Public Contracting, Political Barriers and the Role of Political Capital in the Growth of Black Entrepreneurship

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Black elected officials have some authority over the distribution of public contracts and policies that can discourage anti-competitive and discriminatory practices in credit and capital markets. In this context, their election is potentially favorable to the creation of public policy and an environment that is conducive to the entry of Black-owned firms. The parameter results reveal that Black elected officials through public policy create a market environment that has a significant and positive effect on the entry of Black-owned firms. This suggests that among the various strategies for improving Black entrepreneurship, electing Black officials who create a favorable environment through public policy also appear to be important.

The Minority Business Development Agency State of Minority Business Report series illustrates a historical and ongoing disparity between Black and non-Black firms. It shows relative to non-Black-owned firms, Black-owned firms achieve less growth, have a shorter duration and offer fewer employment opportunities. Various authors suggest that social, economic and political barriers to Black entrepreneurship can be linked to less desirable social outcomes to include higher unemployment, poverty and crime.

These impediments proffer a "first movers advantage" and may explain the well-documented racial disparities in self-employment, where Black-owned firms are significantly underrepresented due to past injustices and political barriers (Darity and Williams 1985; Mangum 2008). The ill effects of the injustices have been perpetuated to the present fueling, at least in part, a more difficult socio-economic environment (Price 2005).

Impediments to Black entrepreneurship in the form of lobbying tactics and discrimination have been perpetrated through competitive forces, public policy and anti-competi-

tive practices at local, state and federal levels constraining Black Americans' access to citizenship rights, educational resources, employment options and entrepreneurial opportunities (Mangum 2008). Presumably, elected officials have some authority in the public policy process to include laws and regulations. These laws and regulations affect social, political and economic inequities. Thus, their presence, in the form of political capital, may improve the social, political and economic status of Black Americans. The relation between the ethnic political power and governmental policies' regarding its economic well-being represents an important but rarely explored area of political economy (Eisinger 1983).

Entrepreneurship can be a pathway to wealth considering an individual's or group's access and acquisition of the determinants of entrepreneurship, i.e., human, financial, social and political capital (Fairlie and Meyer 1999; Fairlie and Robb 2007; Mangum 2008). However, if access is impeded, the Black entrepreneur can be constrained by biased public policies, laws and regulations diminishing economic opportunities. Bogan and Darity (2007) found that discriminatory practices have been linked to discrepancies between Black and White wealth. Access to public sector contracts can enable Black-owned firms to achieve growth and profitability that increases the owner's equity and diminishes the Black and White wealth gap (Brimmer 1988).

Summary data reported in The State of Minority Business 2001[1] revealed relative to non-Black-owned firms, Black-owned firms achieve lower revenue, have a shorter lifespan and employ fewer workers. In addition, the average size of Black-owned firms is small relative to non-Black-owned firms in terms of both gross receipts and employment. The report failed to offer a basis for these findings. The basis is important because historically entrepreneurship has been a source of improvement for disadvantaged groups. A reason for concern is the lack of business progress and success in the face of gains in education, income and civil rights (Fairlie and Robb 2007).

This study explores whether hard-earned political rights are efficacious in the economic performance of the Black-owned firm. Electing public officials that share common traits, history and interests with constituencies lead to rewards received by the candidate's supporters (Bratton and Haynie 1999; Tate 1994). The Black elected public official, lowers anti-competitive practices, facilitates increased access to public contracts, and supports enforcement of favorable public policy. By enforcing fairness in public contracting and anti-discrimination policy, Black elected officials reduce race-based political entry barriers to black entrepreneurship formerly sanctioned by members of the federal, state and local governments.

The Limit Profit Model is extended by enhancing the analysis of market entry to include political entry barriers (Geroski 1995). Political entry barriers are posited to have their genesis in historically biased government policy emanating from a culture of discrimination and incumbent firms practicing lobbying tactics utilizing their "first movers' advantage" that facilitate their access to public contracts and policy interests impeding the entry of Black-owned firms.

Relationships may exist between political barriers and firm entry to explain profit expectations, growth, size and success of black-owned firms. Research is necessitated by the historical nature of the political, economic and social conditions encountered by Blacks (Darity and Williams 1985; Mangum 2008). Thus, the aim of this study is to investigate

market entry barriers and whether political office-holding increases entry of Black-owned firms through access to public sector contracts which enhance profitability and growth possibilities (Eisinger 1983; Harrigan 1993).

