



VOLUME IV

HISTORICAL TRENDS:

**HISTORICAL RECORD OF MINORITY
AND WOMEN-OWNED BUSINESS
ENTERPRISES
IN
PUBLIC AND PRIVATE CONTRACTING IN
NEW JERSEY**

**A Report Submitted to
NJ TRANSIT
and the
Governor's Study Commission on Discrimination in
Public Works Procurement and Construction Contracts**

**by
The Afro-American Studies Program
University of Maryland at College Park**

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Equal Opportunity and Unequal Outcomes

The principle of equal opportunity dictates that the chance to compete for society's prizes should be independent of an individual's ascriptive characteristics. Ability and motivation alone should determine how preferred positions are distributed across a community. This is the meritocratic ideal: the allocation of society's rewards governed strictly on the basis of individual worth. The principle of equal opportunity condones unequal outcomes in society but advocates an ostensibly fair process of generating unequal outcomes. Given the existence of hierarchy or an uneven distribution of income or authority, the principle of equal opportunity proposes that access to the top posts in the hierarchy, the greatest wealth, or the greatest power should be a matter of merit, not nepotism, racial or ethnic preference, or the whimsical choice of successor by those who already have captured society's topmost positions.¹

The presence of nepotism, racial or ethnic preference, or the capacity of the empowered to choose their replacements on grounds other than talent point directly to ways in which departures can occur from the meritocratic ideal. Discrimination against persons because of their gender or their race undermines the equal opportunity principle. But even if society was purged of such considerations in the distribution of rewards--even if at a given moment in time only ability and motivation were taken into

¹ For critical discussions of the concept of equal opportunity see John Rawls *A Theory of Justice* Cambridge: Harvard University Press 1971 and John Schaar "Equality of Opportunity and Beyond" in J. Roland Pennock and John Chapman (eds.) *Equality NOMOS IX* New York: Atherton Press 1967 pp.228-49.

account, even if persons were judged solely on the basis of their qualifications to perform tasks--there still might be a further problem. The problem is the historical conditions that affect the resources and capabilities individuals belonging to ascriptively different groups bring to the current societal competition for success.

Discrimination exercised in the past that excluded members of a particular group from desirable options or from resources that they otherwise could have obtained can affect their descendants' ability to compete today. Suppose, for example, inherited wealth is a cornerstone of successful entry into the small business arena. If an individual is a member of an ascriptively differentiated group that was denied the ability to purchase land or to accumulate savings, then the odds of small business success are reduced for that individual relative to someone else with equivalent ability and motivation from a group without such a historical disadvantage. Even some persons from the other group with less ability and motivation will have greater odds of success than the person from the group whose members experienced historical deprivations. Therefore, even if today's competition is neutral, historical non-neutralities will distort the operation of equal opportunity.²

To assess the degree to which equal opportunity is present in a society, two major questions must be answered. First, to what extent are current social processes for allocation of rewards based exclusively on merit criteria? Second, to what extent do past or historical processes for allocation of rewards, which may not have been

²For a related discussion see William Darity Jr. "Equal Opportunity, Equal Results and Social Hierarchy" Praxis International Vol.7:2 July 1987 pp.174-85.

based exclusively on merit criteria, distort the capacities of current contestants to reveal their ability and motivation?

We may observe unequal outcomes between ascriptively differentiated groups in a variety of areas. Two examples are illustrative. In comparing national estimates of wage and salary incomes for family heads in 1985 using Current Population Survey tapes we find that whites earned \$24,660 while blacks earned \$14,654, so that blacks earned 59 percent of the figure for whites. Using the same data source we find that the national poverty rate among white families in 1985 was 9.6 percent while it was 31.9 percent among black families.³

The foregoing data indicates that nationally blacks are underrepresented relative to whites in earned income and are overrepresented relative to whites in terms of exposure to poverty. Representational or proportional inequality exists between blacks and whites on the basis of these measures. Indeed, if we presume that all racial, ethnic, or gender groups share the same distribution of intrinsic abilities, skills, and ambitions, then evidence of a disparity in outcomes or accomplishments must indicate the existence of an unequalizing process. The unequalizing process may be embodied in extant mechanisms -- present non-neutralities in the treatment of members of ascriptively distinct groups -- or it may be the result of historical mechanisms -- past non-neutralities whose effects are passed on to current generations. Thus, the disparities are induced either by the absence of equal

³William Darity Jr. and Samuel Myers Jr. "Black-White Earnings Gaps Have Widened: The Problem of Family Structure, Earnings Inequality, and the Marginalization of Black Men" Afro-American Studies Program Working Paper Vol.1:5 August 1991 p.6.

opportunity today or the distortions introduced into extant equal opportunity by historical factors.

Unfair Opportunity, Underrepresentation, and Minority Status

In what follows, the concept of a "minority" is to be defined by the underrepresentation of a group relative to its presence in the general population in a preferred activity that can be traced to existing or historical mechanisms of exclusion. While the state of New Jersey is unique in the USA insofar as it has had an anti-discrimination provision in its Constitution since 1947, if such disparities persist the state may not have pursued steps that inhibit or reverse the operation of such mechanisms, even if the state did not actively support exclusion. Thus, the state could have been a "passive participant" in the perpetuation of an unfair environment for the underrepresented group.

Therefore, a "minority" could be a numerical majority in the general population, e.g. women, but be identified as a minority because of their underrepresentation in a desired arena. From this standpoint the black population of apartheid South Africa is a "minority" in economically remunerative activities and in that nation's political leadership. To establish minority status, then, the profile of the group's presence in the population as a whole must be compared against its profile in the desirable arena in question to determine whether it is comparatively underrepresented. Then the sources of its underrepresentation must be examined to determine whether present or past factors have operated to restrict participation of the group in this area.

Disparities in Small Business Participation by Race and Gender in the New Jersey Area

In examining such disparities in the population of interest to the New Jersey Transit Authority, the population of the New Jersey Area, concern focuses on the gap in participation in the small business and self-employment arena by race, ethnicity and gender.⁴ Table 1 replicates economist Timothy Bates' findings on the distribution of small businesses in the New Jersey area by the salient ascriptive characteristics of the owners, based here upon 1982 survey data.

⁴In what follows extensive use will be made of the findings of Timothy Bates in his report "Discrimination and the Capacity of New Jersey Area Minority and Women-Owned Businesses", Graduate School of Management and Urban Policy, New School for Social Research, August 1991. Bates (p.10n.2) defines the New Jersey areas as "the geographic area where the State of New Jersey awards most of its procurement contracts. This geographic area includes all of the State of New Jersey as well as the Philadelphia metropolitan area and the New York City metropolitan area." Bates' operational definition of the New Jersey area will be used throughout this report.

