of several Jim Crow laws. As a matter of fact, until the passage of labor laws in the 1930's, the national Executive Council of AFL was so weak

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<sup>9</sup>For a comprehensive treatment of the involvement of Negroes in the trade union movement, see *ibid.*; Spero and Harris, *op. cit.*; Ray Marshall, *The Negro and Organized Labor*. New York: Wiley & Sons, 1965; Wesley, *op. cit.*; Northrup, *op. cit.*



that it could not intervene in local wage and other disputes until requests were made by local unions.

#### Recent Trends in Union-Negro Relations

The merger between CIO and AFL in 1955 constituted a landmark in union-Negro relations. With its traditionally more liberal attitude, CIO was able to persuade AFL to mitigate its discriminatory practices after the merger. Yet in spite of CIO's efforts, it "did not decisively affect patterns of employment, pay, promotion or apprenticeship opportunities in the craft unions."<sup>10</sup> Although 2 million out of the 18 million union members are Negroes, in such powerful unions as transportation, construction and skilled trades, Negro representation is virtually insignificant. This has caused N.A.A.C.P. to file within the last seven years 700 complaints against unions in federal agencies, and 1,600 cases against employers and employment agencies for such reasons as: refusal to employ Negroes, systematic exclusion of Negroes from apprenticeship programs, and the use of hiring halls and referral systems to prevent non-union Negroes from bidding for jobs.<sup>11</sup> Needless to emphasize, continued discrimination within the rank and file of local unions could in the long run adversely affect the development of black entrepreneurship. As an illustration, in spite of

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<sup>10</sup> Sumner M. Rosen, "The CIO Era, 1935-55," in Julius Jacobson, The Negro and the American Labor Movement. New York: Anchor Books, 1968, p. 206.

<sup>11</sup> Fortune, The Negro and the City. New York: Time Inc., 1968, pp. 105-06.

AFL-CIO commitment to racial equality and the efforts of the federal government to break down the barriers of discrimination, only 3% of recruits in apprenticeship programs were Negroes in 1968. In the same year, Negroes working in factories earned 32% less than their white counterparts, and Negro truck drivers received 42% below white wage rates.<sup>12</sup>

Since the AFL-CIO merger, the attitude of labor leaders toward the racial question is one of "superficial tolerance," greatly influenced by the changing political attitude toward the Negro problem. The issuance of the Fair Employment Practices Order by President Roosevelt in 1940, the Supreme Court ruling on school segregation in 1954 and the Civil Rights Act of 1964 have greatly influenced the behavior of union leaders, although they continue to yield to the pressures of local unions to restrict unionization of blacks. The policy of "superficial tolerance" is constantly revealed in the speeches of the leaders.<sup>13</sup> For example, when George Meany, the President of AFL-CIO, appeared before the Select Committee on Labor of the House on May 7, 1968 (H.R.12280), he was not in favor of the National Manpower Bill of 1968 (H.R.16303-05) designed to provide 220,000 jobs in the private sector for the unemployed through a tax credit system, and 80,000 jobs in the public sector. His fears were that the already employed workers might lose their jobs. The strong lobbying of

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<sup>12</sup> Ibid.

<sup>13</sup> See Herbert Hill, "The Racial Practices of Organized Labor: the Contemporary Period," in Jacobson, op. cit., pp. 286-357.

AFL-CIO and opposition from other quarters have almost killed the bill, and it clearly reflects some of the intractable issues implicit in the upgrading of the economic status of Negroes.

The initiative of the national AFL-CIO Executive Committee to effect change has been crippled by local unions to the extent that the AFL-CIO constitution requires them to voluntarily comply with anti-discrimination federal statutes. While we continue to doubt the genuine interest of the trade union movement to bring about a radical change in attitude toward Negro workers, black leaders and race-advancement organizations have a decisive role to play in shaping Negro-related economic policies in both the private and public sectors. How this role has evolved in the past is our concern in the following section.

#### The Role of Black Leadership

In contrast to such minority groups as Jews in Western Europe, Lebanese in West Africa and Indians in East Africa whose social and economic progress has been fostered by ethnic solidarity and self-help, American Negroes have probably suffered from dissension and poor leadership more than from all the forces of racial discrimination and prejudice. Since Emancipation, Negro leaders have never learned to speak with one mind, especially on matters which affect their social and economic lives. In the main, many have fallen victims to intrigues, egotism and poor manipulation of Negro civic life with the result that they have easily played into the hands of those who least desire to promote their social and economic progress.

The history of different forms of Negro leadership is replete with diametrically opposed strategies to achieve economic goals. Our hypothesis is that genuine forms of black leadership have never addressed themselves adequately to the problems of black entrepreneurship fed on the white market, but instead black leaders have for the most part followed a policy of reconciliation with white businesses, political leadership and white sympathizers to solve black economic problems through employment programs; or out of frustration some have favored a policy of economic self-sufficiency that breeds more poverty.

Before the turn of the century, two schools of thought on black economic development prevailed.<sup>14</sup> One school advocated for economic solidarity and a close working relationship between working classes of all races. Within this group were such personalities as Frederick Douglass and John R. Lynch, who favored "colored" alliance with Knights of Labor, the predecessor of AFL. The other school placed emphasis on racial solidarity, racial pride, thrift and economic cooperation. The basic argument of this school was that through hard work in farming and business, thrift and wealth, coupled with high morality could lead the black race to attain<sup>^</sup> high social status, gain the respect of other races, and thereby achieve civil and political rights. To this group belonged men like John W. Cromwell and Booker T. Washington. As discussed below, the influence of the second school was carried over into the present century, while the first school was

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<sup>14</sup>For an interesting discussion on these schools of thought, see August Meier, Negro Thought in America 1880-1915. Ann Arbor: Univ. of Michigan Press, 1963, pp. 207-247; Howard Brotz (ed.) Negro Social and Political Thought, 1850-1920. New York: Basic Books, 1966.

destroyed before the end of the century by an intricate maze of political machinations and conflicts with trade unions.<sup>15</sup> In the light of our hypothesis, we shall concentrate on the development of three nation-wide Negro organizations that have exercised marked impact on Negro economic progress. These organizations are the National Negro Business League, the N.A.A.C.P. and the National Urban League.

The National Negro Business League was founded in August, 1900 in Boston by Booker T. Washington to promote black entrepreneurship.<sup>16</sup> By 1915, 600 branches of the League had been established in 36 states, with a total membership of 5,000. It functioned through both local branch offices and "business missionaries," numbering 10,000 by 1917.<sup>17</sup> The missionaries were charged with the responsibility of preaching the doctrine of economy, thrift, home and farm ownership, industrial and business enterprise to all Negroes who would listen. Booker T. Washington held a strong belief that through land ownership and farming and through entrepreneurship, the Negro could be emancipated economically and gain the respect of the white population.<sup>18</sup>

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<sup>15</sup>Reference has already been made to the alliance that developed between the Republican Party and Negro leaders who were also in control of leadership in the Negro trade union movement. It was this alliance that ultimately led to the loss of not only Negro political power through disfranchisement, but also bitter anti-Negro feelings among white trade unions, especially AFL.

<sup>16</sup>For a short history of the founding of NBL see the National Negro Business League, Annual Report (for 1915-17). Nashville: Sunday School Union Print, 1915, 1916 and 1917.

<sup>17</sup>ibid., (1915), p. 4.

<sup>18</sup>For Washington's position on other race-related issues, see his Up From Slavery. New York: Doubleday & So., 1963 (edition), ch. 5. See also B. T. Washington, "Why Should Negro Businessmen Go South,"

As August Meier explains it, B. T. Washington became great and powerful not because he initiated a trend, but because he expressed it so well.<sup>19</sup> A point worth emphasizing is the "conciliatory attitude" he adopted in propagating the gospel of black entrepreneurship. He did not reject white economic supremacy, but instead believed that the low status of Negroes was the result of their apathetic attitude toward and unpreparedness for the economic role they were expected to play. Thus throughout his public life, he tended to stress at least three specific themes: (1) that matters related to political power and civil rights should be relegated to secondary importance; (2) that to achieve moral and economic progress, the necessary trades and skills had to be mastered; (3) that moral and economic achievement was a gateway to other achievements, including political power.

To achieve these goals, he adopted specific strategies. First, he founded in 1881 the Tuskegee Institute, an industrial and agricultural institute, as a stepping stone to help those who desired to acquire necessary trades and skills. Later, he helped propagate Negro education along these lines. Second, he promoted Negro entrepreneurship and fostered Negro economic co-operation, out of which grew many business and professional associations that later were affiliated with the League.<sup>20</sup> Although his "back to the land" message demonstrated

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in Charities Organization Society, Negroes in the North, New York: Charities Publication Committee, 1905. Also see Brotz, op. cit., pp. 351-463.

<sup>19</sup>Meier, op. cit., p. 99.

<sup>20</sup>Examples of such associations were The National Negro Retail Merchants'

his preference for rural agricultural development with less pronounced undertones of economic segregation, yet he did not abhor urban Negro entrepreneurship, which according to his strategy could be promoted through co-operation and self-help. Indeed, his urban strategy derived its strength from a type of economic self-sufficiency that could not be justified by the economic base theory. His plea for economic self-help was analogous to the development of a semi-closed economy based on importation of goods which had to be paid for with extremely limited foreign exchange earned by those working outside the economy. We may recall that the influence of the National Business League on Negro economic development did not decline until the Great Depression, so that at a critical period of at least thirty years (1900-1930) when Negroes could have perforce sought after economic integration with the rest of the U.S. economy, a majority of them were led to believe that a viable but segregated economy would enable them to enter the U.S. market at a subsequent date from a position of improved economic strength. Washington, no doubt, was insensitive to the fact that the U.S. economy works in such a way that a group's economic power is judged on the basis of what it can contribute incrementally within the system and not outside it. Further, he underestimated the forces of racial discrimination and prejudice, that in part were an

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Association of the U.S., The National Negro Insurance Association, the National Negro Press Association, The National Negro Funeral Directors' Association, etc. See National Business League, Annual Reports, op. cit.

outgrowth of the slave tradition. In short, his strategy meant that the Negro was going to be judged on the presentation of himself as a competitive, rational, economic man after entering the economic system.

It is argued here that it was the "gospel" of economic self-sufficiency and self-help preached during probably the most critical period in urban Negro economic experience that gradually obliterated their bid to participate effectively in the urban economy; and that it was this failure to lay an early foundation which has subsequently created more difficulties in integrating the ghetto economy with the rest.

Another flaw in Washington's strategy was its implicit acceptance of alleged inferiority of the Negro, by asking him to give up three things: namely, political power, insistence on civil rights, and higher education of Negro youth (vis-a-vis industrial and agricultural education).<sup>21</sup> Du Bois has severely questioned the rationale behind Washington's position on this score, especially when the Negro was at the same time (1) being disfranchised, (2) facing a legal creation of a distinct status of civil inferiority; and (3) experiencing steady withdrawal of aid from institutions for his higher training.<sup>22</sup> The birth of N.A.A.C.P. was to a large extent an epitome of the discontent some Negro leaders harbored in their hearts for the National Business League's accommodative position on civil rights.

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<sup>21</sup> W.E.B. Du Bois, The Souls of Black Folk. Chicago: A. G. McClurg & Co., 1931, pp. 52-53. For a detailed account of his position on the Negro problem, see Brotz, op. cit., pp. 483-549.

<sup>22</sup> Ibid.



Du Bois, one of the founders of N.A.A.C.P. confesses thus:

...but if that reconciliation is to be marked by the industrial slavery and civic death of those same black men, with permanent legislation into a position of inferiority, then those black men, if [they] are really men, are called upon by every consideration of patriotism and loyalty to oppose such a course by all civilized methods, even though such opposition involves disagreement with Mr. Booker T. Washington.<sup>23</sup>

This brings us then to the activities of NAACP, formed officially in May 1909<sup>24</sup> in New York by both black and white races. The original aim was to secure civil rights for Negro citizens of America, justice in courts and equal opportunity in economic, social and political spheres of American life.<sup>25</sup> The Association has been faithful to its initial goals, although achievements in its legal battles and protests against discrimination in jobs, education, housing and use of public places have been uneven.

Our main concern is to determine its contribution to black entrepreneurship and black economic development. Between 1910 and 1930, annual reports of the Association indicate that various appeals were made to employers and unions to end discrimination in employment and wages against Negroes. A major step was taken in the fall

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<sup>23</sup> ibid., p. 55.

<sup>24</sup> The Association grew out of the Niagara Movement founded by Du Bois in 1905 purposely to pursue "Negro freedom and growth." For an account of the history of N.A.A.C.P., see Robert L. Jack, History of N.A.A.C.P. Boston: Meador Publishing Co., 1943; Langston Hughes, Fight for Freedom. The Story of the N.A.A.C.P. New York: W. W. Norton & Co., 1962. Charles F. Kellogg, N.A.A.C.P. Baltimore: The Johns Hopkins Press, 1967.

<sup>25</sup> The founding is well documented in Kellogg, op. cit., ch. 1.

of 1931 to establish an intelligence mechanism within its branch offices to look into the problem of (1) benefits accruing to Negroes from public expenditures; (2) unemployment relief funds; and (3) employment of blacks by ghetto-based white firms.<sup>26</sup>

The next line of attack occurred at various times in the 1930's when it chose to confront white-dominated unions. AFL and CIO were approached on several occasions to abolish segregation and discrimination in the treatment of Negro workers. This resulted in the adoption of an official policy to end discrimination in various unions.<sup>27</sup> At the same time, the Federal Government was confronted to legalize equal job opportunities and wages created by the New Deal Program.<sup>28</sup>

The battle to end discriminatory practices in employment and wages in both the public and private sectors was again carried to the White House during the War, and President Roosevelt responded in June 1940 with an Executive Order No. 8802, banning discrimination on account of race, creed, color or national origin in industries holding war-related government contracts, and in training opportunities in war-oriented industries.<sup>29</sup> The Order also set up a Committee on Fair Employment Practice (CFEP) to investigate and take action to remedy complaints about discrimination.<sup>30</sup> Next, in August 1948, President

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<sup>26</sup>N.A.A.C.P., 22nd Annual Report, 1931. New York, 1932, p. 33.

<sup>27</sup>Jack, op. cit., p. 56.

<sup>28</sup>N.A.A.C.P., 27th Annual Report, 1936. New York, 1937, pp. 9-11.

<sup>29</sup>N.A.A.C.P., Annual Report, 1940. New York, 1941, p. 4.

<sup>30</sup>Ibid.

Truman also signed another Executive Order No. 9980 forbidding discrimination in the federal service on account of race, color or religion.<sup>31</sup> Again, CFEP was re-instituted by President Truman, and he went further to establish a Committee on Government Contracts, CGC, charged with the responsibility of eliminating job discrimination by private employers operating under government contracts. The CGC was continued during the Eisenhower administration under Vice President Nixon. It was through this Committee that the Association constantly sought to redress its grievances in the 1950's.<sup>32</sup> Worthy of note was the fact that pressures from the Association and the efforts of the White House to minimize discrimination in jobs led to the establishment of Commissions on Fair Employment Practice in a number of states.

N.A.A.C.P. reached a new plateau in its economic activities in 1952 when it requested AFL and CIO to do two things: (1) to support the Association's civil rights program, and (2) to provide funds to support its operation.<sup>33</sup> At this point a rapprochement between, on the one hand, liberal whites firmly attached to the Association and the black leaders, and, on the other hand, the two national trade unions was almost complete. By this move black leaders in the Association resigned themselves to the fact that "reconciliatory measures" geared to employment opportunities and better wages

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<sup>31</sup>N.A.A.C.P., Annual Report, 1948. New York, 1941, p. 4.

<sup>32</sup>N.A.A.C.P., Annual Report, 1954. New York, 1955, pp. 43-44.

<sup>33</sup>N.A.A.C.P., Annual Report, 1952. New York, 1953, p. 69.

offer the brightest hope for black economic progress. In other words, they have taken the economic system as given, and instead of building upon it by specific measures of economic production, i.e. through black entrepreneurial promotion, they were prepared to work within it and change it from within. This belief was confirmed when around the middle of the century it created within its organization a labor department to oversee matters related to employment opportunities and vocational training.<sup>34</sup> While the Association has never denounced independent black entrepreneurship, they have not attempted to promote it in any meaningful way.

The National Urban League was founded in New York in 1911 to cater for the needs of Southern Negro migrant workers unaccustomed not only to the problems of Northern cities, but also to industrial workers' way of life. A significant feature of the history of the Association was the firm coalition between white businessmen who needed cheap Negro labor and conservative black leaders allied with B. T. Washington in the North.<sup>35</sup> Thus, it started primarily as a service agency whose activities were confined to job procurement for the migrants, their housing and related social welfare problems and training of black social workers.

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<sup>34</sup>The Association has been interested since 1957 in vocational and technical training, and this indirectly may have a long run impact on black entrepreneurship. See its Annual Reports, 1957, pp. 47-48; 1958, pp. 52-53; and 1960, p. 41.

<sup>35</sup>August Meier and Elliot M. Rudwick, From Plantation to Ghetto. New York: Hill and Wang, 1966, p. 196.

A major contribution of NUL to Negro economic progress has been in the field of employment, and by 1963, it had branch offices in 70 cities of 100,000 or more carrying on this major function. However, in the wake of the Civil Rights Movement it has been compelled to follow action programs "designed to motivate the youth to stay in school, to expand the housing supply for the Negro population, to eliminate racial barriers in the employment and promotion of qualified Negroes, to strengthen Negro family life, and to stimulate self-help among Negro citizens in solving their problems."<sup>36</sup> To achieve these goals, NUL has adopted the tactics of (1) measures to wipe out traces of discrimination against blacks, and these include increased communication and negotiation between black leaders and employers, government, politicians and trade unions; and (2) measures to educate and inform blacks about opportunities in employment, housing and social welfare.<sup>37</sup>

The economic activities of the three associations represent what other race advancement organizations, excluding the extreme militant groups, are trying to achieve. The tactics of the Congress for Racial Equality,<sup>38</sup> for example, is similar to those of NUL, except

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<sup>36</sup> Whitney M. Young, "The Urban League and Its Strategy," The Annals of American Academy of Political and Social Science, Vol. 357 (Jan. 1965), p. 103.

<sup>37</sup> Ibid.

<sup>38</sup> The organization was started in 1941 by James Farmer. For a brief account of its strategy, see Marvin Rich, "The Congress for Racial Equality and Its Strategy," The Annals of the American Academy of Political and Social Science, ibid., pp. 113-118.

that its protest marches and sit-ins, especially in the 1940's and 1950's gave it a distinctive character of its own. Further, it is closer to the masses of Negroes by virtue of its growing involvement in basic community needs such as neighborhood play grounds, street and traffic lights, voter registration drives, and building code enforcement.

No Negro race advancement organization has addressed itself adequately to a type of economic integration that can assure blacks that they will in the course of time attain an increasing share of the urban economy. The National Negro Business League has not left a lasting imprint on contemporary black economic development, precisely because it failed to deal with civil rights issues.<sup>39</sup> Of late, the Urban League is moving toward the tactics of "black power" advocates, because it has discovered that the old tactics of manipulating human relations between white business and disadvantaged blacks are out of tune with the realities of black economic and political conditions in the society.<sup>40</sup> Similarly, N.A.A.C.P. has come to realize that winning the battle in court does not automatically give rise to black economic advancement - hence its present concern for employment and vocational training programs. Nevertheless, it is apparent that

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<sup>39</sup>The activities of NNBL are now limited to 50 cities where it is involved in community development through its Project Mainstream which is a type of urban renewal of the ghetto core. It has recently been receiving grants from EDA to provide technical and other services to black businesses and to institute business management programs.

<sup>40</sup>See Kenneth B. Clark, Dark Ghetto Dilemmas of Social Power. New York: Harper & Row, 1965, pp. 213-215.

the leadership in these most popular organizations resides with the Negro elite, i.e. Du Bois's "talented tenth," who are frequently out of touch with the masses. We are therefore left with a groping desire for a type of leadership that can tap the entrepreneurial potential within the ghetto, while at the same time improving job opportunities for blacks in the white business sector, and pursuing civil rights goals.

Our brief examination of the impact of the trade union movement and strategies of race advancement organizations suggest that socio-economic factors other than "demand determinants" have influenced the availability of economic opportunities for Negroes. It further illuminates some of the shortcomings of the determinants in the American society, especially the weakness of administrative and legal instruments to deal with discriminatory practices of trade unions.

In both chapters 4 and 5, the institutional constraints and demand determinants in the development of black entrepreneurship have briefly been outlined. As we proceed in the next chapter to account in an extremely brief manner a century's economic progress and entrepreneurial achievement of the black race, the institutional constraints will constantly reveal themselves. We should therefore bear in mind the socio-economic environment in which the impact of the Southern tradition, the passive stand of the federal government toward Negro economic problems, the hostile attitude of white-

dominated unions and political powerlessness of black leaders conspired to determine the pace of black entrepreneurial development.



## CHAPTER SIX

### TRENDS AND FACTORS IN BLACK ENTREPRENEURSHIP

#### Pre-Civil War Black Enterprises

Prior to the Civil War, entrepreneurship among Negroes was confined to the free Negroes,<sup>1</sup> 3,777 of whom were black masters of slaves in U. S. in 1830.<sup>2</sup> The main source of wealth came from real estate. In Philadelphia, for example, Du Bois estimates that the value of real estate owned by Negroes in 1847 was about \$400,000.<sup>3</sup> Most of the wealth in real estate was in the Northern states where free Negroes were tolerated to some extent, but in the Southern states their entry into certain occupations was generally resented and this affected the rate at which they could amass wealth either in farming, real estate or personal services. In towns, they had extremely limited opportunities to enter skilled trades and consequently they engaged themselves in such personal services as barbering, tailoring, running of horse stables, restaurants and drinking bars. "In fact there was hardly a town in the old South

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<sup>1</sup>Free Negroes were those Negroes who could buy their freedom, or who were voluntarily set free by their masters.

<sup>2</sup>Abram L. Harris, The Negro as Capitalist. Philadelphia: American Academy of Political and Social Science, 1936, p. 4.

<sup>3</sup>W. E. B. Du Bois, The Philadelphia Negro: A Social Study. New York: Schocken Books, 1967 (reprint), p. 36.

that did not look to the colored man for its barbering."<sup>4</sup> Another area of economic activity which attracted a number of freedmen was truck gardening on fertile lands located near urban markets.

Several factors militated against the growth of free Negro entrepreneurship<sup>5</sup> and these included:

- (a) difficulty in obtaining capital and credit;
- (b) low wages and competition from poor whites and European immigrants;
- (c) prohibition against owning certain types of property;
- (d) occupational restrictions;
- (e) denial of the right to sue;
- (f) restrictions against their participation (before and after the Civil War) in the pioneering of the Midwest, Southwest and West;<sup>6</sup>
- (g) limited civic and educational opportunities.

We should note that economic polarization between blacks and whites existed before the outbreak of the Civil War, and that post-war

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<sup>4</sup>A. L. Harris, op. cit., p. 10. For a detailed account of the economic and social conditions of free Negroes, see E. Franklin Frazier, The Negro in the United States. New York: MacMillan, 1949, Ch. 4. The use of Negroes in pre-Civil War period in industry is well documented in Robert S. Starobin, "The Economics of Industrial Slavery," Business History Review, Vol. 44, No. 2 (Summer 1970), pp. 131-174.

<sup>5</sup>ibid., p. 24 et seq.

<sup>6</sup>Until the passage of Kansas-Nebraska Bill in 1854, Congress had the right to prohibit slavery anywhere. The spread of slavery from the South to other states automatically increased the population of free Negroes since some slaves worked hard to buy their freedom. For the spread of slavery, see Du Bois, Black Reconstruction, op. cit., pp. 42-48.

racial strife merely cemented the polarization. A specific example was the rise of church-based mutual-aid financial institutions, attributed to the limited access free Negroes had in borrowing money from white financial institutions.<sup>7</sup>

#### Decline in Agriculture and Growth of Urban Negro Population

The census of 1890 report shows that 56.2% of the Negro wage earners were in agriculture. Although the number in agriculture continued to increase until 1920, yet proportionately, their share of the agricultural labor force continued to decline. (See Table 6-1 and Fig. 6-1). Of course the decline was not peculiar to the Negro population, for in 1820 farm labor force in the U.S. represented 70% of persons employed in all occupations, as compared with 6% in 1960. However, in the case of Negroes, a proportionately large number of them were in agriculture until the Great Depression, and for the purpose of understanding the development of black entrepreneurship, the identification of economic and technological factors (other than the institutional factors discussed in the last chapter) that caused Negroes to lose their only economic stronghold seem pertinent to our task in this chapter.

The first of these factors was the great attraction of urban employment opportunities and their attendant high wages. The wage rate in the agricultural sector between 1890 and 1910 ranged

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<sup>7</sup>A. L. Harris, op. cit., p. 21.

TABLE 6-1

PERCENT DISTRIBUTION OF FARMS BY TENURE AND COLOR  
IN THE U.S., 1900-1964

Tenant Class	1900		1910		1920		1930		1940	
	White	Nonwhite	White	Nonwhite	White	Nonwhite	White	Nonwhite	White	Nonwhite
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Owners*	69.4	26.9	68.2	26.1	67.1	24.5	62.6	22.2	65.0	28.0
Managers	1.2	0.2	1.0	0.2	1.2	0.2	1.0	0.3	0.7	0.1
Tenants	29.5	72.9	30.8	73.7	31.6	75.2	36.4	77.5	34.3	72.0

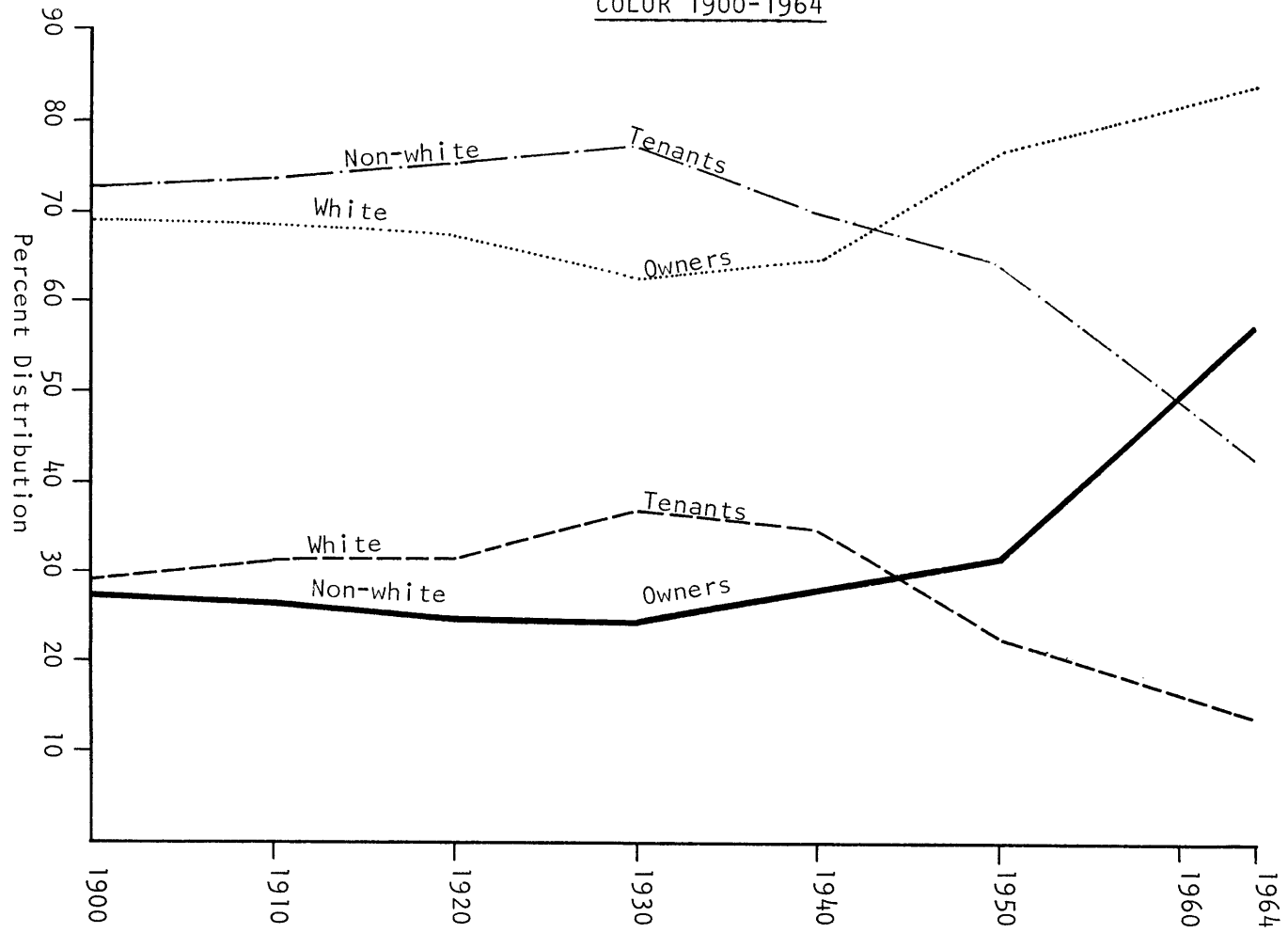
  

Tenant Class	1950		1964	
	White	Nonwhite	White	Nonwhite
Total	100.0	100.0	100.0	100.0
Owners*	77.2	35.9	84.1	56.7
Managers	0.5	0.1	0.6	0.2
Tenants	22.3	64.0	15.3	43.1

\*This includes both full-time and part-time owners.

Source: U. S. Bureau of the Census: Census of Agriculture 1964: Color, Race and Tenure of Farm Operator. Vol. II, U.S.G.P.O., 1968, Ch. 8, Table 5.

FIG. 6-1 PERCENT DISTRIBUTION OF FARMS BY TENURE AND COLOR 1900-1964



between 30¢ and 75¢ a day during the regular season, and between 60¢ and \$1.00 a day plus board during the harvest season,<sup>8</sup> as compared with urban wage rate of \$1.50 a day for unskilled jobs available in Southern cities.<sup>9</sup> Coupled with this was the unattractive nature of rural working conditions which did not change for several decades after Emancipation.<sup>10</sup> Woofter has argued that lack of protection and equal justice before the law in rural South, evidenced by summary trials accorded to Negroes, was repulsive enough to generate rural-urban migration.<sup>11</sup>

The second factor was the psychological desire and sheer impulse to experience urban economic life, and to witness the stories told by friends and relatives returning from the North on visits. Kelsey puts it vividly thus:

Possibly he hears the boast that in the North a Negro may enter a restaurant and be waited on by a white girl. He cares not that the skilled trades are closed to him. He isn't a skilled laborer. In a childish way he pictures the wonders of the new world - reflected in the new fashions of his friends - and resolves in some way to get there; a very natural and healthy state of mind.<sup>12</sup>

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<sup>8</sup> Lorenzo Greene and Carter G. Woodson, The Negro Wage Earner. New York: Russell and Russell, 1930, p. 53.

<sup>9</sup> ibid., p. 134.

<sup>10</sup> Kelsey, op. cit., p. 15. Du Bois commenting on rural working conditions estimated that in 1912 about one-quarter of Negro farm laborers were tied to plantation work through peonage. See his "The Rural South," The American Statistical Association, Vol. 13, No. 97 (March 1912), p. 18. Holmes argues that Negroes were materially better off under slavery than under post-slavery plantation system. See his "Peons of the South," op. cit., pp. 71-72.

<sup>11</sup> Woofter, Negro Migration, op. cit., pp. 142-144.

<sup>12</sup> Kelsey, op. cit., p. 16. A parallel example existed in the former

To most of the Southern migrants therefore, the farm cabin was too inferior to the Southern town cabin or the crowded Northern ghetto apartments they had to share with relatives or friends.

The large waves of migration were nevertheless augmented by the practice of Northern businessmen, inducing Negroes to migrate to the North to work in their factories or homes. A number of employment centers were opened in the South for this purpose and recruits were given their transportation fares. A compulsory one-month service to the sponsor was usually all that was required in agreements.<sup>13</sup>

The third major factor could be referred to as "ecological adjustment," i.e. the capacity of the natural environment to support a given population, with the level of farming technology unchanged. After decades of intense cultivation, severe soil erosion and soil depletion, which reached its peak at the turn of the century especially in the Piedmont states, reduced the geographic extent of profitable cotton cultivation. At the same time, the boll weevil struck over much of the cotton region and consequently even if there had not been urban employment opportunities, the surplus rural labor might have been diverted into other rural-based economic activities.

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British colonies in Africa and West Indies which used to generate large waves of immigration into Britain. Studying and working in Britain carried with it a high social prestige, a symbol of the cultured gentleman.

<sup>13</sup>Woffter aptly refers to this practice as "artificial stimulation." See his Negro Migration, op. cit., p. 120; see also Kelsey, op. cit., p. 17.

Fourthly, the tightening of immigration laws and the return of many European migrants to their homelands during the First World War, coupled with industrial jobs created to meet the needs of the War, enabled even the unskilled migrants to find good-paying urban jobs.

Lastly, technological innovations within the cotton industry,<sup>14</sup> such as the mechanical harvesters in place of hand picking and snapping, and subsequent introduction of planting and weed control have displaced a large number of Negro farm workers. Table 6-2 below is most revealing.

TABLE 6-2

PER CENT OF COTTON HARVESTED BY MACHINE AND  
BY HAND FOR SELECTED YEARS

	<u>1962</u>	<u>1957</u>	<u>1950</u>
Machine	70	32	8
Hand	30	68	92

Source: Calvin L. Beale, "The Negro in American Agriculture" in John P. Davis, The American Negro Reference Book. Englewood Cliffs: Prentice-Hall, 1967; extracted from Table 1, p. 166.

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<sup>14</sup>For an account of some of the technological changes, see U. S. Bureau of the Census, Census of Agriculture - 1959, Vol 5, Part 6, ch. 3.



Another technological factor has been the opening up of new cotton areas in the Southwest, using irrigation and capital-intensive techniques; and under better climatic conditions than the South, the Southwest has increased its share of U. S. cotton output from 2% in 1919 to 34% in 1959.<sup>15</sup>

Of equal technological significance has been the improvement in cotton cultivation in terms of yield per acre. Besides, intense competition from the new cotton areas in Africa and Asia and from synthetic fibers has not only reduced the overall cotton acreage in the nation but has also weakened the dominant position of the U. S. in the world cotton trade. The technological influences and external competition have caused the total cotton acreage in the nation to decrease from about 43 million acres in 1929 to less than 15 million acres in 1959.<sup>16</sup> Thus, tied to the cotton economy, the Negro farm worker has to seek refuge in the city.<sup>17</sup>

With the decline of cotton tenancy, the only hope for landless Negro tenants in love with rural life lies in the growing regular farm work and rural non-agricultural jobs such as quarrying and saw-milling. With respect to Negro landowners, recent successes in the tobacco, maize and soybean cultivation and possibilities of

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<sup>15</sup>Beale, op. cit., p. 167.

<sup>16</sup>Bureau of the Census, U. S. Census of Agriculture - 1959, Vol. 5, Part 6, p. 40.

<sup>17</sup>The impact of technological changes on tenancy has indeed been overwhelming. For example, in the Mississippi delta, the number of white and nonwhite tenants decreased from 83,000 to 33,000 within five years, 1954-1959. See Beale, op. cit., p. 194.

competing effectively in market gardening<sup>18</sup> open a new frontier in agricultural entrepreneurship. But this will not be possible unless the major problems facing small farmers in general are grappled with in a more systematic manner. These problems pertain to reorganization of small farm units into economic units, provision of extension services, access to credit and diversification of crop production to cope with market trends. To achieve all these, as Nicholls so aptly makes his case, the Farmers Home Administration, created specifically to meet the needs of the small farmer, must rise to the occasion, since its resources "have been so small that they have spread too thinly to contribute significantly to the drastic community-wide reorganization of agriculture...."<sup>19</sup>

Of the six crops which come under the federal farm price-support program, cotton, tobacco, peanuts and rice are Southern farm products. It has been contended that the program does not significantly raise the income of small farmers since they have little to sell. Nor has the minimum acreage allotment which compels planters to cut back their output been of much help to small planters in contrast with large planters who can diversify their production to include a variety of farm produce.

In a similar vein, the U. S. Commission on Civil Rights recently pointed out that in order to further the course of Negro agriculture,

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<sup>18</sup>For an account of strides being made in these products, see Beale, op. cit., pp. 168-169, 183-184.

<sup>19</sup>Nicholls, op. cit., p. 173.

agencies of the Department of Agriculture have to put an end to the practice of following local patterns of segregation and discrimination in disbursing federal funds.<sup>20</sup>

#### Growth of Urban Negro Entrepreneurship

Growth of urban Negro employment and entrepreneurship especially before the Great Depression was aided by a pronounced deterioration of rural conditions. Without a rapid growth of urban Negro population, urban black entrepreneurship would have experienced a severe setback simply because the average black businessman has since Emancipation catered to mainly blacks. Three distinct periods in the development of urban black entrepreneurship can be identified. The first is 1863-1890, a period in which Negroes freed before the Civil War and a few ex-slaves trained as artisans and craftsmen by their masters held the reins of urban entrepreneurship. The second is 1890 to the Second World War when a rather feeble foundation for black entrepreneurship was laid, only to be weakened further by the Great Depression. The post-Second World War period marks a third phase. Owing to the post-war national economic reconstruction, urban unemployment among Negroes was fairly low between 1946-1956, but post-Korean War economic recession caused more discontent among Negroes who felt increasingly alienated from the mainstream of the urban economy. Their protests consequently won them the Civil Rights Act

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<sup>20</sup> U.S. Commission on Civil Rights, Equal Opportunity in Farm Programs - An Appraisal of Services Rendered by Agencies of the Department of Agriculture. Washington, D. C., U.S.G.P.O., 1965, p. 100.

of 1964, which has opened a whole new chapter in black economic development. In the next three sections, we shall briefly consider the three phases.

1. The Negro and the Urban Economy: 1863-1890

The urban-based artisans, craftsmen and traders, offshoots of a small class of ex-slaves and freed Negroes, could not achieve much during this period for three principal reasons. First, they were improperly trained to compete effectively on the labor market. Second, the enactment of black codes also affected urban Negroes.<sup>21</sup> In South Carolina for example, black codes stipulated that Negroes could not practice the trade or business of an artisan, mechanic or shop-keeper, or take up other urban employment on his own accord unless a permission was sought from a judge of the district court.<sup>22</sup> Third, immigration from Europe sharply reduced employment and entrepreneurial opportunities for Negroes. Competition for jobs aggravated racial conflicts, and the use of blacks as strike-breakers further increased the discontent of trade unions. At the same time, such anti-Negro movements as the Ku Klux Klan also intensified their harassments especially in the South to such an extent that many white employers simply had to succumb to their pressures.<sup>23</sup>

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<sup>21</sup> For variations in the codes as applied to the urban Negro worker, see Raper and Reid, Sharecroppers All, op. cit., ch. 9.

<sup>22</sup> Charles H. Wesley, Negro Labor in the United States. New York: Vanguard Press, 1937, p. 121.

<sup>23</sup> Raper and Reid, Sharecroppers All, op. cit., pp. 124-130.

2. The Negro and the Urban Economy: 1890 to the Second World War

This was a period when urban Negroes, encouraged by the educational programs and other activities of the National Business League, NAACP and the Urban League attempted to establish themselves as a distinct but weak economic entity. As Table 6-3 shows, agriculture, domestic and personal services, i.e. the lowest paying jobs, jointly accounted for 87.4% of the Negro labor force in 1890, and this was partly due to the fact that 3/5 of all Negro wage earners could neither read nor write, and could therefore not effectively compete for skilled jobs. The dominance of the two occupational categories was more pronounced in the case of female workers, 97% of whom were engaged in them in 1890. The proportion decreased by only 2.4% between 1900-1910, and further 5% between 1910-1920. Besides, competition from newly arrived immigrants, coupled with low education and increasing hostility of trade unions continued to keep many Negroes from high paying jobs.<sup>24</sup>

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<sup>24</sup>Greene and Woodson, op. cit., p. 77. This is clearly borne out by Du Bois' study of the occupational structure of Philadelphia Negroes in 1896. For example, he found that 73% of females and 78% of the men aged 21 years and over in Ward 7 were employed as domestic servants and laborers. See his Philadelphia Negro, op. cit., ch. 11.