This research contributes to the literature regarding explanation of the number, size, growth and success of Black-owned firms, barriers impeding Black-owned firm entry, political factors affecting the performance of Black-owned firms, adds to a limited research literature that seeks to explain relationships between Black elected officials and Black-owned firms and combines disparate national data into a unique data set.

Why Are There So Few Black Businesses?

Entrepreneurship is an important function in market economies. New firms enter if the profit (price) level is above the long-run competitive level thereby inducing an equilibrating function in markets. As agents of change, new entrants (entrepreneurs) contribute to allocative and dynamic efficiency in markets (Schumpeter 1983). Competitive or environmental mechanisms (barriers) can reduce the probability of entry. Consequently, barriers reduce the potential for allocative and dynamic efficiency and are detrimental to industry dynamics and economic welfare (Blees et al 2003).

New firm entry is an outcome of opportunity discovery and the entrepreneurial decision. New opportunities are realized from knowledge and information about disequilibrium conditions denoted by market discrepancies between supply and demand according to the "Austrian Approach" (Kirzner 1997). An alert entrepreneur discovers the potential opportunities to profit based on an accurate knowledge of supply and demand attitudes in the market. The realization of the market opportunity is dependent on the entrepreneur's ability to acquire necessary resources: land, labor, capital and entrepreneurial ability. The entrepreneur seeks utility maximizing outcomes through utilization of human, financial, social and political capital within a context of conditions in which the decision occurs and the firm will operate.

Gentry and Hubbard (2000) viewed the firm entry decision as a function of the difference between returns to self-employment or expected firm profits and wage employment over costs associated with each endeavor. This entrepreneurship decision can be considered a specific case of the many "occupational" choices available to an individual given their set of characteristics, risk preferences and market environment. The individual would choose entrepreneurship if the expected returns to firm profits were greater than those for wage employment.

In the entrepreneurial decision framework, price setting and lobbying decisions of incumbents are instrumental in determining the relative profit opportunity. Their pricing regimes signal relative profit opportunities to the entrepreneurial supply. Lobbying and other operational decisions affect the relative height of barriers encountered by new entrants. In an effort to compete against market incumbents, entrepreneurs acquire price and profit data from operational decisions of incumbent firms.

Bain's (1956) seminal work was credited as the earliest practical research on the study of barriers precluding potential entry.[2] In response to a call from Donald H. Wallace at the 48th meeting of the American Economic Association, Bain completed what was con-

sidered the first thorough study of the nature and extent of the barriers to free market entry. He defined barriers as the advantage of established firms in an industry over potential entrants with advantages expressed as the ability of incumbents to consistently raise prices above the competitive level without attracting new entrants (Bain 1956).

The presence of entry barriers aids incumbents in limiting the number of competitors and intensity of competition enabling them to be beneficiaries of super-normal long-run profits (Blees et al 2003). Entry barriers were found to be crucial to the overall market environment that influences the probability of successful entry. Incumbent firms exercise limit pricing to reduce profitability and thwart potential market entry. Higher barriers preclude entry, protect market share of incumbents and are a factor in profit rates (Karakaya and Stahl 1989).

Political machinations have long been found to be important to the outcomes of market economies. However, microeconomic models of market structure, entry barriers and firm performance have not provided insight or details regarding the role of politics. The impact of the pursuit for power and wealth through political office, laws and institutions are not included.

Governmental agents routinely solicit the cooperation of industry while designing legislation, thus, often allowing incumbent firms the ability to influence regulations in their favor (Dean and Brown 1995). Blees et al (2003) state that governmental barriers have historically been limited to controls exercised through licensure requirements, i.e., natural monopolies. Other governmental barriers include inadequate governmental structure, underpaid and unmotivated public servants and strong bargaining powers (lobbying) of domestic companies with established interests that hinder competition through conflicting laws, arbitrary rule enforcement, questionable ethical practices and licensing delays. He also states that the literature on strategic management suggests that at the micro and macro levels political barriers to entry are key aspects impacting short and long term business performance, indicating a potential change in the competitive position of the new entrant.

Walker (1998) argues that the American political power structure has shown favor to whites while discouraging Black business. These ideas and others support a culture of divisiveness polarizing the social order segmenting citizens by common characteristics to include but not limited to race, income, ethnicity and national origin for the purpose of enhancing group economic power.