Bates made use of unpublished survey data assembled by the Congressional Budget Office to draw most of his conclusions about New Jersey area small businesses. His sample included a total of 4106 observations of firms, including 841 for Hispanics, 1037 for blacks, 908 for Asians, 823 for white males and 533 for white females. He has estimated in correspondence dated August 29, 1991 that in the weighted sample that he used for his actual analysis that the "regional" distribution of his observations consists of 35 percent from New York, 37 percent from New Jersey, and 27 percent from Pennsylvania.

**Table 1
New Jersey Area Small Businesses, 1982**

	Number	Share (mean, 1982)	Average Sales
Non-minority			
Male	325,054	70.0%	\$173,917
Non-minority			
Female	91,387	19.7%	\$101,133
Minority			
All	47,707	10.3%	\$56,379
Black	19,489	4.1%	\$36,406
Hispanic	13,821	3.0%	\$91,369
Asian	15,136	3.2%	\$87,205
Total	464,148	100.0%	\$146,923

Source: Timothy Bates' report "Discrimination and the Capacity of New Jersey Area Minority and Women-Owned Businesses" August 1991 p. 12.

The predominant ownership of small businesses in the New Jersey area is in the hands of non-minority (white) males. Not only did they own the largest share of small businesses but their businesses also generated the largest average volume of sales in 1982, again the most recent year for which Bates could construct a table of this type. Note that to be included in this table a business would have to have had gross sales of at least \$5000 in 1982. Corporations are excluded which, as Bates notes, may well omit some large enterprises that are owned by white females or by minorities, whether male or female. But such enterprises "normally do not qualify for preferential treatment under government procurement programs" and hence are not part of the

relevant universe for this study.⁵ Indeed, the representation of white women and minority groups in large corporate ownership is even more sparse relative to their numbers in the general population than their representation in the small business world.⁶

How does the data in Table 1 compare with the presence of these various groups in the New Jersey area populations? Consider the figures displayed in Table 2 for each of the three regions of the New Jersey area in 1980.

Table 2
The Demographic Composition of the New Jersey Area
By Race, Ethnicity and Gender, 1980

	State of New Jersey		NY City PMSA		City of Philadelphia	
	# (000)	Share	# (000)	Share	# (000)	Share
Non-minority						
Male	2,800	38%	1,759	28%	357	38%
Non-minority						
Female	3,033	41%	1,906	31%	385	30%
Minority						
All	1,521	21%	2,547	41%	536	42%
Black	925	12%	428	23%	472	37%
Hispanics	492	7%*	949	15%	51	4%
Asians	104	1%	170	3%	13	1%
Total	7,364	100%	6,212	100%	1,277	100%

⁵Bates, *Ibid.*, p.13.

⁶See, e.g., Peter Bearse "An Econometric Analysis of Black Entrepreneurship" The Review of Black Political Economy Spring 1984 pp.111-34.

Source: U.S. Department of Commerce Bureau of the Census State and Metropolitan Area Data Book Washington DC: US GPO April 1986 pp.203, 263, 509, 510. Special care was taken to avoid double-counting of Hispanics whose race may be reported as either white or black in the Census. The New York City PMSA was used rather than the CMSA to avoid inclusion of parts of New Jersey. The city of Philadelphia data was used rather than the CMSA or PMSA to avoid inclusion of parts of New Jersey as well.

It is evident from comparison of Tables 1 and 2 that non-minority males have been heavily overrepresented among participants in small business enterprise relative to their presence in the general population of the New Jersey area. While owning 70 percent of the small businesses they were no more than 38 percent of the population in each of the three regions of the New Jersey area. Non-minority females have been distinctly underrepresented. They were at least 30 percent of the population in the three regions but they own less than 20 percent of the small businesses.

Among the three minority groups considered here, blacks and Hispanics have been sharply underrepresented as well relative to their representation in the New Jersey area population. Blacks constituted only 4 percent of the small business owners, but in the state of New Jersey blacks were 12 percent of the population, in the New York City PMSA blacks were 23 percent of the population, and in the city of Philadelphia blacks were close to 40 percent of the population. Hispanic owners of small businesses constituted only 3 percent of the total number of owners in the New Jersey area but they were 7 percent of the population of the state of New Jersey, 15 percent of the population of the New York City PMSA, and 4 percent of the population of the city of Philadelphia. Only Asians were overrepresented relative

to their presence in the population in small business ownership among the three minority groups considered.

Taken collectively, however, the three minority groups clearly are underrepresented in small business ownership relative to their presence in the New Jersey area. Indeed minority ownership corresponds to half of the minority presence in the state of New Jersey and only one-fourth of minority presence in the New York City PMSA and the city of Philadelphia.

The disparities documented here with respect to small business ownership correlate strongly with other racial and gender gaps that exist in the New Jersey area. For example, the section of this report on the long term demographics of the New Jersey area [section prepared by Myers et. al.] indicates that significant black-white disparities remain in home ownership, in occupational distribution, in general employment opportunities, in school completion rates, in access to private preschools, and in income and earnings.

Unequal Small Businesses

In a world where extant equal opportunity prevailed and historically generated differences in initial resources did not exist or had been effectively offset by current redistributive measures, one would expect a group's numerical representation in the population to match their numerical representation in an activity like small business ownership. The disparities identified here are indicative of a world where unequal

treatment continues and/or where the long-term effects of a history of inequality continues to exercise differential impacts across groups.

Indeed, the evidence of disparity in self-employment goes beyond mere numerical underrepresentation. Not only do white (non-Hispanic) males own the vast majority of enterprises "in the small business universe", but they also "are found disproportionately in the highest earning and largest scale lines of industry."⁷ Bates reports, utilizing unpublished Congressional Budget Office survey data, that nationally in 1982, 30 percent of all white male firms were in construction, manufacturing, and finance, insurance and real estate. Firms owned by blacks in the same industries only comprised 13 percent of all black firms. Bates points out that black ownership in the small business arena is most underrepresented in manufacturing which he describes as "the most capital intensive" sector; blacks are heavily overrepresented in the personal services sector, which includes such small scale operations as beauty parlors. Over 13 percent of black firms were in the personal services sector, in contrast with 3.3 percent of white male firms.⁸

Bates goes on to add that, with minor qualifications, the same pattern applies to the New Jersey area:

These same patterns of industry concentration are present in the New Jersey area, although black-owned businesses in New Jersey are slightly less concentrated in the low

⁷Bates, op.cit., pp.23,25.

⁸Ibid., pp.24-5.

profit traditional lines of business--small scale retailing and personal services. . . .⁹

The lesser concentration of black-owned businesses in the New Jersey area "in the low profit traditional lines of business" may be an artifact of the presence of black-owned businesses in New York City in Bates' sample, where black entrepreneurs are more likely to have struck out into what Bates' calls the "emerging" arenas of finance, business services and professional services.¹⁰ Bates sees newer black entrepreneurs, typically more highly educated than their predecessors, eschewing the traditional lines of business for the emerging lines. But even rapid entry of better educated blacks into the growth areas is not sufficient to offset the steep disparity that persists between the industry distribution of black-owned and white male-owned small businesses.¹¹

Nationally white male firms had, on average, \$138,030 in sales. Black firms had mean sales only 40 percent of that figure, \$55,402. The discrepancy was even wider in the New Jersey area as Table 1 indicates, with black firms achieving only 21 percent of the sales volume of white (non-Hispanic) male owned firms.