TABLE 6-3OCCUPATIONAL STRUCTURE OF NEGROES IN 1890

<u>Occupation</u>	<u>Number</u>	<u>% Share</u>
Agriculture	1,728,325	56.2
Domestic and Personal Services	956,754	31.2
Manufacturing and Mechanical	208,374	6.8
Trade and Transport	145,717	4.7
Professional	33,994	1.1
TOTAL	3,073,164	100.0

Source: U.S. Bureau of the Census, Negro Population 1790-1915. Washington, D.C.: U.S.G.P.O., 1918, Table 20.

However, between 1910 and 1930 impressive gains in manufacturing and mechanical jobs as well as in trade and transport mitigated the dominance of agriculture, domestic and personal services. (See Table 6-4). The greatest gains in these categories were in (a) lumber and wood industry due to excessive exploitation of Southern forests; (b) coal and iron mines, especially in Alabama, Tennessee and Georgia; (c) blast furnaces of iron and steel mills; and (d) automobile industry. Less significant gains occurred in textile, food and meat-packing industries.<sup>25</sup> As one may expect, most of the

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<sup>25</sup>For a fuller account of some of these gains see ibid., pp. 204-223; Myrdal, op. cit., ch. 13.

TABLE 6-4

PERCENT DISTRIBUTION OF GAINFULLY EMPLOYED 10 YEARS AND OVER  
BY RACE AND OCCUPATION 1910-1930

Occupation	1910		1920		1930	
	White	Negro	White	Negro	White	Negro
Agriculture	23.6	54.6	18.8	44.2	15.2	36.1
Forestry and Fishing	0.6	0.7	0.7	0.7	0.6	0.6
Extraction of Minerals	3.8	1.2	3.5	1.5	2.5	1.4
Manufacturing and Mechanical	34.9	12.6	37.8	18.7	35.8	18.6
Transportation and Communication	6.9	4.9	7.4	6.5	7.4	7.2
Trade	10.4	2.3	11.1	2.9	13.7	3.3
Public Service	1.2	0.4	1.8	1.0	1.7	0.9
Professional Service	4.7	1.3	4.8	1.7	6.2	2.5
Domestic and Personal Services	9.7	21.6	7.5	22.0	9.7	28.6
Clerical	4.2	0.4	6.6	0.8	7.2	0.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: U.S. Bureau of the Census, Census of Population: 1930, Vol. V, General Report on Occupation. Washington, D.C.: U.S.G.P.O., 1933, Table 1.

gains were in the North. The relatively higher hourly wage rates for urban jobs (excluding the services), tightening of immigration laws during the First World War, employment opportunities during the War, and post-war economic boom in the early 1920's contributed immensely to Negro economic advancement. On the contrary, racial segregation and discrimination in the use of public places and in hiring practices of firms became increasingly entrenched at the turn of the century.<sup>26</sup> But this was a blessing in disguise in that it promoted black entrepreneurship. Increase in the number of Negroes engaged in domestic and personal services from 21% to 28.6% in the period 1910 to 1930 (see Table 6-4) marked the emergence of the urban ghetto market that has persisted till today.

Gains in trade and transport during the first two decades preceding World War I were the result of accelerated railroad construction, especially in the South. Table 6-4 also shows that in the more skilled and lucrative jobs, namely professional, public and clerical categories, Negroes almost "marked time" during the 20-year period.

E. Franklin Frazier has shown that occupational differences that existed between Southern and Northern Negroes in the 1920's reflected differences in economic and political opportunities in the two regions.<sup>27</sup> This reason thus accounted for the higher occupational

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<sup>26</sup> Charles E. Silberman, "Economics of the Negro Problem" in Eli Ginsberg, The Negro Challenge to the Business Community. New York: McGraw-Hill, 1964, p. 21.

<sup>27</sup> E. Franklin Frazier, "Occupational Classes Among Negroes in Cities," American Journal of Sociology, Vol. 35, No. 5 (March 1930), pp. 718-738.



status of Northern Negroes in post World War I period.

The growth of independent black entrepreneurship in this period was a marked achievement, in comparison with the previous period. At the first national Negro conference on city problems held in Atlanta in 1896, it was estimated that there were about 5,000 black enterprises. The conference gravely doubted the 8,216 Negro enterprises reported by the 1890 population census. Du Bois' survey of 1,684 Negro enterprises reported at the conference indicated that the average amount of capital invested in each was under \$3,500.<sup>28</sup> Types of enterprise represented in the survey included 432 small grocery stores, 166 general merchandise, 162 barber shops, 80 funeral homes, 68 saloons, 64 drugstores and 61 restaurants.<sup>29</sup> As seen from the above list, retail and personal services predominated, and even by 1950, they comprised about 3/4 of all Negro-owned enterprises. The number of enterprises declined very fast at the beginning of the Great Depression. According to Johnson's estimate, about 25,000 were in existence in 1929, with net sales of \$3,935, and gave employment to only 12,651.<sup>30</sup>

An important feature of the development of black enterprises during the period was the growth of the Negro Press and financial

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<sup>28</sup>W. E. B. Du Bois (ed.), "The Negro in Business," Proceedings of the Conference for Investigation of City Problems, (held in Atlanta, Georgia, May 26-27, 1896), Atlanta University Publications No. 4. Atlanta: Atlanta University Press, 1898, p. 19.

<sup>29</sup>Exact figures quoted in Frazier, Black Bourgeoisie, op. cit., p. 132.

<sup>30</sup>Charles S. Johnson, The Economic Status of Negroes. Nashville: Fisk University, 1933, p. 15.

institutions, including commercial banks, insurance companies and savings and loan associations. The press and the financial institutions, especially insurance companies, are even now regarded as a symbol of black achievement in business.<sup>31</sup> The two groups of business have performed better than the rest because they fulfil special needs in the social and economic lives of Negroes, in addition to the protected market they enjoy. The Negro press talks about issues which the general press often evades, and the financial institutions fill a vacuum created by discriminatory practices of non-Negro banks. Further discussion on the development and problems of the financial institutions will be pursued in a subsequent section.

In sum, the moderate growth of black entrepreneurship before the Great Depression was the result of an interplay of four major factors. The first, as pointed out earlier, was the rapid rate of increase of urban Negro population. (See Table 6-5 and Fig. 6-2 below). Second, the growth of Negro family incomes was moderate enough to support a segregated Negro market dominated by residential retail stores and personal services. The third factor was the development of Negro banking, which provided the much needed financial aid to businessmen, the majority of whom could not borrow from white banks. Lastly, as we saw in the last chapter, race advancement organizations provided the necessary moral support to a population that was not very sure of its place in the urban economy.

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<sup>31</sup>Frazier, op. cit., p. 53.

TABLE 6-5

PERCENTAGE OF POPULATION RESIDING IN  
URBAN AREAS BY RACE: 1870-1960

	<u>1870</u>	<u>1880</u>	<u>1890</u>	<u>1900</u>	<u>1910</u>	<u>1920</u>
White	27.5	30.3	38.4	43.0	48.7	53.4
Negro	13.4	14.3	19.8	22.7	27.4	34.0
	<u>1930</u>	<u>1940</u>	<u>1950</u>	<u>1960</u>		
White	57.6	57.4	64.3	68.5		
Negro	43.7	48.6	62.4	73.2		

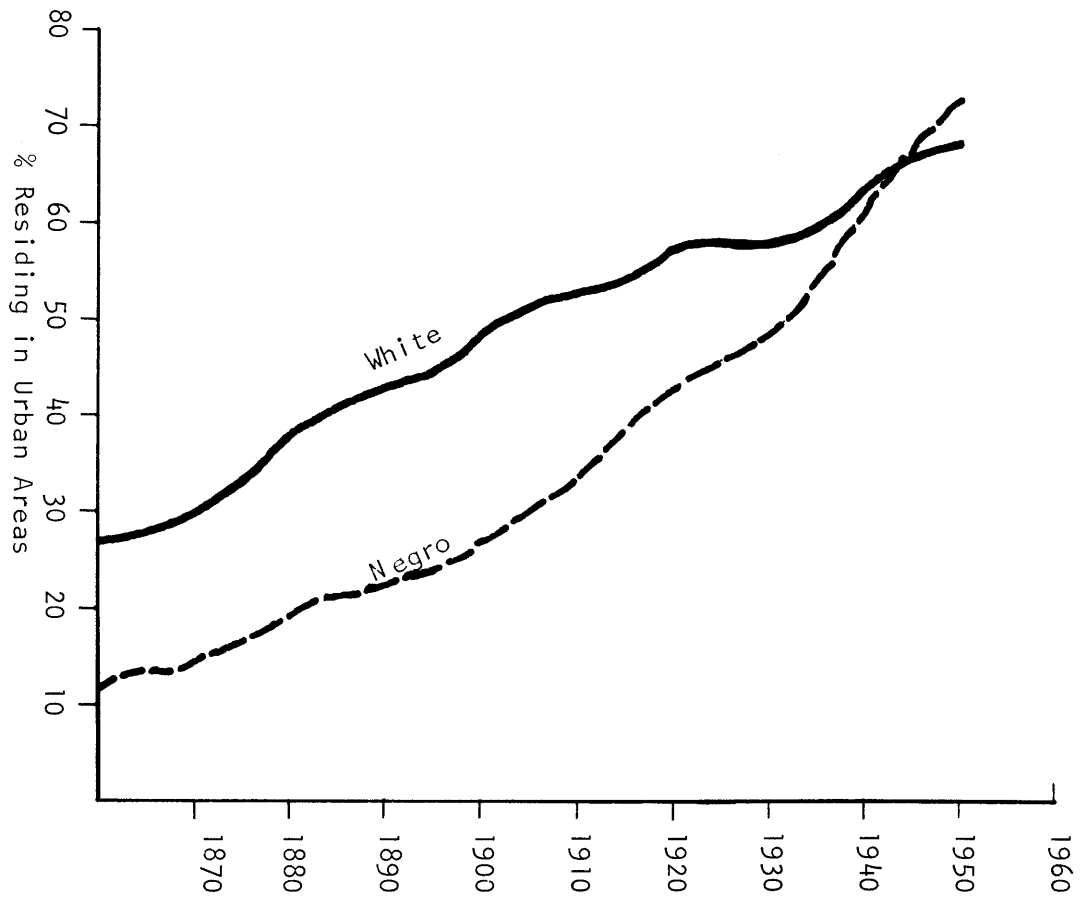
Source: Daniel O. Price, Changing Characteristics of the Negro Population (Bureau of the Census monograph). Washington, D.C.: U.S.G.P.O., 1969, Table 1-3, p. 11.

One of the greatest tragedies of black economic development is that economic gains attained in times of economic boom or in normal times are quickly dissipated during recessions, with the result that a large number of families have to start all over again after the recessions. The effect of the Great Depression on Negroes<sup>32</sup> was too severe to enable a majority to recover before the Second World War. To cite a specific case, in a study conducted in Philadelphia in 1933 to determine the relative employment effects of the Depression on blacks and whites, 39.7% of the white labor force was found

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<sup>32</sup>For a concise account of the economic status of Negroes during the Depression, see Charles S. Johnson, op. cit.

FIG.6-2 PERCENTAGE OF POPULATION RESIDING  
IN URBAN AREAS 1870-1960



to be unemployed, compared with 56.0% for Negroes.<sup>33</sup> The number of Negro-owned banks in the country decreased from a peak figure of 35 in 1924 to about 12 in 1934. Thus, the end of World War II ushered urban Negroes into a new phase of entrepreneurship and economic development which is the subject of the next few paragraphs.

### 3. Post-War Trends and Factors in Black Entrepreneurship

Enough has already been written on post-war economic conditions of Negroes<sup>34</sup> and hence we shall make a few remarks on significant trends in occupational mobility, and proceed to identify the salient trends and factors in present-day black entrepreneurship.

A trend toward upward occupational mobility for a social group usually paves the way for rewarding entrepreneurship. In general, there is a definite trend toward upward occupational mobility for Negroes. In specific terms, whereas in 1940 59.52% of Negro females were employed as household workers, by 1960 only 35.74% were in this occupation. Further, 1.2% of employed Negroes were engaged as clerks in 1940, but the proportion increased to 6.3% in 1960. Similarly,

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<sup>33</sup>The study was conducted by J. H. Willits and is briefly reported in ibid., p. 19.

<sup>34</sup>Probably the most important reference is Herbert R. Northrup et al., Negro Employment in Basic Industry. Philadelphia: University of Penn. Press, 1970. See also Parsons and Clerk, The Negro American, op. cit., Part II; John P. Davis (ed.), The Negro American Reference Book, op. cit., chs. 4 and 5; D. O. Price, Changing Characteristics of the Negro Population, op. cit., chs. 3-5; Arthur M. Ross and Herbert Hill (ed.), Employment, Race and Poverty. New York: Harcourt, Brace and World, 1967.

while the operatives category engaged 9.3% of all employed Negroes in 1940, its share rose to 18.56% in 1960. However, we find that in more skilled categories, namely managerial, professional and technical, only slight gains were achieved. One exception, however, is the female professional group which increased its proportion of the total employed Negro females from 4.27% to 7.16%. This was principally due to increase in the number of female teachers and nurses. Negro males, on the other hand, made only a very slight gain in the professional and technical category, increasing their share of the total employed Negro males from 1.82% to 3.10% as compared with a rise from 5.92% to 10.93% for white males during the 20-year period.<sup>35</sup>

Table 6-6 summarizes the distribution of Negroes in United States self-employed businesses in 1950 and 1960. It clearly indicates that Negroes were under-represented in all the 13 categories of business, as compared with their 11% representation in the total population. As one may expect, retail alone accounted for 64.74% of the total Negro self-employed businessmen in 1950 and 56.69% in 1960. The next important category was personal services which in 1950 accounted for 9.98% and 9.37% in 1960. In 1950 therefore, retail and personal services alone out of the 13 categories represented three-quarters of self-employed Negro businessmen. This proportion fell to two-thirds in 1960, signifying a trend toward an increasing involvement in other lines of business.

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<sup>35</sup>For a detailed discussion of major trends and inter-regional comparisons, see D. O. Price, op. cit., pp. 115-130.

TABLE 6-6

NEGRO SELF-EMPLOYED BUSINESSMEN 1950 - 1960

<u>Type of Business</u>	<u>1950</u>		<u>1960</u>		<u>% Change 1950-1960</u>
	<u>Number</u>	<u>% of U.S. Total</u>	<u>Number</u>	<u>% of U.S. Total</u>	
Construction	3,390	1.76	3,978	1.70	-0.06
Manufacturing	1,050	.48	1,376	.81	.33
Transportation	2,430	4.92	1,241	3.19	-1.73
Communication, utilities, sanitation service	270	6.66	82	1.69	-4.97
Wholesale trade	2,640	1.55	2,610	1.92	.37
Retail	38,730		26,303	2.59	
Banking and other finance	90	.45	41	.19	-0.26
Insurance	600	1.55	794	1.60	.05
Business service	570	1.52	890	2.37	.85
Automobile repair, service and garage	870	1.47	1,083	2.77	1.30
Miscellaneous repair	450	1.61	414	2.10	.49
Personal services	5,970	5.89	4,349	3.29	-2.60
Other	2,760	3.26	3,239	3.31	-0.05
Total	59,820	2.81	46,400	2.32	-0.49

Source: U.S. Census, 1950, Occupational Characteristics, Vol. IV, Special Reports Part I. Washington, D.C.: 1956, Table 3; U.S. Census, 1960, Occupational Characteristics, Final Report PC(2)-7A. Washington, D.C., 1963, Table 3.

Proportion-wise, Negroes were best represented in three categories, namely communication, utilities, sanitation services (6.66%), transportation (4.92%) and personal services (5.89%); but by 1960 they had lost grounds in all the three. At any rate, slight advances were made during the decade in six out of the 13 categories (see last column of table), and it seems that this trend continued in the 1960-1970 decade. Other changes in the last decade probably included a positive growth in (a) construction as a result of SBA 8A program which permits SBA to subcontract federal jobs to minority contractors; (b) personal services which offered the easiest outlet for currently more accessible SBA loans; and (c) oil, automobile and associated services which have received an impetus from liberalization of corporate franchises.

In spite of recent progress of blacks in entrepreneurship, the place of the small businessman in the U.S. economy is gloomy, and this in itself spells pessimism about the potential growth of black businesses. Between 1950 and 1960, the total number of self-employed businessmen in the nation fell by 6.16% but among Negro businessmen the decline was 22.4%.<sup>36</sup> Though part of the decline could be accounted for by change in corporate form of organization, the fact remains that proportionately more Negroes left self-employment for probably more secure employment elsewhere. Whether the downward trend will continue is subject to conjecture.

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<sup>36</sup>See Table 6-6.



Black Entrepreneurship and Black Financial Institutions

Although the rate at which financial institutions have developed in the U.S. since World War I may be unparalleled anywhere in the world, yet black enterprises have continued to operate outside the mainstream of the capital market. More objectively, the problem could be posed in this way: could black enterprises have developed on a firmer footing had black financial institutions been sufficiently efficient and reliable? Andrew F. Brimmer, one of the foremost authorities on black financial institutions has this to say: "...competition from Negro-owned banks can make just that margin of difference which will encourage leading institutions serving the general market to be somewhat more sympathetic and sensitive to the financial needs of potential Negro customers."<sup>37</sup>

The history of black financial institutions goes back to the Reconstruction era when in 1865 Congress chartered the Freedmen's Savings and Trust Company. Initially its activities were limited to Negro business and investment in government securities. Although its peak deposit accounts reached nearly \$20 million in 1871,<sup>38</sup> it had to be closed by midsummer 1874 through bankruptcy, caused by a Congressional amendment to its charter that permitted it to invest its assets in notes and bonds secured by real estate.<sup>39</sup>

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<sup>37</sup>Andrew F. Brimmer, "The Negro in the National Economy," in John P. Davis, op. cit., p. 307.

<sup>38</sup>Cruden, op. cit., p. 53.

<sup>39</sup>Ibid.

Without doubt the Depression of 1873 contributed to its liquidation, but the fact remains that the contempt of Southern state governments for it, especially with its support coming from the Federal Government and the fears entertained by planters that it interfered with their established financial relations with sharecroppers contributed to its downfall.<sup>40</sup>

Negro banks were reorganized in 1888 in Richmond, Virginia, and in Washington, D.C., and later in other cities. By 1905, no fewer than 28 banks had been organized with some dying no sooner than they had procured their basic furniture. A peak number of 35 banks were known to have existed in 1924, declining to about 11 or 12 in the whirlwind of the Depression. Altogether it is estimated that about 134 banks were organized before the Depression. The total assets of these banks that survived the Depression was put at about \$7 million.<sup>41</sup> Their growth and development were a combined effort of fraternal insurance and burial societies and Negro churches. The societies were fostered by the churches, and came into being as a result of their need to develop their own financial institutions.

A majority of the banks died because they were over-capitalized and non-liquid. As Harris puts it: "The non-liquid character of these banks, their high ratio of loans to earning assets and the heavy fixed investment are the direct and indirect results of

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<sup>40</sup> ibid.

<sup>41</sup> E. F. Frazier, Negroes in U.S., op. cit., p. 396. For an account of the development of the banks before the Depression, see Abram L. Harris, The Negro as Capitalist. Philadelphia: American Academy of Political and Social Sciences, 1936, pp. 46-61.

the small volume of business which was essentially non-commercial in character."<sup>42</sup> The non-liquid character of the banks was mainly the result of heavy investment in real estate or chattel property which are normally more difficult to market, in contrast with government and other securities. To illustrate the over-capitalized nature of the banks, the ratio of capital investment to total deposits averaged 18% in the state banks, but in the black-owned banks, the ratio was 32.9% from 1903 to 1930.<sup>43</sup>

Another handicap of the banks was their small size which tended to increase their operating costs. This was one of the reasons why they could not invest in low-yielding government securities.<sup>44</sup>

Furthermore, they suffered from large outlays in physical assets acquired through bad loans or defaults. Harris drives home an interesting point that by limiting the scope and liquidity of the bank's investments and loans, "the character of Negro businesses becomes the fundamental factor in its instability and economic weakness."<sup>45</sup> Frazier also adds: "But when one considers the nature of the Negro business enterprises for which Negro banks would supply credit and capital, the difficulty of conducting banks primarily for Negro enterprises becomes clear."<sup>46</sup> The crucial issue then is: Are

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<sup>42</sup> ibid., p. 60.

<sup>43</sup> ibid., p. 59.

<sup>44</sup> Myrdal, op. cit., p. 315.

<sup>45</sup> ibid., p. 172.

<sup>46</sup> Edward F. Frazier, Black Bourgeoisie. New York: Collier Books, 1962, p. 41.

Negro banks small because Negro businesses are small or vice versa? We thus end up with the chicken and the egg puzzle - a puzzle that today confounds concerned black leaders.

Among the Negro financial institutions, life insurance companies performed best of all. By 1939, there were 67 of them with 1,677,000 policy-holders.<sup>47</sup> Until recently, the mortality rate among Negroes was high, and white insurance companies used this fact to charge them higher premiums than white clients, and sometimes refused to insure them. As a result of such discriminatory practices, Negro insurance companies had the most protected market of all Negro enterprises.

Negro savings and loan associations, first organized in 1883, were founded for similar reasons as the banks. By 1930, 70 associations were in existence, decreasing to 50 by 1938.<sup>48</sup>

At the end of 1963, there were 13 Negro-owned banks (increasing by only two since 1931), 50 insurance companies and 34 federally-insured savings and loan associations. They jointly had a combined assets of only \$764 million, or 0.12% of the total assets held by similar financial enterprises in the country.<sup>49</sup> Due to the liberalization of federal banking policy since 1964, six more banks were chartered in 1964, and altogether more than 25 were in existence

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<sup>47</sup>Myrdal, op. cit., p. 317. For a concise account of the development of Negro insurance companies, see Linda P. Fletcher, The Negro in the Insurance Industry. Report No. 11, Industrial Research Unit, Univ. of Penn. Philadelphia: Univ. of Penn. Press, 1970, pp. 124-129.

<sup>48</sup>Ibid., p. 315.

<sup>49</sup>Brimmer, op. cit., p. 297.

in 1970.<sup>50</sup>

In spite of rapid improvements in American banking, Negro banks have been slow in taking full advantage of these improvements. This is partly the result of the conservative attitude of the clients they serve. Savings accounts predominate over current accounts. For example, in some of the minority banks in New York City, passbook savings deposits account for 87% of the total deposits.<sup>51</sup> In addition, personal loans received by some customers are usually too small, for it has been estimated that a bank loses money on any loan less than \$300.<sup>52</sup>

Negro banks are still far from being competitive. A dollar invested in Negro banks earns only 3/4 as much as it would in a typical bank serving the community at large,<sup>53</sup> and consequently they are less able to attract all the potential customers in the black community. Black capitalism for whatever it stands, is meaningless unless black banks can develop to compete with other banks.

Although they continue to suffer from over-capitalization and less liquidity of assets, there is a trend toward new forms of investment. Whereas in the past a higher proportion of their profits was retained to build up reserves and surpluses, in recent years they have been investing more in securities, but less in loans which yield higher profits.

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U.S. Dept. of Commerce, Building Minority Business Enterprise. Washington, D.C., 1970, p. 30.

<sup>51</sup>Theodore L. Gross, op. cit., p. 52.

<sup>52</sup>Ibid., p. 54.

<sup>53</sup>Ibid., p. 305.

The promising strides being made by Negro insurance companies are worthy of note. They had total assets of \$311 million in 1962 or 0.23% of all assets of the nation's insurance companies.<sup>54</sup> Compare this with 0.21% of total banking assets owned by Negro banks. Until now, Negro insurance companies have invested very little in black businesses. The possibility of tapping this source for both black businesses and other ghetto-based economic development programs is worth considering.

In chapters 4 and 5, we attempted to demonstrate that the supply of black entrepreneurship has been influenced by: (1) a hostile Southern environment or the Southern tradition, supported to some extent by Northern conservatism; (2) pre-World War II passive federal attitude which in many respects accommodated the Southern tradition. In other words, "demand determinants" were simply not put to trial; and (3) the trade union movement which constantly sought to exclude Negro workers from employment opportunities. While the socio-economic and political environment remained relatively hostile or passive, black leadership was sufficiently divided with respect to the adoption of an appropriate "modus operandi" to combat the uncondusive environment within which a majority of blacks had to earn their living.

It is against this background that the marginal role played by blacks in the urban economy was outlined in Chapter VI. In the

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<sup>54</sup> Ibid., p. 309.

next two chapters we shall proceed a step further to examine empirically some aspects of black entrepreneurial problems as they exist today.

PART III

A STUDY OF BLACK ENTERPRISES IN BOSTON

In the final analysis, the fundamental reason that Negroes have not advanced in business is the lack of business success symbols available to them. The culture has simultaneously unduly emphasized achievement in business as the primary symbol of success and has blindly developed or imposed an all-pervading racism that denied the Negro the necessary opportunities for achieving this success.

Eugene P. Foley (The Negro American,  
p. 572)



## CHAPTER SEVEN

### MORE PROMISING BLACK ENTERPRISES: SOME BASIC CHARACTERISTICS AND MAJOR PROBLEMS

#### Intentions of the Study

There is usually the tendency on the part of urban researchers to generalize about the marginal nature of black enterprises in the U.S. Yet we sometimes come across a few entrepreneurs who seem to be doing well. In the view of the author, it is these few individuals who are likely to bring about positive changes in the development of the ghetto. However, very little is known about these few individuals. The study therefore aims at improving our understanding of their businesses and behavior, and how they fit into the ghetto economic scene. It should be emphasized that the study is only an exploratory work, and further investigations in other cities are needed to support, modify or refute some general statements and "tentative hypotheses" generated by the study.

The study falls into two parts.<sup>1</sup> The first part, Chapter VII, will focus on the following themes: (i) general background information on the businesses studied; (ii) a comparison between different types of enterprise in terms of employment, employee benefits, wages, equity capital, physical assets, loans, insurance, planning and floor space; (iii) indicators of relative success; (iv) factors in

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<sup>1</sup>See Appendix B for research methods used in the study.

location; and (v) major problems.

The second part, Chapter VIII, will focus on the entrepreneur himself as an organization maker. We shall attempt to define his status in society, his relations with the black community, his attitude toward investment, and his reasons for going into business. Hopefully some of the hypotheses developed in Chapter III will be put to test.

### General Characteristics

#### 1. Business Types and Location

The 52 enterprises studied can be grouped into seven categories, as shown in Table 7-1. As one may expect, traditional types of enterprise, i.e. personal services, construction and real estate account for 56%, followed by retail, 12%. The two predominantly black neighborhoods, Roxbury and North Dorchester, contain 41 out of the 52 businesses (79%); the western part of the South End, which is gradually increasing its black population, has four (8%), the Fenway and downtown three (6%) each. The geographic distribution of the businesses confirm our belief of the "inward-looking" character of ghetto businesses. One distinguishing feature depicted by the geographic distribution is that majority of the enterprises occupy prime locations, with some concentration in the vicinity of Grove Hall and Dudley Station. This is partly the result of the gradual withdrawal of white-owned businesses from the black neighborhoods.

TABLE 7-1TYPES OF BUSINESS INTERVIEWED

<u>Category</u>	<u>Type of Business</u>	<u>Total Number</u>
Construction and Real Estate	construction cum real estate (8); construction (2); plumbing (1); electrical wiring (1); cement floor finishing (1).	13
Food & Catering	restaurant and fast food (1); liquor, entertainment and special services (1); restaurants (2).	4
Manufacturing	apparel (3); electronics (1); leather goods (1).	5
Personal Services	barbering and hair-dressing (3); building maintenance (1); building security service (1); funeral homes (3); laundry and dry cleaning (6); nursing and rest homes (2).	16
Printing & Advertisement	printing (2); printing and advertisement (1).	3
Retail	men's apparel (1); hardware (1); shoes (1); miscellaneous cultural items (1); flowers (1); liquor and beauty aids (1).	6
Transport and Related Services	auto body repair (1); gas station (1); trucking and furniture moving (3).	5

## 2. Sex and Age

Males outnumber females by a factor of four to one. 42 out of the 52 respondents are males. Females are found in only two out of the seven categories. These two are personal services and manufacturing. Traditionally more black males have gone into business than females. For example, 21 out of the 52 respondents answered that their fathers were in business at one time or another, while only five of them said their mothers had been in business before. Similarly in a study of 654 black entrepreneurs in four Tennessee cities, female entrepreneurs composed 27.1% of the sample.<sup>2</sup> This is not to say that black males are better businessmen than females. The main historical reason is that greater employment avenues in teaching, nursing and until recently domestic work are usually available to females more than to males, and until the last World War independent entrepreneurship was not considered a prime occupation for an average working female adult. However, of late, an increasing number of black females have been going into business, largely as a result of the so-called "search for Afro-American identity" which has given rise to a variety of personal services geared to making black "beautiful." Further, domestic work in white homes is now regarded by many black females as an entrenchment of white superiority and demeaning to the black race.

The average age of the 52 respondents was 42.8 years in the fall of 1970. The youngest was 26 years old and the oldest was 60.

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<sup>2</sup>Schuster et al., op. cit.

(See Q2, Appendix C,<sup>3</sup> and Table 7-2 below.) In sum, 31% were less than 40 years old; 46% were between 40-49 years, and 23% were 50 and above. The average age of the female entrepreneurs was found to be 43.1 years, compared with 42.6 for males.

TABLE 7-2

AVERAGE AGE OF PROPRIETOR AND AVERAGE  
AGE OF ENTERPRISE BY TYPE OF ENTERPRISE

<u>Type of Enterprise</u>	<u>Number</u>	<u>Average Age of Proprietor</u>	<u>Average Age of Enterprise</u>
Construction and Real Estate	13	42.2 Years	11.9 Years
Food and Catering	4	47.2	9.5
Manufacturing	5	41.8	2.0
Personal Services	16	44.7	12.6
Printing and Advertisement	3	41.0	11.7
Retail	6	35.8	7.5
Transport and Related Services	5	37.6	7.4
Total Average	7	41.5	8.9

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<sup>3</sup>Henceforth all references to questions in the questionnaire will imply reference to Appendix C.

### 3. Place of Origin

There is often the tendency on the part of the general public to regard North American Negroes as a homogeneous population, differentiated only by skin pigmentation. Probably they come from as many diverse cultural backgrounds as one may find in a small African nation. Blacks residing in the Boston metropolitan area comprise Southern blacks influenced much by the "Southern tradition," the New Englanders, blacks born in the Mid-west or the lake states, English-speaking West Indian blacks, French-speaking West Indian blacks, Dutch-speaking West Indian blacks and Africans, most of whom came here originally as students. We shall later explore the significance of cultural backgrounds among our 52 businessmen. 27 (58%) out of the 52 respondents said they were born in the South, 16 (27%) are New Englanders, six were born in other parts of the U.S. and three are West Indians. The high proportion of Southerners reflects the general wave of migration of blacks from the Southern states to the North since the First World War. Most of the Southerners interviewed came to the Boston area as adults, searching for jobs. Of the 16 New Englanders, nine referred to themselves as "true Bostonians"; five come from other towns in Massachusetts and two from Connecticut. One would have thought that New England blacks, long introduced to the urban business atmosphere and conditions, would strongly be represented in the group. A plausible explanation for their weak representation is that they are on the average better educated than Southern blacks, and as a result they have turned to such professional

occupations as law, medicine and teaching. At any rate, the author came across old-time Bostonians in business, but they were not selected for the study because they employ fewer than five persons. Other New Englanders have found full-time occupations in community organizations in the wake of the Civil Rights Movement. West Indians<sup>4</sup> also appear to be under-represented according to rumours that they are the most shrewd black businessmen in the city.

#### 4. Religion

The association of American blacks with Protestant denominations dates back to the days of slavery when Protestantism, vis-a-vis orthodox Catholicism, was seen as a channel through which the abolition of slavery could be brought about.<sup>5</sup> Further, Emancipation created a large body of non-denominational and confused blacks who needed guidance, and hence evangelical churches had the opportunity to convert them in large numbers and to perform more philanthropic functions than the pre-Emancipation days. It is no wonder then that 36 (69%) of the respondents profess to different Protestant religions, the most popular of which is the Baptist Church. Of the remaining 16,

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<sup>4</sup>On several occasions, one comes across blacks born here but of West Indian parentage. Many of them claim to be West Indians, although they have been to the Caribbean for short visits only.

<sup>5</sup>See Harry V. Richardson, "The Negro in American Religious Life," in John P. Davis (ed.), The American Negro Reference Book. Englewood Cliffs, Prentice-Hall, 1966, p. 398 et seq. See also Du Bois, Philadelphia Negro, op. cit., ch. 12; E. F. Frazier, Negroes in the U.S., op. cit., ch. 17.

six are Catholics, four are Moslems, six are non-denominational and a lonely Jew, who joined the Jewish religion because as she contends it has something to offer to mankind.

##### 5. Forms of Ownership

All the three forms of business ownership were encountered during the interviews. Proprietors number 36 (70%), and of this number 19 have legally been incorporated, while 17 have not. There are only three corporations, but partnerships number 13. 11 out of the 13 partnerships are two-man types, and the remaining two are four-man and six-man types. It is worth noting that intra-family partnership is not popular, in view of the fact that 11 out of the 13 partnerships and two out of the three corporations were formed by friends. There are two possible explanations for this. First, owing to lack of business tradition among Negro families, the chances of two members of a nuclear or an extended family becoming "successful" in business are very slim. Second, since 71% of the businessmen interviewed migrated to the Boston region as adults, it is not likely that they migrated together with their peers with whom they could have teamed up. It is doubtful whether in the South widespread intra-family business organizations exist, apart from farming. In the Tennessee study, for example, sole proprietors constituted 78.6%.<sup>6</sup> We must understand that the entire black history has been marked by family disintegration. Slavery separated members of nuclear families; and since the turn of the century large scale migration from the South in response to better economic opportunities in the North and West

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<sup>6</sup>Schuster, op. cit., p. 28.



has further accentuated the disintegration process. Moreover, since the Second World War, a substantial proportion of male members of nuclear families are known to have fallen into the habit of leaving their families in situations of economic hardship so that their families may qualify for family assistance programs. For all these reasons, the Negro nuclear or extended family, as a basis for various forms of economic organization such as those we witness among the Jews and other ethnic groups is yet to be born.

Our "successful" or "quasi-successful" black entrepreneurs in Boston are indeed "independent entrepreneurs." 47 out of the 52 businesses were started from scratch by the proprietors or partners themselves. (See Table 7-3). Some of the respondents explained that

TABLE 7-3

OWNERSHIP AND ORIGIN OF BUSINESS

<u>Type of Ownership</u>	<u>Total No.</u>	<u>Started from Scratch</u>	<u>Enterprise Bought</u>	<u>Enterprise Inherited</u>
Proprietors	36	33	2	1
Partners	13	12	0	1
Corporations	<u>3</u>	<u>2</u>	<u>1</u>	<u>0</u>
Total	52	47	3	2

on-going enterprises offered for sale in the ghetto are either in deep financial trouble, facing a decline or are located in potentially riot-prone blocks. Hence, it is considered not advisable to buy

on-going enterprises in the ghetto. In some cases, as the respondents explained, when enterprises are bought from white owners by blacks, sources of supply and credit are not automatically extended to the new owners, and this amounts to starting one's business from scratch. Many blacks are therefore not keen on buying such businesses.

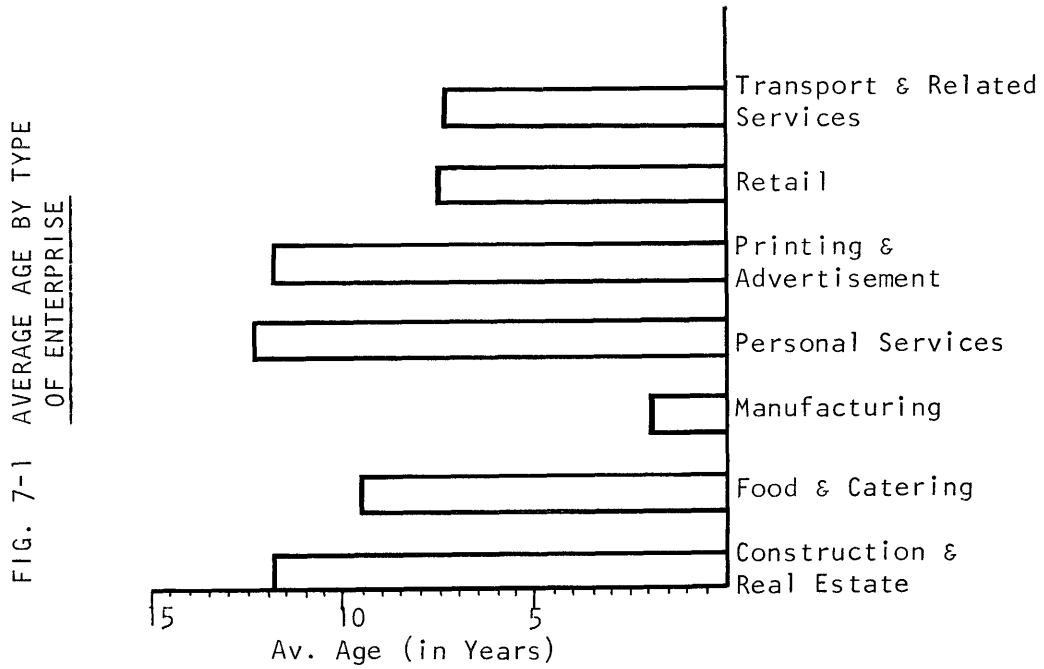
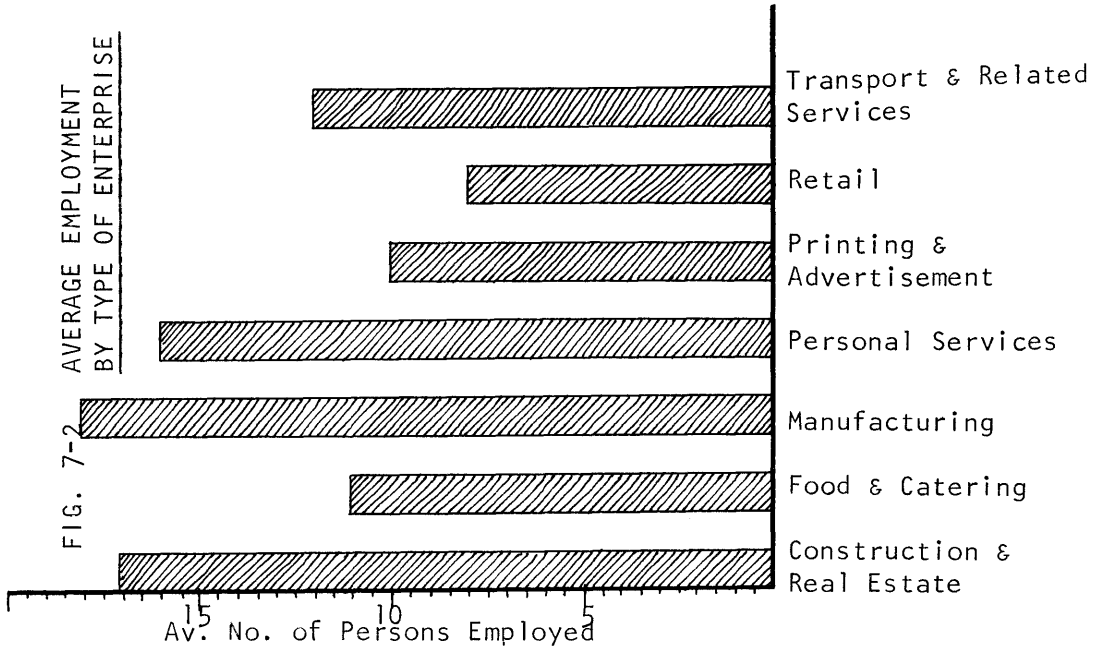
#### 6. Age of Businesses

The average age of the 52 businesses was found to be 8.9 years compared with 7 years for San Francisco black businesses.<sup>7</sup> (See Table 7-2 and Fig. 7-1). 33 of the total businesses were started between 1946 and 1963. These were started from scratch by people who had to rely mostly on their own resources, as access to conventional and SBA-guaranteed loans was more constricted than at present. Some proudly talk about how their businesses started from humble beginnings, with almost no financial aid from any quarters, and how through determination and perseverance, they survived a plethora of odds, and eventually succeeded.