Feagin and Eckberg (1980) describe the various forms of discrimination as the denial of rewards and opportunities for reasons unrelated to individual capacity, talent, merit or behavior; it occurs only because of their membership in an un-favored group. The necessary conditions they conclude derive from scarcity of resources, cooperation among advantage-seeking kin and unequal power among competing groups. They make an assertion that historically the psychological basis for prejudice has been over emphasized relative to the true basis for market failure relative to social relations. The central consequence of political competition (economy) is a reduction in life chances, standard of living and ability to acquire goods by members of the targeted group.

Incumbent firms are able to realize and sustain market advantage as “first movers” (through historical political impediments to entry of other firms) and anti-competitive prac-

tices that may include lobbying tactics and discrimination. Lobbying tactics by incumbent firms allow them to acquire and maintain market advantage in public and private sectors. In the public sector, they are able to manipulate regulatory policy and contracting opportunities. The power and control exercised by incumbents have three primary benefits. They are able to shape public policy, obtain public contracts and deny these same opportunities to other potential entrants.

The Nature of Political Capital

A compendium of entrepreneurial literature points to four primary sources of capital to achieve long-term business success: financial, human, social and political. However, very little literature has studied the impacts of political power (capital) on Black entrepreneurship. Additionally, most literature on Black politics has focused on wage and salary employment outcomes as compared to entrepreneurship.

Bobo and Gilliam (1990) state that generally advances in Black economic progress resulted from increases in Black political representation (i.e., political capital) culminating in more Black economic activity. They argue that only through the election of Black state and local officials can the Black community influence government policies. The number of Black elected officials becomes the intervening variable relative to the political process and public policy.

Tate (1994) states common political interests are an important determinant of political participation. Common interest has been a basis for higher election turnout that increases the probability that a Black candidate will be elected. Blacks on the ballot seem to increase Black voter participation as well. More office-seeking has led to increased economic activity providing more growth in income and employment opportunities (Kerr and Mladenka 1994).

Political science research shows that increases in Black voter participation and office-holding does make a difference in policy-making relevant to their community at the federal, state and local level. In the case of gerrymandering, the creation of majority or high proportion Black voting districts supports the election of Black representatives that more often attend to the interests of their Black constituencies (Wright 2003). The higher proportion of citizens with common interests leads to a converging of the views of constituencies and the behavior of representatives during development of public policy (Bratton and Haynie 1999). Freeman (1977) found that more Black school teachers were employed in state and local districts when examining the impact of group political power on governmental decision-making relative to the Black share of the electorate.

Harrigan (1993) and Eisinger (1983) concluded that Blacks can impact their community through political office. They offer political-office-holding as a solution to the Black American dilemma. More Blacks in public office may increase public employment and contracting opportunities, reduce adverse social stigmas while decreasing the distrust associated with past perceptions of government by Blacks. For example, Anderson and Wallace (1975) state that growth in the 1960s was determined by greater human capital attainment by Blacks and decreases in labor market discrimination related to the Civil Rights Movement culminating in the Voting Rights Act of 1965. They also reported that between 1966 and 1970

firms with government contracts increased their Black male employment by 3.3 percent.

Wright (2003) shows a significant positive association between racial income levels and returns to self-employment. However, the realization of Black interests requires adequate representation in public office to translate demands into policy and prevail over conflicting dominant group preferences (Wright 2003). Bratton and Haynie (1999) found that federal elected representatives were responsive to the interest of their Black constituencies. For example, Parren Mitchell, a Black U.S. Congressman drafted legislation in 1969 that became the cornerstone of the federal government minority business policy initiatives. The Small Business Administration 8(a) set-aside program guarantees that a percentage of government contracts will go to minority businesses (Walker 1998). These factors can play a supporting role in essentially lowering market entry barriers erected through political tactics thereby increasing black-owned firm entry.

Theoretical and Empirical Framework

The framework motivating this research is the Limit Profit Model of firm entry. The entry decision is viewed as a function of profit expectations and market entry barriers. The Limit Profit Model has been the model of choice when measuring the impact of barriers on entry (Geroski 1995) as it provides a straightforward approach for theoretical and empirical assessment of market entry barriers. A general way to consider the effects of barriers to entry on the limit price is to assume that they are reflected by the incumbent firm's assessment of the probability of entry and their taste for competition.

Geroski's limit profit model shows how economic competitive factors; that are entry barriers, reduce expected profits of the firm. The limit rate of profit is the rate of profit that incumbents can maintain without encouraging new entry as shown below:

$E_i = \beta(\pi_i^e - \pi_i^b)$

where E_i is entry into an industry at a period of time, π^e is expected post entry profits, π^b is the limit rate of profit (measures the costs of entry relative to profits where entry is limited) and β is the unknown entry parameter in response to profitable opportunities (Geroski 1995).