The pattern of underrepresentation in the more lucrative industry lines also carries over to the Hispanic owned firms, although the disparity in sales volume in the

⁹Ibid., p.25.

¹⁰Ibid., pp.14-16.

¹¹Ibid., pp.14-26.

New Jersey area is not as dramatic. Hispanic small businesses generated about half the volume of sales as white male owned small businesses (see Table 1 above).

While Asian small businesses are overrepresented in the small business arena relative to the Asian presence in the New Jersey area, disparities still arise when industry composition is assessed. Again, as Bates reports:

Highly educated Asian immigrants have been entering retailing in very large numbers during the 1980s. Furthermore, they have crowded into the small scale, less profitable lines of retailing such as food stores and restaurants. Asians are underrepresented, relative to non-minorities, in larger scale fields such as building materials, new car dealerships, and appliance stores.¹²

In the New Jersey area, Asian small business owners generated a mean sales volume half of that of white male small business owners (see Table 1).

A stylized fact that can be extracted from the literature on patterns of small business development is that there is a correlation between firm size and the likelihood of survival. The smaller the scale of the enterprise the greater the likelihood of failure. Richard Stevens made use of the Census Bureau's surveys of Minority-owned Business Enterprises for 1972 and 1977 to examine patterns of business formation and business failure for minority enterprises. Firms found on the 1972 file but not appearing on the 1977 file were treated as business failures. Firms found on the 1977 file that were not present in the 1972 file were treated as business formations.

Stevens found that across the three minority groups considered here there was significant variation in business formation rates. The Asians displayed the highest rate,

¹²Ibid., p.30.

20.7 percent, Hispanics were next with a 17.2 percent rate and blacks had the lowest rate among the three groups of 14.9 percent. But the failure rates were surprisingly similar for all three groups--12.3 percent for Asians, 13.9 percent for Hispanics and 12.3 percent for blacks.¹³ In the Middle Atlantic region the failure rate for minority-owned business enterprises was 13.4 percent. These failure rates were significantly higher than the national rate for all industrial and commercial firms in 1980 of less than 0.5 percent; even in the recession year of 1983 the aggregate failure rate only reached 1 percent. The numbers were similar in both years for all commercial and industrial firms in the Middle Atlantic States (New York, New Jersey, and Pennsylvania).¹⁴

Bates looks at failure rates--or what he calls "discontinuance rates"--among New Jersey area small business firms between 1982 and 1986, where size is based upon sales volume rather than number of employees. The latter criteria for firm size is used in the Stevens study. The gap in discontinuance rates is not as wide when the universe is limited to small businesses during the interval that Bates considers, but the same pattern emerges--minority owned businesses tended to go out of business at a higher rate than non-minority owned businesses.

Black owned firms "discontinued" at a rate approaching 30 percent between 1982 and 1986 in the New Jersey area. The Asian firms discontinuance rate was

¹³Richard L. Stevens, "Measuring Minority Business Formation and Failure" The Review of Black Political Economy Spring 1984 pp.72-6.

¹⁴U.S. Department of Commerce (Bureau of the Census) State and Metropolitan Area Data Book Washington DC: US GPO April 1986 p.572.

27.4 percent, the Hispanic rate was 25.3 percent, while the white male rate was 22.9 percent and the white female rate was 22.3 percent.¹⁵

The differential performance of minority business enterprises with respect to longevity can be attributed in large part to their smaller scale. Measuring firm size by number of employees, Stevens found evidence to suggest that when a minority owned firm reached a size where it employed 100 or more persons, the failure rate dropped below 10 percent. But out of his 1972 base sample of 336,997 firms, only 175 firms or .05 percent of his sample had attained that size.¹⁶

In a similar exercise Bates examined extant small businesses in 1982 and asked what proportion were still in business in 1986. He compares survival rates for both black firms and white male firms with sales levels in 1982 of \$5000-9999 and sales levels of \$100,000 or more. He finds that the latter group, regardless of the race of the owner, was 1.4 to 1.5 times as likely to still be in operation in 1986.¹⁷ Again size appears to correlate positively with business survival. And again it should be noted that the incidence of black owned firms with \$100,000 or more of sales in 1982 was much lower than the incidence of white male owned firms.

One proviso is in order here. The disappearance of a firm from the file between any two sets of survey years need not mean a business failure in the customary sense. The entrepreneur may have closed shop on one operation and moved on to a

¹⁵Bates, op.cit., pp.41-3.

¹⁶Stevens, op. cit., pp.76,82-3.

¹⁷Bates, op. cit., pp.31-2.

more lucrative alternative, having achieved the financial base in the first operation to make the change. While this is likely to be the case in a comparatively small number of instances, Bates' discussion suggests that it may occur with some frequency among Asian small businessmen:

As English fluency improves and financial resources accumulate, the barriers that dictated self-employment in retailing ease for successful Asian entrepreneurs. Therefore, owners leave retailing, opting instead for opportunities that permit a more full utilization of their human capital, and hence, generally higher remuneration.¹⁸

This is much less likely to be the case for black entrepreneurs, where a discontinuance typically will mean a business failure in the conventional interpretation.

Here are the lines of disparity between small business participation of white males and others:

- (1) Non-minority females and minorities of both genders are underrepresented in the small business universe relative to their numbers in the population of the New Jersey area, with the exception of Asians.
- (2) Minority entrepreneurs are likely to own firms that are engaged in relatively less lucrative lines of industry.
- (3) Non-minority female and minority entrepreneurs are likely to own comparatively smaller firms than white male owners where size is measured either by sales volume or number of employees.
- (4) Minority entrepreneurs' businesses have a higher discontinuance rate than non-minority businesses; this appears to correlate with their typically smaller scale.

What accounts for the underrepresentation of non-minority females and minorities of both genders, except Asians, in the small business world? We need to

¹⁸Ibid., p.31.

explain why the underrepresented groups have markedly lower rates of self-employment than overrepresented white males. Table 3 provides Timothy Bates' estimates of self-employment rates for each of the demographic groups under consideration in 1980:

Table 3
Rates of Self-Employment By Race, Ethnicity,
and Gender for the New Jersey Area, 1980

Group	Self-Employment Rate
Non-minority males	8.55%
Non-minority females	1.98%
Minorities	
All	2.01%
Blacks	1.51%
Hispanics	2.04%
Asians	5.27%

Source: Timothy Bates "Discrimination and the Capacity of New Jersey Area Minority and Women-Owned Businesses", August, 1991. p. 57.