Only one enterprise started before 1946, and 18 came into being after 1963. At the start of the study, it was the belief of the author that over 50% of the businesses would date from 1964 onward as a result of the passage of the Economic Opportunity Act of that year and also in response to "soul searching" fomented by the Civil Rights Movement which received new roots in the early 1960's. Surprisingly, an undisclosed but extremely few loans had been made

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<sup>7</sup>Pact Inc. Black Businesses in San Francisco. San Francisco, Nov. 1968, p. 39.



to minority groups by the end of the 1967 fiscal year.<sup>8</sup> Even then between July 1967 and June 1968, 60 SBA loans were advanced to minority businessmen in Boston metropolitan region, and 137 in the 1969 fiscal year. Assuming that all the 16 respondents in our study who have received SBA loans obtained them after 1967, it could be argued that SBA loans have not contributed to the start of viable businesses - businesses capable of generating sufficient employment from the beginning.

#### Inter-Enterprise Analysis

In designing a strategy for the development of black enterprises, one of our main concerns should be directed towards incessant invasion into the larger urban market, so that "balance of payments", i.e. inflow of income from white consumers and business sector, may be in favor of the ghetto sub-economic system. If we accept this proposition, then at least two implicit issues have to be grappled with: (1) developing the capacity of black enterprises to compete with white enterprises on equal terms; and (2) geographic dispersion of black enterprises so that they may no longer bear the stigma that goes with the ghetto environment.

Viewed from this angle, black enterprises fall neatly into two groups. The first group which we may refer to as the "less

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<sup>8</sup>The information contained in this paragraph was received from the Roxbury branch office of the SBA. The author extends his gratitude to the officers who kindly made the information available.

competitive sector" comprises two out of the seven categories identified in the study (see Table 7-1), and these are construction and real estate, and personal services. We cannot dispute much about this grouping. Personal services have traditionally depended upon the black community for patronage. With respect to construction and real estate, renovation of black homes, and the monopoly black realtors and insurance agents have in the sale of homes will continue to keep a majority of white firms away from black neighborhoods. Further, much of the money available to black contractors comes from federal and other sources to rebuild the ghetto. Hence the greater the involvement of black businesses in housing and community construction projects and by implication the less competition they face, the more beneficial it is for the ghetto sub-economic system. As we shall later note, even in this group, the market is not as protected as it is generally believed to be. Residential integration is gradually turning black consumers of personal services away from their traditional black sources to white sources. Similarly, new black entrepreneurs are emerging in newly integrated residential blocks to take advantage of better-salaried white families. Another opposing force is the pressure from labor unions compelling black firms to hire white workers in the name of total integration. In any event, the fact remains that competition in this sector will always be at a low ebb, with enough room for more efficient businessmen to hold the reins of rewarding entrepreneurship.

The other five categories of enterprise form another group which we may conveniently refer to as "more competitive sector." With rapid elimination of barriers of discrimination, these types of business have become vulnerable to competition from white firms located within and outside the ghetto areas.<sup>9</sup> Blacks can choose to eat anywhere they want; they can walk into any retail store and expect to be treated with the same respect accorded to whites. Black consumers can do business with white printing houses or ask for transportation services from outside black neighborhoods. In short, the dichotomy has more far-reaching planning implications than appear on the surface. For example, SBA loans are given indiscriminately to potential businessmen, irrespective of which of the two sectors they want to invest in, and yet we have not given much thought to the rate at which expansion in each sector should proceed. Nor have we studied the growth potentials of each in relation to a given urban economic structure.

It is formally proposed here that one of the meaningful ways of devising an economic development strategy for the ghetto is to adopt the suggested two-sector approach for the purpose of harnessing the optimum opportunities embedded in a market structure characterized by varying degrees of competition. In our statistical comparisons to be attempted in the following sections, we shall

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<sup>9</sup>A typical example is supermarket which Gordon F. Bloom has described in his article, Black Capitalism and Black Supermarket, (Working Paper, Sloan School of Management, M.I.T.), July 1969.

frequently refer to the two sectors, and some of their salient features. One advantage we shall derive from reclassifying the seven categories into two sectors is that we shall avoid having many zeros or numbers less than 5 in cells of our contingency tables, and in this way chi-square, phi-square and other measures of association shall preserve their true values.

### 1. Employment and Wages

Table 7-4 (and Fig. 7-2 above) throw light on employment levels in each of the 7 categories. The highest employment encountered was 120 persons in the personal service category. An average of 13 employees per enterprise is very small by American standards. Let us consider first the less competitive sector. An average employment of 17 in construction and real estate is encouraging, and this is due in part to federal policy to involve black contractors in federal contract awards. On the other hand, personal services with an average employment of 16 is deceptive. The median employment is only 6. 15 out of the 16 enterprises in the category have an average of only 9, but the sixteenth firm employs as many as 120 persons, and consequently it increases the overall average for the category.

Needless to emphasize, the average employment of 12 for the more competitive sector underscores its employment potential, especially in manufacturing and transport. Manufacturing with the highest average of 18 deserves a special comment. It is the youngest among

TABLE 7-4AVERAGE AGE OF ENTERPRISE AND  
EMPLOYMENT BY TYPE OF ENTERPRISE

<u>Type of Enterprise</u>	<u>Number</u>	<u>Average Age of Enterprise</u>	<u>Average Employment Per Enter- prise</u>
Construction and Real Estate	13	11.9 Years	17
Food and Catering	4	9.5	11
Manufacturing	5	2.0	18
Personal Services	16	12.6	16 <sup>a</sup>
Printing and Advertisement	3	11.7	10
Retail	6	7.5	8
Transport and Related Services	5	7.4	12
Total Average	7	8.9	13

<sup>a</sup>Had there not been one enterprise in this category employing 120 persons, the average for the remaining 15 would have been 9.

the seven categories. All the five enterprises were established in the late 1960's in response to liberalization of SBA loans. With the exception of one, four broke off from their parent white companies, relying on the same production techniques, but operating at a much smaller scale. All are labor-intensive, as Table 7-1 indicates, and the level of skill required in them is fairly low such that they can



rely safely on black and white semi-skilled labor. Three out of the five firms employ predominantly whites. Asked why they do not employ many blacks, the proprietors gave the same explanation that the average black worker, still haunted by the slave mentality, prefers to work for a white firm even though he may not receive a better wage. Further, the proprietors emphasized that most less educated black workers are not willing to subject themselves to disciplined routine types of work characteristic of manufacturing processes. Hence, under slight fatigue and boredom, they fall victims to absenteeism and unceremonious quitting of jobs. In fact, the three proprietors started with a substantial number of black workers, but later they turned to non-black workers, especially whites and Chinese. However, one of them still employs over 50% blacks.

In a nutshell, we can generalize that a majority of black enterprises in Boston, employing five or more persons and at least two years old, rely on male black labor, working full-time and whose level of skill is about 10% skilled, 55% semi-skilled and 35% unskilled. Table 7-5 below illustrates some employment features.

TABLE 7-5

SOME EMPLOYMENT CHARACTERISTICS

	Number of Enterprises Employing					
	<u>None</u>	<u>100%</u>	<u>75-99%</u>	<u>50-74%</u>	<u>25-49%</u>	<u>Less than 25%</u>
Male Labor	3	4	19	12	9	5
Full-time Workers	-	28	11	9	4	--
Unskilled Workers	25	4	4	7	6	6

The study does not find any association between the level of employment and the sector of enterprise (.701). Tables 7-6 and 7-7 below convey the same message.

TABLE 7-6

EMPLOYMENT IN LESS COMPETITIVE AND  
MORE COMPETITIVE SECTORS

<u>Sector</u>	<u>No. of firms with 5-8 workers</u>	<u>No. of firms with 9-16 workers</u>	<u>No. of firms with over 16 workers</u>	<u>Total</u>
Less Competitive Sector	16	7	6	29
More Competitive Sector	11	8	4	23

TABLE 7-7

EMPLOYMENT BY TYPE OF ENTERPRISE

<u>Type of Enterprise</u>	<u>Number of Businesses Employing</u>			<u>Total</u>
	<u>5-8 Persons</u>	<u>9-16 Persons</u>	<u>17 and Over Persons</u>	
Construction and Real Estate	4	5	4	13
Food and Catering	2	1	1	4
Manufacturing	2	1	2	5
Personal Services	12	2	2	16
Printing and Advertisement	2	1	0	3
Retail	3	3	0	6
Transport and Related Services	2	2	1	5

Based on the average wage levels in the seven categories, the study reveals that an average worker is likely to receive less than \$500 per month. (See Table 7-8 and Fig. 7-3 below.) Although this is higher than what an unskilled worker receiving a minimum legal wage rate of \$1.60 may make in a month, the fact remains that the most promising enterprises in the black community are yet to demonstrate their capacity to compete with comparable white firms in the labor market.

The table shows that the most impressive record is depicted by construction and real estate category, with an average monthly wage rate of \$683. The main reason for such a high average is that the proprietors are bound by union regulations to pay union wages to unionized workers. This is also true to some extent in transport and related services, with particular reference to truck drivers. Thus, this category ranks next to construction and real estate. The lowest wage rate of \$427 for food and catering category could be explained by the high percentage of unskilled workers employed in it. It is hypothesized here that the existence of relatively low wages in "better practised" black enterprises is a direct response to high cost of management which is indirectly covered up through low wages, and this results in ever-weakening bargaining position of black proprietors to compete effectively on the labor market for better trained workers. It is a type of vicious cycle. Put in another way, upgrading of wage levels per se through subsidies will not improve the competitive position of black enterprises, unless such subsidies are accompanied by improvement of management

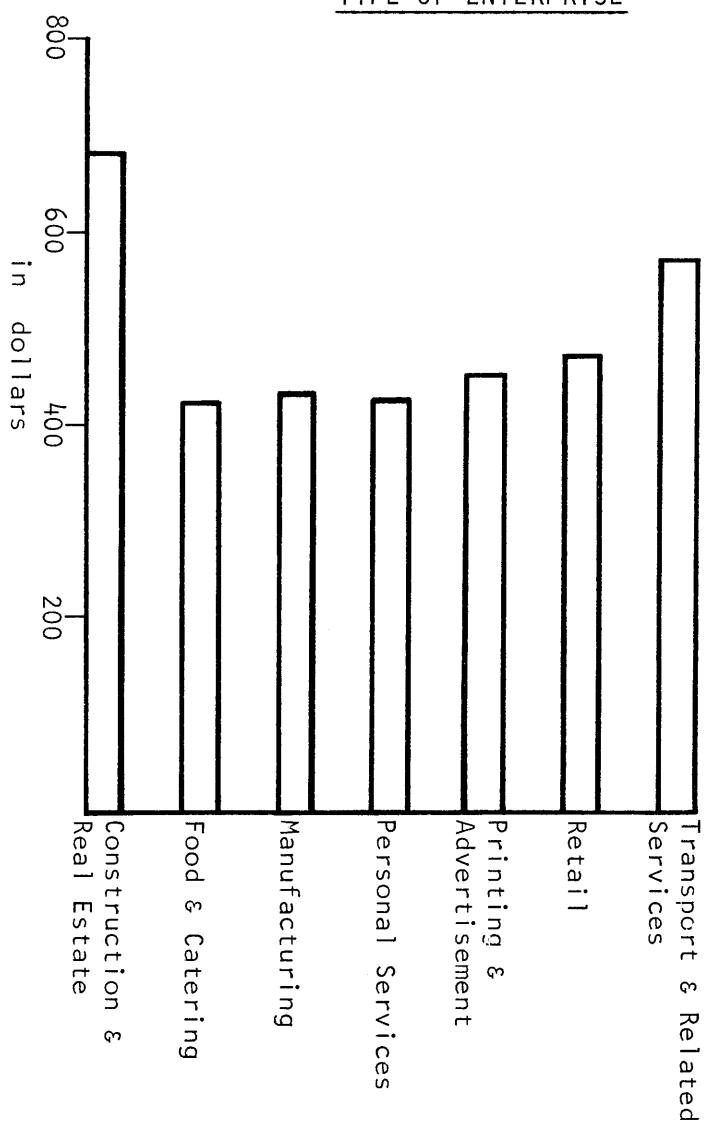
TABLE 7-8

EMPLOYMENT AND WAGE STRUCTURE

<u>Category of Business</u>		<u>\$300 Monthly or Less</u>	<u>\$301-450 Monthly</u>	<u>\$451-600 Monthly</u>	<u>\$601-750 Monthly</u>	<u>Over \$750 Monthly</u>	<u>Total Employment</u>	<u>Average Monthly Wage</u>
Construction & Real Estate	Employment	-	41	42	16	116	215	
	Total Wages**	-	\$15,375	\$22,050	\$10,800	\$98,600		\$683
Food & Catering	Employment	11	7	21	1	-	40	
	Total Wages	\$2,750	\$2,625	\$11,025	\$675	-		\$427
Manufacturing	Employment	11	36	36	5	-	88	
	Total Wages	\$2,750	\$13,500	\$18,900	\$3,375	-		\$438
Personal Services	Employment	16	141	83	14	-	254	
	Total Wages	\$4,000	\$52,875	\$43,575	\$9,450	-		\$433
Printing & Advertisement*	Employment	-	7	4	1	-	12	
	Total Wages	-	\$2,800	\$1,600	\$600	-		\$450
Retail	Employment	-	25	16	9	-	50	
	Total Wages	-	\$9,375	\$8,400	\$6,075	-		\$477
Transport & Related Services	Employment	5	12	25	-	20	62	
	Total Wages	\$750	\$4,500	\$13,125	\$ -	\$17,000		\$570
Average Wage								\$495

\*One respondent refused to provide adequate information. Data therefore apply to two out of the three in the category.

\*\*Total wages shown for all categories are estimated at mid-points of wage class intervals.

FIG. 7-3 AVERAGE MONTHLY WAGES BY  
TYPE OF ENTERPRISE

capabilities, and this ipso facto will in the course of time eliminate the labor subsidies.

## 2. Employee Benefits

Employee benefits are a good measure of economic security which directly determines the competitive position of enterprises not only in procuring suitable workers, but also in retaining them for longer periods. In our study, none of the proprietors has signed a contract with his or her workers. Asked why they have not, a common explanation was that black workers are generally too unreliable to be pampered with contracts. A few made mention of gifts at Christmas and Thanksgiving, probably to maintain good working relationships.

An investigation was made into sick and vacation pay . Table 7-9 below provides us with a glimpse of variations that can be found in the provision of these fringe benefits. Three interesting issues emerge from the table. First, owing to fairly high wages in construction and real estate, proprietors assert that fringe benefits are awarded to persons who have stayed with them for some years. Consequently availability of sick and vacation pay in this category varies accordingly. Second, a proportionately high number of personal services provide sick pay to workers, the reason being that working hours and intensity of work do vary depending on both the number of customers received each day and on the part of the week. Though overtime payments are made where necessary, proprietors compensate their workers with sick pay for extra hours put in from time to time.

TABLE 7-9

NUMBER OF ENTERPRISES REPORTING  
SICK AND VACATION PAY

		<u>All Workers</u>		<u>Some Workers</u>		<u>None</u>	
		<u>Sick Pay</u>	<u>Vac. Pay</u>	<u>Sick Pay</u>	<u>Vac. Pay</u>	<u>Sick Pay</u>	<u>Vac. Pay</u>
Less Competi- tive Sector	Cons. and Real Est.	2	5	4	5	7	3
	Personal Services	10	9	2	3	4	4
More Competi- tive Sector	The Rest	8	15	1	1	14	7
Total		20	29	7	9	25	14

Third, the more competitive sector shows a proportionately high number of enterprises reporting vacation pay. The main reason is that some of them close for short periods in the summer (and this is also true of certain enterprises in the less competitive sector), and workers are remunerated accordingly.

The less attractive nature and limited number of employee benefits reflects the depth of labor problems facing black enterprises. In the Tennessee study, for example, only 3.1% of firms interviewed reported sick pay; 2% said they had insurance, vacation with pay, credit and other plans, and 13.5% reported the existence of pension plans.<sup>10</sup> As we shall later discuss, labor problems lie at the root

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<sup>10</sup>Schuster, op. cit., p. 45.

of the marginality and sometimes the failure of black enterprises. Thus any strategy to uplift their status should grapple with the problem of not only low wages but also the limited employee benefits.

### 3. Equity Capital

Selected financial aspects of the seven categories of enterprise are summarized in Table 7-10. The average equity capital of about \$6,000 is higher than the average for SBA minority loan recipients in Boston. In the 1970 fiscal year, an average minority SBA loan recipient put up \$4,185 in equity capital, having risen from \$2,920 in 1968 and \$3,840 in 1969.<sup>11</sup> It is interesting to note that, excepting two businesses which were inherited, none of the proprietors received financial help from relatives or friends. Personal savings account for almost all the seed monies reported. As a comparison, about 80% of 239 black businesses studied by Pact Inc. were found to have been financed by the proprietors themselves.<sup>12</sup>

The low average of \$1,340 reported for retail is due to suppliers' credit available to retailers. Transport and related services category also shows low equity capital. Proprietors in this category explained that there is often no need to start with a large amount of seed money simply because it is less risky to start with one truck and about two or three employees. The truck

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<sup>11</sup> These sums are the author's own estimates from an information record of the Roxbury branch of SBA.

<sup>12</sup> Pact Inc., op. cit., p. 5.



TABLE 7-10

AVERAGE EQUITY, PHYSICAL ASSETS AND SALES  
BY TYPE OF ENTERPRISE

<u>Type of Enterprise</u>	<u>Number</u>	<u>Average Equity</u>	<u>Average Physical Assets<sup>a</sup></u>	<u>Average Annual Sales (1969)</u>
Construction and Real Estate	13	\$ 5,100	\$201,400	\$304,000
Food and Catering	4	13,325	247,200	319,000
Manufacturing	5	11,400	16,800	52,000 <sup>c</sup>
Personal Services	16	6,870	110,000	142,000
Printing and Advertisement	3	1,500 <sup>b</sup>	12,000 <sup>b</sup>	117,000 <sup>d</sup>
Retail	6	1,340	85,000	196,000
Transport and Related	5	2,420	183,500	233,000
Total Average		6,000	122,300	194,000

<sup>a</sup>These comprise building, if it is owned, machinery, equipment and inventory.

<sup>b</sup>Only one out of the three respondents in the category answered.

<sup>c</sup>The largest of the five refused to answer; otherwise the average would be higher. Also four of them work on contract basis for other manufacturers and thus a substantial part of this sum may represent actual profit.

<sup>d</sup>This includes a substantial amount of inventory.

could even be bought on hire-purchase terms. Similarly, garage operators divulged that they started with small garages and a few items of machinery and equipment that did not require much capital. As indicated in the table, information on printing and advertisement is not complete to elaborate upon.

The remaining four categories show higher than average equity amounts. The high averages of \$13,325 and \$11,400 reported for food and catering and manufacturing respectively are due to initial investment in capital stock. The proprietors in food and catering explained that at a given scale of operation initial investment in furnishings, cold storage facilities and cooking appliances are large and lumpy. Manufacturers in the study group also faced the same situation initially, except that they have been able to add gradually more machinery and equipment after installing the basic ones.

The average for personal services (\$6,870) is slightly higher than the overall average. If we break the category into its component parts -- funeral homes, nursing homes, laundry and dry cleaning, hair-dressing and barbering -- one finds variations. In general, funeral homes sub-category reports the largest amount of seed money (about \$35,00), while the least amount (under \$1,000) is reported by laundry and dry cleaning.

The average equity capital of \$5,100 for construction and real estate is fairly low as one may expect. This may be due to (1) reliance on mortgage loans for most transactions, and (2) use of subcontractors whose remuneration could be met through other

sources of finance until mortgage loans are ready. In essence, some of the proprietors serve as mere intermediaries between the mortgage market and small black firms in the building trades to whom they subcontract.

An average equity capital of \$6,000 for the whole group is unquestionably small by American standards. A crucial question posed here is whether the availability of more equity capital through a public program will automatically increase the level of entrepreneurship in the ghetto; or whether the restricted nature of the ghetto market, the lack of managerial talents in the black communities and other inhibiting factors militate against such a program. We shall return to this theme in the concluding chapter.

#### 4. Physical Assets<sup>13</sup> and Loans

The rate at which physical assets are accumulated in black enterprises vary from one type of enterprise to another. Since many enterprises start small, a majority of black entrepreneurs are initially confronted with a zero-sum game: which types of physical assets should they invest in, versus the need to maintain enough working capital to carry them through the first 6-12 months during which several show signs of impending failure.

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<sup>13</sup>In soliciting information on physical assets, the question was framed in the following way: "Suppose something happens, compelling you to dispose of your business; for how much would you sell your machinery, equipment, inventory and the building (if you own it) such that you would be happy and the buyer would also feel that he is not cheated?" In essence the respondent was being requested to estimate the market value of the physical assets.

Of the three major types of physical assets for which information was sought, buildings rank first, followed by machinery and equipment, including office supplies. Inventories are least important and may account for less than 10% of the total physical assets reported by respondents. With an average of \$122,300 worth of physical assets per enterprise (see Table 7-10 above), the total value of these assets for 50 enterprises that responded is put at about \$6.4 million. The two categories, construction and real estate and food and catering show the highest assets values for different reasons. In the case of construction and real estate, 9 out of 13 entrepreneurs in the category own their business premises, while in food and catering, initial heavy investment in cold storage facilities and cooking appliances, and to some extent in buildings, explains the high assets value.

The fairly high average assets value of \$183,500 reported for transport and related services could be accounted for by three main reasons: (1) all the five entrepreneurs in the category own their business premises; (2) recent purchases of new trucks; and (3) at least two (and possibly three) of them run taxi services. They proudly call it "integrated operation," and by this they mean that it is economic to run a taxi service if one owns his own garage or has a trucking business.

In contrast, the manufacturing enterprises show a rather low average of \$16,800 in physical assets, and the main reason is that they are all renters. Comparing the category's average assets

value and its average equity capital, there is a difference of only \$5,000 and it seems as though the manufacturers either undervalued their assets, or loans and profits have not contributed much in building up the assets.

The average assets value for the personal services category (\$100,000) is less than the total average, and this merely reflects its time-honored limited capacity to generate sufficient income or contribute significantly to black entrepreneurship. The average for the category is low partly because inventory accumulation is negligible and partly because the level of building ownership is not high (9 out of 16) compared with transport or construction and real estate.

An important question we should concern ourselves with is, what proportion of physical assets could be attributed to loans and equity capital? In Table 7-11 an attempt is made to determine the relationship between physical assets on the one hand, and loans and equity capital on the other. We are assuming here that loans and equity capital form a substantial proportion of the total investment in physical assets, and therefore physical assets-loan cum equity capital ratios (see last column of table) should convey to us in "physical terms" the effectiveness in the use of loans and equity capital. One major pitfall of the ratio derivation is that it conceals profits which might have been ploughed back to build up part of the assets; nor does it take into account gifts and legacies. Further, not all loans are used in building up physical

TABLE 7-11

PHYSICAL ASSETS, LOAN AND EQUITY CAPITAL RELATIONSHIP, BY TYPE OF ENTERPRISE

<u>Type of Enterprise</u>	<u>Average Physical Assets (in \$) 1</u>	<u>Average Loan Received Since Business Started (in \$) 2</u>	<u>Average Equity Capital (in \$) 3</u>	<u>Physical Assets- Loan cum Equity Capital Ratio <math>1 \div (2+3)</math></u>
1. Construction and Real Estate	201,400	218,000	5,100	1:1.1
2. Food and Catering	247,200	59,000	13,325	3.4:1
3. Manufacturing	16,800	14,000	11,400	.66:1
4. Personal Services	110,000	54,000	6,870	1.8:1
5. Printing and Advertisement*	12,000	4,400	1,500	2.03:1
6. Retail	85,000	48,000	1,340	1.7:1
7. Transport and Related Services	183,500	31,000	2,420	5.5:1
Total Average	122,300	61,200	6,000	1.8:1

\* Information is available for only one out of the three enterprises in the category.

assets. Some businessmen obtain loans for working capital. Moreover, the older the enterprise, the larger the assets are likely to be, *ceteris paribus*. Nevertheless, the ratio is useful as a crude measure of effectiveness in the building up of physical assets.

It is evident from the table that transport and related services category, with a ratio of 5.5:1, shows the most impressive result, followed by food and catering. The lowest ratio of .66:1 for manufacturing could be attributed to the age of the enterprises in the category. The average age is only two years. But it also spells some skepticism in that black manufacturers have historically not been successful. Perhaps a better future holds for the new ones coming into being, provided cooperation from white businesses continues.

Table 7-12 summarizes loans received by 38 enterprises. With the exception of construction and real estate, the remaining categories do not neatly fall into specific "loan brackets." However, one can generalize that manufacturers are small loan receivers, and this is attributed to two major reasons: (1) jobs are subcontracted to four out of the five by white firms and in three cases they are supplied with almost all their inputs; and (2) none of them has invested in building. One could also generalize that an entrepreneur in personal service is not likely to request more than \$50,000 in loans.

It is encouraging to note that complaints about loans were limited to (1) lack of working capital at critical periods, and (2) loans

TABLE 7-12

LOANS RECEIVED, BY TYPE OF ENTERPRISE

	<u>Less than \$20,000</u>	<u>\$20,000- 49,999</u>	<u>\$50,000 and Over</u>	<u>No Loan</u>
Construction and Real Estate	0	1	6	6*
Food & Catering	1	1	1	1
Manufacturing	4	1	0	0
Personal Services	6	6	2	2
Printing and Advertisement	1	0	0	2
Retail	0	2	2	2
Transport and Related Services	1	2	1	1
Total	13	13	12	14

\* It is not that no loans have been received. Some realtors contend that mortgage loans are automatically passed on to home buyers. However, those who receive loans for rehabilitation of dwelling units for renting regard their mortgage loans as actual loans.

for expansion. In Q130, they were asked, what do you think the Federal Government can do to help you in your business? 33 of them mentioned financial aid of one form or another, but mostly working capital and expansion loans were emphasized. To a large extent, the problem of working capital and expansion loans are symptoms of inefficient planning. Instead of ploughing back profits, a substantial number of the entrepreneurs interviewed prefer to invest in other



businesses, and this practice is regarded by the author to be one of the most excruciating problems in the development of black entrepreneurship. We shall deal with this theme in the next chapter.

In general, respondents were satisfied with the time taken in processing their loan applications. 15 out of the 38 major loan recipients received their loans within one month after submitting their applications. 11 others received theirs within 9-12 weeks. However, there were 11 who said that it took them over three months to receive their loans.

#### 5. Annual Gross Sales

If we compare annual gross sales of enterprises in the Tennessee study<sup>14</sup> with the Boston study, the average annual sales for the seven categories appear impressive. In the Tennessee study, 83.3% had gross sales of \$20,000 or less. In fact 51.1% had less than \$5,000.<sup>15</sup> In our study the average sales are \$194,000. In all, only three mentioned sales over \$600,000. The highest average sales (\$319,000) are reported by food and catering, followed by construction and real estate. (See Table 7-10 above.) As pointed out earlier, the smallest sales in manufacturing could be explained by the subcontracting arrangement under which four out of the five manufacturers work. Needless to emphasize, gross sales per se do not reveal viability of

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<sup>14</sup>Schuster, op. cit., pp. 25-27.

<sup>15</sup>Ibid.

enterprises. Albeit, in absence of adequate data on gross or net profits, high gross sales are good indicators of either potential viability or good chances of receiving satisfactory profit margins.

In concluding the financial aspects of the study, tests of levels of significance show that there is no relationship between the two-sector classification of enterprises on the one hand, equity capital, physical assets and gross sales, on the other. The results of the tests are:

<u>Relationship between sector of enterprise and</u>		<u>Level of significance</u>
1. Equity Capital	-	.209
2. Physical Assets	-	.397
3. Gross Sales	-	.675

#### 6. Fire and Theft Insurance

The limited access black businesses have to fire and theft insurance is usually cited as a measure of risk attending ghetto businesses.<sup>16</sup> On the basis of our initial proposition that the entrepreneurs in our study group represent the cream of black entrepreneurs in the city, it is not surprising that 28 (54%) out of the

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<sup>16</sup>For a vivid insight into the relationship between high crime rates and inner city poverty areas, see The National Advisory Commission on Civil Disorders, Report of. New York, Bantam Books, 1968, pp. 266-267.

52 are covered by both fire and theft insurance; 20 (38%) have only fire insurance. In fact only three have been rejected outright by insurance companies.

Of equal interest is the fact that discrimination is more evident in retailing,<sup>17</sup> as only one out of the six in the category has both fire and theft insurance. (See Table 7-13 below).

TABLE 7-13

FIRE AND THEFT INSURANCE BY TYPE OF ENTERPRISE

<u>Type of Enterprise</u>	<u>Fire</u>	<u>Fire and Theft</u>	
Construction and Real Estate	5	7	
Food and Catering	3	1	
Manufacturing	1	4	
Personal Services	4	10	
Printing and Advertisement	0	3	
Retail	5	1	
Transport and Related Services	2	2	N.A.=1
Total	20	28	

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<sup>17</sup>For a discussion of special problems facing black supermarkets, as an example of retailing, see Bloom, op. cit., pp. 11-15.

Manufacturing, printing and advertisement appear to fare best. A common complaint heard was that rates are slightly higher than in other locations. In other words, while insurance companies have the tendency to deny black businesses insurance facilities, the more able businesses can enjoy these facilities but only at a slightly higher cost.

#### 7. Planning Efforts

A majority of respondents indicate that in their own small way they do some planning, but in actual fact the amount of planning an average entrepreneur in our group does is not only piecemeal but also myopic. (See Q112.) Only 11 out of the 52 respondents (21%) revealed that they plan more than two years ahead; 6 said they plan between one to two years, and as many as 20 (38%) divulged that they plan ahead one year or less. 14 (27%) of them confessed that they do not plan at all, since they consider planning either too difficult or unnecessary for the types of business they run.

Of equal significance is the fact that there is no established pattern of planning within any of the seven categories. As an illustration, one does not find that in manufacturing or retail, the entrepreneurs plan three, six or twelve months ahead. Given an identical market situation, given an identical set of problems dictated solely by the ghetto environment, and with sizes (employment levels and gross sales) not drastically variegated from one enterprise to another within the same category, excepting a few

individual cases, it should be possible to draw a line of difference in planning practice between different categories. But one sees no evidence to this effect. Lack of adequate planning is part and parcel of management problems which for several decades have plagued black businesses. Careful and painstaking research is needed in this respect, if black businesses are to make any headway at all. We shall defer further discussion on this theme to the concluding chapter.

#### 8. Floor Space

There are no hard and fast rules or established standards for estimating floor space needs of industrial, commercial and wholesale activities. Within any particular city, the needs may vary, first, according to intensity of land use in a given section of the city. For example, in a downtown area the amount of space per worker is smaller by conventional planning standards than in a neighborhood shopping center. Second, space needs do vary from one economic activity to another. On the basis of standards used in several cities, the number of sq. ft. of space per worker ranges from 25 (net)<sup>18</sup> in an intensive industrial activity to over 200 (net) in an extensive industrial zone. An average of 100 - 120 sq. ft. for industrial and wholesale intermediate land uses is very common.<sup>19</sup> In planning practice, the importance of indoor and outdoor

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<sup>18</sup>This includes only that part of the site intensively used, i.e. the actual building site, parking and loading zone, access lanes, etc.

<sup>19</sup>For an incisive discussion of space requirements of various urban land uses, see F. Stuart Chapin, Jr., Urban Land Use Planning. Urbana: Univ. of Illinois Press, 1965, pp. 383-456.

space needs lies in meeting minimum public health and safety standards and in coping with spatial dimensions of urban growth.

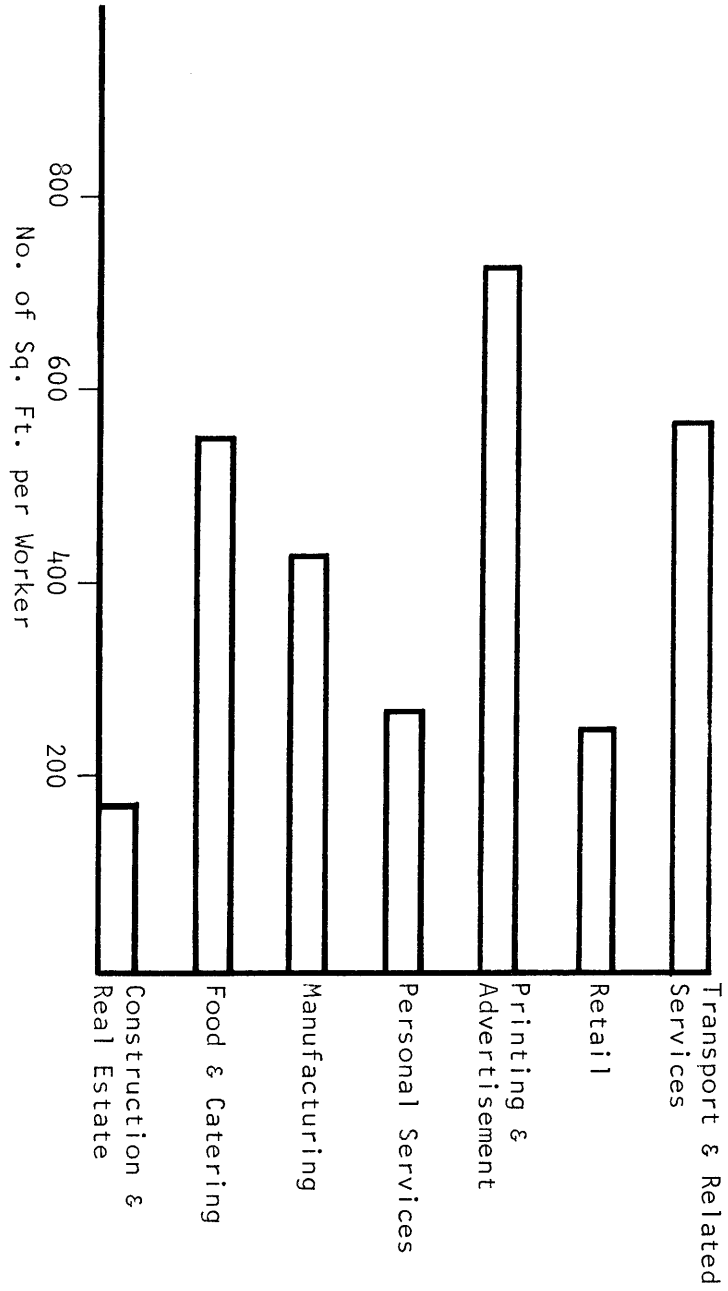
With this as background, the average of 425.5 sq. ft. per worker for our 52 enterprises is very impressive. (See Table 7-14 and Fig. 7-4 below.) The average of 169.1 sq. ft. for construction and real estate is the lowest of all because generally construction workers

TABLE 7-14

AVERAGE EMPLOYMENT, FLOOR SPACE\* AND FLOOR SPACE  
PER WORKER BY TYPE OF ENTERPRISE

<u>Type of Enterprise</u>	<u>Number</u>	<u>Average Employment</u>	<u>Average Floor Space</u> Sq. Ft.	<u>Floor Space Per Worker</u> Sq. Ft.
Construction and Real Estate	13	17	2302.7	169.1
Food & Catering	4	11	6227.8	556.9
Manufacturing	5	18	7800.0	429.4
Personal Services	16	16	3050	264.5
Printing and Advertisement	3	10	8033.3	732.2
Retail	6	8	2127.5	251.2
Transport and Related Services	5	12	6780.0	575.0
Total		13	5188.8	425.5

\*Floor estimates are based on the actual building floors, excluding adjacent parking, loading and other spaces.

FIG. 7-4 FLOOR SPACE PER WORKER

and building repairmen do not require much office space. In general, two major reasons explain the high floor space ratios among the enterprises studied. First, with the exception of four or five enterprises the rest are located in less intensive residential land use areas where rental or property values per square foot are low in contrast with downtown areas. Second, riots and relocation of ghetto-based white businesses have resulted in a high vacancy rate, and thereby have driven down rent and property values. With rents driven down, businessmen can afford to occupy more space than they could otherwise. Albeit, in spite of the high work space ratios, parking, loading and other open-air facilities are deficient. In the study group enterprises with such facilities number about half a dozen.

#### Some Indices of "Potential Success"

Conventional methods of assessing the viability and profitability of enterprises have tended to rely on such indices as the rate of return on investment, employment levels, value added, physical and liquid assets, and so on. In assessing the performance of very small and sometimes marginal enterprises in the ghetto, it is impractical to resort to such conventional methods. Our purpose therefore is to search for those cues which are indicators of "promising performance" instead of absolute viability in the light of the ghetto environment. The following four indices seem to provide us with such cues.



### 1. Use of Non-Black Labor

Engagement of non-black workers, especially whites, by black-owned enterprises is a sign of "potential success," provided their services are indeed indispensable. As a rule, whites would not work for black enterprises if the jobs available to them are insecure, and if they cannot earn equivalent or even more wages than they can expect in the white business sector. It is also believed that some black proprietors employ whites just for the sake of having their services.<sup>20</sup> The use of non-black labor in the enterprises studied is shown below:

<u>Number of Enterprises</u>	<u>% of Blacks</u>
19	100
20	80-99
8	60-79
1	40-59
2	20-39
2	Less than 20

Although only about 13 out of the 52 enterprises engage a sizeable number of whites, yet we cannot underestimate a greater measure of efficiency than can be generated by having black and white workers working side by side, under black proprietorship. Efficiency, defined here in terms of satisfactory work performance per unit of labor

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<sup>20</sup> It is argued that it is one of the ways by which black proprietors try to boost their ego.

input, is generated through two major and somewhat indirect means. The first may be termed "imitation effect." Most whites working for black-owned enterprises, with the exception of a few, referred by union employment offices, are hired on account of their experience, and consequently their black co-workers who often have not been exposed to identical work experiences can learn from them in an atmosphere of mutual cooperation.

The second is the competitive atmosphere created on the one hand by the desire of black workers to demonstrate that on their own grounds they are good performers; and on the other hand, the white workers, on alien grounds, are equally desirous to prove that they are competent. The kind of mild psychic tensions created in the minds of the two groups are in no way comparable with high tensions that frequently mark the relationship between white supervisors or foremen and their subordinate black workers engaged in white firms. It is the contention of the author that the poor supervisor-black worker relationship in white firms, characteristics of the JOBS program, could be circumvented were the training of unskilled blacks to take place in black firms under white supervision. The outline of such a strategy will be discussed in the concluding part of the study.