The discrete nature of Black-owned firm entry is well suited for an estimation framework in which the probability distribution for the dependent variable is discrete (Price 2005; Cameron and Trivedi 1998). The entrepreneurial decision framework leads to an econometric model of data measured as counts where the choice is made in the specified time period.[3]

The Generalized Poisson Regression Framework (GPRF) accounts for non-negative integer values for the dependent variable and the infrequent nature of entry by modeling the number of occurrences of an event as a function of independent variables permitting zero entry observations to be a natural outcome of the econometric specification. The "zero entry" counties provide insight on the nature of entry behavior relative to profit opportunities and costs. It is the zero entries that provide an indication of the impact of entry barriers and the ability of incumbent firms to deter profits that may preclude entry of new firms.

To estimate the parameters of an empirical Generalized Poisson Regression Framework of Black-owned firm entry, this study used data from the Survey of Minority Owned Business Enterprises (SMOBE) and the National Roster of Black Elected Officials (NRBEO). The SMOBE dataset is the primary source of the variable of interest – Black-owned firms.

SMOBE is a product of the Department of Commerce Economic Census acquired through a mailed survey to over 2.5 million businesses nationally every five years. A sample of businesses and self-employed persons are randomly selected to represent their type of business and geographic area to provide valuable economic data on business owners' race, ethnicity, and gender. This survey is part of the economic census program, which the Census Bureau is required to conduct every 5 years by law (Title 13 of the United States Code). The Census Bureau combines data from these surveys with data from the other components of the economic census and presents them in the Survey of Minority-Owned Business Enterprises publication and tabulation series. The published data include number of firms, sales and receipts, paid employees, and annual payroll and are presented by geographic area, industry, firm size, and legal form of organization. Businesses were eligible to be selected for these surveys if they reported any business activity on their 1992 and 1997 Internal Revenue Service tax forms.

Data on Black elected officials were obtained from NRBEO and are produced by the Joint Center of Economic and Political Studies annually by compiling Black elected officials for each local, state and national office throughout the United States. The roster's count includes Congressmen, state representatives, mayors, school board members, etc.

Newly elected officials develop the necessary knowledge, skill and abilities to manage complex public policy issues through experience gained during the period of their tenure. For the purposes of this study, 1996 data were used due to the one year lag associated with availability of measuring outcomes of public policy and contracts.

The Effect of Political Capital on Black Entrepreneurship

The dependent variable, NETENTRY is measured as the difference between 1992 and 1997 firm counts due to the lack of a preferred gross measure (Chappell, Kimenyi and Mayer 1990). This procedure actually enriched the dataset by giving information on firm exit as well (Mayer and Chappell 1992). For example, some counties had negative entry rates specifying more firms exiting than entering in the county. Due to our present focus on market entry, counties without entry or negative rates are coded zero (Duetsch 1984). This procedure eliminates negative net entry counts removing important information regarding firm exits. However, it also ends the problem of negative valued integers for the Poisson specification placing the primary focus on market entry. Firm exit is beyond the scope of the present study but does present a future research opportunity.

The data constitute a cross section of all United States counties. Independent variables include gross sales per firm for each county (SALES), calculated as the ratio of the difference between gross sales divided by the number of firms. SALES is utilized to proxy the high barriers implemented by incumbent firms realizing significant market share. Gross sales and revenue are expected to proxy market share and economies of scale barriers limiting potential new entry. Gross profits per firm (PROFITS) are utilized to proxy profit expectations of potential entrants. It is calculated as the ratio of the difference between sales and payroll divided by the number of firms. Relative price and profit data are acquired by potential entrants and used in their decision-making framework to determine the appropriateness of the decision to enter.

Table 1. Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
NETENTRY	2762	72.76792	464.5408	0	11257
BELECT	3145	2.775835	9.839277	0	277
FEDERAL	3145	0.0193959	0.163277	0	4
STATE	3145	0.1977742	1.114755	0	19
COUNTY	3145	2.55866	9.181611	0	259
PROFITS	2595	48.36839	491.5896	0	14818.5
SALES	2713	67.33645	597.0198	0	16972.25
PCTBLK	3142	0.1085806	1.140678	0	.635
DENSITY	3142	242.9479	1667.205	0.04	66940.07
HBCU	3146	3.222823	4.001303	0	15
CONFED	3146	0.4396058	0.496418	0	1
MIDWEST	3146	0.0689765	0.253454	0	1
NORTHEAST	3146	0.3353465	0.472187	0	1
SOUTH	3146	0.4539097	0.49795	0	1
WEST	3146	0.1417673	0.348867	0	1

The number of Black elected officials per county (BELECT) is obtained from NRBEO and summed across county and type of elected office for the total number of Black elected officials in each county. Due to the nature of the political process in which policy implementation lags are present, values are lagged by one year relative to observation of net business entry. The primary basis of the lag is the annual nature of the public budgeting and contracting cycle.