Current Barriers for Minorities

It is not sufficient to assert that the differentials in self-employment rates explain overrepresentation and underrepresentation in and of themselves. It is necessary to inquire into the potential causes of the variation demonstrated in Table 3. Based upon his assessment of the existing literature Bates concludes that the propensity to engage in self-employment "is strongly associated with owner age, gender, education and net asset holding."

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The gap between white males and white females is difficult to explain on the basis of these factors. On these four dimensions the profile of characteristics of self-employed and not self-employed males and females do not differ sharply. Surprisingly, even the wealth distributions for white males and females in both the self-employed and not self-employed populations are quite similar. White females who are self-employed actually are better educated on average than white males who are self-employed (45.5 percent of the white women who were self-employed in 1980 had completed four years of college versus 41.7 percent of the men). The two pools of potential entrants who are not self-employed do not look vastly different either although a larger proportion of the males who are not self-employed had completed college (29.2 percent of the males versus 20.1 percent of the females).¹⁹

Either barriers exist that discourage white females from entering the small business world at the same rate as white males or they have different preferences. The former explanation could involve a wide variety of ways in which women entrepreneurs encounter insuperable barriers--exclusively because of their gender--that inhibit their capacity to get their own business off the ground. This could include limits to access to finance, exclusion from the relevant existing networks, etc. Under these circumstances the meritocratic environment idealized by the equal opportunity principle does not exist.

The Labor Department's recent "glass ceiling" report which found that white females typically can rise further up the corporate hierarchy than minorities but still

¹⁹Bates, op.cit., p.60.

are denied access to upper management positions reveals the persistence of a discriminatory environment in the business world.²⁰ Moreover when white women do occasionally reach upper management posts they are restricted to "staff positions--such as human resources and public relations--as opposed to line positions such as production and sales."²¹ It is not difficult to extrapolate the difficulties a white female entrepreneur might encounter in starting her own business enterprise in an environment where she is not allowed to compete seriously by the dominant white male participants, unless she engages in what is viewed as a traditionally female line of business, e.g. the "Blondie" enterprise of catering (linked to cooking), day care services (linked to child care), a home cleaning service (linked to housework), or running a secretarial temp service.

To the extent that women display a weaker preference for participation in self-employment, it may be due to the pessimism engendered by the greater difficulties they face in making the business succeed. Or it may be due to the historical effects of the inculcation of gender specific roles, which may exclude the role of women as businesspersons. In short, even if it was established that gender based differences in career tastes lay at the heart of the lower white female propensity to pursue self-employment, it would not exonerate society--or the state of New Jersey for that matter--from the charge that it sustains a discriminatory environment. It would be

²⁰Julia Lawlor "Labor Dept. Shrugs Off 'Glass Ceiling' Study" The USA Today August 9, 1991 p.1B.

²¹Julia Lawlor "Report: Minorities, Women on the Sidelines" The USA Today August 9, 1991 p.2B.

necessary to establish, in turn, that the genesis of the differences in career tastes between white males and females had a benign origin. Certainly, it appears that as the opportunity locus improves for women they pursue the same occupational options that are attractive to males.

Similarly whenever previously denied employment opportunities have opened for blacks they also have seized the time. The rapid entry of black workers into the manufacturing sector in the South after the mid-1960s, particularly the textile industry, has been documented by Heckman and Payner, giving special attention to South Carolina. They attribute the opening of Southern manufacturing employment to blacks to federal anti-discrimination programs.²² This response fits the historical pattern. When Henry Ford, for reasons yet unclear, first decided to employ large numbers of black workers at the Ford Motor Company in the 1920s offering unparalleled wages for unskilled black labor and onerous work conditions--since black workers were disproportionately confined to the foundry--black entry was dramatic.²³ Spero and Harris, in their classic study of black laborers in the United States, demonstrated over and over that whenever a door that was previously shut opened black workers would rush through, regardless of the motives of the

²²James J. Heckman and Brook S. Payner "Determining the Impact of Federal Anti-discrimination Policy on the Economic Status of Blacks: A Study of South Carolina" American Economic Review Vol.79:1 March 1989 pp.138-77.

²³Warren C. Whatley and Gavin Wright "Getting Started in the Auto Industry: Black Workers at the Ford Motor Company, 1918-1949" unpublished manuscript, University of Michigan at Ann Arbor, 1991.

employers, who, in many instances, were seeking to hire black workers as strikebreakers.²⁴

The modern Heckman and Payner finding for the South Carolina and for the South as a region is echoed in the conclusions reached by A.W. Blumrosen in his examination of national data on the changing occupational distribution for (nonwhite) minorities. Blumrosen found that between 1970 and 1980 there was a marked increase in the representation of minorities working in "the higher occupational categories (professional and technical, clerical and craftspersons)". The opportunity to enter such fields, Blumrosen finds, was due to the passage of Title VII of the Civil Rights Act and, in his words, "application of a more stringent executive order." Until those events occurred there was no significant change in the minority occupational profile.²⁵

There is no basis for the assertion that the underrepresented groups considered here are relatively absent from the small business arena because of a race or gender specific distaste for such activities. In New Jersey there is a long tradition of black entrepreneurs seeking to make a go of it despite the existence of greater barriers and

²⁴Sterling Spero and Abram Harris The Black Worker 1931.

²⁵A.W. Blumrosen "The Law Transmission System and the Southern Jurisprudence of Employment Discrimination" Industrial Relations Law Journal Vol.6 1984. Giles Wright in Afro-Americans in New Jersey: A Short History Trenton: New Jersey Historical Commission 1988 points out on p.75 that the proportion of all professional and technical employees who were black in New Jersey rose from 4.9 percent in 1970 to 7.9 percent in 1980. He also attributes this to expanded opportunities associated with a reduction in the degree of exclusion from such positions.

the lack of resources comparable to those possessed by members of other groups.²⁶

With blacks and Hispanics, regardless of gender, the lower self-employment rate is attributable primarily to differences in education and wealth holdings vis a vis white males. The profile of mean characteristics of both the self-employed and not-self employed black and Hispanic individual with respect to both years of schooling and accumulated wealth lag behind those of the white male. For example, while in 1980 more than 40 percent of self-employed white males between the ages 21-60 years had completed four or more years of college, 21 percent of self-employed blacks had done so and 17.5 percent of self-employed Hispanics had done so. Among the not self-employed the gap was even wider. Only 6.7 percent of Hispanics who were not self-employed had completed four or more years of college and only 8.6 percent of not self-employed blacks had done the same, while almost 30 percent of not self-employed white males had finished college.²⁷

The disparities with respect to accumulated wealth are even more striking. Over 54 percent of white males who are self-employed had wealth in excess of \$25,000; 16.3 % had acquired a level of wealth in excess of \$100,000. Among the not self-employed, close to 50 percent had wealth in excess of \$25,000 and 9 percent had wealth in excess of \$100,000. For blacks nearly 20 percent had wealth greater than \$25,000, and only 1.8 percent had wealth in excess of \$100,000 among the self-

²⁶Wright, op. cit., pp.49-50,60-61.