## 2. Access to Both Black and White Customers

A second index of success is the extent to which black enterprises draw on both black and white customers. It has long been recognized that one of the main reasons why most black enterprises

are marginal is the limited access to the richer white market. To be sure, any meaningful strategy for reconstructing the ghetto economy cannot overlook the question of economic integration that feeds heavily on white clientele. It is argued here that "promising performances" of some black businesses could "partly" be explained by the access they have to the white market. It is no wonder then that 56% of the businesses interviewed have access to the white market. 23 (44%) out of the 52 respondents said they have mainly black customers; 13 (25%) claimed they cater for predominantly white clients; and the remaining 16 (13%) serve both. In Pact's San Francisco study, comparable figures are: 60% all blacks, 4.5% all whites, and 36% mixed.<sup>21</sup> Economic integration does not seem to be confined to any particular type of enterprise, with the exception of the five manufacturing firms which have a predominantly white market. Thus, in testing the relationship between types of enterprise, and client population, our estimate yields a s.l. of .425.

Among the 13 businesses catering for mainly white clientele are (a) the five manufacturing firms; (b) building contractors who are taking a maximum advantage of federal subcontracts to minority firms (8A program), and who are also benefitting from neighborhood projects sponsored by the city-hall and private agencies; and (c) firms providing such specialized services as building security and maintenance. Even personal services which traditionally have been

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<sup>21</sup>Pact Inc., op. cit., p. 37.

oriented towards the ghetto economy and the black population show signs of making inroads into the white market. Eight of the 16 businesses in this category still serve blacks, but of the remaining eight, five appeal to both clients and three to mainly whites.

It should be pointed out at this juncture that location of businesses tends to be a critical factor in reaching the white market. Those enterprises which claim predominantly white patronage, or part of it, are located in downtown, in residentially mixed neighborhoods such as the Fenway, or on major transport routes that lead out of Roxbury and North Dorchester, the two predominantly black neighborhoods. Without much doubt, careful siting of efficient laundry and dry cleaning services, as well as restaurants, on black portions of Columbia Avenue, Columbia Road, Tremont Street, Washington Street and more secure parts of Blue Hill Avenue will attract a substantial number of white clients.

### 3. Positive Changes

Our proposition here is that potentially successful businesses in the ghetto have to go through positive changes that promote growth, or are in themselves signs of growth. In Q114, the entrepreneurs were asked, what significant changes have taken place in your business since you started? With the exception of three who admitted a decline in business and four who said they have not witnessed any changes since they started, the remaining 45 are going through various phases of growth. The changes that have occurred may be

summed up as follows (The total adds to more than 52 because some enterprises have experienced more than one positive change.):

<u>Positive Change</u>	<u>No. of Enterprises Reporting</u>
1. Expansion of volume of business	25
2. Purchase of additional or new machinery and equipment	27
3. Renovation of premise or purchase of a new building	14
4. Miscellaneous changes	1

Another positive change is increase in levels of employment. (See Q64.) Only seven out of the 52 employed five or more when they started their businesses. Nine said they started alone with no help whatsoever; 29 employed one or two persons from the beginning, and seven had three or four workers when they started. But now all employ five or more full-time workers. (See Q63.)

#### 4. Physical Appearance

A majority of ghetto businesses are known to be in poor physical condition, epitomizing the slum environment of which they are a part. This study maintains that the more successful black businesses try to distinguish themselves from the rest by their outward physical appearance. As an illustration of physical conditions of black businesses, a city-wide survey of 4,242 black businesses in Philadelphia revealed that 12.1 per cent were neat and clean, 55.9 per

cent as "not eye-appealing," and 32 per cent as run-down.<sup>22</sup>

In the absence of a universally accepted, objective method of evaluating building conditions, we cannot help but rely on subjective intuitive surveys such as that conducted by the author on the exterior and interior conditions of the 52 business premises. With regard to exterior conditions, 30 of them are in good condition; 15 may be classified as fair, and seven are in poor shape. The 30 good ones appear to be well-maintained, and 14 of these have recently been renovated, while a few have even moved to new buildings to "improve their address," as one proprietor puts it.

In connection with interior decoration and appearance, 25 are in good condition; 14 may be classified as only fair, and eight are really poor. In five cases, respondents could be interviewed at home only since they were always on the road, and hence the author did not have a chance to examine the interior conditions. It could be argued that the relatively satisfactory exterior and interior conditions in which more than 50% of the businesses were found probably depict a type of value orientation that is buttressed on a "need to succeed" though success may not as yet have come in the way of a majority of them.

An attempt has been made to determine the relationship between building conditions, type of business and level of education. Our computation yields the following results:

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<sup>22</sup>Eugene P. Foley, "The Negro Businessman: In Search of a Tradition," in T. Parsons and K. B. Clark (ed.), The Negro American, op. cit., p. 562.

<u>Variables</u>	<u>Level of Significance</u>
Exterior condition and level of education	.123
Interior condition and level of education	.244
Exterior condition and sector of business	.433
Interior condition and sector of business	.042
Interior condition and exterior condition	.002

Two interesting things emerge from the above computations. First, businesses whose interior conditions are good or fair tend to have good or fair exterior condition, i.e. positive relationship between interior and exterior conditions (.002). Second, with respect to exterior and interior conditions there is no difference between those businessmen with high school or high school (plus) education and those who could not finish high school. Considering the two major groups of business "less competitive" and "more competitive" sectors, we see some difference in the proprietors' attitude toward interior building conditions (.042). The difference is significant at the .05 level, if we are willing to be less conservative. 17 out of 24 businesses in the less competitive sector whose interior premises could be examined are classified as good, while only eight out of 23 in the more competitive sector are so classified. The difference could be explained by two or more factors. First, entrepreneurs in the less competitive sector usually have well known customers they appeal to, and other things being equal the cleaner their premises, the better their chances of attracting

more customers. Second, more entrepreneurs in the less competitive sector (18 out of 29) own their business premises compared with entrepreneurs in the more competitive sector (10 out of 23), and owners generally maintain their properties more adequately than renters.

#### Location and Locational Problems

Earlier, it was pointed out that 44 out of the 52 enterprises (or 85%) are located in predominantly black residential areas, namely, Roxbury, North Dorchester and the western part of the South End. It is a common saying that black enterprises tend to "look in" rather than "look out" of the ghetto areas for patronage. To test how crucial this fact is in understanding the working of the ghetto economy, our 52 interviewees were requested to choose three among 11 locational factors and rank them accordingly. (See Q88A, Q88B and Q88C.) Included in the 11 factors is "convenience of customers." This is a catch-all expression embodying such concepts as accessibility and territoriality. It is obvious indeed that this single factor is insensitive to size of business, market or the type of neighborhood. Therefore, if our respondents rank it on top of all other factors, we learn nothing new about the locational preference of retail, service and other non-manufacturing types of enterprises. However, given a known market, how do we evaluate this factor against all other factors which influence the location of retail and service activities in one way or the other? Should planners, for



example, in locating enterprises, have to worry about common sources of supplies for related service or retail activities, about externalities associated with suburban and other shopping centers? Or with the market (i.e. customers) unknown, can subsidized rents in planned locations induce potentially viable minority businessmen to try their luck elsewhere?

In the light of such policy-oriented issues, the questions have some merit. Our interest here is to determine the degree to which our more successful black businessmen attach importance to the factor "convenience of customers." In other words, we are interested in finding out how entrenched this factor is in ghetto business location vis-a-vis all other factors. We should, however, remind ourselves that when most black businessmen talk about "customers," they mean a known group of neighborhood residents with whom they have established inter-personal relations, and the businessmen know quite well that the stability of such relations plays an important role in their ultimate success.

In testing how sensitive this factor is to ghetto business location, two correlation tests are performed, ranking the 11 locational factors. In one of the tests, the factor "convenience of customers" is included; and in the other it is excluded. Our hypothesis is that it really does not make a difference whether or not this factor is included in the ranking, as ranking of locational factors has no statistical significance.

For our purpose, Spearman's Rank Correlation Coefficient is a

useful measure. The coefficient is calculated such that when two rankings are identical, then it attains a maximum value of plus 1; when the rankings disagree or one is the reverse of the other, the coefficient is minus 1. In our case, therefore, if our respondents (judges, judging the eleven locational factors) really respond to the same environmental conditions, then they should be consistent in their judgment.

In performing our tests, we shall use the first two reasons, as coded in Q88A and Q88B. Each reason selected first by a respondent receives three points, and the second reason two points. The results of our tests are as follows:

1. Including "Convenience of Customers":  $R^{23}$  has a value of .225, and using Student's test,<sup>24</sup> signified by static t, with 9 degrees of freedom,<sup>25</sup> t has a value of 4.08, and this is significant at the .005 level for one-tailed test. We have a good reason at this point to reject the hypothesis, and to argue that locational factors are subject to ranking.
2. Excluding "Convenience of Customers": If the factor "convenience of customers" is excluded, R now has a value of .39, and with 8 degrees of freedom, t has the value of 1.19, and even at the .20 level it is not significant.

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<sup>23</sup>R is Spearman's Rank Correlation Coefficient defined as:

$$R = 1 - \frac{6 \sum d^2}{n^3 - n} = \frac{6 \times 164}{11^3 - 11} = .225.$$

where d = difference in points scored by each reason;  
n = 11 locational factors, i.e. items being ranked.

<sup>24</sup>Student's test is defined as:

$$t = R \sqrt{\frac{n-2}{1-R^2}}$$

The items being ranked should not be less than 10.

<sup>25</sup>The formula for obtaining the number of degrees of freedom for this

Our hypothesis holds in this respect. In order to ascertain that it is this factor which makes all the difference we have to perform what may amount to a sensitivity analysis to determine how each factor in turn affects the R values. In fact such an exercise is not necessary. If we simply adopt a point scoring system, and assign 3 points to each first reason mentioned by a respondent, 2 points to each second reason and 1 point to a third reason, "convenience to customers" outranks the second important reason by almost a factor of 2, as shown below:

<u>Reason</u>	<u>Total Points</u>	<u>% of Total Score</u>	<u>Rank</u>
Convenience to customers	108	26.7	1
Likeness for neighborhood	58	14.4	2
Close enough to public transportation	52	12.9	3
Room for expansion, little competition	50	12.4	4
Reasonable rent, price or purchase terms	34	8.4	5
Close enough to associated businesses	28	6.9	6
Accessibility to workers	27	6.7	7
Business or family owns this building	26	6.4	8
Close enough to sources of supplies	10	2.5	9
Only place available	7	1.7	10
To demonstrate the foot-looseness of black businesses	4	1.0	11

At any rate, the rank coefficients reveal more about how sensitive ghetto businesses are to the factor "convenience to my customers." If, as it is contended, black businesses do not grow because they are geared to consumers deeply entrenched in a cycle of poverty, it only

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kind of test is simply  $n-2$ , where  $n$  is the total number of items being ranked.

stands to reason that public policy be designed to reduce the impact of this potent locational factor. Put in another way, black entrepreneurs are only responding to a given environment, which evidently is stricken with poverty. Entrepreneurial "supply" factors are clearly not effective, and "demand" influences alone can change such an environment.

A major problem facing small businesses located in poverty areas is frequent relocation as a result of urban renewal programs, riots, forced ejection, etc. Out of the 52 respondents, 29 answered that they have relocated their businesses for nine different reasons (see Q83). Urban renewal was responsible for nine out of the 29 cases, another nine relocated because they needed more space, and the remaining 11 relocated for other reasons as shown in Q83. Thus urban renewal and the need for more space are the most recurrent causes for the relocation of more successful black businesses in the city. The study also shows that relocation is more intra-neighborhood than inter-neighborhood. In other words, there is the tendency for businesses to be relocated within Roxbury or Dorchester, often within a distance of a few blocks. In a majority of instances, relocation took place within five blocks. To be sure, 20 out of the 29 cases of relocation took place within the same neighborhood, and a plausible explanation is that relocation involving long distances departs from the all-important locational influence, "convenience to customers," which, as we have noted above, is most crucial in locational decisions of these businessmen.

A policy issue which emerges from the experience of relocated

businesses is the high cost of relocation. The study shows that it takes at least six months and at most two years for relocated businesses to recover. The recovery period differs from one type of business to another. Of the various causes of relocation, the negative impact of renewal programs and riots is most severe and it could be minimized by a deliberate public policy to aid affected small businessmen by more liberal subsidies than what they are entitled to at present. For example, a policy could be devised to forecast possible losses and to treat these losses as a cost to the government.

### Problems

Problems which usually face small businessmen with no business tradition are many and intricately interwoven together. However in analyzing the problems facing our 52 businessmen, our primary interest is to identify (a) those problems which could be tackled by "demand influences," i.e. public policy instruments, and (b) those created by the ghetto environment, solution of which may lie outside the realm of federal efforts.

Respondents were asked to select three problems out of 12 recurrent problems<sup>26</sup> associated with ghetto businesses and to rank them accordingly. In analyzing these problems, we cannot help but resort to a simple point scoring system. Each problem mentioned

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<sup>26</sup>For a concise description of problems facing small businesses in general in the U.S., see Wendell B. Barnes, "Small Business in America - Its Place and Problems," Advanced Management, Vol. 21, No. 7 (July 1956), pp, 7-10.

first receives four points, the second problem is assigned three points, and the third problem two points. The result of the ranking procedure is shown in Table 7-15.

It is evident that the most high-ranking problems are difficulty in getting enough loans, and difficulty in getting reliable employees. Three other studies have attempted to identify problems facing black businessmen in Tennessee, Harlem, New York and San Francisco. One interesting fact which emerges from a comparison between the three studies (see Table 7-16) is that although the rankings are not the same in all the three places, certain problems are more highly ranked than others. The severity of each problem differs from place to place as a result of regional differences in racial relations, black economic history and lending policies of local financial institutions.

Among the 12 problems identified in the Boston study, six of them, accounting for 66% of the total score, could be dealt with directly by government programs, and in fact programs are already in existence to combat some of them. The six problems relate to loans, insurance, availability of reliable employees, police protection, counseling services and political climate, with particular reference to reduced White House interest in economic development of the ghetto. Programs have already been devised for granting of loans and provision of technical services. In particular, availability of reliable employees has received little federal attention. In fact, if every first problem mentioned by respondents is assigned five points instead of four, availability of reliable employees

TABLE 7-15: RANKING OF MAJOR PROBLEMS FACING BUSINESSMEN INTERVIEWED

<u>Type of Problem</u>	<u>Problem 1</u>		<u>Problem 2</u>		<u>Problem 3</u>		<u>Total Score</u>	<u>% Score</u>
	<u>No. of times men- tioned</u>	<u>Score (4 points)</u>	<u>No. of times men- tioned</u>	<u>Score (3 points)</u>	<u>No. of times men- tioned</u>	<u>Score (2 points)</u>		
Poor environmental quality	1	4	2	6	0	0	10	2.6
High insurance premiums	7	28	6	18	1	2	48	12.7
Competition from white business	1	4	3	9	3	6	19	5.0
Difficulty in getting enough loans	18	72	4	12	3	6	90	23.7
High rents, high lease payments	3	12	4	12	3	6	30	7.9
Difficulty in getting reliable employees	12	48	9	27	7	14	89	23.5
Frequent theft	2	8	4	12	1	2	22	5.8
Difficulty in getting counseling service	0	0	3	9	3	6	15	4.0
Less reliable clients	3	12	0	0	3	6	18	4.7
Inadequate police protection	2	8	2	6	4	8	22	5.8
High cost of inputs	1	4	2	6	0	0	10	2.6
Political climate	1	4	0	0	1	2	6	1.6

TABLE 7-16: PROBLEMS FACING BLACK ENTERPRISES IN FOUR CITIES\*

Rank in order of importance	Boston		Tennessee <sup>1</sup>	
	Type of Problem	% Frequency	Type of Problem	% Frequency
1.	Loans of various types	23.7	Labor	29.0
2.	Labor	23.5	Investment and working capital	21.5
3.	Insurance	12.7	Expansion	15.3
4.	High rents, high lease payments	7.9	Location	12.1
5.	Police Protection	5.8	Advertising	7.1
6.	Theft	5.8	Working capital	6.5
7.	Competition from white business	5.0	Business promotion	6.2
8.	Less reliable customers or clients	4.7	Investment capital	6.1
9.	Counseling services	4.0	Extension of credit	1.4
10.	Poor environmental quality	2.6	Overhead	0.9
11.	High cost of supplies	2.6	Time	0.8
12.	Political climate	1.6	Lack of business	0.6
			Class of Customers	0.5
			White competition	0.3

\*continued next page



Harlem <sup>2</sup>		San Francisco <sup>3</sup>	
Type of Problem	% Fre- quency	Type of Problem	% Fre- quency
Police protection	33.3	Social concerns, e.g. crime, poverty, jobs, hippies	15.1
Insurance	22.4	Redevelopment and relocation	14.1
Loans of various types	15.7	Financial assistance	12.8
Labor	7.7	Customer and employee relations	11.2
Cost of doing business (overhead)	6.7	Advertising	10.2
Physical plant in area	5.3	Building improvement	8.6
Competition from large firms	3.9	Relations with city	5.9
Circular shift in population and consumer taste	3.6	Business associations	3.0
'Brand name' syndrome, lack of trust	0.7	Inventory	2.6
Poor market location	0.5	Management training	2.3
Admitted entrepreneurial failure	0.2	Improving competitive status	2.0
		Location expansion	1.6
		No problem	10.2

Sources: 1. Schuster, op. cit., Table 17, p. 42. 2. Vietorisz and Harrison, op. cit., Table 18, p. 49. 3. Pact Inc., op. cit., pp. 44-46.

would be ranked first. The Tennessee study puts this problem ahead of all. For about two decades now, federal aid to small businessmen assumes that the most excruciating problems relate to finance and technical aid, and relegates to a lesser importance the problem of labor procurement. The impact of this assumption is reflected in the types of aid offered by SBA and OEO to minority businessmen.

In another question (Q.127), the respondents were asked: what problems do you face now that you did not expect? 13 of them mentioned that they never expected labor problems to be a major obstacle, while 10 made mention of environmental problems such as urban renewal, riots, imprudent behavior of landlords and theft. Six made mention of finance, and only one out of the 52 referred to managerial problems. It is maintained in this study that the most pressing problem facing "potentially viable" black businesses relates to neither finance nor management, but to labor, especially the problem of maintaining reliable employees sufficiently determined to work on a job for a considerable length of time. In the course of the study, respondents frequently remarked that there is "labor drain" from the ghetto into white businesses. They explained that black-owned enterprises provide training grounds for black youths and hard-core unemployed. After receiving some training, they become psychologically imbued with the idea that they can now make it in the white business sector. Consequently many of them leave. No doubt the "labor drain" constitutes a substantial loss to potentially viable black businesses. Depending on the type of job and the type of business, the training periods vary a great deal, as shown

in Table 7-17 below.

TABLE 7-17  
TRAINING PERIODS FOR WORKERS  
BY TYPE OF ENTERPRISE

<u>Type of Business</u>	<u>3 Months or Less</u>	<u>3-6 Months</u>	<u>Over 6 Months</u>
Construction and Real Estate	1	4	6
Food and Catering	2	2	0
Manufacturing	4	0	1
Personal Services	7	3	4
Printing and Advertisement	1	1	1
Retail	3	2	0
Transport and Related Services	2	1	1
Total	20	13	13

Similarly, the number of workers trained vary from one enterprise to another. Altogether not less than 1,000 workers have been trained in 46 of the 52 enterprises studied. Six of them reported that training was either not necessary or they have not taken the risk of training unskilled workers. The efforts of 46 enterprises interviewed at training unskilled workers may be summed up as follows:

<u>Number of Enterprises Reporting</u>	<u>Number of Workers Trained</u>
19	Less than 10 workers
4	10-19 workers
5	20-29 workers
2	30-39 "
2	40-49 "
1	50-59 "
6	60 and over workers
7	Unspecified number
6	None

The cost of training unskilled workers in marginal ghetto enterprises could be very high, and it is suggested here that one of the main reasons why potentially viable black enterprises cannot get off the ground is that from one part of the year to another they incur training costs - costs which normally do not enter into their balance sheets. To be precise, the issue at stake is whether an adequate compensation, or a quid pro quo, is necessary to minimize the financial losses and the risk ghetto businessmen shoulder in hiring disadvantaged workers who ultimately depart for white firms. In the concluding chapter we shall return to this all-important issue with respect to federal policy towards black enterprises.

Environmental problems such as theft in business precincts, less reliable customers, high rents and relatively high cost of supplies lie outside the sphere of responsibility of the federal government. But such problems are likely to be minimized if a more comprehensive attack on social and economic problems of central

cities is conceived of and adhered to as a deliberate public policy.

In this chapter, we have examined some salient characteristics of the seven categories of enterprises, and have attempted to develop a nonconventional approach for evaluating their performance. We have also discussed the factors in their locational preferences and major problems facing them. So far not much has been said about the entrepreneurs themselves. This then will be the subject matter of the next chapter at the end of which general conclusions from the study will be drawn.

## CHAPTER EIGHT

### THE MORE PROMISING BLACK ENTREPRENEURS: WHO ARE THEY?

Although a case was made in Chapter III that it is a difficult task to interpret accurately entrepreneurial development within its socio-cultural framework, it is a fact that in a given society the ethnic or linguistic groups with entrenched business traditions have a better understanding of the business environment than non-business-oriented social groups.<sup>1</sup> In other words, the business environment can influence people's attitude towards thrift, savings and investment, shape their thoughts on business and economic trends and make them accustomed to thinking always in dollars and cents. Thus the development of business tradition is a sine qua non for a social group that wants to exist as a viable economic unit.

In Part II, we discovered that American blacks, unlike other ethnic groups, have been unable to develop the type of business acumen necessary to survive in this competitive capitalistic environment, because of political and institutional factors that have historically dictated their economic position in the society. In the following sections we shall attempt to draw a general picture

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<sup>1</sup> In several cultures such social groups do exist, e.g. Ibos and Ibibios in Nigeria, Kwahus in Ghana, Lebanese in West Africa or Brazil, Indians in Kenya, Jews in the U.S. and Canada, etc.

of our more successful black businessmen. Specifically we shall examine their familial background, how they relate to the black community, their attitude toward investment, the types of work experience they possess that prepared them for the business world, significance of sex, levels of education and place of origin, and why they chose to go into business.

### Do They Belong to Any Class?

The issue we want to pursue in this section is whether our more successful or potentially successful black businessmen indeed belong to a distinctive social class by virtue of their parental background or through their own personal efforts. For example, E. F. Frazier portrays the educated black elite as belonging to an emerging small middle-class, living in a world of make-believe.<sup>2</sup> What can we say about our potentially more successful businessmen?

Our original hypothesis is that the 'so-called more 'successful' black entrepreneurs, unlike the educated black elite or the successful white business elite do not belong to any elite class, but are first generation urban entrepreneurs whose lack of business tradition and experience subjects them to various public assistance programs'.

In testing our hypothesis, we shall employ three mutually reinforcing methods for determining social mobility and status. The

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<sup>2</sup>See Edward F. Frazier, Black Bourgeoisie. New York, Collier Books, 1962, pp. 56-76.

first is an estimation of our entrepreneurs' educational attainment, and to infer, a la Frazier, whether education has played any role in their going into business. The second is to compare their nuclear family characteristics with those of Boston black families. The third is to trace our entrepreneurs' occupational mobility, using the occupations of their fathers and of the Boston black community as a frame of reference.

### 1. Educational Background

It is generally assumed that good education in terms of number of years one remains in school and college broadens one's outlook in life in addition to acquiring more knowledge, and therefore has a better chance of succeeding in business. Studies have shown that high education attainment is not a pre-condition for business success. It has been noted, for example, that among technology-oriented enterprises which span off from M.I.T. and other government-sponsored research laboratories, those holding M.S. degrees appear to be doing better than Ph.D. holders.<sup>3</sup> Similarly, Collins and Moore point out that only one in five of their Michigan entrepreneurs stayed on through college graduation.<sup>4</sup>

The average number of years of schooling attained by an entrepreneur in our study group is 11.4, including college, but excluding

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<sup>3</sup>Edward B. Robert, op. cit., Research Management, p. 263. The author, however, points out that there are notable exceptions to this tendency.

<sup>4</sup>op. cit., p. 49.



vocational education. This could be compared with 10.2 years (median) for Boston non-whites in 1960. The 1960 population census for Massachusetts non-whites 25 years and over shows that 41.8% had 8-12 years of schooling.<sup>5</sup> For our study group 40% had 7-12 years of schooling or about 37% had 8-12 years of schooling. In terms of educational attainment, therefore, the author does not see any pronounced difference between Massachusetts non-white and our study group. We may also note a positive correlation between fathers' educational level and that of the sons (Goodman-Kruskal's Gamma = .385).<sup>6</sup> We may be tempted at this juncture to reach a facile conclusion that if education is a major yardstick for measuring the social status of blacks, assuming of course that higher education determines a black person's chance of entering a respectable occupation, then our 52 entrepreneurs are a replica of the rest of Boston's black population. However, to convince ourselves of this fact, it may be worth our effort to examine other indices that reflect middle-class way of life, which we assume to be the path our entrepreneurs would like to tread if they are to be regarded as different from a majority of black families.

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<sup>5</sup>U.S. Bureau of Census, Census of Population, 1960, Massachusetts Detailed Characteristics, Vol. 1, Part 23, Table D-1, pp. 23-518.

<sup>6</sup>Goodman-Kruskal's Gamma is a static measure of association, which takes its value from +1 to -1, depending on the degree of association between a pair of variables, and hence it is responsive to unidirectional association. Its conceptual meaning is that given say nxn contingency table, it tells us the proportion of paired positive associations less the proportion of paired negative associations. See Weiss, op. cit., p. 201-206.

## 2. Family Characteristics

The middle-class way of life in the American society is essentially that of the white middle-class which the emerging small educated black middle-class are attempting to emulate. One of the most conspicuous features of this way of life is family size.<sup>7</sup> 67% of our respondents comprises married persons living with their wives. This proportion compares favorably with 71% for Boston non-whites in 1960.<sup>8</sup> The average size of a non-white household in the same year was 3.06, in contrast with 5.5 for our study group. The difference in household sizes may be attributed to a higher proportion of recent arrivals and unmarried single-person households in the total non-white families. Of particular significance is the size of the parental nuclear families of the respondents. On the average each has 4.5 brothers and sisters, or comes from a 6.5-person family. In terms of birth order, representation of first-borns in the study group is proportionately high (27%). The tendency toward gradual decrease in the size of an average black family is supported by our study. Nevertheless, our respondents exhibit a marked tendency toward large family sizes, and this indeed reminds us of a common way of life for most black families, and not of the emerging small middle-class. We shall next turn to occupational structure to determine whether going into business is an evidence of status mobility.

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<sup>7</sup>The implicit value orientation here is that with decent income, a small family should encounter no difficulty leading a decent life and possessing minimum necessities of life.

<sup>8</sup>Bureau of Census, Massachusetts Detailed Characteristics, *op. cit.*, Table 110, p. 23-326.

### 3. Occupational Background

Several studies<sup>9</sup> have shown that intergenerational occupational mobility is taking place in several cultures. Leading entrepreneurs are known to have come from second generation small industrialists, traders and other self-employed occupations. The first question we must resolve is whether our respondents come from recognizable business backgrounds. 40% (21) said their fathers were in business at one time or another (see Q16). Of the 21 fathers, 14 were in two lines of business, namely construction and real estate and transport; and another three in retail. Five said that their mothers were in business, with one in the same business as the father. To be precise, 48% of their parents (i.e. 25 of them) were in self-employed occupations at one time or another. If we consider the fact that about 1% of Boston blacks are self-employed and that they account for only 6% of all self-employed persons in the city in contrast with their 15% share of the total population, it appears that our respondents proportionately have more parents who have been in business before. This tallies with the findings of E.B. Roberts (see footnote below) and others that business environment in which potential entrepreneurs grow is a contributory factor in their going into business.

The next step in our analysis of the respondents' background is to

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<sup>9</sup>J.R. Harris (op. cit., EEH) indicates that the first generation industrialists in Nigeria are sons of predominantly farmers, large-scale traders and self-employed artisans. G. Papanek (op. cit., AER) also confirms that people of trading background constituted over 50% of the 250 industrialists studied. E.B. Roberts (op. cit., Research Management) makes a point that 50% of the technical entrepreneurs investigated came from self-employed homes. See also T.C. Cochran, The Puerto Rican Businessman, op. cit.; J.J. Carroll, op. cit.; J.J. Berna, op. cit.; and A. Alexander, op. cit., EDCC.

compare the fathers' occupations and their own prior to going into business and to draw the necessary inferences with respect to occupational mobility. Table 8-1 attempts such a comparison. It is evident from the table that the difference that exists between the fathers and the entrepreneurs merely reflect economic opportunities in urban areas when black migrate from the South. Nine of the fathers were in farming mainly as laborers but none of the entrepreneurs was engaged in this type of occupation.<sup>10</sup> Instead, a proportionately higher number of the entrepreneurs were in personal services and catering and in blue collar occupations, and these are precisely the types of occupation usually available to blacks when they migrate to northern cities. We may recall that 52% of our respondents were born in the South and came to the North as adults searching for jobs. Increase in the number of entrepreneurs in the clerical category and to a small extent in the professional group points to a general trend in improved level of education and its attendant occupational mobility for blacks in general, although some black families have taken a greater advantage of educational opportunities.

If we group the fathers' occupations into four major categories, professional-clerical (white-collar), blue-collar, ghetto-based type and farming, and the respondents into white-collar, blue-collar and ghetto-based type, the correlation between the two sets

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<sup>10</sup> Some pointed out that as teenagers they worked on farms in the South, helping their tenant parents or were temporarily engaged as laborers.

TABLE 8-1

OCCUPATIONS OF FATHERS AND ENTREPRENEURS COMPARED

<u>Type of Occupation</u>	<u>Fathers</u>		<u>Entrepreneurs</u> <sup>11</sup>	
	<u>Number</u>	<u>% in Group</u>	<u>Number</u>	<u>% in Group</u>
Farming (mainly laborers and tenants)	9	17%	0	0%
Personal services and catering	4	8	10	19
Clerical	4	8	8	16
Transport and auto mechanic	8	15	6	12
Construction and real estate	7	13	6	12
Retail	2	4	1	2
Mining	1	2	1	2
Sports	1	2	0	0
Professional	4	8	6	12
Blue collar (in industry and commerce)	9	17	12	23
Printing and advertisement	1	2	2	4
Don't know	2	4	-	-

<sup>11</sup>The entrepreneur's occupation was recorded for the type of work on which he was engaged in all the time before going into business, or if he took up different occupations, the longest period during which he engaged himself on a particular job was recorded as his occupation.

of occupational attributes is in fact negative (Goodman-Kruskal  $\Gamma = -.165$ ). A positive  $\Gamma$  value would have meant upward occupational mobility for the respondents.<sup>12</sup>

Table 8-2 compares the proportion of Boston black workers engaged in major occupations as shown in the 1960 census with the proportion of our 52 businessmen engaged in almost identical occupations prior to going into business. We can infer from the table that the differences are not so extreme as to justify any claim that the 52 businessmen were in more dignified or inferior occupations compared with the rest of Boston black workers. The slight difference in retail and wholesale category is attributed to the large number of "Mom" and "Pop" stores which predominate ghetto businesses. Our respondents have proportionately a higher representation in the clerical category, and this may be due to the one-year difference in educational attainment between them and the rest of the black population. They are also strongly represented in transport and related services because of the ever-increasing opportunities in this line of business.

We may therefore conclude that the respondents in the Boston study differ with respect to the entrepreneurial background of their parents - a type of background which probably might have induced some of them to go into business. However, lacking special advantage in terms of education, middle-class way of life, or higher occupational status prior to going into business, our respondents have gone

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<sup>12</sup>The assumption here is that the occupations lie along a status continuum. However, the assumption is prone to subjective value judgment.

TABLE 8-2

OCCUPATIONS OF BOSTON BLACKS AND RESPONDENTS COMPARED

<u>Types of Occupation</u> *	<u>Proportion of Boston blacks engaged in</u>	<u>Proportion of respondents engaged in</u>
Agriculture	.34%	0%
Construction, finance, real estate	6.33	12.0
Personal services	14.88	19.0
Professional	16.86	12.0
Retail and wholesale	11.45	2.0
Clerical (Public administration and other)	7.0	16.0
Transport (including utilities, communication and other)	4.50	12.0
Blue collar (manufacturing plus <u>part</u> of business and repair)	32.91	23.0
Miscellaneous	3.0+	

\* It is to be noted that some of the categories have been combined to approximate occupational types recorded for the respondents. Less than 150 persons engaged in communication, utilities and sanitary category have been added to transport and related services. 952 persons were engaged in business and repair, and the number has been split equally among blue collar and clerical. Other categories remain intact.

Source: U.S. Bureau of the Census, Massachusetts Characteristics, op. cit., Table 130, p. 23-476.

into business as an avenue to create success stories and to carve for themselves distinct paths of occupational mobility. 52% of them are first generation entrepreneurs, striving to attain a new plateau of entrepreneurship uncharacteristic of the ghetto economy. Only 14 of them ever had a chance to work with their parents in their private businesses, (see Q21), so that a majority of them started business unschooled in the basic rules of the game. This is one of the major reasons why unflinching support of the government at various stages in their development becomes most wanting.

Collins and Moore, in their study of 150 Michigan independent entrepreneurs, arrive at a conclusion that they come from less power and economically less secure homes.<sup>13</sup> Their major aspiration is to create organizations which they can control and protect. Similarly, our Boston black entrepreneurs come from less affluent homes, and are seeking to build new enterprises as symbols of personal achievement. To be sure, the ambition of the low-status worker to be self-employed is a common American creed, deriving its strength from the frontier spirit; and yet it promises no definite success, not even to the most adept participants.

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<sup>13</sup>Collins and Moore, op. cit., pp. 33-38. In a similar vein Lipset and Bendix contend that "self employment is one of the few positions of higher status attainment to manual workers." Among the 105 self-employed businessmen they interviewed in Oakland, 86% were recruited from low-status occupations. See S.M. Lipset and R. Bendix, "Social Mobility and Occupational Career Patterns", American Journal of Sociology, Vol. 57, No. 5 (March 1952), pp.500-503.



Although independent entrepreneurs are drawn from less economically secure homes, yet we must not underestimate the middle-class aspirations of most independent entrepreneurs. Roger Coup, in a TAT analysis of the Michigan data discovers that their social value system is steeped in middle-class mores.<sup>14</sup> For example, they regard themselves as hard-working men, much devoted to their businesses. When our 52 entrepreneurs were asked, "to what reasons do you attribute your success, if any?" (Q131), as many as 38 first mentioned their own personal inputs, ranging from working around the clock, good management, to prompt payment of bills. Most emphasized that any amount of success they have achieved so far is summed up in two phrases: hard work and self-discipline. <sup>14</sup> also referred to human relations of one kind or another. The author became convinced in the course of the interviews that the respondents were sincere in their subscription to these middle-class mores. But subscription to these mores per se does not result automatically in attaining social mobility that may gradually extricate them from the cycle of poverty that marked their youthful days. Roger Coup in his analysis also asserts that "what is lacking here among these entrepreneurs seems to be value of getting ahead, rising in a social hierarchy, and achieving positions of authority and rewards associated with power and status."<sup>15</sup> Married to their business, independent entrepreneurs usually take the environment as given, and because of

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<sup>14</sup>Collins and Moore, ibid., p. 40.

<sup>15</sup>ibid.

lack of social mobility drives, resign themselves to socio-economic forces that directly impinge on their performance. In the next section, we shall examine how our respondents relate to their environment.

### Relations with the Black Community

In many societies, businessmen are known to occupy positions of prestige and power. They are either directly involved in politics and therefore are always where the action is, or through sheer affluence they hide behind the scene, smoothly directing the course of events. Take the case of prominent American white businessmen. Proportionately few are in politics, but their influence extends from Capitol Hill to the small city-hall in Montana. They have an unchallenged status in society and occupy positions of great prestige, influence and power.

What can we say about the relatively more successful black businessmen? Are they capable of wielding the type of concessions white businessmen obtain from the Government with respect to "demand factors" that dictate their ultimate success? To what extent do they influence the course of political events both in the black community and in the city at large? In what way have they manipulated the ghetto environment to further their business goals? In studying black entrepreneurship, such questions are germane in understanding who in fact the black businessman is. Our hypothesis as stated in Chapter III is that the "so-called successful black

entrepreneurs are performing better than others precisely because they are exploiting their socio-cultural roles as members of community organizations to further their economic and occupational goals."

An assumption underlying the hypothesis is that the ghetto, apart from being a social phenomenon, is an economic stage on which promising businessmen play their respective roles according to perceived economic, social or other pay-offs. In much the same way prominent white businessmen play their respective roles in politics, backing one party against another because of the party's interest in their business or what they expect to receive. They may support one mayor against another in the light of their business interests. They act as philanthropists and feature in social affairs, because such activities enhance their prestige and status.

An implication of our hypothesis is that we should expect relatively more successful black businessmen to be 'manipulators of the ghetto civic environment' and to possess a minimum ability to seek from different levels of government the type of help necessary to enhance their business. Their strategy then could be contrasted with that of less promising black businessmen, the 'novices,' who only play to the tune of market forces.

A second assumption of our hypothesis is that community-based organizations have been the most effective media for blacks who aspire to positions of prominence in society and who have not achieved professional pre-eminence. At this juncture James Q. Wilson's<sup>16</sup>

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<sup>16</sup>James Q. Wilson, Negro Politics. Glencoe: The Free Press, 1960, Ch. 10, pp. 255-280.

description of leadership types in the black community may prove useful to our discussion. He recognizes three types of leadership. The first is the prestige leader, who represents high personal achievement in business or professional life. They are usually held in high esteem and command high respect in the community. They confine their civic roles to non-controversial issues such as settlement houses, Red Cross and raising of funds, and try as much as possible to avoid race-related issues. They have the most direct contact with the white power structure, on the basis of their personal achievement and respect they command in the black community. Two important facts about this group should be stressed. Firstly, they are very few in number in any city, and secondly, success in professional or business life tends to be the basis of acceptance by the white elite and power structure. Third, continued acceptance by the white elite and power structure depends upon the prestige group's desire not to wield too many concessions from the white elite and power structure.

The second type of leadership is the "token leader," who is often selected by the white power structure to represent the black community. As Wilson points out, a person selected in this manner has the tendency to represent the "agency viewpoint." As far as his fellow blacks are concerned, he is another agent of Uncle Sam, impotent and ineffective in terms of race-related issues. Token leaders may be drawn from all walks of life so long as they represent the "agency viewpoint."

The third is the "organizer," the trouble-shooter, constantly involved in controversial issues. Ability to organize people for action and to set achievable goals are important qualities for the success of such leaders. The size of the organizations they represent is usually not a critical factor insofar as they represent a recognizable force and a viewpoint in the community. Dennis Clark has identified four types of organizers,<sup>17</sup> and a common element binding all the four types is how best to improve the lot of their fellow blacks. Ladd<sup>18</sup> in his study of Winston-Salem, N.C. and Greenville, S.C., reaches a similar conclusion that Negro leadership is a single-issue leadership, namely, race advancement, reflecting the most vital political interests of all Negroes.

A basic tenet of our hypothesis, therefore, is that to do comparatively well in business, black businessmen should be involved

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<sup>17</sup>The four types are: (1) leadership which owes its existence to growth of ad hoc movements to overcome specific racial barriers, e.g. Southern sit-in, Montgomery bus boycotts. (2) Conscious rebel leadership associated with civil rights movement, e.g. Black Muslims. Such a movement has the tendency to be self-directed and ideologically inclined. (3) Leadership in permanent nation-wide mass organizations such as the NAACP, Urban League and CORE. (4) Leadership associated with key positions in politics, government and important institutions in American society. See Dennis Clark, The Ghetto Game. New York: Sheed and Ward, 1962, pp. 232-234.