The percentage of county population that is Black (PCTBLACK) was computed from a simple ratio of Black population per county to the total county population. The density of county populations (DENSITY) was determined by a ratio based on the geographic area and total population of each county. Population density and percentage of Black county population were included to control for ethnic concentration factors that could influence results regarding implications for black entrepreneurship in cities.

Table 1 provides summary statistics for each variable. Although these data are descriptive, they show the county level business environment for black firms nationally. The maximum profit per firm was capable of attracting new firm entry leading to positive community impact and procuring lobbying assistance with a total of $14,818,500. However, the mean (average) profits for a county firm that entered into business was only $48,368, suggesting on average, businesses that entered the market provided a limited living for the entrepreneur. At that level, it is also difficult for them to enhance the community through employment and community infrastructure investment. The same is true of the mean sales per firm at merely $67,336.

Table's 2 through 4 report parameter estimates of the empirical Limit Profit Model across four specifications of a Generalized Poisson Regression: (1) Simple Poisson, (2) Simple Negative Binomial, and (3) Zero-Inflated Negative Binomial.[4] Where relevant, also reported are a goodness-of-fit measure pseudo R^2, a test for overdispersion ($\alpha = 0$), and a

Vuong Test for the adequacy of a Negative Binomial specification. As a test of the explanatory power of the overall regression, a likelihood ratio test is also reported.

Table 2 reports parameter estimates from a simple Poisson Regression specification. The estimates have the expected sign and are statistically significant for each variable except PROFITS and SALES. Previous studies found incumbent profits to be a proxy for profit expectations that is significant and positively related to potential firm entry. Revenue from sales has been considered a barrier emulating a proxy for market share and economies of scale.

The number of Black elected officials (BELECT) is initially aggregated by county. It has a positive and significant effect on Black-owned firm entry. However, the unexpected sign of PROFITS and the large coefficient of PCTBLACK suggest a potentially high degree of correlation between PROFITS and BELECT since a priori Black elected officials are expected to be from districts with a high proportion of Black voters. However, the correlation between the two variables suggests that the relationship (.4384) does not reach the threshold of concern (.70) (Cameron and Trivedi 1998).

The initial results may not identify causal effects due to very low probability values for each variable, very low standard errors and a significant deviance statistic that measures model goodness-of-fit.[5] The Poisson model assumes that variance and mean are equal, it implies that dividing the deviance and Pearson statistic by the degrees of freedom should be approximately one. A value less than one indicate underdispersion and values greater than one indicate overdispersion. Consequently, the values for the deviance statistic (534811.3) and its highly significant probability provide evidence of failure to support the assumption of equidispersion and possibly evidence of excess zeroes.

As the Poisson model assumption of equidispersion may be too restrictive. Table 3 reports parameter estimates from a Negative Binomial Model. It was the next logical step as the Poisson Model parameter estimates may not identify causal effects, perhaps as a result of overdispersion.

Negative Binomial parameter estimates produce valid estimates by processing positive integers and relaxing the assumption of equidispersion if excess zeroes are not a concern.

Table 3 shows that BELECT has a insignificant value, the model has a low Pseudo R^2 (.039), unreliable signs on the PROFITS and SALES coefficients, a very large value for PCTBLK and a large positive value of the Likelihood Ratio may indicate dual problems. The data apparently are over-dispersed and have excess zeroes.

The next sets of parameter estimates in Table 4 are from a Zero-Inflated Negative Binomial Model (ZINB) specification where the assumption of equidispersion is relaxed, while also allowing for excess zeros in the dependent variable. The ZINB is a technique utilized to achieve identification in count models by adjusting for excess zeros or heteroscedastic data.[6]

In the model, PCTBLK and BELECT are inflated assuming that zeroes exist due to no Black firm entry, spatially, arising from a fewer number of Black persons in the county population and subsequently less number of Black elected officials. The lack of new Black firm entry would be expected to be positively correlated with less Black elected officials and a lower Black population spatially.[7] Table 4 reports parameter estimates from the ZINB.