²⁷Bates, op. cit., pp.60-1.

employed. Among the not self-employed less than 10 percent had wealth above \$25,000 and a mere 0.3 percent had wealth greater than \$100,000.

For the self-employed Hispanics 29.1 percent had wealth greater than \$25,000, and 9 percent had wealth exceeding \$100,000. More than 12 percent of the not self-employed Hispanics had wealth greater than \$25,000 and only 2 percent of the not self-employed Hispanics had wealth above \$100,000.²⁸

This means that there is a substantial educational and wealth gap between self-employed black and Hispanic entrepreneurs and their non-minority counterparts. But there is an even wider gap between not self-employed blacks and Hispanics and the self-employed non-minorities that means that raising self-employment rates among these two groups would be excruciatingly difficult in the absence of a policy intervention that alters their educational and asset profile.

The Asian minority stands out as exceptional in comparison with the characteristics of the black and Hispanic populations. Their college completion rates exceed those of the non-minorities. Their rate of college completion for their not self-employed exceeds that of the non-minority not self employed by nearly two to one. Over 40 percent of the Asian self-employed report wealth holdings above \$25,000 and 23 percent of the Asian self-employed report wealth greater than \$100,000. Among the not self-employed Asians 32.6 percent report wealth above \$25,000 and 12.7 percent report wealth greater than \$100,000.²⁹

²⁸Ibid., pp.60-1.

²⁹Ibid., pp.62,71.

Interestingly enough, if the economic "treatment" of Asians was the same as the economic "treatment" of white males, the Asian self-employment rate should be even higher given their exceptional traits associated with participation in self-employment activities. The difference in self-employment rates cannot be explained exclusively by differences in the characteristics possessed by blacks and Hispanics when compared with white males either, despite the fact that their mean characteristics bear much less of an association with self-employment. Taking all three minority groups collectively and using a discriminant analysis, Bates has shown that if minorities received the same treatment, in a statistical sense, as white males the entry rate into self-employment would be 2.95 percent for minorities and 8.12 percent for non-minority males.³⁰ In short, in the real world the minority/non-minority male self-employment ratio in 1980 was .235 (see Table 3). In the hypothetical world of equal treatment, given unequal characteristics, the ratio would have risen to .363--still a gap, but a somewhat narrower gap. This finding is suggestive of the existence of discriminatory barriers to participation in the small business arena for all three of the minority groups:

Minorities do not face the same barriers to self-employment entry as non-minority males; they face higher ones above and beyond those related to their wealth holdings and educational backgrounds.³¹

Another way to look at this finding is as follows: Invert the exercise and construct the hypothetical circumstance of equalized characteristics of the three

³⁰Ibid., pp.93-4.

³¹Ibid., p.95.

minorities taken collectively with those of the non-minority males. The estimated structural equations generating self-employment rates for the two populations differ in such a way that the self-employment rate for minorities would still be lower, even if minorities were assumed to possess characteristics identical with non-minority males.

Bates' technique leads to even stronger results when he predicts the self-employment behavior of non-minority females if they received the same treatment as non-minority males. Given their actual mean characteristics if they faced the same social processes affecting entry into self-employment as white males, their self-employment rate would have been 6.86% in 1980, rather than 1.98%. Their rate of entry would have been 3.5 times higher than their actual rate. The gap between their entry rate and that of non-minority males would close considerably if white female characteristics were "processed" in the same manner as white male characteristics in the New Jersey area.³²

The confinement of minority entrepreneurs to less lucrative lines of industry in the small business arena can be linked to the smaller scale of their operations. This contributes, in turn, to the greater likelihood of discontinuance or failure. Business survival is positively correlated with the size of the firm, the age of the firm (the longer a firm has been in existence, the greater the likelihood it will continue to exist), the educational level of the owner, and the amount of financial capital the owner can devote to the enterprise. Bates argues that the evidence indicates that there is an

³²Ibid., p.134.

interdependence between owner's education and financial capital investment as well as firm size and financial capital investment--"the better educated owners...tend to invest the above average amounts of financial capital...; large financial capital is directly related to firm size..."³³

So what governs firm size as measured by volume of sales? Bates' statistical analysis identifies financial capital investment as the decisive factor. Black owned businesses in particular are prone to "lagging sales" because of their owners inability to muster the requisite level of finance to get their businesses off the ground at a sufficient scale to enhance their chances for long-term success. For businesses starting between 1976 and 1982, Bates points out, white male firms typically started with two and one half times more financial capital investment (\$44,552) than black firms (\$19,066).³⁴

Black firms started with less than half of the equity capital of white male firms (\$9054 versus \$20,402) and considerably less than half of the debt capital (\$10,012 versus \$24,150).³⁵ The source of disparity in equity capital arises from the wealth gap. Bates argues that this is in large part due to "the fact that higher income white households are relatively much more numerous than higher income blacks."³⁶

³³Ibid., p.33.

³⁴Ibid., pp.33-4.

³⁵Ibid., p.34.

³⁶Ibid., p.22.

Historical Barriers to Minorities

A recent study by economists Francine Blau and John W. Graham found that young black families, heads of household ages 24 to 34 years, on average possess only about 18 percent of the wealth of young white families and tend to hold their less of it "in the form of net liquid and net business assets and more in the form of equity in house(s) and car(s)."³⁷ Measured in 1976 dollars the mean wealth of all young black families was \$4177 while the mean wealth of all young white families was \$23,703.³⁸

Blau and Graham could not attribute the gap in wealth to racial differences in savings propensities nor differences in rates of return earned on assets by the two populations.³⁹ In fact, several studies over time have found that at any given income level blacks have a lower propensity to consume and a higher propensity to save than whites.⁴⁰ The fundamental sources of the gap in wealth according to Blau

³⁷Francine D. Blau and John W. Graham "Black/White Differences in Wealth and Asset Composition" NBER Working Paper No.2898, March 1989 pp.1,18.

³⁸Ibid., p.3.

³⁹Ibid., pp.11-8.

⁴⁰ See Milton Friedman A Theory of the Consumption Function Princeton: Princeton University Press 1957 pp.79-85; Marcus Alexis "Some Negro-White Differences in Consumption" The Black Consumer in George Joyce and Norman A.P. Govoni (eds.) New York: Random House 1971 pp.257-74; and Daniel S. Hamermesh "Social Insurance and Consumption" American Economic Review Vol.72 March 1982 pp.101-113. Only Marjorie Galenson's study "Do Blacks Save More?" American Economic Review Vol.62 March 1972 pp.211-6 appears to reach a conclusion that departs from the general finding that blacks have a higher propensity to save out of any level of income than whites and she finds that black and white families have the same savings rates.

and Graham are the racial disparity in access to inheritances and limits to "accumulation of business wealth."⁴¹

Thus historical deprivations that undermined the wealth position of earlier generations of blacks exercise a continuing effect on the capacity of the existing black population to compete in the small business arena. Those deprivations began, of course, with slavery and extended to subsequent deprivations associated with the Jim Crow era in which blacks were denied the right to own property and faced a discriminatory environment that denied them access to higher incomes and wealth. Here we find the origins of a process of inter-generational transmission of wealth levels considerably lower than those that white parents, on average, could transmit to their offspring.⁴²

Discriminatory conditions have long historical antecedents for blacks in New Jersey. Among states identified as Northern, New Jersey had a longer tradition of maintaining the practice of slavery. As late as 1810 the majority of the 18,700 blacks in New Jersey--out of a total state population of 277,600 persons--were slaves.⁴³ Free blacks did not come to comprise the majority of the state's black population until

⁴¹Blau and Graham, op.cit., pp.11-8.