<sup>18</sup>Everett C. Ladd, Jr., Negro Political Leadership in the South. Ithaca: Cornell Univ. Press, 1966, especially p. 143 et seq. The study of M. Elaine Burgess of Crescent City also reveals that astute maneuvering and compromise have allowed the Negro leaders to reach a consensus on basic community issues and goals. See her Negro Leadership in a Southern City. Chapel Hill: North Carolina Univ. Press, 1962, especially chapters VI and V, pp. 76-150. See also Myrdal, American Dilemma, op. cit., pp. 720-722.

in community improvement activities and race advancement issues; and that prestige and token leaders are of no use to the community. This is necessary, because as we saw in Part II, the initiative of especially the Federal Government in raising the status of black entrepreneurship has traditionally been lacking, and therefore it is up to those who have something at stake in the community to strive to wield various concessions from the three levels of government. Such ghetto issues as inadequate policing, low welfare payments, poor shopping centers, high rents and lack of manpower training facilities impinge upon business promotion as well as race advancement and community improvement. Hence, in playing diverse leadership roles or participating effectively in community organizations, black businessmen can manipulate the ghetto environment to their advantage.

In the light of our hypothesis, we should expect most of our promising 52 businessmen to be active in community organizations. Respondents were asked a set of questions in connection with their participation in community organizations before and after going into business and whether these organizations have been instrumental in their going into business or in promoting their businesses. To begin with, they were asked whether they joined any community organizations before going into business. 27 said they were never involved in community organizations or associations and 25 said they were. The four types of organizations they joined could be identified as follows (the total is more than 25 because some were members of more than one organization):

<u>Organization</u>	<u>Number</u>
1. Race advancement, e.g. NAACP, CORE, Urban League, Black Muslim	14
2. Community improvement, e.g. settlement houses, Freedom House, Avco Day Care Center	11
3. Social organization, e.g. Masonic Lodge, the Elks, women's club in churches	7
4. Business-oriented	2

Further inquiries into positions held in these organizations proved futile. Except in social organizations, the majority registered as dues-paying members, and were in fact out of the mainstream of things. In describing how they participated, 15 out of the 25 indicated that they were not actively involved (Q91). Of the 25 participants, 20 revealed that no organization was instrumental in getting them into business or has helped them after going into business. Only three indicated that they were helped by their organizations in starting their businesses, and two replied that their memberships are merely exposing them to the public. We can conclude therefore that community organizations have not been instrumental in putting blacks into business, and this accords with the conclusion we reached in Part II about the goals and achievements of black nation-wide organizations, especially NAACP and the Urban League.

Respondents were again asked whether they have joined community organizations since they went into business. 32 said they have,

and 20 replied that they have not. Nine out of the 20 were already members of community organizations before going into business. To be precise, 11 businessmen in our study group have never been members of organizations or associations.

Focusing our attention on the 32 who indicated that they have been part of organizations, they are distributed as follows (Again the total is more than 32 because some have joined more than one organization.):

<u>Organization</u>	<u>Number</u>
1. Race advancement	4
2. Community Improvement	11
3. Social Organization	7
4. Business-oriented	18

Of the 32, 16 said their memberships have not been helping them, and the remaining 16 divulged that they find their membership beneficial. Asked how beneficial, as many as nine replied that through meetings, public gatherings and public functions, they become exposed to the public and this in itself is an advantage. Only three affirmed that they receive contracts or jobs from their organizations, and another three said their organizations constitute a platform for mutual assistance in business. In all, not more than four hold important positions on executive boards of two important organizations.

A glance at the types of organizations they joined after going



into business would reveal to us that the importance they attach to race advancement issues is negligible. In fact, only four joined nationwide race-advancement organizations after going into business, compared with 14 who joined in the pre-business years. With respect to community improvement and social organizations, our entrepreneurs remained neutral to them after going into business. The same number as before joined these organizations. The only remarkable change has occurred in their attitude toward business-oriented organizations. Almost all the 18 members of business-oriented organizations belong to either the Roxbury Businessmen Association, the black community version of chamber of commerce, or the Grove Hall Contractors Association, none of which is more than two and a half years old. The RBA is still struggling to get off its feet and its goals are still ill-defined. The GHCA, on the other hand, offers technical assistance of various kinds to its members. The tendency to join business-oriented organizations as the main avenue of business promotion is confirmed by an earlier set of questions (Q59 and Q60) which solicited their memberships in city-wide professional, trade or craft organizations. As many as 32 said they belong to such organizations, and seven out of the 32 affirmed that they do not gain whatsoever from their memberships. The remaining 24 receive publications, legal assistance, help in procuring labor and in setting wages.

If our analysis of the data is correct, then we have not marshalled sufficient evidence to support our hypothesis. Indeed,

we can even conclude that our more promising black businessmen tend to dissociate themselves from community improvement and race advancement issues, and in this respect they are "poor manipulators of the ghetto civic environment." It is argued here that the inability of black businessmen to identify themselves and communicate effectively with the black community through community organizations is one of the main reasons why much needed assistance from the three levels of government has been very slow in reaching them. At no period in the history of America other than the past decade have so many concessions been made to minority sub-groups under organized leadership, almost at the wink of the brow. Yet, in spite of this wind of political change, black businessmen are laboring under the banner of assimilation into city-wide business-oriented organizations whose goals are devoid of race-advancement issues.

Several reasons account for the marginal role the businessmen play in community organizations. First, in some of the 52 businesses studied, the absence of the proprietors is suddenly felt; business may either slow down or come to a complete halt if they are absent for several days. It is all because they either have no efficient employees they can entrust their businesses to for a few days, or almost all decisions are taken by them, with the result that their employees do not have enough room to participate in decision-making. The upshot of all this is that most of the businessmen interviewed work about 12 hours a day. But community improvement and race advancement organizations demand full-time leadership, and this is

incompatible with business organization. The only time an ambitious black businessman would like to engage in non-business affairs that take a few hours a month is Sunday afternoon.<sup>19</sup> If it is summer, it could be anybody's guess.

Wilson<sup>20</sup> draws our attention to two other factors that condition blacks' participation in civic action. The first is the intangible nature of rewards and incentives that participants can expect. With the exception of business-oriented organizations whose goals may be geared to achieving specific benefits for members, there are usually no incentives to motivate blacks into civic action. Consequently, the most active participants tend to be either full-time employees of the organizations or a few individuals who seek to enhance their social prestige and status through civic actions. The powerlessness of the masses of Negroes is the second factor. They are fully aware that no matter how hard they work for the organizations, they cannot influence the course of public affairs and political events in any meaningful way, and therefore "the Negro leader is more easily persuaded of the plausibility of protest as the appropriate political style."<sup>21</sup>

In understanding the problems facing black businesses, the restricted nature of the market, lack of managerial talents, and

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<sup>19</sup>This is one of the main reasons why black businessmen (and also whites too) are not good interviewees.

<sup>20</sup>Wilson, op. cit., pp. 281-294.

<sup>21</sup>Ibid.

ineffective nature of "demand determinants," i.e. the various forms of government assistance, do not explain the entire picture. In instances where the government response to the needs of businessmen leaves much to be desired, the only alternative approach to influence demand determinants is through civic actions that attempt to alter conditions of poverty permeating the community's socio-economic system. To be sure, unless black businessmen join the race-advancement battle to improve the social and economic lot of the very people who patronize their businesses, reliance on such externally generated programs as management training and loans is simply myopic. Put in another way, black businessmen have through the years taken the business environment as given, and as long as the environment remains poverty-ridden their businesses are likely to remain marginal. To change the environment therefore, they must commit time and resources to civic action so that they may in the course of time become better manipulators of the civic environment.

#### Attitude Toward Investment

An interesting finding of the study is ownership of a second business, which for want of a better term could be referred to as "dual entrepreneurship." 20 out of the 52 respondents indicated that they solely own other businesses that give them regular income; seven said that they part-own other businesses and 23 do not. In other words, 54% of the study group own other businesses. This excludes about five or six businessmen who have set up branch

businesses in other neighborhoods and therefore do not find time to run second businesses.

A further enquiry into the nature of the second businesses (Q58C) reveals that 10 out of the 27 are real estate concerns, and the remaining 17 comprise all sorts of enterprise - from car washing, beauty-aid stores, entertainment halls to construction and barbering.

Two major reasons account for such a widespread practice. First, the ownership of more than one business by Jim Africanus, our proprietor, is a sign of great success in the eyes of a majority of Jim's associates. As far as he is concerned, his ability to keep two businesses going without falling into any messy financial situation may be sufficient to keep him satisfied, as long as the two enterprises boost his ego, self-esteem and importance in the community. Jim in this respect compares favorably with Kwame Nti, a well-known businessman operating in a typical town in Ghana, and who commands some respect in the community because he is smart enough to keep two or three variety shops going at the same time irrespective of how profitable they may be.

The second reason may be psychological more than anything else. Because an average black business is marginal, both marginal and more promising entrepreneurs are tempted to diversify their investment portfolios in order to increase their chance of survival. One could argue that the behavior of dual entrepreneurs is rational, given the restricted nature of the ghetto market, low purchasing power of a majority of black consumers, and above all the risks associated with the ghetto environment.

On the other hand, it could be argued that it is a better strategy to develop one enterprise to its full potential, taking advantage of various kinds of internal economies of scale, and thereby increasing the net returns on capital invested. We are assuming here that a rational entrepreneur would seek to maximize his profit margins, although the "satisficing entrepreneur" may be content to receive smaller returns on his capital if only dual entrepreneurship makes him important in the community or enhances his self-esteem. In any event, evidence abounds to prove that owning and managing two businesses in the ghetto could lead to decreasing efficiency. First, as pointed out earlier, most dual entrepreneurs interviewed do not have reliable employees who can easily fill their shoes, should something happen or if they want to take some vacation. Consequently, an average dual entrepreneur is saddled with the problem of keeping his two businesses running simultaneously. A lot of time is wasted commuting between the two locations. Some say that for about two years now they have been unable to go on vacation.

Second, judging by the type of managerial skills the dual entrepreneurs have, one doubts whether meaningful financial and expansion plans can be drawn separately for each business, without falling into the inevitable temptation of transferring cash receipts from one enterprise to another, depending on financial exigencies they may encounter from time to time.

In our attempt to understand the marginal character of black enterprises, lack of managerial skills, restricted nature of the

ghetto market, undercapitalization and environmental risks do not entirely define the problem. We should add to the definition dual entrepreneurship which tends to create more management problems than the financial benefits or the "image of importance" it is supposed to bring.

### Significance of Work Experience

In our effort to find out why some black entrepreneurs are more successful than others we cannot underestimate their work experience prior to going into business. Rarely are people born natural businessmen. Harvey Leibenstein rightly states that "The initial entrepreneur must have a more than satisfactory work experience. This means that the economic environment must be such that, on the average, the risks taken pay off better than anticipated."<sup>22</sup>

Students of achievement motivation have demonstrated the effect of individual differences in the strength of the disposition to achieve. The strength of the tendency to achieve on a given task is known to be governed by (1) the personality disposition and (2) immediate environmental influences.<sup>23</sup> Our main interest as far as American Negroes is concerned is in the second condition - environmental influences, for as was pointed out in Chapter III,

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<sup>22</sup>Leibenstein, op. cit., p. 129.

<sup>23</sup>McClelland, The Achieving Society, op. cit., See also a review of various dimensions of motivation in John W. Atkinson, An Introduction to Motivation. Princeton, D. Van Nostrand, 1964.

the master-slave relationship to which a majority of Negro families had to succumb for almost three generations after Emancipation and the attendant low socio-economic status currently occupied by most black families have obliterated a normal personality development. Hence, a single controlling factor in understanding a black worker's attitude to work and the quality of his work experience is his immediate job environment.

The environment may be dictated by how challenging the work is, opportunities to take and be responsible for specific decisions, relations with co-workers, especially immediate supervisors and so forth. Ray C. Hackman finds that an interplay of three senses characterizes the motivated working adult: namely, sense of recognition that results from praise; sense of confidence emanating from successful completion of a task and permissive supervision; and sense of accomplishment resulting from interesting and challenging work.<sup>24</sup> This leads him to assert that "in order to develop this kind of motivation, one arranges for the higher levels of reinforcement to operate."<sup>25</sup>

An empirical work done by Michael Beer gives credence to environmental influences. In his study of 129 workers of a large insurance company, he finds that satisfaction is a "function of the individual's need level as well as the environmental factors (i.e. opportunities)

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<sup>24</sup>Ray C. Hackman, The Motivated Working Adult. The American Management Association, 1969, pp. 125-145; pp. 159-161.

<sup>25</sup>Ibid., p. 159.



which may provide satisfaction of the need."<sup>26</sup> At any rate he also finds the correlation between actual need satisfaction and motivation to be statistically not significant.<sup>27</sup>

Our hypothesis is that there has been a transfer of entrepreneurship from the white business sector to the black ghettos; and that the success of a black entrepreneur is greatly dependent upon his work experience and satisfaction in the white business sector.

In connection with the first part of the hypothesis; i.e. transfer of entrepreneurship, henceforth referred to as "entrepreneurial transfer," the reader's attention is drawn to Q42-Q47. Respondents were asked: are you providing the same services, or doing the same business as another business you worked for before? 23 said they are doing the same kinds of business; 5 responded that they are doing the same kinds but with some modifications; and 24 said they are doing something different. Thus direct transfers account for 28 (54%) of the total cases. However, further enquiries (Q45) show that 16 of the 24 had worked as apprentices, part-time workers, and in separate divisions of firms other than the divisions in which they were employed, and in so doing they were able to learn some skills and business practices that proved helpful in establishing their businesses. For example, a former truck driver of a white firm decided to go into building maintenance because his knowledge of

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<sup>26</sup>Michael Beer, Leadership, Employee Needs and Motivation (Monograph No. 129, Bureau of Business Research). Columbus: Ohio State Univ. Press, 1966, p. 46.

<sup>27</sup>Ibid.

truck routing acquired from the firm is vital to building maintenance involving a number of offices. Thus in total, 41 out of the 52 enterprises could be attributed to entrepreneurial transfer of one form or another, and 29 (56%) originated from the white business sector. Although the proportion is not exceptionally impressive in view of the fact that the white business sector is a major employer of blacks, it is significant for the ghetto economy. Further, if we consider that such personal services as hair-dressing and funeral homes account for a majority of the remaining 12 "intra-ghetto transfers," then the transfers from the white business sector constitute a significant trend.

There is nothing spectacular about the nature of the transfers. They all involve simple forms of service activities and basic technologies already known and practised in the white business sector. Reference has already been made to manufacturing, a good example of direct copying. However, an interesting change is occurring in laundry and dry cleaning where the SBA is assisting firms to buy the most up-to-date machinery and equipment with the expansion loans they receive. This type of assistance has been necessitated by frequent breakdowns of old models of machinery and equipment.<sup>28</sup>

With reference to the second part of the hypothesis, two issues are involved, namely, the type of work experience and the challenging nature of job performed by the entrepreneur prior to going into

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<sup>28</sup> In the course of the interviews one businessman complained about the problem blacks in laundry and dry cleaning face when they buy old models. Not only are prices dearer, but also they are expensive to maintain.

business. By type of work experience, we mean the quality of job and all the responsibilities that go with it, as explained in the initial part of this section. Since not many blacks have opportunities to become supervisors in white firms, we are certainly interested, among other things, in the number of respondents who had opportunities to become supervisors in white firms, the number of people supervised and the length of time they occupied these positions.<sup>29</sup>

We are equally interested in how challenging were the types of supervisory jobs they had. Very often we hear and read about job upgrading for Negroes in reputable white firms. While some jobs are upgraded and geared to a purposeful goal, others tend to be "token types" of job upgrading that only lead to utter frustration.

Of the 52 cases, 38 (73%) were supervisors in firms prior to going into business, and 32 out of the 38 were in white firms. Data are lacking on how many blacks occupy supervisory positions in the American business sector, but our best guess is that the 32 former supervisors in white establishments are not a representative sample of black workers. They belong to a distinctive group of black workers whose sense of responsibility and discipline acquired through worthwhile work experience has carried them into independent entrepreneurship.

Q 34A and Q34B summarize the number of years the 38 former

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<sup>29</sup> It is worth noting that the expression "supervisory position" refers to various positions of responsibility in an organization - foreman, a leader of a working crew, head of a secretarial staff, chief technician in a laboratory and so on.

supervisors performed their jobs, and the number of workers they supervised. A majority of them supervised 10 or more workers, and on the average each supervised 14 persons. The average number of years each supervised is 6.4 years. The association between supervisory position and the years of work experience is found to be significant at .05 level.<sup>30</sup> This result conforms with what we might normally expect, for the longer one's work experience is, the greater are his chances of climbing up his occupational ladder. On the other hand, the relationship between supervisory position and number of firms one has worked for is found to be statistically not significant (.221). We may also note that no significant relationship exists between supervisory position and direct "entrepreneurial transfer" (.201).

Respondents were asked to describe their occupations prior to going into business. Twelve occupations were identified (See Q39). To permit us to perform relevant statistical tests, these occupations are grouped into three broad categories: white collar, blue collar and traditional (ghetto-based) occupations. We find no association between supervisory position and type of occupation (.616). In fact, our 38 former supervisors are evenly distributed among these three major occupations.

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<sup>30</sup> Using mean-square contingency test, phi-squared ( $\phi^2$ ) assumed a value of .27, revealing that the correlation between the two variables is not all that perfect. Were the relationship perfect,  $\phi^2$  would have been unity. The formula for  $\phi^2$  is simply  $X^2/N$ .

Let us turn our attention now to satisfaction with jobs on which respondents stayed for the longest period of time. 28 said they found their work challenging; 14 replied that their jobs were just challenging, and 10 did not find their jobs challenging at all. If we group our respondents into those with less than 10 years of work experience, and those with more than ten, there seems to be no association between challenging nature of job and years of work experience (.311).

With regard to the 38 former supervisors, 23 found their jobs very challenging, and 10 said their jobs were just challenging, and only five were not satisfied with the challenging nature of their job assignments. Put in another way, 23 out of the 28 who found their jobs very challenging and 10 of the 14 who considered their jobs just challenging occupied supervisory positions, so that 33 of the former 38 supervisors (86.8%) found their jobs either very challenging or just challenging in comparison with their 73% representation in the study group. It is not surprising therefore that the association between supervisory position and challenging nature of job was found to be significant at .06 level.<sup>31</sup>

It is sometimes wondered whether workers who occupy responsible positions measure the challenging nature of their jobs by the number

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<sup>31</sup> The significant level was derived from a dichotomized 2x2 table, with rows being supervision, no supervision, and columns challenging and not challenging. Again,  $\phi^2$  (and therefore Pearson  $r$  in the case of dichotomized variables) assumed a value of only .26, depicting imperfect correlation.

of workers they control. Using Fisher's Exact Test<sup>32</sup> for our sub-group of 33 former supervisors who found their jobs either "very challenging" or "just challenging," it turns out that there is no significant relationship between the number of workers supervised and the extent of the challenging nature of job ( $p = .27$ ).

The next step in our analysis is to link supervision and challenging nature of jobs with relevance and applicability of work experience to the initiation of one's business. 33 of the 52 respondents affirmed that their work experience helped them "very much" to start their own business, 6 said "some how" their work experience was relevant and 13 did not. Of the 33 who said their work experience "very much" helped them, 27 were former supervisors, of the six who replied "some how," four were former supervisors. Seven of the 13 who did not see any relevance were former supervisors. Considering the fact that our former supervisors account for 73% of the total number of respondents, they are over-represented (82.1%) in the sub-group who found that their work experience helped them "very much" in starting their businesses. In all 31 out of the 38 former supervisors found their work either "very challenging" or "just challenging," and said that their work experience contributed "very much" or "some how" to the starting of their businesses.

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<sup>32</sup>The formula for Fisher's Exact Test is:

$$p = \frac{r_1! r_2! k_1! k_2!}{N! a! b! c! d!}, \text{ where } r \text{ and } k \text{ are end totals,}$$

and a,b,c and d are cell values. See Weiss, op. cit., pp. 265-269.

Of equal interest is the fact that 23 of the 38 former supervisors went into the same or almost the same business as those businesses they worked for. We may recall that direct entrepreneurial transfer involves 28 of the 52 firms, so that proprietors of 23 of the 28 "direct transfer" firms were former supervisors. In other words, they account for 82.1% of the direct transfers, although they comprise 73% of the total number of respondents.

In sum, there is sufficient evidence to support our hypothesis that there has been a transfer of entrepreneurship from the white business sector to the ghetto. Our data indicate that at least 71% (29) of the 41 total transfers originated from the white business sector.

But what is more important and significant in validating our hypothesis is that 73% (38) of the 52 cases involves persons who had opportunities to assume positions of responsibility as assembly line foremen, foremen of construction crew, office supervisors, and so forth. Further, it has been shown that the work experiences of 31 of the 38 former "supervisors" in firms they chose to work for the longest period of time were challenging and relevant enough to enable them to start their own businesses. In short, the transfer has been possible mainly through more enduring work experience.<sup>33</sup>

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<sup>33</sup>A similar conclusion has been reached by other studies. See for example Jerome Goldstein, The Spin-off of New Enterprises from a Large Government Funded Industrial Laboratory. M.S. dissertation, Sloan School of Management, M.I.T., 1967, Ch. 4. It has also been noted that material and moral support given by immediate supervisors to potential entrepreneurs create an environment conducive to technical innovation. See Frederick L. Buddenhagen, Internal

Our analysis raises two important policy issues. In creating a cadre of viable businessmen among minority groups, the government should be concerned with the type of persons who receive SBA loans and other public assistance programs. Generally, loans are advanced on the basis of the soundness of business proposals and one doubts whether much importance is attached to quality of work experience and the relevance of work experience to the business proposals. Visits by the author to some SBA regional offices convinced him that officials tend to emphasize the number of minorities they have put into business since 1968 at the expense of potential capabilities of applicants.<sup>34</sup> The issue is often not how many blacks, Mexican Americans or Puerto Ricans that have been assisted to go into business within any fiscal year, but how many potentially suitable entrepreneurs have been sought for through a thorough screening process.

The second policy issue relates to job upgrading for minorities. Probably the most potent reason for upgrading jobs for minorities,

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Entrepreneurship as a Corporate Strategy for New Product Development, M.S. Thesis, Sloan School of Management, August 1967; pp. 29-31. Further evidence is furnished by Dean A. Forseth who discovered that the commercial work experience of technology-oriented entrepreneurs he interviewed was very helpful to them. See D. A. Forseth, The Role of Government-Sponsored Research Laboratories in the Generation of New Enterprises. M.S. Thesis, Sloan School of Management, June 1966, pp. 35-37, 87-88.

<sup>34</sup> Before 1968, federal laws prohibited publication of statistics on loans to different ethnic groups. Since then statistics have been compiled by SBA regional offices. For example in Chicago, loans to minorities increased by 439% between 1968 and 1970. In Boston the increase during the same period was 258%. (This information was obtained from the two regional offices during an interview with officials.



other than attendant increase in wages, is that such a strategy can, under ideal conditions and genuine, good intentions of corporations, bring about worthwhile work experience, a keynote to entrepreneurial transfer. What is needed to make such a strategy work is a well-tailored wage subsidy program, the discussion of which is deferred to the concluding chapter.

### Reasons for Going into Business

People go into business for different reasons, which may differ with respect to type of culture, type of occupation, social status, quality of work experience and so on. In explaining why a sampled Michigan businessmen went into business for themselves, Collins and Moore first sought for commonalities in life situations prior to their going into business, and argue that the single most important factor was "role deterioration," signifying a shattering of previous life pattern.<sup>35</sup> The co-authors explain that the period of role deterioration is not accidental in the lives of these men. "It is an event, which given their character formation is almost predestined to happen."<sup>36</sup> They end up running business for themselves, or take to other occupations such as writing, teaching and painting in which they can enjoy some independence. It should be pointed out that the co-authors exclude people who inherit family businesses from the role

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<sup>35</sup> Collins and Moore, op. cit., pp. 95-113.

<sup>36</sup> Ibid., p. 113.

deterioration typology. Role deterioration, as they explain, occurs under the following circumstances:

1. Block mobility - sets in when one sees slim chances of moving up the occupational ladder, "marking time" in wages and so on.

2. Losing out - occurs when men reach the top working for someone else, and discover that they can lose it all. For example, a man sees a company he has worked for for a number of years falling apart gradually; or a son of an owner of a firm graduates from college and comes to replace a hired manager, who now begins to "lost out".

3. Disgust with the way the business is run.

4. Job insecurity - now employed and the next day out of work again.

5. Ideas are not accepted by superiors.

6. Born to the way of business. However this is rare.

Although the concept of role deterioration is useful, it skirts some of the more concrete reasons that give birth to independent entrepreneurship. Of course, it is difficult to draw a line of difference between, on the one hand, distasteful work experience that discourages a worker to quit his job, compelling him to decide never to work for somebody else; and, on the other hand, how a potential entrepreneur values such things as avenues to affluence, total independence in self-employment, economic security in self-employment, means to display acquired skills and desire to give

employment to the needy. Nevertheless, this study maintains that there are more concrete reasons that explain why people go into business other than factors in role deterioration, and that these concrete reasons are underlain by the potential entrepreneur's value orientation, beliefs and aspirations in life.<sup>37</sup> Further, in the case of most black workers, their low socio-economic status implies "potential role deterioration" with which they are associated at birth. It is difficult therefore to apply the concept to our study in a meaningful way.

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<sup>37</sup>One of the foremost authorities on theory of values and beliefs, Clyde Kluckhohn, describes the role of value as placing things, ways of behaving, and goals of action on the approval-disapproval continuum. He formally defines value as: "a generalized and organized conception influencing behavior, of nature, of man's place in it, of man's relation to man, and of the desirable and non-desirable as they relate to man-environment and inter-human relations." See his essay "Value and Value-orientations in the Theory of Action," in Talcott Parsons and Edward A. Shils (eds.), Toward a General Theory of Action, op. cit., p. 411. Specific patterns of behavior are believed to be concrete expressions of values, and hence the two concepts are closely related. For an interesting discussion on this relationship, see Florence R. Kluckhohn, "Dominant and Variant Value Orientation" in Clyde Kluckhohn, Harry A. Murray and David A. Schneider, Personality in Nature, Society and Culture. New York: Alfred A. Knopf, 1953, p. 345 et seq.

Louis Kriesberg has pointed out that many values and beliefs are relevant to engaging entrepreneurial activity. Applying the Latin American scene, he explains that the belief that the society is orderly and advancing could influence the attitude of those in business. Another pertinent belief he cites is one's own perception of his worthiness and ability. He further amplifies that certain values affect entrepreneurial behavior among which are entrepreneurship as a way to excel - behavior closely related to child-rearing practices. Another value-orientation is entrepreneurship as a way to gain or maintain status, especially in those societies where entrepreneurship is a cherished occupation. See Louis Kriesberg, "Entrepreneurship in Latin America and the Role of Cultural and Situational Processes," International Social Science Journal, Vol. 15, No. 4 (1963), pp. 581-594.

The respondents were asked a simple question: why did you decide to do your own business rather than work for someone else? (See Q61A and Q61B). They were requested to pick two reasons from a list of reasons and to rank them accordingly. They also had an option to give their own reasons. The reasons were selected a priori to reflect some of the values and beliefs minority groups are likely to entertain. We shall adopt two approaches to analyze our entrepreneurs' response to the question.

Our purpose is to determine whether there is a general agreement between the respondents about the ranking of the reasons they picked. Spearman's rank correlation coefficient<sup>38</sup> could again be employed here. If the entrepreneurs are in complete agreement, the value of the coefficient should be unity, and if there is complete disagreement, the value should be minus unity. The response to the questions is shown in Table 8-3.

The Spearman rank correlation coefficient has a value of .36, revealing not much agreement.  $T$  assumes a value of 1.09, and with 8 degrees of freedom the coefficient is statistically not significant even at .10 level of  $t$ . We conclude therefore that the entrepreneurs do not completely agree on primary reasons for going into business.

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<sup>38</sup>The coefficient is defined as before. It is to be noted that this technique is applicable here since the number of items to be ranked is not less than ten.  
The relevant formula for  $t$  is defined as before.

TABLE 8-3REASONS FOR GOING INTO BUSINESS

<u>Reason</u>	<u>No. of times mentioned as first reason</u>	<u>No. of times mentioned as second reason</u>
1. To make money	14	10
2. To be my own boss	10	7
3. Employment security	5	2
4. To reap fruit of own labor	7	2
5. To display my ability and skill	9	7
6. To provide employment in community	2	8
7. Desire to continue family business	3	1
8. Search for leadership roles	1	1
9. By accident	1	0
10. Blacks need black business	0	1

A second method for analyzing the reasons is to group them into meaningful categories since some of the reasons pivot on identical goals, values or beliefs. By this grouping, we are assuming that each category occupies a specific position in a hierarchy of reasons to which a majority of the entrepreneurs subscribe. The ten reasons could be grouped into five categories. By a point scoring system, we can rank the categories such that each first reason mentioned by a respondent receives 2 points and the second reason 1 point. The result is shown in Table 8-4 below.

TABLE 8-4

REASONS FOR GOING INTO BUSINESS: GROUPED RESPONSE

Reasons	<u>First Reason</u>		<u>Second Reason</u>		<u>Total Score</u>	<u>% Rating</u>
	<u>No. of Times Men-tioned</u>	<u>Score</u>	<u>No. of Times Men-tioned</u>	<u>Score</u>		
1. To make more money	14	28	10	10	38	27.0
2. To be my own boss and reap fruit of own labor	17	34	9	9	43	30.5
3. To display ability and skill	9	18	7	7	25	17.7
4. To provide myself with employment security	5	10	2	2	12	8.5
5. Identity and personality projection	6	12	11	11	23	16.3

The % ratings of the scores in Table 8-4 differ remarkably from the findings of Pact Inc. Reasons advanced by San Francisco black businessmen are given by Pact Inc. as follows:<sup>39</sup>

To be my own boss	-	52.7%
Employment security	-	20.2%
To display ability and skill	-	14.8%
Possibility of unlimited income	-	4.4%

Germane to our interest, however, is the prime importance both San Francisco and Boston respondents attach to "desire to be their own boss."

In his 1947 study of 282 black businesses in 12 cities, J. A. Pierce gives the following reasons for his respondents going into business:<sup>40</sup>

Economic possibility	-	65.2%
Special interest and ability	-	15.5%
Family connections and influence	-	10.1%
To meet a racial need	-	9.2%

A further breakdown of the first reason is necessary to enable us to make a meaningful comparison. However, Pierce in his analysis interprets this to mean "desire to make money." We can thus reasonably argue that this reason was buttressed on post-War economic reconstruction which provided an infinite mix of economic opportunities

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<sup>39</sup>Pact Inc., op. cit., p. 42.

<sup>40</sup>J. A. Pierce, Negro Business and Business Education. New York: Harper & Brothers, 1947, p. 37.

for all social classes. But now such a belief is no more a budding reality.

If we compare the reasons given by our Boston entrepreneurs with those given by technical white entrepreneurs, former employees of M.I.T. laboratories, who founded their own companies, we can detect a slight shade of emphasis. The most common reasons given by the technical entrepreneurs were: (1) innate and long-time desire to form own business, and (2) conception of a new idea or technology for a potential market.<sup>41</sup> While our black respondents were motivated more by the desire for independence and economic gains, the "innovative" white entrepreneurs were influenced more by the desire to commercialize innovative ideas in the form of specific products which could simultaneously serve as a means to create success stories.

The reasons ranked in order of total score (as indicated in Table 8-4) have far-reaching implications in terms of Negro history, problems, values, beliefs and dreams. The highest score of 43 for the category "to be my own boss and reap fruit of my own labor" re-echoes the hardships which Negroes have been experiencing over three centuries. It also reminds our entrepreneurs of the slave tradition and social injustice in the American society. Further, since most black workers believe that they are underpaid in most economic sectors, and therefore do not reap the fruit of their own labor, the respondents are merely expressing their pent-up beliefs of social

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<sup>41</sup> Forseth, op. cit., p. 98.



injustice they have been subjected to.

The second highest score of 38 for the category "to make more money" is similarly not surprising. The respondents are merely giving vent to an entrenched American value that accords respect to the "guy who can amass the buck." Moreover, since affluence coupled with education often constitutes the basis for social acceptability of blacks, the respondents are simultaneously expressing a cherished aspiration to move up the social ladder.

"Avenue to display ability and skill," the third in rank, could be a convincing reason for potential entrepreneurs who repeatedly face occupational immobility, or are so low in the occupational echelon to hope for fast promotions. Negroes, compared with whites, generally have lower skills, and therefore this category requires a different interpretation from the "projectors"<sup>42</sup> of Collins and Moore. In the main, when our respondents refer to their desire to display their ability and skill, they imply a belief of an acquired (or innate) ability to manage a business and make it grow. They also imply that their shrewdness and thrift acquired through worthwhile work experience make them potentially successful businessmen. As an illustration of short stories about work experiences told by

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<sup>42</sup> Independent entrepreneurs have been described by the co-authors as projectors, i.e. men who want their ideas to come into fruition. It is evident that the co-authors are primarily concerned with manufacturers, and therefore categorize their projectors as people with: (a) the idea of an invention; (b) the idea of a product; (c) the idea of exploiting resources; (d) the idea of a market; (e) the idea of making money. See Collins and Moore, op. cit., pp. 115-134.

some of the respondents, Mr. Sammy Blackman used to be a supervisor of a large white-owned automobile parking garage. Usually when the owner, Mr. Whiteman, was absent for a few weeks he used to manage the entire garage, and because of his efficiency during these occasions, he was frequently rewarded with pay raises. At one time, Mr. Whiteman decided to take a long vacation. Instead of entrusting the business to Mr. Blackman as usual, he promoted a white employee next in rank to Mr. Blackman to take over. Disillusioned, Mr. Blackman joined the staff of the garage next door. By the time Mr. Whiteman returned from his vacation, his business had almost collapsed to such an extent that he had to put it up for sale. According to Mr. Blackman he was approached by Mr. Whiteman to take over the supervisory post but he refused.

A number of inter-related reasons have been lumped together under the category "identity and personality projection," fourth in rank. In fact as a second reason, it was the most frequently mentioned. It deeply epitomizes a search for social recognition which haunts minority groups in several cultures. As far as American blacks are concerned, it is a stepping stone to achieving an imagined social status denied them on account of color and slave tradition. It further mirrors a rejuvenated awareness that after all blacks have something to offer in the business arena, no matter how marginal their contributions may be. As an observer puts it: "The entrepreneur in the ghetto may not have enough to eat, but he does have a hierarchy and he can find status and pride within it.

He may have as a pimp or a hustler the equivalent of a key to the washroom, a carpet on the floor, and a private secretary."<sup>43</sup>

"Employment security," the last in rank, has a low score of 12, not because it is relatively less important to an average American black businessman, but because he knows well that the marginality of his enterprise spells frequent insecurity, and therefore as a reason for going into business he must rank it the lowest of all. Consider as an example a case where on one Saturday afternoon the author received an appointment to interview one of the few businessmen doing well on Blue Hill Avenue. For various reasons the interview had to be postponed till the following Monday morning. On reaching the place that morning, it was a spot of great mourning and disaster. A neighbor with whom the businessman had quarreled the previous day climbed up to the roof-top in the dead of the night and set about 3/4 of the business on fire.

We would sum up our discussion by hypothesizing that more promising black entrepreneurs are motivated to go into business primarily because of (1) desire for independence or avenues to reap the fruit of their own labor and (2) desire for economic security; and that these two reasons jointly explain their ultimate ambition to enhance their status in society - ambition which is difficult to fulfil in the white business sector or in public employment.

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<sup>43</sup>Laird Durham, Black Capitalism: Critical Issues in Management. Washington, D. C., Arthur D. Little, Inc., 1970, p. 15.

### Significance of Sex, Education and Place of Birth

Our respondents differ in several ways, but most obvious of all are sex, level of education and place of origin.

#### 1. Sex

Owing to the small number of females in the study group (i.e. about 1/5), detailed comparisons between male and female proprietors will not be pursued here. We shall confine ourselves to a few comments.

As pointed out earlier, females are found in only two out of the seven categories, although proportionately female-owned enterprises are as old as those of males. We therefore do not find any relationship between age of business and sex (.977).

Female proprietors are better educated.<sup>44</sup> Only one out of the ten female proprietors has no high school diploma compared with 19 of the 42 male proprietors. Thus, the relationship between sex and education is significant at the .05 level.

There is the tendency for female businesses to remain small in size even after several years of operation. Seven of the ten proprietors are small operators. Six of the seven have been in

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<sup>44</sup>In her study of small businesses in Poughkeepsie, N.Y., M. Newcomer reached the same conclusion. See M. Newcomer, "The Little Businessmen: A Study of Business Proprietors in Poughkeepsie, New York," Business History Review, Vol. 35, No. 4 (Winter 1961), p. 485. We must also note that in general female Negroes are better educated than males. While about 43% of female Negroes in the nation had four years of high school or more in 1965, the proportion for males was about 34%. See U.S. Department of Labor, The Negroes in U.S. Washington, D.C.: U.S.G.P.O., June 1966, p. 31.

existence for at least seven years, but still employ between 5-8 persons. The study also shows that proportionately more males own second businesses than females, but this is statistically not significant (.625).

## 2. Education and Place of Origin

Our primary aim is to report a series of tests of significance performed to determine whether the level of education and place of origin of our respondents can explain their performance and attitude. In terms of educational achievement, they are divided into two groups: those with high school or college education and those who did not finish high school. With respect to place of origin, those born in the Southern states form one group, and the rest constitute another. Ideally, we should have grouped New Englanders separately, but those born outside New England and the South number only 11, and this imposes some constraint on constructing meaningful contingency tables.<sup>45</sup>

It could be seen from Table 8-5 that a majority of the relationships are not significant, although marked variations in s.l. are visible in some of them. Thus we shall concern ourselves with only those tests which are significant at .05 (or less) level, and we shall also comment on two of the gamma values.

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<sup>45</sup>As explained earlier, cells with values less than 5 should form a small fraction (about 1/5) of the total number of cells in order to maintain true chi-square values.

TABLE 8-5

LEVEL OF SIGNIFICANCE IN RELATION TO EDUCATION  
AND PLACE OF ORIGIN

<u>Variable</u>	<u>S.L. for Level of Education</u>	<u>S.L. for Place of Origin</u>
Level of education	-	.228
Age of business	-	.447
Sector of business	.937	.805
Employment level	.041 (Gamma=.135)*	.292
Relevance of work experience to initiation of business	.277	.872
Challenging nature of work	.750	.129
Business transfer	.878	.983
Supervisory position	.941	.441
Volume of equity capital	.335 (Gamma=.326)	.344
Volume of physical assets	.003 (Gamma=-.319)	.858
Volume of sales	.629 (Gamma=-.169)	.181
Planning period	.717	.217
Involvement in community organization before business	.910	.948
Involvement in community organization after business	.467	.960
Ownership of another business	.835	.349

\*Gamma values are valid for rows and columns which lend themselves to systematic ordering.

The relationship between level of education of the entrepreneur and level of employment is significant at the .05 level. The relevant correlation coefficient is positive (Goodman-Kruskal Gamma = .1351) but not convincingly strong. Those with a minimum of high school education tend to employ more people. As an illustration, only one proprietor out of 20 with no high school diplomas employs 17 or more persons, compared with 9 out of 32 proprietors with a minimum of high school diplomas. If employment level is a useful measure of "promising performance," then a minimum level of education for the operation of certain types of business should interest policy-makers. In manufacturing, for example, all the proprietors have high school diplomas and additional technical or vocational training.

The association between the level of education and volume of physical assets is significant at the .005 level. Respondents with a minimum of high school diplomas reported less volume of physical assets than those with no high school diplomas, and thus the correlation between the level of education and volume of assets turns out to be negative (Goodman-Kruskal Gamma = -.319). This could be explained by two major reasons. Either those with a minimum of high school diplomas intentionally concealed the actual values of their physical assets, or those with no high school diplomas are more prudent with respect to investment decisions. The latter reason is reinforced by the fact that proportionately more proprietors with a minimum of high school diplomas started their businesses with more equity capital, revealing a positive correlation between the level of

education and volume of equity capital (Goodman-Kruskal  $\Gamma=.335$ ), and yet they report less assets.

In conclusion, we should note that whereas the level of education of our respondents seems to offer us some clues, place of origin apparently has not been a decisive factor in explaining any aspect of their performance. In the main, this is due partly to the diminishing influence of the "Southern tradition," partly to the experience some of the Southern-born proprietors gained in other cities before settling finally in Boston, and partly to their work experience prior to going into business.

#### Summary of the Study

Our method of approach has been to divorce the characteristics and problems pertaining to types of enterprise (Chapter VII) from the characteristics and the behavior of the entrepreneurs themselves (Chapter VIII). Indirectly it is being implied in Chapter VII that irrespective of the characteristics and background of black entrepreneurs, the ghetto environment imposes intractable limitations on their ultimate success. On the other hand, we learn in Chapter VIII that even though "demand determinants" may be in full force, black entrepreneurs must prepare themselves through worthwhile work experience, acquisition of sufficient management skills, prudent investment decisions and self-discipline to realize the implicit advantages in public programs. We may sum up the highlights of our study as follows:



1. A majority of potentially successful enterprises "look into" the ghetto environment for their survival - an environment severely stricken with poverty. "Looking out" by reaching the white market may pave the way for their ultimate success.

2. Our more promising black enterprises have not made an impressive dent into the ghetto unemployment problem, and this could be explained by such reasons as: (a) Low wages. Most of them cannot compete effectively in the labor market owing to low wages paid to workers, an average monthly wage rate being \$495. Consequently, a majority of them can employ only semi-skilled and unskilled workers. (b) Inadequate employee benefits, which tend to deter more useful workers. (c) Insufficient management skills, exemplified by planning and investment practices.

3. Though loans are now more accessible than before, working capital to tie them over during critical periods, and the absence of a public program for providing equity capital are major bottlenecks.

4. A majority of our more promising entrepreneurs come from families that are not different from average black families. Thus, they do not possess the business tradition upon which they can anchor, and as a result they are necessarily prone to public support.

5. A majority of them are also less involved in community organizations geared to race-advancement, and could therefore be described as "poor manipulators of their civic environment." The author has argued that their involvement in race-advancement organizations could be a worthwhile endeavor simply because benefits

resulting from civic actions have a direct bearing on business promotion.

6. By investing in more than one business, while managerial and reliable labor are in short supply, "dual entrepreneurship" could in the long run hurt most inefficient black entrepreneurs who indulge in it.

7. Worthwhile work experience and assumption of positions of responsibility as supervisors are important keynotes to entrepreneurial transfer from the white business sector to the ghetto.

8. Though several reasons may dictate a black person going into business, the dominant reasons are likely to be those that assure him that he can enjoy the fruit of his own labor, and that by so doing he can make more money.

#### Relevance of the Study to Public Policy, i.e. Demand Determinants

In Chapter II, a case was made to the effect that to develop entrepreneurship at the grassroots level, demand determinants, i.e. public programs capable of arousing individual's interest to seize economic opportunities, are more important than supply determinants, i.e. voluntary seizure of economic opportunities. If we accept this premise, then the underlying implication is that well-tailored promotional programs should open up more opportunities for blacks to go into business.

This study raises a number of issues in relation to demand determinants. First, it affirms the fact that even the more promising

entrepreneurs in the Boston black community enter business with an average equity capital of \$6,000 which by American standards<sup>46</sup> may be considered inadequate to start a viable business. It is a fact that for a given level of operation, there is a minimum "quantum of equity capital" necessary to put the enterprise on a proper footing, and this is one of the basic weaknesses of black enterprises. In addition to the problem of equity capital, some respondents complained about lack of working capital and expansion loans. These three types of capital fall within the scope of public assistance programs.

The study also indicates that employee problems are paramount. Among these is the high cost entailed in the hiring of the hard-core and inexperienced black workers. In most cases, they need training when they are hired, but after receiving some basic training and just at the time when they begin to be useful to the black employers, a sizeable number of them leave for the white business sector. To minimize the risk black employers incur in voluntarily hiring the hard-core and inexperienced black workers, a program could be designed specifically for well equipped and capable black firms to offer job training for these workers. A special program is necessary because most black firms "marginally" participate in the JOBS program which pays corporations an average of \$2,400 annually per worker for training the hard-core unemployed.

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<sup>46</sup> Professor E. B. Roberts, Sloan School of Management, M.I.T., has kindly pointed out to me that proprietors of companies which span off from M.I.T. laboratories had an average equity capital of \$10,000.

Another employee problem is inadequate fringe benefits. In the absence of attractive benefits, black enterprises cannot compete on the job market. A program to assist small enterprises to provide better fringe benefits to their employees may raise discontent in some quarters. Nevertheless, it is politically feasible to integrate it with the proposed negative income tax program. This strategy will be discussed in Part IV of the study.

The problem of decline in volume of business due to urban renewal is found by the study to be severe. Respondents indicated that it took them between 6 months and two years to recover from business relocation caused by urban renewal. This hardship could be mitigated through a relocation assistance program that takes into account total losses and not just an arbitrary subsidy ceiling of \$3,000.

The study also raises a delicate issue with respect to dual entrepreneurship. Although the study does not offer any proof as to whether dual entrepreneurship is profitable or not, the need to discourage inefficient dual entrepreneurs who operate with SBA-guaranteed loans cannot be overemphasized.

Lastly, it is indicated by the study that worthwhile work experience is a cornerstone to successful entrepreneurship. This being the case, could public policy encourage more enduring job training programs and job opportunities for the minority? In fact, the future of black entrepreneurship in America may well depend more on meaningful job upgrading and useful work experience than on any other program.

In sum, the study attempts to deal with selected aspects of problems facing black entrepreneurs. Problems related to management are superficially touched upon not because they are unimportant but because they require a more systematic investigation and the full cooperation of respondents to obtain useful answers. Further, problems concerning pricing have been evaded for the same reason. Another area of investigation not included in the study is the use of federal technical assistance programs. The original questionnaire covered these programs, but the pretest of the questionnaire and the first ten interviews revealed that respondents were either not interested in the programs, or the programs were considered less crucial as far as their ultimate success is concerned. Consequently the technical assistance part of the questionnaire was dropped in the course of the interviews.

Before we offer specific recommendations on how to tackle the problems identified in the study, it may be appropriate to sketch and evaluate briefly the major federal programs designed to promote minority entrepreneurship. We shall also examine the role the private sector is currently playing in the national crusade to build "black capitalism."

## PART IV

### CONCLUDING NOTES

Black capitalism may well be the least expensive way for society to help the black upgrade himself economically. Relatively little risk capital, even if subsidized in some way by government ..... can help establish thousands of businesses that provide jobs, income for the owners, and a healthy addition to the gross national income.

Howard Samuels (Saturday Review  
Aug. 23 1969, p.23).

## CHAPTER NINE

### IN SEARCH FOR SOLUTIONS

#### The Private Sector and Promotion of Black Entrepreneurship

Within the last five years, corporations have become involved in finding solutions to social problems which normally fall outside the realm of profit-and-loss calculus. Among different age-groups, a firm belief is entertained that corporations should shoulder "social responsibilities," such as air and water pollution, training of the hard-core unemployed, aid to disadvantaged entrepreneurs, re-building of the school system, etc. The rationale behind the universal demand for a greater involvement of corporations in social affairs stems from the close relationship between societal progress and corporate prosperity. Shareholders and executives cannot sleep if their factories are constantly threatened by riots. Clarence C. Walton poses the problem more succinctly thus: "Required, too, is a completely different kind of business structure, and a completely different set of standards for measuring performance would be required for corporations to attain the objective of dual service to shareholders and to society."<sup>1</sup>

Apart from evoking the "doctrine of corporate social responsi-

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<sup>1</sup> Clarence C. Walton (ed.), Business and Social Progress. New York: Praeger, 1970, p. 10.

bility" to justify why large corporations should join the battle to upgrade minority entrepreneurship, there are practical and historical reasons to be considered.

1. Given the capitalistic structure of the economy, the private sector serves as a training ground for independent entrepreneurship.

2. Business is goal-oriented in terms of economic rewards, as compared with political rewards which are often ephemeral.

3. The life of a corporation is longer and its decisions more lasting than an elected government.

4. American business, compared with say Japanese business, is socially more buoyant; it offers ever-widening opportunities for individual economic advancement, free from hereditary cleavages.

5. Unlike some European countries, notably Britain, meritocracy, political influence and economic power often converge on corporations, as evidenced by their lobbying powers on Capitol Hill.

6. The capacity of corporations to commit and risk resources for social goals far exceeds that of the government. As an illustration, outstanding SBA loans accounted for less than 2% of business loans made by commercial banks.<sup>2</sup>

7. As pointed out earlier, a large number of corporations, especially departmental stores, utilities and financial institutions depend solely on economic stability of central cities. In some cases,

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<sup>2</sup>S. A. Levitan, G. L. Mangum and R. Taggart III, Economic Opportunity in the Ghetto: the Partnership of Government and Business. Baltimore: The Johns Hopkins Press, 1970, p. 9.



without minority patronage they could lose over 25% of their regular customers. Some financial institutions cannot legally operate outside the statutory boundaries of the city.

For all these reasons, the future of black entrepreneurship will "partly" rest on a more favorable attitude of corporations. Corporations have recently sought to aid black enterprises in six main ways.<sup>3</sup>

(1) Some owning branch plants in the ghettos have sold them to residents at reasonable prices. (2) Certain corporations have formed joint ventures with black entrepreneurs, each hoping to gain from the other. (3) Large corporations have gone outside their established markets to buy supplies and services from black-owned enterprises. (4) Some have donated large sums of money, machinery, and have freely supplied technical assistance to incipient black businesses. (5) Some banks have adopted a more liberal attitude toward lending to minority groups. (6) Several corporations are working with community organizations on economic and social programs.

It is disheartening to note that the experience of corporations energetically involved in promoting black entrepreneurship has been less rewarding.<sup>4</sup> In a recent nationwide study of 30 cases of corporate involvement in ghetto business and black entrepreneurship,

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<sup>3</sup>For more on ways corporations are involving themselves, see Conference Board, op. cit., ch. 1.

<sup>4</sup>Various accounts of discouraging experiences as reported in the Wall Street Journal can be found in the Staff of the Wall Street Journal, Business and Blacks. Princeton, N.J.: Dow Jones Books, 1970. See also Conference Board, op. cit., pp. 55-101.

the Conference Board reports: "Most of the ventures studied have encountered greater difficulties, incurred higher costs, employed fewer people and met with less success than had been anticipated at the outset."<sup>5</sup> The report goes on to specify that the main problems pertain to the training and integration of the hard-core workers, working with inexperienced management, adaptation to unusual managerial relationships, establishing and holding markets, misjudgements in planning and the loss of outside company support.

Similarly, poor public relations and frequently clogged channels of communication between black leaders as well as black entrepreneurs and representatives of corporations doing business in ghetto areas constantly lead to tensions, inconducive to mutual cooperation in business. Some black leaders regard the role of the corporations in the development of the ghetto as token gestures to allay the discontent of riot-prone black youths. Others are critical of the fact that better benefits, e.g. tax incentives and retrieval of job training costs from government accrue to investors than to local residents, and consequently they view the whole situation as another means to perpetuate the imbalance in economic and political power.

In spite of these early set-backs, we cannot question the capacity of the private sector to turn the tide in a more favorable direction. We should painfully admit that huge corporate investment in ghetto areas will not occur in the foreseeable future under normal

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<sup>5</sup>Conference Board, ibid.

market conditions. It is for this reason that the Government must be the "goad and the catalyst" to trigger the interest of the private sector through properly designed programs.

#### Performance of the Public Sector

Independent entrepreneurship as a vehicle for promoting black economic progress poses four serious problems in relation to public policy. First, it implies "compensatory opportunities." In other words, rigid economic criteria cannot be applied to such programs as federal contract awards to minority businessmen and economic opportunity loans, i.e. Title IV of the Economic Opportunity Act. Second, a sound public policy dictates that a dollar invested in promoting black entrepreneurship should have a multiplier effect. It should not be regarded as another "welfare buck." The implication here is that putting many blacks in business will not necessarily ameliorate black economic problems. Rather, the emphasis should be on the quality of entrepreneurship. Third, promotion of black entrepreneurship as a public policy cannot avoid the question of choice of economic sectors in which promotional efforts should be concentrated. Involvement of black entrepreneurs in such rapidly growing sectors as pollution and environmental control, electronics and aerospace is a sine qua non if they are to make any headway at all. Lastly, although a greater part of the burden may be borne by the private sector, yet the initiative, leadership and guidance in all promotional efforts should come from the Federal Government.

### Adequacy of Demand Determinants

The Federal Government's interest in minority entrepreneurship began in 1961 when President Kennedy, in his Plans for Progress, appealed to corporations to adopt voluntary compliance in the area of equal employment and economic opportunity. By 1969, 441 corporations had subscribed to the program. The Economic Opportunity Act of 1964 was another landmark. For the first time SBA could make small loans<sup>6</sup> to very small businessmen.

The next landmark was the Economic Opportunity Loan, popularly referred to as EOL, which has helped many minority persons to go into business. In an interview with one top official of the SBA regional office in Philadelphia, the author was told that before the passage of the Act officials were so conservative that they had made only four loans to minority persons in Philadelphia. But between 1964 and 1970 they made about 900 loans.

The next landmark was the signing of Executive Order 11458 on March 5, 1969, establishing the Office of Minority Business Enterprise (OMBE) in the Department of Commerce to promote minority entrepreneurship. The Order also authorized the establishment of an Advisory Council for Minority Enterprise, comprising top government officials, business leaders and leaders of minority groups. Besides, the Order established an Inter-agency Committee to

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<sup>6</sup>The loan program started with the six-by-six program by which SBA made \$6,000 loans to small businessmen for six years with or without collateral. This was later replaced by the Economic Opportunity Loan program. (See Appendix E.)

coordinate the activities of federal agencies capable of assisting minority entrepreneurs.

In Appendix E an attempt has been made to summarize the main federal programs directly related to the promotion of minority entrepreneurship.<sup>7</sup> One cannot help but be impressed by the diversity of opportunities which the programs are "supposed" to entail. An obvious question posed here is, to what extent are the programs meeting specific objectives of the government, or how effective are they? The promotional activities of OMBE has been given a wide publicity, which is out of proportion to the monitoring role it was created to play. It appears, as some observers put it, that "the new office is just another substitute for action."<sup>8</sup> In fact, no new program has been authorized by Congress since the passage of the Economic Opportunity Act. A brief examination of the loan and technical assistance programs may illuminate some of the shortcomings of the current programs.

With respect to Economic Opportunity loans, SBA tends to emphasize the number of persons being helped instead of business types that possess growth potential. To illustrate this point, while the total number of minority loans increased by 96.6% in FY 1969, the

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<sup>7</sup>For a more comprehensive description of all federal programs capable of assisting minority entrepreneurs, see U.S. Dept. of Commerce, Special Catalog of Federal Assistance Programs for Minority Business Enterprise, compiled for the Executive Office of the President by the Office of Economic Opportunity. Washington, D.C.: U.S.G.P.O., 1969.

<sup>8</sup>Levitan, Mangum and Taggart III, op. cit., p. 74.

dollar value of such loans increased by only 23.4%, i.e. from \$19,715 in FY 1968 to \$24,327 in FY 1969.<sup>9</sup> The small size of economic opportunity loans (maximum \$25,000) poses two problems. First, commercial banks are usually not interested in making small loans owing to excessive overhead costs. Second, so long as EOL loans remain small, minority entrepreneurs will remain small operators. Sooner or later, they will be advocating for larger loans, and at that point the government will have to decide between on the one hand more small loans and attendant marginal businesses, and on the other hand, larger loans for a selected number of entrepreneurs capable of entering viable businesses.

Again, on the question of loans, serious doubts have been expressed as to the efficacy of the Minority Small Business Investment Companies (MESBICs),<sup>10</sup> a program launched in November 1969 to inject private long-term loans and equity capital into minority businesses. For every dollar put up by a MESBIC, SBA adds two dollars, and a minimum sum that a corporation can put up is \$150,000. The government then adds \$300,000. With a paid-up capital of \$450,000, the corporation can raise a government-guaranteed loan, amounting to \$2.5 million (\$3.5 million maximum) from a bank for a period of 15-20 years.<sup>11</sup>

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<sup>9</sup>SBA Annual Report, 1969, p. vi.

<sup>10</sup>For a critique of MESBICS see Richard S. Rosenbloom and John K. Shank, "Let's Write Off MESBICS," Harvard Business Review, Vol. 48, No. 5 (Sept.-Oct. 1970), pp. 90-97.

<sup>11</sup>For other details see Dept. of Commerce, Special Catalog, op. cit., p. 91.

So far, the program has not been successful. Out of 100 MESBICs budgeted for FY 1970, only 9 were established. It should be pointed out that the program is really not new. It is just a variation of the Small Business Investment Companies (SBICs) created by the Small Business Investment Act of 1958. SBICs themselves have not been very successful,<sup>12</sup> and on this score, MESBICs should not have been patterned after SBICs. Rosenbloom and Shank have pointed out that small SBICs do not succeed until private capitalization exceeds \$1 million,<sup>13</sup> and no MESBIC has so far achieved this level of capitalization.

Moreover, SBA regulations governing the operation of MESBICs pose three major problems. First, a MESBIC cannot invest more than 20% of its private invested capital in one company. Therefore, it is not likely that a MESBIC will be involved, at least in the foreseeable future, in any large scale ghetto enterprise. Second, SBA regulations require that a MESBIC engages two full-time managers. Together with their secretarial services, the cost of labor alone could erode much of the company's capital reserves. Third, most minority enterprises require substantial supervision during the first two years. Overheads associated with technical services could severely drain the resources of financially weak MESBICs.

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<sup>12</sup>See Addison W. Parris, The Small Business Administration. New York: Praeger, 1968, pp. 234-235.

<sup>13</sup>Op. cit., p. 94.

To be sure, MESBICs are not only imperfect substitutes for other forms of financial assistance, but also their investment decisions are not linked with specific development goals for ghetto areas. While the MESBIC program is vaguely attempting to create individual capitalists, it ensures that economic decisions reside mainly with external agents, i.e. the MESBIC's and financial institutions which finance them, and for black leaders who want to have "a piece of the action," MESBICs detracts from their search for economic and political equality.

In connection with technical assistance programs, the main roadblock relates to duplication of efforts by three federal agencies. (See Appendix E.) In Boston alone, over half a dozen non-profit organizations, excluding business schools, are funded by federal agencies to provide technical assistance to minority entrepreneurs. Duplication and lack of coordination of technical assistance programs have reached a point where it is difficult to evaluate the effectiveness of individual organizations. Some even share the same classroom facilities in Boston. One businessman bitterly complained in an interview with the author that in spite of the apparent usefulness of the organizations, they are so numerous that one does not know which of them should be listened to. Other businessmen contend that the frequent breakdown of channels of communication between them and agents of the organizations is the main reason why they have not persevered to take a maximum advantage of the programs. No doubt a better method for delivering technical assistance could be devised.



### The Role of State and Local Governments

A few states have so far launched programs to aid minority businesses. New York has a legislation that provides business-tax credits and property-tax exemptions for businesses that locate and improve facilities in poverty areas. Under the Illinois Community Investment Program, state funds in banks can be used by businesses willing to use them for urban development purposes. Some trust companies in Chicago are using these funds to make loans to minority businesses. In California, the Job Development Act of 1968 permits the state to guarantee loans made by non-profit organizations to minority-businesses. The state of Pennsylvania has chartered the Greater Philadelphia Community Development Corporation to, among other things, invest in businesses located in poverty areas.

The involvement of cities is not only marginal, but it is of very dubious nature. A few cities are experimenting with Model Cities grants-in-aid to provide equity capital to minority businessmen.

Although the states and individual cities can play an important role in promoting minority entrepreneurship, it is doubtful whether they will devote much resource to it. To them, minority entrepreneurship is just a trivial aspect of the urban crisis, and besides they feel that the economic problems of the minority belong to the realm of federal programs.

### Black Entrepreneurship and Community Development

Two new programs have recently been initiated, incorporating

minority entrepreneurship with large-scale community development. The first is an EDA's central city poverty area program which is being experimented upon in a few cities. Under Section 401(a)(4) of the Public Works and Economic Development Act (1965), the Secretary of Commerce is authorized to designate any area afflicted by high unemployment as a "redevelopment area," making it eligible to receive funds for employment-generating projects.

In addition to other goals, the program hopes to offer minority entrepreneurs opportunities in business. Needless to emphasize, the program is geared to the economic development of central cities and especially projects which will generate many jobs and enhance their tax base. Consequently, entrepreneurial opportunities for the minority are of secondary importance. As an illustration, the Mid-Chicago Economic Development Project,<sup>14</sup> recently funded by EDA, has assigned a minor role to minority entrepreneurship. The population in the project area is 90% nonwhite, but the first stage of the plan indicates that minority entrepreneurs will be involved in only two projects: a multi-service commercial center and a housing project. In an interview with one of the top officials in the Mayor's Office, the author was informed that four out of every five minority enterprises in the city do fail, and therefore such

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<sup>14</sup>For a full account of the project, see the Mayor's Committee for Economic and Cultural Development, A Partnership for Action: Mid-Chicago Economic Development Project. Chicago, May 1970.

enterprises cannot make any economic impact on the area. The truth of the matter is that local politicians are mostly interested in creating jobs for the minority with EDA funds, while black leaders on the other hand think that they are entitled to "a piece of the action."

The second experiment in community development is the Model Cities Economic Development Program funded by HUD. The thrust of the program is in three directions: to expand employment opportunities, to promote entrepreneurship and to improve the delivery of goods and services to Model Neighborhood residents. Philadelphia, the first city to receive a \$2.8 million grant early this year for the program,<sup>15</sup> is experimenting with a type of economic development approach very similar to proposals contained in the Community Corporation Bill of 1971. The program calls for the formation of three agencies: (1) a central agency to serve as a conduit for all funds; to coordinate and oversee all other programs. (2) An Economic Development Corporation to assist in land development and in preparing plans, to deliver technical assistance to entrepreneurs, to advance loans for different types of business, to provide consumer services, and so forth. The Corporation is also authorized to accept tax-deductible contributions from outside and to enter into joint

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<sup>15</sup>See the Greater Philadelphia Community Development Corporation, "GPCDC to Participate in the Innovative Model Cities Development Program," Business Information Digest, Vol. 1, No. 19, April 15, 1971, p. 2.

ventures with corporations. (3) A Venture Capital Corporation to invest in small businesses through neighborhood councils; residents will participate in planning, monitoring and evaluation of programs.

Before we evaluate the Model Cities economic development program, a brief reference should be made to the Community Corporation Bill of 1971,<sup>16</sup> because both are based on almost identical community development concepts. The Bill calls for the establishment of a National Community Corporation Certification Board in the President's Office, and an advisory committee to advise it. It will be responsible for chartering national community development corporations at the local level. Funds appropriated by Congress will be put in a Trust, and the Board will use the funds to finance the activities of the local development corporations. The Bill authorizes corporations to issue shares to local residents. A Board of Directors, all shareholders of a local corporation, shall direct its activities, which according to the Bill should include:

increasing (people's) economic and educational opportunities; expanding their ownership of productive capital and property, improving their health, safety, and living conditions, enhancing their personal dignity and independence; expanding their opportunities for meaningful decision-making and self-determination....<sup>17</sup>

Local corporations will be authorized to set up community development banks, with full powers to make business loans and to

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<sup>16</sup>For details of the Bill, see U.S. Senate, Committee on Labor and Public Welfare, Community Corporation Bill 1971. Committee Print, January 22, 1971.

<sup>17</sup>Ibid., p. 16.

extend credit, and to provide legal, managerial and other types of assistance to their clients, to make equity investments and to guarantee business loans. The activities of the banks will be regulated by the community development corporations' governing board, and their sources of finance will come from the corporations and from voting and non-voting shareholders.

Other features of the Bill are designed to broaden the functions of the corporations, but our interest here is to examine the rationale and the philosophy behind the comprehensive community development approach as a vehicle for promoting minority entrepreneurship. Within the last five years, a large number of Congressmen and taxpayers have come to believe in the community development approach. However, it is incompatible with the U.S. economic and political experience. First, American capitalism is the result of individual economic achievements buttressed on the frontier spirit. A great many individuals prefer to control their own economic destiny, and not to entrust it in the hands of non-political groups.

Second, community development programs assume, at least in principle, that there are well-defined power structure and leadership in the ghetto to protect divergent economic and social interests. But OEO and other programs have taught us that the power structure is amorphous and for almost every new program or project, a new interest and power base develops, and this is because black leaders are still far from learning how to work together.

Third, policy-makers overlook the fact that the ghetto is

socially unstable, owing to a high residential turnover. It is wondered how a comprehensive local development scheme can be built around an unstable population.

Fourth, dearth of political power and influence in the ghetto make social and economic programs poor bedfellows. On the one hand, social programs in poverty areas are often the source of political influence of mayors, a majority of whom are not going to give in to direct involvement of the Executive Office of the President in local affairs. On the other hand, economic programs belong to the domain of the private sector which looks at social problems from a different angle.

The author strongly believes that as a vehicle for economic change and growth, all-inclusive community development programs will simply not work in the foreseeable future. Social programs should be separated from economic programs if our intention is to pursue more realistic and practical development goals. In effect, this will mean the creation of two separate institutions: one social and the other economic, and the best economic institution to fulfil the economic needs of the ghetto is a development bank. As an economic institution, it has withstood the test of time, and should therefore be given a trial in the U.S. poor communities.

#### Need for an Autonomous Community Development Bank

The use of a development bank as a vehicle for the development is actually not a new idea among liberal politicians. It was first

proposed in 1967 by Senator J.K. Javits.<sup>18</sup> It is important to stress that a local development bank should indeed be divorced from local politics as much as possible, and should follow mainly economic goals. The following simple structure and functions of an ideal community development bank are proposed:

1. An enabling legislation should be passed by Congress to give it a national political support.
2. Board of Directors: At least at the local level there should be a Board of Directors appointed by the President, and should represent four major interests, namely local residents, the Federal Government, private business and the city hall.
3. Loan Division: to grant all types of loan and to extend credit.
4. Technical Assistance Division: to coordinate and direct all federal technical assistance programs. It should be the main local institution through which SBA and EDA should communicate with the people.
5. Venture Capital Division: to enter into joint ventures by itself or to encourage local residents team up with corporations genuinely interested in doing business in the ghetto.
6. Capital Projects Division: to invest in such projects as industrial estates, mass housing, small sewage works, etc. Such projects should be selected on the basis of their contribution to the economic development of the ghetto.

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<sup>18</sup> See U.S. Congress, Senate, Senator J.K. Javits introducing the bill, The Community Development Bank and the Economic Opportunity Corporation. 90th Congress, 1st. sess., Oct. 23 1967. Congressional Record, Vol. 113, Part 22, pp. 29729-29737.

7. Sources of finance: Partly from Congressional appropriations, sale of non-voting stocks, and tax-deductible contributions.<sup>19</sup>

Recommendations Emanating from the Boston Study: Incremental Solutions

1. Loans and Credit: The proposed development bank, if established, will be the most reliable easy, source of capital for black enterprises. However to meet the immediate capital requirement of minority businessmen, the President's Task Force on Small Businesses (1970) has recommended that a separate division should be established within SBA to cater to the special needs of minority businessmen.<sup>20</sup> It is suggested that if this recommendation is accepted by Congress, then the Minority Division of SBA should institute a program to advance equity capital and short-term credits to its clients.

2. Employee-Related Problems: As discussed in Chapter VII, employee-related problems arise from (a) high turnover of labor, and its implicit high labor training cost, and (b) low wages and extremely limited fringe benefits. Two complementary programs should be instituted to improve the present situation. First, a special JOB program (see Appendix E) should be designed for minority enterprises, simply because the regulations governing the participation of firms in the present JOBS program disqualify a large number of minority enterprises.

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<sup>19</sup>Section 501(c)(3) of the Internal Revenue Code permits Organizations to make tax-deductible contributions to community development corporations or to businesses operated by members of the minority and poverty groups. For the implications of this provision, see the Yale Law Journal, Note, "Tax Exemption for Organizations Investing in Black Businesses", Vol. 78 (1969), pp. 1212-1227.

<sup>20</sup>The President's Task Force on Improving the Prospects of Small Business. Washington, D.C., U.S.G.P.O., March 1970, p.4.



To do this, the Federal Labor Standards Act and the Dun and Bradstreet credit rating used by the Department of Labor to select firms should be modified to suit ghetto enterprises. In selecting ghetto enterprises for the new program, they should be rated according to the number of persons employed, annual sales, quality of product or service, training facilities, and the quality of the physical environment. All enterprises should be grouped into three classes: high, medium and low performers. The rating should automatically disqualify low performers.

Second, to tackle the problem of poor fringe benefits, the proposed negative income tax benefits<sup>21</sup> could be applied to ghetto enterprises. It is further proposed that every minority enterprise employing five or more persons should receive a subsidy, equivalent to two-week vacation wages for all employees.

3. Improving Work Skills: The Department of Labor's on-the-job training program has helped thousands of corporations to upgrade the skills of their workers. For several reasons, it has not benefitted minority enterprises. It is suggested that a specific percentage of OJT training slots based on the total number of non-white population in a locality or state be reserved for workers employed by minority firms. To implement this program, a Joint Consultative Committee comprising representatives of the Department of Labor and minority

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<sup>21</sup>For a discussion of the merits and demerits of the proposal, see Joseph A. Kershaw, Government Against Poverty. Chicago: Markham Publishing Co., 1970, pp. 111-130.

businesses should be established in each large city or administrative region to determine periodically different types of training requirements.

4. Supervisor Exchange Program: It was disclosed in Chapter VII that there is more racial harmony when blacks and whites work together in black-owned firms, in contrast with racial tensions that occur in white firms, especially when black workers are hired through non-union channels. As a strategy for improving racial relations and to enable black workers to understudy more experienced white workers, it is proposed that a Supervisor Exchange Program be instituted. By this program, white supervisors or foremen will be assigned temporarily to black firms to act as "co-supervisors." A reciprocal arrangement will also be made for black supervisors to work in white firms. Owing to differences in wages between black and white firms, a subsidy program will be required to supplement the wages of black or white supervisors who will volunteer to participate in the program.

5. Technical Assistance: Because too many non-profit organizations compete for the same funds from SBA, EDA and other sources to provide technical assistance to the same client population, it is suggested that under SBA authorization a technical assistance council be formed in cities with large concentrations of black population. It will be composed of the representatives of minority businessmen, SBA, non-profit organizations offering the assistance, and any other state agency or academic institutions whose services may be needed. The council will select technical assistance organizations to assist individual firms until such time that the firms can stand on their

own. The council will also be responsible for arranging educational programs. Federal funds for technical assistance will be channeled through the council. Further, it is recommended that Congressional appropriations for technical assistance should be made to only one federal agency, preferably SBA.

6. The Problem of Relocation: The study discloses that it takes a minimum period of six months and a maximum of two years for relocated firms to recover completely. At present SBA pays a maximum compensation of \$3,000 to relocated firms. Very small firms receive only \$2,500. It is doubtful whether these grants cover all financial losses. It is suggested that this matter should be studied carefully so that the total relocation cost, including transportation, loss in business volume, and possibly cost entailed in furnishing a new place, is properly computed and a fair compensation paid.

7. The Problem of Dual Entrepreneurship: Our study does not reveal specifically that dual entrepreneurship does damage to marginal firms. However, since a large number of black enterprises rely on financial and technical assistance programs, we should be concerned about the effectiveness of the programs. Therefore, it is proposed here that some restrictions should be imposed on SBA-loan recipients who run two or more businesses. These restrictions should include: (a) loans received by entrepreneurs should be used for the purposes indicated on their application forms, and (b) SBA should have the right to inspect each recipient's account payables and receivables as well as profit and loss statements to determine the disbursement of cash flows.

### Effective Ways to Involve the Private Sector

It has earlier been argued that the structure of the economy requires that the private sector should be induced to promote minority entrepreneurship. In the light of the most feasible options open to policy-makers, the private sector can be involved in two major ways: (a) Joint-venture arrangements with more reputable white firms. Preference for reputable firms is justified by such factors as assured market, readily available technical assistance, use of most modern technology and training facilities for workers. Incentives to joint ventures should be made flexible enough to suit the financial needs of participating corporations, and should include various forms of tax incentives, land development grants, contributions to equity capital. Needless to emphasize, incentives should be based on profitability of projects.

(b) Franchising: The argument in favor of franchising is that a large proportion of new businesses are appendages of old ones, e.g. spin-off industries, subsidiaries, etc. Franchising is a good approximation of vertical integration, with built-in economies of scale, including quantity purchasing, national advertising, research and development, management training, easy access to credit, etc.

No doubt franchising can immensely boost black entrepreneurship, given the rapid growth of central city black population. The Office of the Minority Enterprise has initiated a program<sup>22</sup> to involve franchisors in minority entrepreneurship, and probably this is the most encouraging program launched by the agency.

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<sup>22</sup>OMBE invites 25 franchisors at a time to Washington every few weeks

### Research Agenda

We need to know several things about black enterprises, but not enough research has been done. Problems facing black enterprises may differ from one category to another, but in the main the following research areas are universal enough and most pressing.

1. Enlarging the urban market for minority enterprises: In Chapter VII it was pointed out that a two-way classification of black enterprises, namely more competitive and less competitive, can enable policy-makers to plan for the expansion of specific sectors, especially those which can make quick inroads into the larger urban market. It is suggested therefore that research should be done to identify the "real competitive positions" of various types of black enterprises.

2. Business planning: A great deal of the management problems of black enterprises could be traced to lack of adequate planning. A fascinating issue is that a lot of environmental influences affect normal business operations in the ghetto, but technical assistance to minority businessmen is patterned after textbooks' rules of thumb. For example, how do we plan for an enterprise which depends largely on credit extension to close associates and relatives? We need to know more about the significance of such environmental and social

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to discuss possibilities of drawing franchisees from the minority group. The importance of franchising to small businesses is well documented in U.S. Senate, Select Committee on Small Business, The Impact of Franchising on Small Business, 91st Cong., 2nd sess., Parts 1 and 2, January, March, April 1970. Washington, D.C.: U.S.G.P.O., 1970.

factors in business success.

3. Employer-employee relations: The author has argued that probably the most crucial problem facing black entrepreneurs relates to how to secure and maintain reliable employees. It is still not known whether poor employer-employee relations is the root of the problem. Albeit, research is needed to throw light on it.

4. How to motivate the black entrepreneur: David C. McClelland sees the low achievement motivation of the black entrepreneur as a major problem, and has subsequently initiated a program in Washington and Oklahoma to test some of his ideas.<sup>23</sup> The author thinks that further research is needed in this direction to eliminate one of the major roadblocks facing black entrepreneurship.

#### Long Range Urban Growth Considerations

The dearth of entrepreneurial talents among urban blacks is only one of the many economic problems of the ghetto. Consequently programs to promote black entrepreneurship should be conceived within the framework of: (1) a national urban development policy and (2) a national economic development policy for urban ghetto areas. A national urban development policy dictates the following:

1. Regional economic opportunities should be identified such that a "regional system of cities" will have complementary economic

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<sup>23</sup>For a description of this experiment, see D. C. McClelland, "Black Capitalism: Making It Work," Think, (July/August), 1969, pp. 6-11.

activities. To encourage inter-regional trade, specialization at the regional level will be necessary.

2. Within each regional system of cities, the economic relationships between the growing suburbs and the decaying central cities should be worked out in order to mitigate the present trend toward economic polarization.

3. For each central city, economic opportunities for independent entrepreneurship should be spelled out in detail. Sufficient emphasis should be placed on economic integration between the ghetto areas and the surrounding areas. In this connection, the breakdown of black enterprises into more competitive and less competitive sectors will become more meaningful.

These policy issues imply that systematic studies should be initiated by EDA or HUD to gather sufficient data on which a national urban development policy will be based. As a supplement to these studies local economic studies should also be pursued. It suffices therefore to stress that "carving programs" out of existing legislations to promote the development of urban poverty areas underestimates the urgency to prepare and adopt comprehensive long-term urban development plans.

4. Since it is impractical to create a dynamic entrepreneurial class relying on the present managerial know-how in the ghetto, it is the growing number of black executives and the more educated blacks who will ultimately fill the "entrepreneurial supply gap." Thus, immediate attention should be paid to job training, job placement and

job upgrading for the minority labor force in the private sector.

### Concluding Remarks

The Civil Rights and Economic Opportunity Acts of 1964, indices of "determinants of demand for entrepreneurship," have created conditions which are both conducive and adverse to black entrepreneurship. First, more capital, technical services and manpower training programs are now accessible to ambitious black entrepreneurs. But the type of technology characteristic of the U.S. economy calls for an ever-increasing capitalization of businesses even for the small businessman. Dry cleaning and laundry business is an illustration of the amount of capitalization required to establish a sound business, for the old "washerwoman" is of no use now. Another example is trucking where the black operator has to resort to automatic lifting devices, vis-a-vis the use of laborers, in order to satisfy customers. In short, external factors of technology and intensive capitalization seem to pose a real challenge to the development of black entrepreneurship.

Second, the Civil Rights Movement is gradually succeeding in breaking down the barriers of racial discrimination and segregation. Black entrepreneurs can now receive contracts from white businesses, academic institutions, and so forth. White customers are beginning to buy from blacks. Thus, it is a challenge which has been thrown at them to compete effectively in the urban market and to measure up to a standard commensurate with the expectation of the society. How this challenge will be faced constitutes one of the fundamental issues



in the growth and development of the ghetto economy.

The third upshot of the Civil Rights Movement is increasing unionization of certain occupations, especially in crafts, trades and a few professions. Black entrepreneurs are being drawn into local unions, with a full obligation to maintain union performance standards and pay union wages in order to qualify for contracts and other benefits. Unionization is therefore a challenge black entrepreneurs have to face in order to compete effectively.

Lastly, we have to ask whether black entrepreneurs are taking the fullest advantage of managerial and manpower training programs that have been placed at their door-steps by federal agencies, academic institutions and corporations. Opinions, however, seem to converge that managerial handicaps still continue to cripple black businesses. The future emphasis and focus of these programs and the willingness of black businessmen to improve their managerial talents almost at no cost will certainly be one of the key factors in black entrepreneurial development.

APPENDIX A

## ENTREPRENEURSHIP: VARIATIONS IN FUNCTIONAL DEFINITION

One is usually confounded by different shades of definition economists, starting from Adam Smith, have imposed on the behavior of an entrepreneur and the role he plays, or he is expected to play. Adam Smith (1776) conceived of the entrepreneur as a "master" or a manipulator who manipulated materials and workmen to achieve a principal goal of making a profit in his business. He stated: "in all arts and manufactures the greater part of the workmen stand in need of a master to advance them the materials of their work, and their wages and maintenance till it be completed. He shares in the produce of their labour,..... and in this share consists his profits."<sup>1</sup>

Smith was unquestionably under the spell of the system of economic organization in Europe during the eighteenth century at which time master-workman relationship was an established institution. Corporations were relatively unimportant, and even in the early nineteenth century the master was both a capitalist and an entrepreneur. His definition implies a fourth factor of production in addition to capital, land and labour, namely, the entrepreneur who master-minded an economic operation. The entrepreneur's position in that period could be compared with the role played by a contemporary board of directors of a business corporation. Although his definition fitted into the scheme of things of his day, it

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<sup>1</sup> Adam Smith, op. cit., pp. 116-117.

is too restricted in scope for our generation.