⁴²See Robert S. Browne "Wealth Distribution and Its Impact on Minorities" Review of Black Political Economy Vol.4:4 Summer 1974 pp.33-4 and David Swinton "Racial Inequality and Reparations" in Richard F. America (ed.) The Wealth of Races Westport: Greenwood Press 1990 pp.153-62.

⁴³Giles Wright Afro-Americans in New Jersey:A Short History Trenton: New Jersey Historical Commission 1988 p.80.

1820, a mere generation before the Civil War, and even then slaves comprised close to 40 percent of the 20,000 person black population.⁴⁴

The historian Giles Wright reports that "[i]n 1823...a traveler from Connecticut passing through New Jersey expressed a common northern view and called New Jersey 'the land of slavery'" and in 1849, "...Dr. John S. Rock of Salem, a leading black New Jerseyan, also linked the state with the South [pointing out] [w]hen it was proposed to the legislature that New Jersey secede from the Union because the Union included the slave-holding southern states [that this] idea [was] hypocritical because slavery still existed in New Jersey."⁴⁵ Indeed, slavery continued to be practiced in New Jersey until the onset of the Civil War, although by 1860 apparently there were fewer than twenty slaves out of a black population estimated to exceed 25,000.⁴⁶ Slavery was not eliminated on legal grounds in New Jersey until the state adopted the Thirteenth Amendment to the U.S. Constitution.⁴⁷

Being free and black in pre-1860 New Jersey did not mean the exercise of rights similar to the white, non-slave population. Joan Geismar observes:

Research reveals that although [free] blacks achieved some measure of legal status, attempts at regulation and manipulation also increased as the number of free blacks increased....Though not all enacted, numerous laws were

⁴⁴Ibid., p.80.

⁴⁵Ibid., p.13.

⁴⁶Ibid., p.80.

⁴⁷Joan H. Geismar The Archaeology of Social Disintegration in Skunk Hollow: A Nineteenth Century Rural Black Community New York: Academic Press 1982.

proposed that aimed at limiting the number of freed slaves in the state. And further, between 1852 and 1859, the New Jersey Colonization Society was active, if ineffective, in attempting to transport free blacks to colonies in Africa....⁴⁸

Even more important, in Geismar's estimation, was the continual denial of voting rights to free blacks, indicative of the climate of "denial of civil liberties" for blacks, characteristic of nineteenth century New Jersey.⁴⁹

From July 3, 1776 the state's first constitution extended the franchise to both free blacks and white females. However, in 1807 the New Jersey legislature limited the franchise to white males, eliminating voting rights for both free blacks and white women, rights that both groups had possessed for three decades. These restrictions on voting rights were not reversed until after the Civil War in 1870.⁵⁰

The early twentieth century did not bring about dramatic changes in the environment New Jersey provided for its black citizens. According to Wright, Southern black immigrants in the 1930s referred to New Jersey "as the 'Georgia of the North.'" And, in fact, as Wright points out, New Jersey is the southernmost northeastern state, extending below Baltimore, Maryland at its southernmost point; part of New Jersey is below the Mason-Dixon line.⁵¹ New Jersey has a long history of what

⁴⁸Ibid., p.9.

⁴⁹Ibid., pp.9-10.

⁵⁰Wright, op. cit., p.32.

⁵¹Wright, op. cit., pp.14-5. Also see Lee Hagan, Larry A. Greene, Leonard Harris, and Clement A. Price "New Jersey Afro-Americans from Colonial Times to the Present" in Barbara Cunningham (ed.) The New Jersey Ethnic Experience Union City: William Wise & Company 1977 pp.80-2.

Wright describes as "racial conservatism."⁵² It is suggestive of how bad conditions were in the "real South" that blacks would migrate to New Jersey, despite its racial climate.

The economic manifestations of this racial climate were pervasive, particularly during the aggravated conditions of the Great Depression. Wright's commentary is revealing:

Of all New Jersey ethnic groups, Afro-Americans suffered most during the Depression of the 1930s. In 1932 black unemployment in the state was nearly twice that of whites. And once blacks lost their jobs they tended to remain unemployed longer than whites, so they they were more likely to become impoverished. In 1935 26 per cent of the families on relief in the state were black, although black families constituted only five percent of the state's total family population. In 1937 the relief rolls in the state's eight largest cities revealed a disproportionate number of blacks; they were three to six times more likely to be relief recipients than whites in these cities. In Elizabeth, for example, where blacks constituted 4.2 per cent of the family population, they accounted for 28.5 per cent of the family relief cases.

Black worker displacement was another feature of the Depression. White workers drove blacks out of certain positions they had held for decades. Waiters, hotel workers, elevator operators and others were replaced by young white women, while janitors and others were supplanted by white men. The radically depressed wages associated with the nation's severe economic downturn provided greater opportunities for employer exploitation of black workers. Among domestic workers it led to unprecedented humiliation--to what contemporary observers called 'slave markets.' In these 'markets', black women waited on street corners for white women to drive

⁵²Ibid., p.14.

up, casually survey them, and then offer them a day's work.⁵³

The paradoxical character of race relations among women is revealed in this last passage. By the 1930s the social expectation for married white women was that they would stay in the home and social pressure contributed to the fulfillment of this expectation. Economic necessity, however, dictated that married black women enter the work force. They did so, in large numbers, as servants for white families. A 1932 survey in New Jersey found that out of every 100 married black women, 39 were gainfully employed, while out of every 100 married white women, 11 were gainfully employed. Among those employed, 86 percent of the black women were domestic servants while only 16 percent of the white women were domestic servants.⁵⁴

Black males and females alike received lower wages, more limited employment opportunities, and had greater odds of experiencing joblessness. Job exclusion from comparatively well-paid blue collar employment was direct. Twenty-one of the international labor unions with locals in New Jersey had constitutional provisions that explicitly excluded blacks. Of the remaining 41 with non-restrictive constitutions there were 268 black members out of a total of 8,019 members or little more than 3 percent.⁵⁵

⁵³Ibid., p.63.

⁵⁴New Jersey's Twentieth Citizen: The Negro Interracial Committee of the New Jersey Conference of Social Work 1932.