Alfred Marshall (1890), unlike Adam Smith, adopted a broader definition. He regarded entrepreneurs as adventurers who undertake risks, and who "bring together the capital and the labour required for the work; they arrange or engineer its general plan and superintend its minor details."<sup>2</sup> His entrepreneur is unquestionably a fourth factor of production, but serving in a different capacity from Adam Smith's. Marshall's entrepreneur is an active participant in the planning and production processes. His concern for details stigmatizes him as a profit-maximizer and a disciple of micro-economic principles. In comparison with present day set up of business organizations in which an administrative entrepreneur or a paid manager played the role of Marshall's entrepreneur but may not own the capital invested or control labor, the shortcomings of Marshall's definition become evident.

The function of the entrepreneur as a risk-taker who is rewarded with profits for taking risks was first enunciated by Frederick B. Hawley (1893) in his statement of the "risk theory of profit." The theory states:

The final consumer is forced to include in the price he pays for any product not only enough to cover all the items of cost to the entrepreneur, -among which items is a sum sufficient to cover the actuarial or average losses incidental to the various risks of all kinds necessarily assumed by the entrepreneur and his insurers; -but a further sum, with which, as an inducement, the entrepreneur, or enterpriser, and his insurers will not undergo or suffer the irksomeness of being exposed to risk...."<sup>3</sup>

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<sup>2</sup> Alfred Marshall, op. cit., p. 293.

<sup>3</sup> Frederick B. Hawley, "The Risk Theory of Profit," QJE, Vol. 15, (Aug. 1901), p. 610. His viewpoint was elaborated at various times. See his "Enterprise and Profit," QJE, Vol. 15, (Nov. 1900), pp. 95-105 and "The Risk Theory of Profit," QJE, Vol. 7, (July 1893), pp. 459-479. Some

In short, Hawley regards profit as a "residual income" or reward for taking risk. But Frank H. Knight (1921) severely disagrees with Hawley<sup>4</sup> and affirms that "if risk were exclusively of the nature of a known chance or mathematical probability, there could be no reward of risk-taking."<sup>5</sup> Although Knight recognizes that most risks can be insured, and therefore reducing the level of uncertainty to desirable limits, he admits that profit "is a unique kind of risk which is not susceptible of measurement."

Both Hawley's and Knight's conception of the entrepreneur as a risk-taker who is rewarded with profits for venturesomeness still leaves us with a groping desire for a more comprehensive definition. Their definitions, like Marshall's, are couched to tow the line of micro-economic theory.

The entrepreneur, as a vehicle of "economic innovation" was advanced by Joseph A. Schumpeter (1934). He is depicted as an individual whose function it is to carry out new combination.<sup>6</sup> By his ability to effect new combinations of factors of production, by acting as an executor of "strategic decisions" and playing roles of economic leadership, he be-

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of the issues he raised in later publications dealt with the distinction between an entrepreneur, a speculator and a gambler. A speculator and a gambler as he explained, do not play economic roles in a technical sense. The speculator assumes no risk; he is guided by a "distributive force." In the long run some speculators gain and others lose, so that on the average they become neutral elements in the production process. The gambler on the other hand is driven into action by the excitement of risk. If he believes the chance of winning or losing to be even, he likes to take the chance whenever opportunity offers.

<sup>4</sup> Frank H. Knight, op. cit., pp. 22-48.

<sup>5</sup> Ibid., p. 46.

<sup>6</sup> Joseph A. Schumpeter, op. cit., p. 74.

comes an innovator.<sup>7</sup> Schumpeter warns that a capitalist should not be confused with an entrepreneur, although a person could play both roles. He points out that "risk obviously always falls on the owner of the means of production, or of the money capital which was paid for them, hence never on the entrepreneur as such."<sup>8</sup>

To a large extent, Schumpeter's definition excludes the small businessman, e.g. a trader who marshalls and directs his own resources to reap the benefit of his own labor and possibly of others, without any capacity to innovate. Writing at the time of the Great Depression, he was pre-occupied with macro-economic issues and factors that were decisive in bringing about a rebirth of shattered economies of nations across the world. The innovator, or the economic leader, was therefore a crucial element in such a global crusade. At best, the function he assigns his entrepreneur approaches that of a director of a firm who is only responsible to shareholders. His claim that in theory the entrepreneur has no social status or belongs to no recognizable social class<sup>9</sup> does not mirror contemporary high positions occupied by successful industrialists in western society. Nevertheless, his definition, viewed in terms of big strides in economic development through the application of technological inventions in diverse industries is a useful one.

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<sup>7</sup> It is worth noting that an anthropological view of the entrepreneur as an agent of economic change supports Schumpeter's line of argument. As an illustration, Belshaw maintains that a true entrepreneur is one whose business expands and grows in situations of cultural change and economic development. See Cyril S. Belshaw, "The Cultural Milieu of the Entrepreneur: A Critical Essay," op. cit., pp. 146-163.

<sup>8</sup> Schumpeter, op. cit., p. 75.

<sup>9</sup> Ibid., p. 78.

Frederick Harbison (1956) unlike his predecessors, equates the entrepreneur to "an organization which comprises all of the people required to perform entrepreneurial function."<sup>10</sup>

His main objection is that traditional definition has tended to focus on individual persons performing all the entrepreneurial functions. The shortcoming of such a focus, he contends, is that it does not take into account larger firms where hierarchy of individuals perform the functions. In sum, he outlines entrepreneurial functions as follows: (1) The undertaking or managing of risk and the handling of economic uncertainty; (2) planning and innovation; (3) co-ordination, administration and control; (4) routine supervision.<sup>11</sup>

Harbison's definition, encompassing the risk-taker, the innovator, the entrepreneurial administrator and supervisor is designed to include modern industrial giants, and even shareholders in their capacity as risk-takers are not left out. However, with the diffusion of entrepreneurial functions among diverse managerial and administrative units in modern corporations, the whole concept of entrepreneurship is losing its real meaning at the expense of organizational efficiency. It is evident also that divorce between ownership and control is almost complete, and if economic power of corporations continues to grow, Adam Smith's definition will not be discarded so easily in the near future. However Harbison's definition throws more light on changing economic forces, namely, the business corporations on which major economic decisions and costly innovations rest.

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<sup>10</sup> Frederick Harbison, "Entrepreneurial Organization as a Factor in Economic Development," op. cit., pp. 364-379.

<sup>11</sup> Ibid.

Entrepreneurship conceived as "true integrated sequence of actions taken by individuals or by groups operating for individual business units ..." was put forth by Arthur H. Cole<sup>12</sup> (1965). He goes on to explain that such actions are conditioned by three processes, namely innovation, management, and adjustment to external condition. Cole's major contribution lies in identifying (1) the significance that should be attached to influences exerted by external conditions or the institutional framework which govern the incidence of profits and (2) the role of management or monitoring actions which produce desired results.

Cole touches on an interesting issue central to our task. He thinks that whether the organ is singular, plural or institutionalized is not a crucial factor in depicting who is an entrepreneur, although rational entrepreneurship would differentiate between an itinerant peddler, a primitive textile proprietor and a modern corporation.<sup>13</sup> McClelland even widens the entrepreneurial group when he states that households in preliterate societies who produced 75 per cent over and above their needs were entrepreneurs.<sup>14</sup> Fritz Redlich also makes an interesting point that the "copying entrepreneur," compared with the creative or "innovative entrepreneur" is subjectively an entrepreneur, insofar as he has done what he has never done before.<sup>15</sup>

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<sup>12</sup> Arthur H. Cole, "An Approach to the Study of Entrepreneurship: A Tribute to Edwin F. Gay," In Hugh G.J. Aitken (ed.), Explorations in Enterprise, Cambridge: Harvard University Press, 1965, pp. 30-44.

<sup>13</sup> Ibid., p. 39.

<sup>14</sup> David C. McClelland, The Achieving Society, op. cit., p. 65.

<sup>15</sup> Fritz Redlich, "Innovation in Business," American Journal of Economics and Sociology, Vol. 10, No. 3, (April 1951), p. 288.

The above survey of some of the major functional definitions of entrepreneurship conveys an important message that the functions have been changing in accordance with stages in economic development, the development of the banking system, dynamic impact of applied science and technology on business, evolution of business corporations, etc. Yet, in spite of all these developments, the "small independent entrepreneur," vis-a-vis the administrative and other types of entrepreneur<sup>16</sup> will continue to feature significantly in economic decisions. He may be a peddler, a corner-grocer or a small manufacturer; yet the combined decisions of these men, viewed in the aggregate, have economic significance. In fact, few small enterprises are designed initially to operate at their maximum scale. Most take time to grow and expand from humble beginnings.

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<sup>16</sup> Ibid. The co-authors distinguish between two kinds of entrepreneur who through both geographic mobility and vertical occupational mobility become builders of economic organization, e.g. executives who rise to become directors and managers of corporations. The second type is one who has created out of nothing an ongoing enterprise. He lacks social mobility and desire of achieving positions of rewards and authority. Vide p. 85 et seq. Hoselitz, on the other hand, identifies three types of entrepreneur: (1) the merchant type, suited to persons with predominantly marketorientation; (2) the managerial type with authoritarian orientation, e.g. the Russian factory type of manager, and (3) the industrial type, who may have characteristics of the above two but is more oriented towards production. See Bert F. Hoselitz, Sociological Aspects of Economic Growth, New York: the Free Press, 1960, pp. 149-156.



APPENDIX B

## RESEARCH METHODOLOGY

Research Design

1. Definition of Area of Study: An initial problem the author had to grapple with was whether to study businesses located in predominantly black neighborhoods or anywhere in the metropolitan area. The metropolitan area was selected for two main reasons: (a) to find out whether more successful black businesses are indeed footloose with respect to location; and (b) to determine whether certain types of black businesses require specific locations. It turns out that all the businesses which met our criteria of success are all located within the city limits of Boston.
2. Selection of Interviewees: Two criteria were employed to select interviewees, who under conditions of the ghetto economy could be regarded as "better performers" or "more successful." These criteria were (a) an enterprise employing five or more persons working full-time, and (b) the enterprise should be at least two years old, i.e. it should have been started not later than January 1969. Where an enterprise engaged part-time workers, two part-time workers were substituted for a full-time worker. For example, if an enterprise engaged three full-time workers and three part-time, then in our calculation, it employed 4.5 full-time workers, and this was adjusted to 5.

Since over 50% of small enterprises in urban poverty areas die before they are two years old, the minimum age eliminated some enter-

prises which started after January 1969, and whose future is in fact unpredictable. It should also be noted that a number of black enterprises which started after January 1969 employing five or more persons are known to be doing well but were not included in the study simply because they failed to meet our criteria. Further, community-based ventures such as Freedom Industries and State Enterprises Inc. were also excluded for the simple reason that they are not identified with independent entrepreneurship.

Of the 443 businesses recorded in the Black Business Directory<sup>1</sup> for Boston and its vicinity, 20 are located in cities and towns outside the metropolitan area. Another 49 professional types of business comprising medicine (14), law (30), architecture (3) and management consulting (2) were eliminated because they belong to another category of business venture altogether. In any event, in June 1970 about 95% of the professional businesses were employing less than five persons<sup>2</sup>, according to the author's telephone investigation. In drawing up the list of interviewees from the remaining 368 businesses, a key person<sup>2</sup> in the team who prepared the directory was approached. She had previously been working with a substantial number of the businessmen as an economic development officer of the Action for Boston Community Development, a community action agency, and she was familiar with some of the enterprises engaging three persons or less. With her assistance, about 150 of the enterprises were eliminated from the list. The author was then saddled with the task of making

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<sup>1</sup> Roxbury Businessmen's Development Corporation, First Annual Directory of Black Businesses and Professionals, 1969-70, Boston, 1970.

<sup>2</sup> My thanks go to Mrs. Riva Poor.

telephone calls to over 200 black businessmen who were asked to answer two questions: year and month of establishment and number of employees. About 60 qualified according to the telephone investigation. Subsequent telephone calls and talks with knowledgeable persons in the black community revealed about eight more. With only 68 potential respondents forming what amounted to the "total universe", the question of sampling did not arise; for it was considered that if all the 68 agreed to be interviewed on 129 questions, the results of the survey would adequately be representative. In the final analysis, 52 out of the 68 finally agreed to be interviewed.

3. Method of Interviewing: With no extra hands to help the author, a decision was taken to employ both personal interview and mail questionnaire techniques. Thus, out of the 68 businessmen, 30 were contacted through mail questionnaires, and it was made clear in a covering letter that if some questions proved difficult to answer, the author would call personally to assist them. The mail questionnaires were sent to those businessmen who either requested them during the telephone calls or were believed to be educated enough to answer the questions unaided. The remaining 38 were reserved for personal interviews. To the surprise of the author, only one of the thirty questionnaires was returned after one month. It was later discovered that mail questionnaire is the least efficient method of soliciting information from businessmen and more so in the case of black businessmen most of whom are either suspicious of the use of the information about their businesses by public agencies and researchers, or are not well educated enough to answer the questions correctly. Consequently the personal interview approach was used throughout. The interviews took place between July and November 1970.

### "Success" Criteria

It is debatable whether the use of the two criteria of success does not eliminate a lot of enterprises several years old, but are engaging less than five full-time workers, or may be doing well financially. As an illustration, some funeral homes and insurance companies, several years old, employ less than five persons, and although they are known to be financially viable in the Boston black community, they are not included in the study.

Three measures of success usually employed in business research are the size of enterprise in terms of employment, growth of enterprise and entrepreneurial income. In defense of our "success" criteria, the author is more concerned about alternative approaches to ghetto development, and one of these approaches, as we saw in chapter 2, is independent entrepreneurship capable of generating employment. Most traditional black enterprises are "parasitic" in character, feeding on the sheltered ghetto market, and insensitive to changes that can bring about dynamic growth. Employment level<sup>3</sup> and a minimum period of existence are potent yardsticks capable of separating a few enterprises with growth potential from the stagnating majority.

### Method of Statistical Analysis

A cursory examination of the questionnaire prepared for the survey (Appendix D) would reveal to the reader that mostly nominal and mutually exclusive types of data were collected. As an illustration, questions of the following types: yes-no, male-female, proprietor-partnership-corporation, predominated the questionnaire. Nominal data

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<sup>3</sup> As an illustration, 78% of black businesses in San Francisco employed between 1 - 3 persons in 1968. See Pact. Inc., op. cit., p. 9.

are usually not suitable for parametric statistical tests, but are appropriate for non-parametric or distribution-free tests such as Fisher's Exact test, chi-square, other measures of association, and rank order correlations. Much of our data analysis will therefore concentrate on determining the strength of associations between independent variables.<sup>4</sup> Some of the data warrant ranking of preferences, problems, etc., and hence ranking techniques will be used where necessary.

$\chi^2$  appears to be a more appropriate technique for analysing a greater part of the data for two main reasons: first the data are in discrete categories of mostly independent variables. Second, if the number of degrees of freedom is more than one,  $\chi^2$  tests are insensitive to the effects of order,<sup>5</sup> i.e. whether one alternative is preferred to the other, and since order is not crucial in the analysis,  $\chi^2$  is a useful statistic in this respect. Where appropriate, other measures of association, e.g. phi-square and Goodman-Kruskal gamma will be employed. Fisher's Exact test will be used in cases where a sub-group within the study group is being considered.<sup>6</sup> In all cases however significance levels

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<sup>4</sup> For an incisive description of analytical applications of non-parametric techniques, see Hubert M. Blalock, Social Statistics, New York: McGraw-Hill, 1960; Sidney Siegel, Non-parametric Statistics for Behavioral Sciences, New York: McGraw-Hill, 1956; Robert S. Weiss, Statistics in Social Research - An Introduction, New York: John Wiley & Sons, 1968; M.J. Moroney, Facts from Figures, Baltimore: Pelican Books, 1963; Philip J. McCarthy, Introduction to Statistical Reasoning, New York: McGraw-Hill, 1957. For more mathematical treatment of the subject matter, see also, L. Goodman and W. Kruskal, "Measures of Association for Cross-Classification," Journal of the American Statistical Association, Vol 49, No. 268, (Dec. 1954), pp. 733-736; William L. Hays, Statistics for Psychologists, New York: Holt, Rinehart and Winston, 1963; Maurice G. Kendall, Rank Correlation Methods, New York: Hafner Publishing Company, 1955.

<sup>5</sup> Sidney Siegel, Ibid., pp. 109-110.

<sup>6</sup> Fisher's Exact Test is suitable for analyzing 2X2 contingency tables if the total sample or population is very small; 40 or less has been suggested. See Ibid., p. 110; Blalock, op. cit., p. 221.

will be determined by the number of degrees of freedom, which normally is dependent upon the total number of cells comprising each contingency table.<sup>7</sup>

To avoid the temptation of repeating the term "level of significance," the level as computed for any test will be enclosed in parentheses in most cases, or simply "s. l. was found to be .015, .153, etc." As usual this should be interpreted to mean that the  $\chi^2$  or t distribution of a certain occurrence is found to have .015%, .153%, etc., probability of occurring by chance.

Since not much research has been done on black entrepreneurship, it would be premature, with the exception of a few cases, to state the direction of the hypotheses, warranting the use of one-tailed tests. For the most part therefore we shall avoid predicting the direction of hypotheses, but instead we shall let the data speak for themselves. In short, the reader will be allowed to be his or her own judge.

#### Reliability of Interview Data

A pretest of the questionnaire enabled the author to eliminate some questions which could have given rise to incorrect answers. Even in the course of the interviews, it became obvious that certain questions were not crucial or were irrelevant in understanding black entrepreneurship.

Like most interviews, there is no way of ascertaining answers that create doubts in the mind of the researcher, especially in entre-

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<sup>7</sup> The formula for estimating the number of degrees of freedom is  $(r - 1) (k - 1)$ , where  $r$  = number of rows in the contingency table, and  $k$  = number of columns.

preneurial research. Businessmen contend they have nothing to lose by concealing facts about their businesses or themselves, and that under certain circumstances it is a wise thing to do. In a few instances, respondents felt shy to talk about their educational background and that of their parents. A few also preferred not to talk about their fathers' occupations. In all, it was in a half-dozen cases that the author felt respondents were hesitant to answer certain questions. Questions which received partial answers were in fact not coded at all, as evidenced in the numerical sequence of the interview results in Appendix D. In particular, questions relating to financial administration received poor response. Questions on the use of federal technical aid were dropped not because respondents failed to answer them, but because in the course of the interviews it was determined that a majority had not bothered to find out what the aid programs can do for them. In any event, the frank atmosphere and spirit in which over 85% of the respondents answered the questions assured some degree of reliability.

APPENDIX CMARGINAL RESULTS OF THE BOSTON STUDY

TYPE	1.00	1.00	52	WHAT IS YOUR BUSINESS ABOUT
	.25	.25	13	CONSTRUCTION AND REAL ESTATE
	.08	.08	4	FOOD AND CATERING
	.10	.10	5	MANUFACTURING
	.31	.31	16	PERSONAL SERVICES
	.06	.06	3	PRINTING AND ADVERTISEMENT
	.12	.12	6	RETAIL
	.10	.10	5	TRANSPORT AND RELATED SERVICES
LCC	1.00	1.00	52	WHERE IS YOUR BUSINESS LOCATED
	.56	.56	29	ROXBURY
	.23	.23	12	DORCHESTER
	.08	.08	4	SOUTH END
	.06	.06	3	FENWAY
	.06	.06	3	DOWNTOWN BOSTON
	.02	.02	1	MORE THAN ONE LOCATION
Q1	1.00	1.00	52	SEX OF THE PROPRIETOR, PARTNER, ETC
	.81	.81	42	MALE
	.19	.19	10	FEMALE
Q2	1.00	1.00	52	AGE OF THE PROPRIETOR, PARTNER, ETC
	.08	.08	4	29 YEARS OR LESS
	.10	.10	5	30-34 YEARS
	.13	.13	7	35-39 YEARS
	.25	.25	13	40-44 YEARS
	.21	.21	11	45-49 YEARS
	.17	.17	9	50-54 YEARS
.06	.06	3	55-60 YEARS	
Q3	1.00	1.00	52	PLACE OF BIRTH
	.17	.17	9	BOSTON
	.13	.13	7	NEW ENGLAND
	.52	.52	27	SOUTH
	.12	.12	6	U S BUT OUTSIDE NEW ENGLAND AND SOUTH
	.06	.06	3	OUTSIDE U S
Q4	1.00	1.00	52	RELIGION
	.69	.69	36	PROTESTANT
	.10	.10	5	CATHOLIC
	.12	.12	6	NON-DENOMINATIONAL
	.08	.08	4	MOSLEM
	.02	.02	1	JEWISH



Q5	1.00	1.00	52	HOW MANY YEARS OF SCHOOLING HAVE YOU HAD
	.12	.12	6	LESS THAN 7 YEARS OF SCHOOLING
	.25	.25	13	7 YEARS OR MORE BUT NO HIGH SCHOOL DIPLOMA
	.15	.15	8	HIGH SCHOOL DIPLOMA
	.33	.33	17	HIGH SCHOOL DIPLOMA PLUS LESS THAN 4 YEARS OF COLLEGE OR VOCATION
	.13	.13	7	HIGH SCHOOL DIPLOMA PLUS 4 OR MORE YEARS OF COLLEGE OR VOCATION
	.02	.02	1	NO HIGH SCHOOL DIPLOMA BUT SOME VOCATION
Q13A	1.00	1.00	52	OCCUPATION OF FATHER
	.17	.17	9	FARMING
	.08	.08	4	PERSONAL SERVICES INCLUDING CATERING
	.08	.08	4	CLERICAL
	.15	.15	8	TRANSPORT AND AUTO MECHANIC
	.13	.13	7	CONSTRUCTION AND REAL ESTATE
	.04	.04	2	TRADING IN COMMODITIES
	.02	.02	1	MINING
	.02	.02	1	SPORTS
	.08	.08	4	PROFESSIONAL
	.17	.17	9	BLUE COLLAR
	0.	0.	0	OTHER
	.02	.02	1	PRINTING
	.04	.04	2	DONT KNOW
Q13B	1.00	1.00	52	OCCUPATION OF MOTHER
	.12	.12	6	FARMING
	.08	.08	4	PERSONAL SERVICES INCLUDING CATERING
	.08	.08	4	CLERICAL
	0.	0.	0	TRANSPORT AND AUTO MECHANIC
	.02	.02	1	CONSTRUCTION AND REAL ESTATE
	.02	.02	1	TRADING IN COMMODITIES
	0.	0.	0	MINING
	0.	0.	0	SPORTS
	.06	.06	3	PROFESSIONAL
	.06	.06	3	BLUE COLLAR
	.58	.58	30	HOUSEWIFE
	0.	0.	0	PRINTING
	0.	0.	0	DONT KNOW
Q14A	1.00	1.00	52	EDUCATIONAL ATTAINMENT OF FATHER
	.31	.31	16	7 YEARS OF SCHOOLING OR LESS
	.23	.23	12	MORE THAN 7 YEARS OF SCHOOLING BUT NO HIGH SCHOOL DIPLOMA
	.15	.15	8	HIGH SCHOOL DIPLOMA
	.06	.06	3	SOME COLLEGE EDUCATION
	.08	.08	4	COLLEGE DEGREE
	.02	.02	1	HIGH SCHOOL PLUS VOCATION EDUCATION
	.15	.15	8	DONT KNOW
Q14B	1.00	1.00	52	EDUCATIONAL ATTAINMENT OF MOTHER
	.27	.27	14	7 YEARS OF SCHOOLING OR LESS
	.25	.25	13	MORE THAN 7 YEARS OF SCHOOLING BUT NO HIGH SCHOOL DIPLOMA
	.27	.27	14	HIGH SCHOOL DIPLOMA
	.04	.04	2	SOME COLLEGE EDUCATION
	.02	.02	1	COLLEGE DEGREE
	.04	.04	2	HIGH SCHOOL PLUS VOCATION EDUCATION
	.12	.12	6	DONT KNOW

Q15	1.00	1.00	52	DOES OR DID YOUR FATHER OWN A BUSINESS OF ANY KIND
	.40	.40	21	YES
	.58	.58	30	NO
	.02	.02	1	DONT KNOW
Q16	.40	1.00	21	IF YES, WHAT KIND OF BUSINESS IS OR WAS THAT
	.17	.43	9	CONSTRUCTION AND REAL ESTATE
	.04	.10	2	FARMING
	0.	0.	0	FOOD AND CATERING
	0.	0.	0	MANUFACTURING
	.02	.05	1	PERSONAL SERVICES
	.02	.05	1	PRINTING AND ADVERTISEMENT
	.06	.14	3	RETAIL
	.10	.24	5	TRANSPORT AND RELATED SERVICES
Q17	.40	1.00	21	FOR HOW LONG HAS HE BEEN OR WAS HE IN BUSINESS
	0.	0.	0	LESS THAN 5 YEARS
	.02	.05	1	5-10 YEARS
	0.	0.	0	11-20 YEARS
	.37	.90	19	OVER 20 YEARS
	.02	.05	1	DONT KNOW
Q18	1.00	1.00	52	DOES OR DID YOUR MOTHER OWN A BUSINESS OF ANY KIND
	.10	.10	5	YES
	.90	.90	47	NO
Q19	.10	1.00	5	IF YES, WHAT KIND OF BUSINESS IS OR WAS THAT
	.02	.20	1	CONSTRUCTION AND REAL ESTATE
	.02	.20	1	FARMING
	.04	.40	2	FOOD AND CATERING
	0.	0.	0	MANUFACTURING
	0.	0.	0	PERSONAL SERVICES
	0.	0.	0	PRINTING AND ADVERTISEMENT
	.02	.20	1	RETAIL
	0.	0.	0	TRANSPORT AND RELATED SERVICES
Q20	.10	1.00	5	FOR HOW LONG HAS SHE BEEN OR WAS SHE IN BUSINESS
	0.	0.	0	LESS THAN 5 YEARS
	0.	0.	0	5-10 YEARS
	.02	.20	1	11-20 YEARS
	.08	.80	4	OVER 20 YEARS
Q21	1.00	1.00	52	DID YOU WORK WITH ANY OF YOUR PARENTS OR RELATIVES IN BUSINESS
	.27	.27	14	YES
	.73	.73	38	NO
Q22	.27	1.00	14	IF YES FOR HOW LONG
	0.	0.	0	LESS THAN 1 YEAR
	.06	.21	3	1-5 YEARS
	.17	.64	9	5-10 YEARS
	.04	.14	2	OVER 10 YEARS

Q23	1.00	1.00	52	HOW MANY BROTHERS AND SISTERS HAVE YOU
	.04	.04	2	NONE
	.38	.38	20	1-3
	.15	.15	8	4-6
	.42	.42	22	7 OR MORE
Q25	1.00	1.00	52	WHAT IS YOUR BIRTH ORDER
	.27	.27	14	FIRST BORN
	.19	.19	10	LAST BORN
	.04	.04	2	ONLY CHILD
	.48	.48	25	OTHER
	.02	.02	1	NA
Q26	1.00	1.00	52	MARITAL STATUS
	.67	.67	35	MARRIED
	.19	.19	10	DIVORCED
	.06	.06	3	SEPARATED
	.06	.06	3	WIDOWED
	.02	.02	1	SINGLE
Q27	.67	1.00	35	IF MARRIED FOR HOW MANY YEARS HAVE YOU BEEN MARRIED
	.08	.11	4	LESS THAN 5 YEARS
	.13	.20	7	5-10 YEARS
	.17	.26	9	11-20 YEARS
	.27	.40	14	OVER 20 YEARS
	.02	.03	1	NA
Q28	1.00	1.00	52	HOW MANY CHILDREN DO YOU HAVE
	.12	.12	6	NONE
	.52	.52	27	1-3 CHILDREN
	.31	.31	16	4-6 CHILDREN
	.06	.06	3	7 OR MORE CHILDREN

\*\*\*\*\*  
 M5778 9501 MRINLS KWAKUB FLR M5773 9501 030471 0042.4  
 TOTAL AVG. RAW

Q27 1.00 1.00 52 IN HOW MANY CITIES HAVE YOU LIVED  
 .23 .23 12 1 CITY  
 .42 .42 22 2-3 CITIES  
 .17 .17 9 4-5 CITIES  
 .17 .17 9 MORE THAN 5 CITIES

Q30 1.00 1.00 52 APART FROM YOUR OWN, HOW MANY BUSINESSES HAVE YOU WORKED FOR  
 .02 .02 1 NONE  
 .46 .46 24 1-3  
 .27 .27 14 4-6  
 .10 .10 5 7-10  
 .15 .15 8 MORE THAN 10  
 0. 0. 0 CASUAL WORK ONLY

Q31 1.00 1.00 52 IN HOW MANY CITIES DID YOU WORK BEFORE STARTING YOUR OWN  
 .48 .48 25 1  
 .29 .29 15 2-3  
 .13 .13 7 4-5  
 .10 .10 5 MORE THAN 5

Q32 1.00 1.00 52 FOR HOW MANY YEARS DID YOU WORK IN THESE BUSINESSES  
 .17 .17 9 LESS THAN 5  
 .23 .23 12 5-9  
 .25 .25 13 10-14  
 .17 .17 9 15-19  
 .17 .17 9 20 YEARS AND OVER

Q33 1.00 1.00 52 DID YOU EVER SUPERVISE PEOPLE WHILE WORKING IN THESE BUSINESSES  
 .73 .73 38 YES  
 .27 .27 14 NO

Q34 1.00 1.00 38 IF YES HOW MANY PEOPLE ON THE AVERAGE DID YOU SUPERVISE  
 .13 .13 7 LESS THAN 5  
 .17 .17 10 5-10  
 .19 .19 10 11-20  
 .06 .06 3 21-50  
 .06 .06 3 51-100  
 .13 .13 5 OVER 100

Q34B .73 1.00 38 FOR HOW LONG DID YOU SUPERVISE  
 .06 .06 3 LESS THAN 2 YEARS  
 .35 .35 18 2-5 YEARS  
 .17 .17 9 6-10 YEARS  
 .13 .13 7 11-20 YEARS  
 .02 .02 1 OVER 20 YEARS

Q35 1.00 1.00 52 HOW MANY OF THESE BUSINESSES WERE WHITE-OWNED OR WHITE-MANAGED, AND HOW MANY WERE BLACK-OWNED OR BLACK-MANAGED

	.91	.91	92	ALL WHITE-OWNED OR WHITE-MANAGED
	.74	.74	2	ALL BLACK-OWNED OR BLACK-MANAGED
	.13	.13	7	TOTAL
	.92	.92	1	NOT APPLICABLE, STARTED HIS OWN WORK EARLY
935	1.00	1.00	32	DO YOU DO THE SAME KIND OF JOB ALL THE TIME
	.93	.93	25	YES
	.92	.92	27	NO
937	.92	1.00	27	HOW MANY KINDS OF JOBS DO YOU HOLD
	.12	.14	5	2 KINDS OF JOB
	.15	.13	4	3 KINDS OF JOB
	.14	.15	4	4 KINDS OF JOB
	.22	.14	1	5 KINDS OF JOB
	.08	.13	4	6-10 KINDS OF JOB
	.08	.15	4	OVER 10 KINDS OF JOB
	.12	.14	1	DO AND TEMPORARY JOBS ONLY
938	1.00	1.00	52	WHAT WAS THE LONGEST PERIOD OF TIME YOU SPENT ON A JOB
	.17	.28	4	1 YEAR OR LESS
	.35	.35	14	2-3 YEARS
	.16	.15	5	4-5 YEARS
	.27	.27	14	6-10 YEARS
	.04	.08	4	11-15 YEARS
	.13	.13	7	OVER 15 YEARS
939	1.00	1.00	52	WHAT KIND OF JOB WAS THAT
	.16	.19	5	CLERICAL-PRIVATE SECTOR
	.12	.12	5	CONSTRUCTION AND REAL ESTATE
	.04	.04	5	FARMING
	.22	.22	1	MINING
	.19	.19	10	PERSONAL SERVICES INCLUDING CATERING
	.12	.12	5	PROFESSIONAL
	.04	.04	5	SPORTS
	.12	.12	1	TRADING OR RETAIL
	.12	.12	5	TRANSPORT AND AUTO MECHANIC
	.23	.23	12	UNUSUAL WORK IN INDUSTRY
	.16	.16	3	UNEMPLOYED
	.24	.24	2	WRITING AND ADVERTISEMENT
940	1.00	1.00	52	DO YOU THINK THIS JOB ON WHICH YOU STAYED FOR THE LONGEST PERIOD COULD BE DESCRIBED AS VERY CHALLENGING, CHALLENGING OR NOT CHALLENGING
	.94	.94	28	VERY CHALLENGING
	.27	.27	14	CHALLENGING
	.19	.19	10	NOT CHALLENGING
941	1.00	1.00	52	DO YOU THINK THE EXPERIENCE YOU GAINED ON THIS JOB HELPED YOU TO START YOUR OWN BUSINESS
	.63	.63	33	VERY MUCH
	.12	.12	6	SOMEWHAT
	.25	.25	13	NOT AT ALL
942	1.00	1.00	52	ARE YOU PROVIDING THE SAME SERVICES, OR DOING THE SAME BUSINESS AS ANOTHER BUSINESS YOU WORKED FOR BEFORE

	.44	.44	23	THE SAME
	.10	.10	5	THE SAME BUT WITH SOME CHANGES
	.46	.46	24	DIFFERENT PRODUCTS OR SERVICES
243	.54	1.00	28	WAS IT THE SAME BUSINESS WHERE YOU SPENT THE LONGEST PERIOD OF TIME ON A JOB
	.40	.75	21	YES
	.13	.25	7	NO
244	.54	1.00	28	AND WAS THIS BUSINESS WHITE-OWNED OR WHITE-MANAGED OR WAS IT BLACK-OWNED OR BLACK-MANAGED
	.42	.75	21	WHITE-OWNED OR WHITE-MANAGED
	.17	.21	6	BLACK-OWNED OR BLACK-MANAGED
	.02	.04	1	BOTH
245	.46	1.00	24	IF DIFFERENT, IS THERE ANY OTHER BUSINESS YOU PARTICIPATED IN WHICH HELPED YOU IN ONE WAY OR ANOTHER IN STARTING YOUR OWN BUSINESS
	.31	.67	16	YES
	.15	.33	8	NO
247	.46	1.00	24	AND WAS THIS PARTICULAR BUSINESS WHITE-OWNED OR WHITE-MANAGED OR WAS IT BLACK-OWNED OR BLACK-MANAGED
	.13	.29	7	WHITE-OWNED OR WHITE-MANAGED
	.12	.25	6	BLACK-OWNED OR BLACK-MANAGED
	.06	.13	3	FORMAL TRAINING
	.02	.04	1	WORKED ON PART-TIME BASIS
	.13	.29	7	I JUST PICKED IT UP AS A BUSINESS
248	1.00	1.00	52	IN WHAT WAY IS YOUR BUSINESS DIFFERENT FROM OTHER BLACK BUSINESSES IN THE COMMUNITY
	.02	.02	1	FIRST TO BE IN THIS LINE OF BUSINESS
	.04	.04	2	SOPHISTICATED ACCOUNTING SYSTEM
	.02	.02	1	STRONG JEWISH WAY OF BUYING MY SUPPLIES AND MANAGING MY BUSINESS
	.02	.02	1	HIGHER THAN AVERAGE INVENTORY KEPT AT ALL TIMES
	.02	.02	1	CREATION OF PSYCHEDELIC ATMOSPHERE IN BUSINESS AREA TO ATTRACT CUSTOMERS
	.04	.04	2	OWN MOST UP-TO-DATE EQUIPMENT
	.02	.02	1	ABILITY TO COPE UP WITH DOWNTOWN LOCATION
	.02	.02	1	ONLY BLACK BUSINESSMAN IN THE STATE TO BE RECOGNIZED BY A NATION-WIDE PROFESSIONAL ASSOCIATION
	.02	.02	0	ABILITY TO COMPETE WITH WHITES
	.02	.02	1	CUSTOMERS HAVE GREATER CONFIDENCE IN ME
	.02	.02	1	ABILITY TO USE MORE WHITE LABOR THAN BLACK
	.08	.08	4	ABILITY TO SUPPLY OR TO RECEIVE CONTRACTS FROM WHITE BUSINESSES ON MY OWN
	.02	.02	1	MANNER OF OPERATION RESEMBLES THAT OF A WHITE BUSINESS
	.13	.13	7	SPECIALTY IN THE TYPE OF PRODUCT OR SERVICE PROVIDED
	.02	.02	1	GOOD TREATMENT OF WORKERS TO INDUCE THEM TO STAY LONGER
	.04	.04	2	TRADE IN HIGH QUALITY PRODUCTS
	.13	.13	7	PROVIDE GOOD QUALITY SERVICE OR OUTPUT
	.08	.08	4	INTEGRATED SERVICES
	.23	.23	12	NO DIFFERENCE OR DISTINCTION
	.02	.02	1	EMPLOYMENT-GENERATING ENTERPRISE TO HELP THE COMMUNITY
	.02	.02	1	CATER TO A SPECIAL CLASS

Q488	1.00	1.00	52	FACTORIZATION OF ABOVE INDICES
	.25	.25	13	PERSONALITY CONSCIOUSNESS
	.33	.33	17	PRODUCT OR SERVICE CONSCIOUSNESS
	.04	.04	2	CONCERN FOR CUSTOMER OR LABOR RELATIONS
	.15	.15	8	CONCERN FOR MANAGEMENT ISSUES
	.23	.23	17	NO DISTINGUISHABLE TRAIT
Q49	1.00	1.00	52	WHEN DID YOU START YOUR BUSINESS
	.02	.02	1	BEFORE 1946
	.63	.63	33	1946-1963
	.35	.35	18	1964-JANUARY 1957
Q51	1.00	1.00	52	IS YOUR BUSINESS SOLELY OWNED BY YOU, OR IS IT A PARTNERSHIP OR A CORPORATION
	.37	.37	19	SOLE OWNER (PROPRIETOR)
	.33	.33	17	SOLE OWNER (CORPORATION)
	.25	.25	13	PARTNERSHIP
	.02	.02	1	CORPORATION WITH NO MAJOR SHARE-HOLDER
	.04	.04	2	CORPORATION WITH ONE MAJOR SHARE-HOLDER
Q52	.69	1.00	36	AS A SOLE OWNER, DID YOU START IT YOURSELF, OR DID YOU BUY IT, OR DID YOU INHERIT IT
	.63	.92	33	I STARTED IT
	.04	.06	2	I BOUGHT IT
	.02	.03	1	I INHERITED IT
Q56	.31	1.00	16	IF YOU HAVE PARTNERS, HOW MANY OF YOU FORMED THE PARTNERSHIP
	.21	.69	11	2 PERSONS
	.04	.04	0	3 PERSONS
	.04	.13	2	OVER 3 PERSONS
	.05	.19	3	CORPORATION
Q57	.25	1.00	13	OF THIS NUMBER HOW MANY ARE YOUR RELATIVES
	.19	.77	10	NONE
	.06	.23	3	ONE
	.04	.04	0	TWO
Q58A	.25	1.00	13	AS PARTNERS OR AS A CORPORATION, DID YOU START IT YOURSELF OR DID YOU BUY IT, OR DID YOU INHERIT IT, OR ONE OF YOU STARTED IT FIRST
	.15	.62	3	WE ALL STARTED
	.04	.04	0	WE BOUGHT IT
	.02	.08	1	WE INHERITED IT
	.08	.31	4	ONE STARTED FIRST
Q58B	1.00	1.00	52	DO YOU OWN OR HAVE A SHARE IN ANY OTHER BUSINESS
	.38	.38	20	OWNER
	.13	.13	7	PART-OWNER
	.48	.48	25	NO OTHER BUSINESS
Q58C	.52	1.00	27	TYPE OF OTHER BUSINESS
	.19	.37	10	REAL ESTATE
	.23	.44	17	ANOTHER LINE OF BUSINESS OTHER THAN REAL ESTATE

	.26 .34	.11 .17	3 2	REAL ESTATE AND ANOTHER BUSINESS YES, BUT I WOULD NOT TELL
Q59	1.00 .62 .38	1.00 .62 .38	52 ARE YOU A MEMBER OF A PROFESSIONAL, TRADE OR CRAFT ASSOCIATION 32 YES 20 NO	
Q60	.62 .26 .17 .28 .12 .14 .15	1.00 .69 .31 .13 .16 .16 .25	32 IF YES, IN WHAT WAY HAS YOUR MEMBERSHIP HELPED YOU 3 KEEPS ME INFORMED THROUGH PUBLICATION 10 PROVIDES ME WITH LEGAL, TECHNICAL AND OTHER SERVICES 4 A MEDIUM OF EXCHANGE OF IDEAS ONLY 5 SOURCE OF INFORMATION AS WELL AS PROVISION OF SERVICES 2 PROVISION OF SERVICES AND MEDIUM OF EXCHANGE OF IDEAS 8 NO HELP WHATSOEVER	
Q61A	1.00 .27 .19 .10 .13 .17 .04 .06 .02 .02 .	1.00 .27 .19 .13 .17 .04 .06 .12 .22 .	52 COULD YOU GIVE ME TWO REASONS WHY YOU DECIDED TO DO YOUR OWN BUSINESS RATHER THAN WORK FOR SOMEBODY ELSE. THE MORE IMPORTANT REASON SHOULD BE MENTIONED FIRST 14 TO MAKE MORE MONEY 10 TO BE MY OWN BOSS 5 TO PROVIDE MYSELF WITH EMPLOYMENT SECURITY 7 TO REAP THE FRUIT OF MY OWN LABOR 9 TO DISPLAY MY ENTREPRENEURIAL ABILITY AND SKILL 2 TO PROVIDE EMPLOYMENT IN THE COMMUNITY 3 DESIRE TO KEEP OR CONTINUE FAMILY BUSINESS 1 SEARCH FOR LEADERSHIP ROLES 1 BY ACCIDENT 0 BLACKS NEED BLACK BUSINESSES	
Q61B	.75 .17 .13 .14 .04 .13 .15 .02 .02 .	1.00 .26 .18 .09 .13 .18 .21 .03 .03 .	39 SECOND REASON 10 TO MAKE MORE MONEY 7 TO BE MY OWN BOSS 2 TO PROVIDE MYSELF WITH EMPLOYMENT SECURITY 2 TO REAP THE FRUIT OF MY OWN LABOR 7 TO DISPLAY MY ENTREPRENEURIAL ABILITY AND SKILL 8 TO PROVIDE EMPLOYMENT IN THE COMMUNITY 1 DESIRE TO KEEP OR CONTINUE FAMILY BUSINESS 1 SEARCH FOR LEADERSHIP ROLES 0 BY ACCIDENT 1 BLACKS NEED BLACK BUSINESSES	
Q62A	1.00 .13 .02 .6 .35 .23 .4 .	1.00 .13 .02 .6 .35 .23 .14 .	52 FIRST PROBLEM 7 HIGH INSURANCE PREMIUMS 1 COMPETITION FROM WHITE BUSINESSES 3 HIGH RENTS, HIGH LEASE PAYMENTS, HIGH INSTALLMENT PAYMENTS 18 DIFFICULTY IN GETTING ENOUGH LOANS 12 DIFFICULTY IN GETTING RELIABLE EMPLOYEES 2 FREQUENT THEFT IN THE BUSINESS AREA 0 DIFFICULTY IN GETTING COUNSELING SERVICES 3 LESS RELIABLE CLIENTS OR CUSTOMERS 2 INADEQUATE POLICE PROTECTION 1 POOR ENVIRONMENTAL QUALITY, POVERTY IN COMMUNITY 1 RELATIVELY HIGH COST OF INPUTS OR SUPPLIES 1 POLITICAL CLIMATE IS NOT CONDUCTIVE ENOUGH 1 NO PROBLEM	



Q620	.75	1.00	39	SECOND PROBLEM
	.12	.15	6	HIGH INSURANCE PREMIUMS
	.06	.08	3	COMPETITION FROM WHITE BUSINESSES
	.08	.10	4	HIGH RENTS, HIGH LEASE PAYMENTS, HIGH INSTALLMENT PAYMENTS
	.08	.10	4	DIFFICULTY IN GETTING ENOUGH LOANS
	.17	.23	9	DIFFICULTY IN GETTING RELIABLE EMPLOYEES
	.08	.10	4	FREQUENT THEFT IN THE BUSINESS AREA
	.06	.08	3	DIFFICULTY IN GETTING COUNSELING SERVICES
	.0	.0	0	LESS RELIABLE CLIENTS OR CUSTOMERS
	.04	.05	2	INADEQUATE POLICE PROTECTION
	.04	.05	2	POOR ENVIRONMENTAL QUALITY, POVERTY IN COMMUNITY
	.04	.05	2	RELATIVELY HIGH COST OF INPUTS OR SUPPLIES
	.0	.0	0	POLITICAL CLIMATE IS NOT CONDUCTIVE ENOUGH
Q628	.56	1.00	29	THIRD PROBLEM
	.02	.03	1	HIGH INSURANCE PREMIUMS
	.06	.10	3	COMPETITION FROM WHITE BUSINESSES
	.06	.10	3	HIGH RENTS, HIGH LEASE PAYMENTS, HIGH INSTALLMENT PAYMENTS
	.06	.10	3	DIFFICULTY IN GETTING ENOUGH LOANS
	.13	.24	7	DIFFICULTY IN GETTING RELIABLE EMPLOYEES
	.02	.03	1	FREQUENT THEFT IN THE BUSINESS AREA
	.06	.10	3	DIFFICULTY IN GETTING COUNSELING SERVICES
	.06	.10	3	LESS RELIABLE CLIENTS OR CUSTOMERS
	.08	.14	4	INADEQUATE POLICE PROTECTION
	.0	.0	0	POOR ENVIRONMENTAL QUALITY, POVERTY IN COMMUNITY
	.0	.0	0	RELATIVELY HIGH COST OF INPUTS OR SUPPLIES
	.02	.03	1	POLITICAL CLIMATE IS NOT CONDUCTIVE ENOUGH
Q63	1.00	1.00	52	HOW MANY PEOPLE WORK FOR YOU NOW
	.52	.52	27	5-8 PERSONS
	.13	.13	7	9-12 PERSONS
	.15	.15	8	13-16 PERSONS
	.10	.10	5	17-30 PERSONS
	.08	.08	4	30-50 PERSONS
	.02	.02	1	OVER 50 PERSONS
Q64	1.00	1.00	52	HOW MANY WERE WORKING FOR YOU WHEN YOU STARTED YOUR BUSINESS
	.17	.17	9	NOBODY
	.06	.06	29	1-2 PERSONS
	.13	.13	7	3-4 PERSONS
	.06	.06	3	5-10 PERSONS
	.04	.04	2	11-40 PERSONS
	.02	.02	1	OVER 40 PERSONS
	.02	.02	1	DON'T REMEMBER
Q65	1.00	1.00	52	HOW MANY WORKING FOR YOU NOW ARE MALES (ANSWER IN PERCENTAGES)
	.08	.08	4	10)
	.37	.37	19	75-99
	.23	.23	12	50-74
	.17	.17	9	49-25
	.10	.10	5	LESS THAN 25
	.06	.06	3	NONE
Q66	1.00	1.00	52	HOW MANY ARE BLACKS (ANSWER IN PERCENTAGES)
	.37	.37	19	10%BLACKS

	.38	.38	20	80-99 BLACKS
	.15	.15	8	60-79 BLACKS
	.02	.02	1	40-59 BLACKS
	.04	.04	2	20-39 BLACKS
	.04	.04	2	LESS THAN 20 BLACKS
467	1.00	1.00	52	HOW MANY ARE FULL-TIME WORKERS (ANSWER IN PERCENTAGES)
	.54	.54	28	100 FULL-TIME
	.21	.21	11	75-99 FULL-TIME
	.17	.17	9	50-74 FULL-TIME
	.08	.08	4	LESS THAN 50 FULL-TIME
468	1.00	1.00	52	HOW MANY OF YOUR WORKERS WOULD YOU CLASSIFY AS UNSKILLED (ANSWER IN PERCENTAGES)
	.08	.08	4	100 UNSKILLED
	.08	.08	4	75-99 UNSKILLED
	.13	.13	7	50-74 UNSKILLED
	.12	.12	6	25-49 UNSKILLED
	.12	.12	6	LESS THAN 25 UNSKILLED
	.48	.48	25	NONE
473	1.00	1.00	52	HOW MANY OF YOUR WORKERS PAST AND PRESENT HAVE BEEN TRAINED BY YOU AT YOUR OWN EXPENSE
	.10	.10	5	NONE
	.37	.37	19	LESS THAN 10 WORKERS
	.08	.08	4	10-19 WORKERS
	.10	.10	5	20-29 WORKERS
	.04	.04	2	30-39 WORKERS
	.04	.04	2	40-49 WORKERS
	.02	.02	1	50-59 WORKERS
	.12	.12	6	60 AND OVER
	.02	.02	1	TRAINING NOT NECESSARY
	.13	.13	7	UNSPECIFIED NUMBER
474	.88	1.00	46	ON THE AVERAGE FOR HOW LONG WAS EACH TRAINED
	.12	.13	6	LESS THAN ONE MONTH
	.27	.30	14	1-3 MONTHS
	.25	.26	13	3-6 MONTHS
	.04	.04	2	7-12 MONTHS
	.15	.17	8	OVER 1 YEAR
	.06	.07	3	UNSPECIFIED PERIOD
475A	1.00	1.00	52	OF EMPLOYEES RECEIVING \$300 OR LESS
	.83	.83	43	NONE
	.04	.04	2	LESS THAN 25
	.08	.08	4	25-49
	.02	.02	1	50-74
	.02	.02	1	75-100
	.02	.02	1	DONT KNOW
475B	1.00	1.00	52	OF EMPLOYEES RECEIVING \$301-450
	.40	.40	21	NONE
	.02	.02	1	LESS THAN 25
	.21	.21	11	25-49
	.13	.13	7	50-74

	.23	.23	12	75-100	
Q75C	1.00	1.00	52	OF EMPLOYEES RECEIVING \$451-500	
	.40	.40	21	NONE	
	.19	.19	10	LESS THAN 25	
	.13	.13	7	25-49	
	.12	.12	6	50-74	
	.15	.15	8	75-100	
Q75D	1.00	1.00	52	OF EMPLOYEES RECEIVING \$501-750	
	.77	.77	40	NONE	
	.13	.13	7	LESS THAN 25	
	.06	.06	3	25-49	
	.02	.02	1	50-74	
	.02	.02	1	75-100	
Q75E	1.00	1.00	52	OF EMPLOYEES RECEIVING OVER \$750	
	.77	.77	40	NONE	
	.02	.02	1	LESS THAN 25	
	.04	.04	2	25-49	
	.02	.02	1	50-74	
	.15	.15	8	75-100	
Q77A	1.00	1.00	52	HOW MANY OF YOUR WORKERS ARE ENTITLED TO SICK PAY	
	.38	.38	20	ALL	
	.13	.13	7	SOME	
	.48	.48	25	NONE	
Q77B	1.00	1.00	52	HOW MANY OF YOUR WORKERS ARE ENTITLED TO VACATION PAY	
	.56	.56	29	ALL	
	.17	.17	9	SOME	
	.27	.27	14	NONE	
Q78	1.00	1.00	52	NAME OF NEIGHBORHOOD IN WHICH ENTERPRISE IS LOCATED	
	.50	.50	26	ROXBURY	
	.27	.27	14	DORCHESTER	
	.08	.08	4	SOUTH END	
	.04	.04	2	FENWAY	
	.08	.08	4	DOWNTOWN BOSTON	
	.04	.04	2	MORE THAN ONE BUSINESS PREMISE	
Q79	1.00	1.00	52	DO YOU OWN OR RENT THIS PLACE	
	.52	.52	27	OWN	
	.48	.48	25	RENT	
Q80	1.00	1.00	52	WHAT IS THE TOTAL FLOOR SPACE	
	.21	.21	11	LESS THAN 1000 SQ FT	
	.23	.23	12	1,000-1,499	
	.08	.08	4	1,500-1,999	
	.08	.08	4	2,000-2,499	
	.04	.04	2	2,500-2,999	
	.12	.12	6	3,000-5,000	
	.25	.25	13	OVER 5,000	

Q81	1.00	1.00	52	HAVE YOU ALWAYS BEEN IN THIS BUILDING
	.44	.44	23	YES
	.56	.56	29	NO
Q82	.56	1.00	29	IF NO, WHERE YOU FORMERLY LOCATED
	.38	.69	20	WITHIN THIS NEIGHBORHOOD
	.15	.28	8	OUTSIDE THIS NEIGHBORHOOD BUT IN ANOTHER BLACK NEIGHBORHOOD
	.02	.03	1	IN A NON-BLACK NEIGHBORHOOD
Q83	.56	1.00	29	WHY DID YOU MOVE
	.17	.31	9	DISPLACED BY AN URBAN RENEWAL PROGRAM
	.17	.31	9	NEEDED MORE SPACE
	.04	.07	2	DESTRUCTION OF FORMER PREMISE BY RIOTS OR FIRE
	.02	.03	1	THIS BUILDING WAS OFFERED TO ME AT A CHEAP PRICE
	.02	.03	1	WANTED TO BE CLOSE TO MY CUSTOMERS
	.02	.03	1	FORCED TO MOVE BECAUSE OF DISCRIMINATION
	.06	.10	3	FORCED TO MOVE BY NEW OWNER
	.04	.07	2	WANTED TO POSSESS MY OWN BUILDING
	.02	.03	1	WANTED A LOCATION WITH A GOOD ADDRESS
Q88A	1.00	1.00	52	FIRST REASON FOR CHOOSING THIS LOCATION
	.35	.35	18	CONVENIENT TO MY CUSTOMERS OR CLIENTS
	.10	.10	5	REASONABLE RENT, PRICE OR PURCHASE TERMS
	.06	.06	3	ACCESSIBILITY TO PRESENT AND POTENTIAL WORKERS
	.15	.15	8	I LIKE THE NEIGHBORHOOD
	.12	.12	6	ROOM FOR FUTURE EXPANSION, LITTLE COMPETITION
	.10	.10	5	BUSINESS OR FAMILY OWN THIS BUILDING
	0.	0.	0	CLOSE ENOUGH TO MY SOURCES OF SUPPLIES
	.06	.06	3	CLOSE ENOUGH TO OTHER BUSINESSES I DEAL WITH
	.04	.04	2	CLOSE ENOUGH TO PUBLIC TRANSPORTATION
	.02	.02	1	ONLY PLACE AVAILABLE
	.02	.02	1	DESIRE TO DEMONSTRATE THAT BLACK BUSINESSES COULD BE FOOTLOOSE
Q88B	.85	1.00	44	SECOND REASON FOR CHOOSING THIS LOCATION
	.19	.23	10	CONVENIENT TO MY CUSTOMERS OR CLIENTS
	.08	.09	4	REASONABLE RENT, PRICE OR PURCHASE TERMS
	.06	.07	3	ACCESSIBILITY TO PRESENT AND POTENTIAL WORKERS
	.12	.14	6	I LIKE THE NEIGHBORHOOD
	.12	.14	6	ROOM FOR FUTURE EXPANSION, LITTLE COMPETITION
	0.	0.	0	BUSINESS OR FAMILY OWN THIS BUILDING
	.04	.05	2	CLOSE ENOUGH TO MY SOURCES OF SUPPLIES
	.04	.05	2	CLOSE ENOUGH TO OTHER BUSINESSES I HAVE TO DEAL WITH
	.17	.23	10	CLOSE ENOUGH TO PUBLIC TRANSPORTATION
	.02	.02	1	ONLY PLACE AVAILABLE
	0.	0.	0	DESIRE TO DEMONSTRATE THAT BLACK BUSINESSES COULD BE FOOTLOOSE
Q88C	.62	1.00	32	THIRD REASON FOR CHOOSING THIS LOCATION
	.06	.09	3	CONVENIENT TO MY CUSTOMERS OR CLIENTS
	.02	.03	1	REASONABLE RENT, PRICE, OR PURCHASE TERMS
	.06	.09	3	ACCESSIBILITY TO PRESENT AND POTENTIAL WORKERS
	.08	.13	4	I LIKE THE NEIGHBORHOOD
	.08	.13	4	ROOM FOR FUTURE EXPANSION, LITTLE COMPETITION
	.06	.09	3	BUSINESS OR FAMILY OWNS THIS BUILDING
	.04	.06	2	CLOSE ENOUGH TO MY SOURCES OF SUPPLIES

	419	419	5	CLOSE ENOUGH TO OTHER BUSINESSES I HAVE TO DEAL WITH
	413	422	7	CLOSE ENOUGH TO PUBLIC TRANSPORTATION
	42	42	0	ONLY PLACE AVAILABLE
	4	4	0	DESIRED TO DEMONSTRATE THAT BLACK BUSINESSES COULD BE FOOTLOOSE
Q88	1400	1410	92	BUILDING CONDITION
	458	458	51	GOOD
	429	429	15	FAIR
	413	413	7	POOR
Q89	1400	1410	92	COMPLETENESS OF INTERIOR OF BUILDING
	448	448	25	GOOD
	427	427	14	FAIR
	415	415	4	POOR
	419	419	9	NO CHANCE TO SEE INTERIOR, INTERVIEW DONE AT HOME
Q90	1400	1400	92	ARE YOUR CUSTOMERS MAINLY BLACKS, WHITES OR MIXED
	444	444	23	MAINLY BLACKS
	425	425	13	MAINLY WHITES
	431	431	16	MIXED

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QID	ANS.	RAW	COUNT	DESCRIPTION
Q90	1.00	1.00	52	BEFORE YOU STARTED YOUR BUSINESS, WERE YOU A MEMBER OF A COMMUNITY ORGANIZATION(S) OR ASSOCIATION(S)
	.48	.48	25	YES
	.52	.52	27	NO
Q91	.48	1.00	25	INVOLVEMENT IN COMMUNITY ACTIVITIES BEFORE RESPONDENT STARTED BUSINESS
	.19	.40	10	GREATLY INVOLVED
	.29	.60	15	NOT MUCH INVOLVED
Q92	.48	1.00	25	TYPE OF INVOLVEMENT BEFORE STARTING BUSINESS
	.04	.08	2	COMMUNITY IMPROVEMENT ORGANIZATION
	.06	.12	3	COMMUNITY SOCIAL ORGANIZATION
	.02	.04	1	BOTH COMMUNITY IMPROVEMENT AND SOCIAL ORGANIZATIONS
	.02	.04	1	COMMUNITY BUSINESS-ORIENTED ORGANIZATION
	.02	.04	1	BOTH COMMUNITY IMPROVEMENT AND BUSINESS-ORIENTED ORGANIZATIONS
	.13	.28	7	NATION-WIDE RACE-ADVANCEMENT ORGANIZATION
	.12	.24	6	BOTH COMMUNITY IMPROVEMENT AND RACE-ADVANCEMENT ORGANIZATIONS
	.06	.12	3	BOTH COMMUNITY SOCIAL AND RACE-ADVANCEMENT ORGANIZATIONS
	.00	.00	0	BOTH BUSINESS-ORIENTED AND RACE-ADVANCEMENT ORGANIZATIONS
	.00	.00	0	BOTH COMMUNITY SOCIAL AND BUSINESS-ORIENTED ORGANIZATIONS
	.00	.00	0	FINANCIAL SUPPORT ONLY
	.02	.04	1	COMMUNITY IMPROVEMENT, BUSINESS-ORIENTED AND RACE-ADVANCEMENT ORGANIZATION
Q95	.48	1.00	25	IS YOUR MEMBERSHIP HELPING YOU NOW IN YOUR BUSINESS
	.06	.12	3	YES, DIRECT BENEFIT
	.04	.08	2	MERE EXPOSURE TO THE PUBLIC
	.38	.80	20	NOT IN ANYWAY
Q96	1.00	1.00	52	HAVE YOU JOINED COMMUNITY ANY ORGANIZATION(S) AFTER ESTABLISHING YOUR BUSINESS
	.62	.62	32	YES
	.38	.38	20	NO
Q97	.62	1.00	32	TYPE OF INVOLVEMENT AFTER STARTING BUSINESS
	.08	.16	4	COMMUNITY IMPROVEMENT ORGANIZATION
	.08	.16	4	COMMUNITY SOCIAL ORGANIZATION
	.04	.08	2	BOTH COMMUNITY IMPROVEMENT AND SOCIAL ORGANIZATIONS
	.23	.46	12	COMMUNITY BUSINESS-ORIENTED ORGANIZATION
	.08	.16	4	BOTH COMMUNITY IMPROVEMENT AND BUSINESS-ORIENTED ORGANIZATIONS
	.04	.08	2	NATION-WIDE RACE-ADVANCEMENT ORGANIZATION
	.02	.04	1	BOTH COMMUNITY IMPROVEMENT AND RACE-ADVANCEMENT ORGANIZATIONS
	.00	.00	0	BOTH COMMUNITY SOCIAL AND RACE-ADVANCEMENT ORGANIZATIONS
	.02	.04	1	BOTH BUSINESS-ORIENTED AND RACE-ADVANCEMENT ORGANIZATIONS
	.02	.04	1	BOTH COMMUNITY SOCIAL AND BUSINESS-ORIENTED ORGANIZATIONS
	.02	.04	1	FINANCIAL SUPPORT ONLY
	.00	.00	0	COMMUNITY IMPROVEMENT, BUSINESS-ORIENTED AND RACE-ADVANCEMENT ORGANIZATIONS

Q98	.62	1.00	32	IS YOUR MEMBERSHIP HELPING YOU IN YOUR BUSINESS
	.31	.50	16	YES
	.31	.50	16	NO
Q99	.31	1.00	16	IF YES, IN WHAT WAY
	.17	.56	9	EXPOSURE TO THE PUBLIC
	.06	.19	3	OCCASIONALLY THROUGH WORK THROUGH OR DIRECTLY FROM MEMBERS
	.06	.19	3	MUTUAL ASSISTANCE OF VARIOUS KINDS
	.02	.06	1	OUTLET TO PLAY LEADERSHIP ROLES
Q100	1.00	1.00	52	HOW MUCH OF YOUR OWN MONEY DID YOU START YOUR BUSINESS WITH
	.29	.29	15	LESS THAN \$500
	.15	.15	8	\$500-1,000
	.10	.10	5	\$1,001-2,000
	.10	.10	5	\$2,001-3,000
	.04	.04	2	\$3,001-4,000
	.08	.08	4	\$4,001-5,000
	.04	.04	2	\$5,001-10,000
	.08	.08	4	\$10,001-25,000
	.08	.08	4	OVER \$25,000
	.04	.04	2	BUSINESS INHERITED OR FAMILY OWNED
	.02	.02	1	NA
Q102	1.00	1.00	52	WHAT IS THE CURRENT VALUE OF YOUR PHYSICAL ASSETS (IN OTHER WORDS YOUR BUSINESS PREMISE IF YOU OWN IT, MACHINERY AND EQUIPMENT AND INVENTORY)
	.10	.10	5	LESS THAN \$25,000
	.17	.17	9	\$25,000-49,999
	.13	.13	7	\$50,000-74,999
	.04	.04	2	\$75,000-99,999
	.12	.12	6	\$100,000-124,999
	.06	.06	3	\$125,000-149,999
	.15	.15	8	\$150,000-299,999
	.10	.10	5	\$300,000-500,000
	.06	.06	3	OVER \$500,000
	.08	.08	4	CANNOT ESTIMATE
Q103	1.00	1.00	52	HOW MUCH LOAN DID YOU RECEIVE TO FINANCE THESE ASSETS
	.08	.08	4	LESS THAN \$5,000
	.06	.06	3	\$5,000-9,999
	.12	.12	6	\$10,000-19,999
	.13	.13	7	\$20,000-29,999
	.12	.12	6	\$30,000-39,999
	.02	.02	1	\$40,000-49,999
	.08	.08	4	\$50,000-74,999
	.04	.04	2	\$75,000-99,999
	.02	.02	1	\$100,000-250,000
	.08	.08	4	OVER \$250,000
	.06	.06	3	WOULD NOT TELL OR CANNOT ESTIMATE
	.21	.21	11	NO LOAN
Q104	.73	1.00	38	WHERE DID YOU GET THIS LOAN FROM
	.29	.39	15	DIRECTLY FROM A BANK
	.27	.37	14	FROM A BANK BUT SBA-GUARANTEED
	.04	.05	2	A FINANCE AGENCY, INCL CREDIT UNIONS
	.08	.11	4	OTHER SOURCES

	.02	.03	1	BOTH BANK AND FINANCE AGENCY
	.04	.05	2	BOTH BANK AND SBA-GUARANTEED
Q105	.73	1.00	38	IF YOU RECEIVED THE LOAN(S) FROM A BANK OR A FINANCE AGENCY, HOW LONG DID IT TAKE YOU
	.78	.11	4	WITHIN A DAY
	.17	.24	9	WITHIN A WEEK
	.04	.08	3	1-2 WEEKS
	.02	.03	1	2-4 WEEKS
	.15	.21	8	5-8 WEEKS
	.21	.29	11	9-12 WEEKS
	.04	.05	2	OVER 3 MONTHS
				UNSPECIFIED TIME
Q108	.73	1.00	38	WHAT COLLATERAL SECURITY DID YOU USE
	.31	.42	16	NONE
	.42	.58	22	BUILDING, MACHINERY, EQUIPMENT, INVENTORY, INSURANCE POLICY
Q109	.73	1.00	38	PERIOD FOR THE REPAYMENT OF THE LOAN(S)
	.06	.08	3	2 YEARS OR LESS
	.38	.53	20	3-5 YEARS
	.13	.18	7	6-10 YEARS
	.12	.16	6	OVER 10 YEARS
	.04	.05	2	NA
Q112	1.00	1.00	52	HOW FAR DO YOU PLAN INTO THE FUTURE IN YOUR BUSINESS
	.08	.08	4	3 MONTHS OR LESS
	.17	.17	9	6 MONTHS OR LESS
	.13	.13	7	12 MONTHS OR LESS
	.12	.12	6	2 YEARS OR LESS
	.21	.21	11	MORE THAN 2 YEARS
	.27	.27	14	PLANNING IS NOT NECESSARY OR IS DIFFICULT
	.02	.02	1	VARYING PERIODS
Q113	1.00	1.00	52	HAVE YOU EXPANDED YOUR BUSINESS WITHIN THE LAST FIVE OR SIX YEARS
	.79	.79	41	YES
	.19	.19	10	NO
	.02	.02	1	UPS AND DOWNS
Q114	1.00	1.00	52	WHAT SIGNIFICANT CHANGES HAVE TAKEN PLACE IN YOUR BUSINESS SINCE YOU STARTED
	.21	.21	11	EXPANSION OF VOLUME OF BUSINESS
	.17	.17	9	ADDITIONAL OR NEW MACHINERY, EQUIPMENT, INVENTORY
	.13	.13	7	ADDITIONAL OR NEW MACHINERY, EQUIPMENT, INVENTORY IN ADDITION TO RENOVATION OF PREMISE OR PURCHASE OF A NEW BUILDING
	.04	.04	2	RENOVATION OF PREMISE, PURCHASE OF A NEW BUILDING
	.06	.06	3	DECLINE OF BUSINESS
	.08	.08	4	NO SIGNIFICANT CHANGES
	.12	.12	6	EXPANSION OF VOLUME OF BUSINESS, PLUS ADDITIONAL OR NEW MACHINERY, EQUIPMENT, INVENTORY
	.10	.10	5	EXPANSION OF VOLUME OF BUSINESS, PLUS ADDITIONAL OR NEW MACHINERY, EQUIPMENT, INVENTORY, PLUS RENOVATION OF PREMISE OR PURCHASE OF A NEW BUILDING
	.04	.04	3	EXPANSION OF VOLUME OF BUSINESS PLUS RENOVATION OF PREMISE OR PURCHASE OF A BUILDING
	.02	.02	1	HIRING OF MORE LABOR



	.06	.06	3	HIRING OF MORE LABOR AND EXPANSION OF VOLUME OF BUSINESS
	.02	.02	1	MISCELLANEOUS CHANGES
Q115	1.00	1.00	52	HAVE YOU INSURED YOUR BUSINESS AGAINST FIRE AND THEFT
	.38	.38	20	FIRE ONLY
	0.	0.	0	THEFT ONLY
	.54	.54	28	BOTH FIRE AND THEFT
	.02	.02	1	INFORMATION NOT AVAILABLE
	.06	.06	3	NONE
Q126	1.00	1.00	52	HOW MUCH DID YOUR GROSS SALES ON YOUR TOTAL VOLUME OF BUSINESS AMOUNT TO LAST YEAR
	0.	0.	0	\$10,000 OR LESS
	0.	0.	0	\$10,001-25,000
	.10	.10	5	\$25,001-50,000
	.27	.27	14	\$50,001-100,000
	.33	.33	17	\$100,001-250,000
	.12	.12	6	\$250,001-500,000
	.12	.12	6	OVER \$500,000
	.08	.08	4	WOULD NOT TELL
Q127	1.00	1.00	52	WHAT PROBLEMS DO YOU FACE NOW THAT YOU DID NOT EXPECT
	.12	.12	6	FINANCIAL PROBLEMS
	.02	.02	1	RELATIONS WITH PUBLIC AGENCIES AND PUBLIC OFFICIALS
	.19	.19	10	ENVIRONMENTAL PROBLEMS, E G URBAN RENEWAL, PROBLEMS WITH LANDLORDS, RIOTS
	.02	.02	1	MANAGERIAL PROBLEMS
	.25	.25	13	LABOR PROBLEMS
	.08	.08	4	MARKET LIMITATIONS AND RECENT ECONOMIC RECESSION
	.02	.02	1	GETTING INTO UNIONS
	.04	.04	2	RELIABILITY OF CUSTOMERS
	.04	.04	2	PITFALLS IN PLANNING
	.02	.02	1	INVOLVEMENT IN COMMUNITY ACTIVITIES
	.02	.02	1	BOTH FINANCIAL AND LABOR PROBLEMS
	.19	.19	10	NONE
Q129	1.00	1.00	52	SUPPOSE YOU WERE APPROACHED BY A FRIEND OR RELATIVE TO ADVISE HIM OR HER ON HOW TO START AND RUN YOUR TYPE OF BUSINESS WHAT WOULD YOU ADVISE
	.25	.25	13	RELIANCE ON PERSONAL EFFORT, PERSONAL EXPERIENCE AND OTHER PERSONAL QUALITIES
	.19	.19	10	MANAGERIAL AND TECHNICAL KNOW-HOW
	.10	.10	5	ADEQUATE FINANCIAL SOURCES
	.02	.02	1	ABILITY TO MAINTAIN RELIABLE WORKERS
	.02	.02	1	TYPE OF OWNERSHIP
	.02	.02	1	HUMAN RELATIONS- LABOR, CUSTOMERS
	.02	.02	1	WOULD ADVISE AGAINST ENTERING THIS KIND OF BUSINESS
	.19	.19	10	PLANNING AND MARKET STUDY
	.06	.06	3	PERSONAL EFFORT, PERSONAL EXPERIENCE, PLUS MANAGERIAL AND TECHNICAL KNOW-HOW
	.04	.04	2	THRIFT
	.02	.02	1	MANAGERIAL AND TECHNICAL KNOW-HOW PLUS ADEQUATE FINANCIAL SOURCES
	.04	.04	2	NO ADVICE
	.02	.02	1	HUMAN RELATIONS AND PLANNING
	.02	.02	1	ADEQUATE SOURCES OF FINANCE, HUMAN RELATIONS AND PLANNING

Q130	1.00	1.00	52	WHAT DO YOU THINK THE FEDERAL GOVERNMENT CAN DO HELP YOU IN YOUR BUSINESS
1	.54	.54	28	FINANCIAL AID OF ONE FORM OR ANOTHER
2	.04	.04	2	TO DISCOURAGE WELFARE INCOME
3	.06	.06	3	TECHNICAL ASSISTANCE
4	.02	.02	1	TRAINING OF EMPLOYEES
5	.06	.06	3	CONTRACT PROCUREMENT
6	0.	0.	0	EASY ENTRY INTO UNIONS
7	.19	.19	10	NO HELP IS NEEDED
8	.04	.04	2	FINANCIAL AID AND DISCOURAGING WELFARE INCOMES
9	.04	.04	2	FINANCIAL AID AND CONTRACT PROCUREMENT
10	.02	.02	1	FINANCIAL AID AND TECHNICAL ASSISTANCE
Q131	1.00	1.00	52	TO WHAT REASONS DO YOU ATTRIBUTE YOUR SUCCESS
1	.56	.56	29	PERSONAL INPUT, GOOD HARDWORK, GOOD MANAGEMENT, PROMPT PAYMENT OF BILLS
2	.04	.04	2	INNATE QUALITIES
3	.02	.02	1	PAST TRAINING AND EXPERIENCE
4	.08	.08	4	PUBLIC RELATIONS
5	.04	.04	2	EMPLOYER-EMPLOYEE RELATIONS AND INPUT OF EMPLOYEES
6	.02	.02	1	KNOWING PEOPLE IN THE BUSINESS
7	.04	.04	2	NO SUCCESS YET
8	.15	.15	8	PERSONAL INPUT AND PUBLIC RELATIONS
9	.02	.02	1	PERSONAL INPUT , PLUS MY PAST TRAINING AND EXPERIENCE
10	.02	.02	1	I KEEP ON HOPING
11	.02	.02	1	FINANCIAL MANIPULATIONS- A BUSINESS SECRET

APPENDIX D

## LETTER OF INTRODUCTION

## A Survey of Black-Owned Businesses

To Whom It May Concern:

Mr. Robert K. B. Bofah, a citizen of Ghana, is a graduate student of the Department of Urban Studies and Planning, Massachusetts Institute of Technology, Cambridge. He is conducting a survey of a selected number of black-owned enterprises in Boston for the purpose of writing his doctoral dissertation.

Mr. Bofah is employed by the Ministry of Economic Affairs, Government of Ghana. His survey of black-owned businesses in America will enable him to study the problems which small businesses face within capitalistic economic institutions, and the efforts that the Federal Government is making to put minority small businesses on their feet.

It is to be understood that any information supplied by you will be kept strictly confidential. No mention will be made in the dissertation of any business by name or address. Rather, figures will be lumped together for all the firms interviewed.

I should be grateful indeed if you could give all the help and co-operation he needs in order to make his study a real success.

Sincerely,

John T. Howard  
Head of Department

June 8, 1970

APPENDIX E

MAJOR FEDERAL PROGRAMS ASSISTING MINORITY ENTREPRENEURSHIP\*

TYPE OF PROGRAM	SPONSORING AGENCY	PURPOSE OF PROGRAM
1. <u>Loans</u>		
(a) Economic Opportunity Loans	Small Business Admini- stration	To provide business loans and management assis- tance to low income and other disadvantaged per- sons. Long-term loans up to \$25,000 with a maximum maturity of 15 years. Loans can be direct, or are made by banks but guaranteed by SBA.
(b) Operation Business Mainstream	Small Business Admini- stration	Designed to put economically or socially disad- vantaged persons in business through a loan and technical assistance program. Similar to (a) above except that loans are made up to \$15,000.
(c) Regular SBA Business Loan Program	Small Business Admini- stration	To provide financial assistance to existing or new small businesses in general. SBA may guar- antee up to 90% of bank loans or \$350,000 which- ever is less. Where SBA-guaranteed loan is not available, SBA may then consider advancing funds on an immediate participation basis with a bank. Regular loans are guaranteed for as long as 10 years.

\*For a full description of these and other programs, see Dept. of Commerce, Federal Assistance Programs for Minority Business Enterprise, Washington, D.C: U.S.G.P.O., 1969.

TYPE OF PROGRAM	SPONSORING AGENCY	PURPOSE OF PROGRAM
(d) Displaced Business Loans	Small Business Administration	To cushion the impact of economic injury due to renewal programs. Long-term loans up to 30 years can be made direct by SBA or in participation with lending institutions.
(e) Lease Guarantee	Small Business Administration	Assists small businesses in obtaining space in commercial or industrial locations, usually beyond their reach for credit reasons. Assistance in the form of rental or lease guarantee.
(f) Rehabilitation Loans	Dept. of Housing and Urban Development	Enables contractors to participate in rehabilitation of dwelling units in urban renewal or code enforcement areas.
(g) Other Housing Programs	Dept. of Housing and Urban Development	In various ways, minority contractors do participate in ghetto-based housing projects usually as sub-contractors.
(h) Minority Enterprise Small Business Investment Companies (MESBIC's)	Small Business Administration	Designed to create sources of venture capital for minority entrepreneurs. MESBIC's provide both equity or long-term capital loans. A minimum capital of \$150,000 is initially required of each company before SBA matching funds are released.

TYPE OF PROGRAM	SPONSORING AGENCY	PURPOSE OF PROGRAM
2. <u>Financial Assistance</u>		
(a) Relocation Payments to Displaced Businesses	Dept. of Housing and Urban Development	To reduce the impact of displacement caused by urban renewal programs. Business concerns may receive up to \$3,000; certain small businesses may receive up to \$2,500.
3. <u>Contract Procurement</u>		
(a) 8a Program	Small Business Administration	To enable small businesses owned and operated by economically disadvantaged persons to obtain government contracts. Prime contracts are awarded to SBA by government procurement agencies, and SBA in turn subcontracts to selected small businesses.
(b) Construction Contracting Services	General Services Administration	To inform minority contractors and entrepreneurs of a list of repairs and improvement contracts within their sphere of competence. This program is an integral part of 3 (a) above.
(c) Contracting for Supplies and Services	General Services Administration	To enable small businesses operating in labor surplus areas and those with special problems to participate in contracting for government supplies and services.

TYPE OF PROGRAM	SPONSORING AGENCY	PURPOSE OF PROGRAM
(d) Contracting with Labor Surplus Area Concerns	Department of Defense	To enable firms located in labor surplus areas to contract with the Department to supply various defense and other items.
(e) Subcontracting Program	Department of Defense	This is part of 3(a) above.
4. <u>Management Training and Counseling</u>		
(a) Procurement and Management Assistance	Small Business Administration	To provide management, technical and counseling assistance; government procurement and sales assistance to small businesses and community groups.
(b) Technical Assistance	Economic Development Administration	To encourage consulting firms to provide such technical services as project planning, feasibility studies, management, accounting, marketing, etc. to minority enterprises.
(c) Business Service Centers	General Services Administration	To identify small and minority business concerns and furnish them with information, assistance and counseling so they can participate in government procurement and disposal programs.

TYPE OF PROGRAM	SPONSORING AGENCY	PURPOSE OF PROGRAM
5. <u>Manpower Training</u>		
(a) Job Opportunities in the Business Sector	Department of Labor	To enable businesses to provide on-the-job training to the hard-core unemployed; it also provides for remedial education, counseling, transportation and other incidental costs. Reputable minority firms can participate.
(b) On-the-Job Training	Department of Labor	To provide occupational training for the unemployed and underemployed. Minority entrepreneurs can obtain training for their employees through this program.
(c) Institutional Training	Department of Health, Education and Welfare	To provide unemployed and underemployed persons with basic education and skills within an institutional setting. Minority entrepreneurs can enroll in a management training program or may encourage their employees to enroll in specific courses necessary for their jobs.
(d) Legal Services	Office of Economic Opportunity	To assist minority businessmen in various legal matters related to the starting and operation of their businesses.



TYPE OF PROGRAM

SPONSORING AGENCY

PURPOSE OF PROGRAM

6. Community Projects

(a) Special Impact  
Program

Office of Economic  
Opportunity

An experimental program to promote community-based development corporations in urban poverty areas suffering from acute unemployment. Recommended projects include investments that create job, managerial and entrepreneurial skills development, guaranteeing of loans and technical assistance.

(b) Business Development  
Program

Economic Development  
Administration

To assist areas of persistent unemployment in diverse investment projects capable of creating new and permanent jobs. Long-term loans for land and capital equipment are made up to 65% of the project cost. EDA also guarantees working capital not exceeding 90% of the unpaid balance.

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