⁵⁵Ibid., pp.9-10.

The deprivations faced by the black population were further reflected in housing conditions. The average black family typically lived in the "blighted areas and potential slums" of New Jersey. Forty-three percent of all black families in the state lived in homes without bathrooms.⁵⁶

The persistence of these deprivations carried over into the post-World War II period. Hagan et. al. have observed, "Afro-Americans were plagued by inadequate educational systems, which combined with employment discrimination to concentrate the black population in the unskilled and semi-skilled occupations. In Newark in the 1960's, 43 percent of white males were in white-collar jobs compared to only 20 percent of Newark's black males. Despite their concentration in lower-paying jobs, the employed blacks were more fortunate than the numerous unemployed. The rate of black unemployment remained twice that of whites in the 1940's, 1950's, and 1960's regardless of the state of the economy."⁵⁷

It was the 1960s and 1970s that ushered in what Blumrosen has called a "peaceful social revolution" with the activation of federal anti-discrimination laws.⁵⁸ New Jersey actually had taken steps as a state to change "its image of racial conservatism" in the 1940s with the passage in 1945 of a Fair Employment Practices Act that made racial discrimination in employment illegal and with the inclusion of language in the state's third constitution in 1947 that made racial segregation in

⁵⁶Ibid., p.10.

⁵⁷Hagan et. al., op. cit., p.82.

⁵⁸A.W. Blumrosen, op. cit., p.333.

public schools and the state militia illegal (New Jersey had maintained a dual public school system well into the 1940s, particularly in the southern counties with larger concentrations of blacks).⁵⁹ But the persistence of residential segregation and ghettoization of the black population in urban areas as whites migrated to the suburbs meant that the efficacy of the laws were not severely tested. And as Wright points out "de facto segregated schools developed with low levels of academic achievement and high dropout rates."⁶⁰

The "revolution" of the 1960s and 1970s while enabling some blacks to enter positions that historically had been restricted--particularly in professional, technical, managerial and administrative jobs noted above--does not appear to have come about in an altogether "peaceful" fashion. The urban unrest that gripped black communities in the late 1960s and early 1970s also came to roost in New Jersey. During the summer of 1967 the cities of Newark, Plainfield, and Englewood and on a smaller scale Paterson, Trenton, Camden, Atlantic City, and New Brunswick all experienced urban riots.⁶¹

The consequences of America's civil rights social revolution for black political representation appear to have been significant, although the consequent changes wrought by such representation are more ambiguous. Certainly in the aftermath of the urban rebellions active steps were taken to increase the enrollment of blacks in New

⁵⁹Wright, op.cit., pp.50-54,70.

⁶⁰Ibid., p.72.

⁶¹Hagan et al, op. cit., p.83.

Jersey's four year colleges and professional schools; the positive response of blacks to these new opportunities again demonstrates how openings are seized by those previously denied access.⁶² But as time passes, as the momentum of such efforts wane, and as anti-discrimination efforts slow or evaporate there is an apparent reversal in these trends.

While there have been predominantly black communities in the state of New Jersey, particularly in the southern portions of the state, blacks nor other nonwhite minorities have never constituted a majority of the electorate in the state. Blacks have never exercised political control over the executive, legislative, or judicial branches of the state government. While black mayors have been elected in cities like Newark and Trenton, such elections have occurred at a point when black ascendancy in American urban municipal politics is a case of too little, too late:

Urban political power as a goal for ethnic groups is much less relevant than in former times. Paraphrasing John Nance Garner's characterization of the vice-presidency, one might say, "Mayoralties today ain't worth a bucket of warm spit." With declining revenues, near bankruptcy conditions, massive unemployment of blacks, conditions of private splendor and public squalor, and increasing urban dependency upon external emergency financing plans, one could almost view with suspicion anyone desiring to become a big city mayor.⁶³

The existence of anti-discrimination laws is not the equivalent of actively enforced anti-discrimination laws. In a study published in 1986 Taylor, Gwartney-

⁶²Ibid., pp.83-4.

⁶³Seymour Leventman, "Review of Eisenger's Politics of Displacement" Contemporary Sociology May 1982 p.336.

Gibbs, and Farley found no sector of the U.S. economy that did not display significant racial or gender discriminatory earnings differentials some twenty years after the inauguration of federal anti-discrimination legislation.⁶⁴ New Jersey certainly does not appear to be an exception to the national pattern; indeed, among northern states its overall historical record is indicative of its being among the worst.

Cumulative Effects of Past Deprivations

The effects of historic deprivations are cumulative. Persistent economic deprivations reduce the average level of wealth in a community. Lower wealth levels adversely affect attainable levels of education, access to quality housing and the amenities associated with such communities, as well as the conditions for entry into the business environment.⁶⁵ Access to bank loans, for example, is reduced if the

⁶⁴Patricia A. Taylor, Patricia A. Gwartney-Gibbs, and Reynolds Farley "Changes in the Structure of Earnings Inequality by Race, Sex, and Industrial Sector, 1960-1980" Research in Social Stratification and Mobility Vol.5, 1986, pp.105-38.

⁶⁵This is what Roberta Wright describes as the "continuum" of factors that combine to magnify the effects of a single discriminatory act over time and space, thereby inhibiting opportunities for entry into business as well as other preferred activities. See her "Task 2: Study of Laws and Court Decisions", New Jersey Transit Authority Project, Afro-American Studies Program, University of Maryland at College Park, September 1991, p.2n.5. Wright's observation was stimulated in part by the implications of the investigation taken into the construction trades industry in Newark, New Jersey in 1970 by the Office of Federal Contract Compliance.

The investigation found that both past and ongoing exclusionary practices by unions resulted in the underrepresentation of blacks and other nonwhite minorities in construction craft unions. These exclusionary practices included denial of access to union membership, denial of employment referrals, and denial of access to apprenticeship and other related training programs. This process necessarily prevented blacks from becoming contractors in the construction trades because they could not be bonded which, in turn, would mean that they could not be self-employed participants in the industry. Each rung of the ladder was already weakened or sawed off altogether. See Report of the Panel on Equal Employment Opportunities in the Construction Trades in Newark, New Jersey, 1970, see the brief filed by

potential applicant does not already have sizeable equity capital.⁶⁶ It is a notorious complaint of the minority business person that they are trapped in a Catch-22 situation. Without adequate financial capital they cannot get their enterprise off to a proper start. Without equity capital they cannot get debt capital. Without both they cannot have adequate financial capital.

Hispanic entrepreneur Ruth Molenaar has tried to save her newspaper, La Tribuna, in the aftermath of a fire that destroyed her administrative offices in Union City, New Jersey. She has sought to raise \$15,000 to \$20,000 to resurrect her business, approaching up to seven banks, none of whom would provide her with a loan. Says Molenaar, "The requirements are you need to have a certain amount of money sitting there in the bank. I told them if I had that, I wouldn't need this loan."⁶⁷ Inherited wealth usually determines whether "a certain amount of money [is] sitting there in the bank." For prospective black entrepreneurs a history of truncated access to wealth accumulation makes it very unlikely that such an inheritance has been forthcoming.

Rutgers University against the International Association of Bridge, Structural and Ornamental Iron Workers and Local Unions #11, #45, #373, #480, and #483 in 1965, and the affidavit filed by attorney Alfred Blumrosen during the same year.

State laws barring discrimination in employment laws had existed in New Jersey since 1945. Evidently the laws had not been enforced with respect to the construction trades industry. The state had been at least passively complicit with respect to the exclusionary practices of the trade unions.

⁶⁶Bates, op.cit., p.35.

⁶⁷Iris Taylor "Hispanics Struggle for Success" The Times (Trenton NJ) [date not indicated on photocopy although obviously 1991 article with Jose Sanchez of Kean College]

To compound matters there is strong evidence of discriminatory lending practices by commercial banks toward blacks. Faith Ando's study is notable in this regard. She found that the rate of bank loan application acceptances for short term loans from black owners of established small businesses in the early 1980s was much lower than the rate for Hispanics, non-minorities, and Asians. In fact, she found that the rate was highest for Asians and virtually identical for Hispanics and non-minorities. After controlling for various indicators of possible risk differentials Ando still found that black firm owners still had significantly less of a likelihood of having their loan application accepted.⁶⁸ Bates also found that black applicants receive smaller loans than white applicants when they possess identical educational, age, and equity capital characteristics. In short, for a black entrepreneur to obtain a given amount of debt capital he or she must have more education, more maturity, and greater personal wealth than a white entrepreneur seeking a similar amount of debt capital. Thus current discrimination combines with inherited disparities to perpetuate the gap in business participation and success between blacks and whites.

Current discrimination while creating disadvantage for the group it is directed against necessarily creates an advantage for another group. The manifestations are widespread. Earlier this year the Urban Institute conducted a study of entry level job access in the cities of Chicago and Washington DC. They paired young black males and white males (19-24 years of age) with fake, identical resumes and had them apply

⁶⁸Faith Ando An Analysis of Access to Bank Credit Los Angeles: UCLA Center for Afro-American Studies 1988.

for the same jobs. 1052 job applications were made. Treatment of the applicants appeared to be neutral 73 percent of the time, but black males faced discriminatory treatment 20 percent of the time while white males faced discriminatory treatment 7 percent of the time. Therefore, black males were three times as likely to face job bias. And there were higher rates of discrimination against black males in white collar jobs or jobs involving direct client contact.⁶⁹

If black males cannot get their foot in the door even when their qualifications are the same as those of white males in entry level jobs, they cannot begin the process of advancement nor can they position themselves to have the background and resources to make a go at self-employment should they decide to do so. In the New Jersey area the long-standing exclusion of black laborers from apprentice programs in the building trades in unionized areas has hindered the development of black-owned construction companies as well.⁷⁰

The Report of the Panel on Equal Employment Opportunities in the Construction Trades in Newark, New Jersey in 1970 has been summarized as finding "that exclusionary practices such as the failure to admit minorities into union membership, the failure to refer minorities for employment, the failure to admit minorities into apprenticeship or equivalent training programs coupled with the fact that the vast majority of Federal and non-Federal construction projects in the Newark, New Jersey

⁶⁹Julia Lawlor and Jeffrey Pitts "Job Hunt:Blacks Face More Bias" The USA Today May 15, 1991 p.1 and Lynn Duke "Job Market Still Tilts to Whites" The News and Observer (Raleigh NC) May 15, 1991 pp.1A, 11A.

⁷⁰Bates, op.cit., p.17. Also see the discussion in footnote 65 above.

area were performed by union members or others referred to work by a union kept those same minorities from becoming contractors."⁷¹ If blacks could not become contractors they could not participate as self-employed persons in the construction sector, one of the more lucrative lines of small business industry. They could not, therefore, accumulate business wealth in this arena, thus restricting the scope of the major alternative route to acquisition of equity capital in the absence of substantial inherited wealth. Such exclusionary practices persisted into the 1970s despite the existence of state laws barring employment discrimination since the end of World War II. Even if such exclusionary practices are eliminated the cumulative process of spiraling disadvantage already has been operative and already has exercised adverse intergenerational repercussions.

The specific case of the community of Hightstown, New Jersey is revealing as well. The historical processes run deep in a community that has had a black population since its founding in 1721. James Barlow's research into Hightstown's past led him to the conclusion that the community maintained racial harmony "as long as the blacks 'knew their place.'" Barlow found that "This meant an unspoken law existed that barred blacks from higher-paying jobs, living in the 'white' sections of town or even getting more than a sixth-grade education." This was the state of affairs through World War II when the status quo was disrupted by black immigrants from the South who did not accept the prevailing social compact. The result was that they were subjected to abuse--for not keeping their place. Barlow reports that many

⁷¹Roberta Wright, op. cit., pp.7-8n.22.

of the black families that had moved into Hightstown from the South moved on in the face of a hostile environment. Those who did not leave Hightstown eventually have been ghettoized in public housing projects.⁷²

The pattern of discrimination in Hightstown carried on throughout the 20th century would have obvious deleterious effects for the opportunities available to the offspring of the families who were subjected to limited occupational and educational horizons--whether from the "native" black or "immigrant" black families. In a larger city like Teaneck, New Jersey racially discriminatory practices in the labor market and in public schooling apparently lie at the heart of the unrest that took place there in 1990.⁷³ But apart from civil disturbances, the more fundamental issue is the long term consequences across generations of differential labor market opportunities and differential quality in schooling.

The central implication of the foregoing is such differentials inhibit the ability of blacks to succeed in any desired activity at the same rates as the reference group. Specifically with respect to black entrepreneurs, their ability to compete effectively in the small business arena depends upon improved access to financial capital and improved education. To affect the former change major redistributive measures would have to be taken to alter the personal equity position of the black population and/or mechanisms would have to be introduced to enhance potential or existing black entrepreneurs' access to debt capital.

⁷²Christiane Biamonte "Thesis Punctures Myth of 'Paradise'" The Time (Trenton NJ) June 3, 1991 pp.A1, A8.

⁷³ "Teaneck Unrest" [exact title?] The New York Times April 30, 1990 p.A1:1.

Directly enhance the capability of the minority entrepreneur to be an effective contestant in the small business world--through improved access to capital and improved education. These would, of course, be group-specific remedies but in the absence of pure equal opportunity--never mind the absence of historical equality--it would seem reasonable to inaugurate steps that seek to offset the disproportionate competitive advantage possessed by rival groups like non-minority males. Certainly the failure of a state to launch a comprehensive attack employment discrimination, despite having had legislation of its own in place since 1945 to address labor market discrimination, is indicative of the state's passive participation in maintenance of such conditions. This would justify the inauguration of targeted policies on behalf of the underrepresented group.