In general, the ZINB parameter estimates reported in Table 4 appear to be well defined given model diagnostics. In the case of overdispersion, the ZINB model may be a bet-

Table 2. Poisson Regression

			Number of obs		=	2593
			LR chi2(10)		=	546807.18
Log likelihood = -268551.65			Prob > chi2		=	0.0000
Dependent variable =	NETENTRY		Pseudo R2		=	0.5045
	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
BELECT	0.0250258	0.000055	454.63	0*	0.0249179	0.0251337
PROFITS	-0.0003859	0.0000125	-30.82	0*	-0.0004104	-0.0003614
SALES	0.0004561	9.07E-06	50.29	0*	0.0004383	0.0004739
PCTBLK	2.863077	0.0145903	196.23	0*	2.83448	2.891673
DENSITY	0.0000493	1.83E-07	269.17	0*	0.000049	0.0000497
HBCU	0.0263357	0.001091	24.14	0*	0.0241973	0.028474
CONFED	-0.7855499	0.0125876	-62.41	0*	-0.8102212	-0.7608787
NORTHEAST	-2.64883	0.0133508	-198.4	0*	-2.674997	-2.622663
SOUTH	-0.4974034	0.0118284	-42.05	0*	-0.5205867	-0.4742202
WEST	-1.023933	0.0108691	-94.21	0*	-1.045236	-1.00263
_cons	4.436998	0.0067936	653.12	0*	4.423682	4.450313
*Significant = .05						
**Significant = .10						
Goodness-of-fit chi2 = 534811.3						
Prob > chi2(2582) = 0.0000						

ter suited empirical model for count data by relaxing the Poisson assumption of equidispersion. ZINB accounts for instances that the variance of the model is greater than its mean. Overdispersion can be tested with the dispersion parameter alpha.[8]

The likelihood ratio reported in Table 4 is a test of the overdispersion parameter alpha. When the overdispersion parameter is zero, the ZINB distribution is equivalent to a Poisson distribution. In this case, alpha is significantly different from zero and thus reinforces that the Poisson distribution is not appropriate. The overdispersion parameter confirms that the ZINB model is the more appropriate model that accounts for overdispersion in the data revealing more precise standard errors and coefficients. The Poisson assumption of equidispersion must be abandoned due to the better fit associated with the ZINB model. Additionally, appropriate signs on the appropriate variables and standard errors suggest valid and reliable estimates.

Model appropriateness of the ZINB is tested with the Vuong statistic. It is the test of choice for non-nested over-dispersed data modeled through a regime splitting mechanism (Vuong 1989). It is used to test alternatively distributed data that may systematically produce a different proportion of zeros than Poisson. For example in the model, the significant value of the Vuong Test with a value of 4.22 reveals that the ZINB is the more appropriate model supporting the study assumptions of overdispersion and excess zeroes in the data.[9]

For the ZINB parameter estimates, BELECT, PROFITS, SALES, PCTBLACK, DENSITY, CONFED and SOUTH remain significant and increase in magnitude in the model at the 5 percent level (Table 4). In the presence of the other variables in the model, BELECT contributes 2.8 percent (.0280362) to the change in the mean number of Black-owned firms in each county. Black elected officials positively and significantly affect Black

Table 3. Negative Binomial Regression

			Number of obs		=	2593
			LR chi2(10)		=	265.16
Log likelihood = -3270.8094			Prob > chi2		=	0.0000
Dependent variable =	NETENTRY		Pseudo R2		=	0.039
	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
BELECT	0.0299185	0.0299099	1	0.317	-0.0287038	0.0885407
PROFITS	-0.0133687	0.0061885	-2.16	0.031*	-0.0254979	-0.0012396
SALES	0.0141167	0.0061515	2.29	0.022*	0.0020601	0.0261733
PCTBLK	11.06436	1.90721	5.8	0*	7.326297	14.80242
DENSITY	0.0036151	0.0006538	5.53	0*	0.0023336	0.0048966
HBCU	0.0898119	0.0691869	1.3	0.194	-0.0457919	0.2254156
CONFED	-0.8557815	0.6616318	-1.29	0.196	-2.152556	0.440993
NORTHEAST	-1.776734	0.5100762	-3.48	0*	-2.776465	-0.777003
SOUTH	-0.7445147	0.7862199	-0.95	0.344	-2.285478	0.796448
WEST	-0.3155862	0.5784911	-0.55	0.585	-1.449408	0.8182356
_cons	0.7527748	0.5079181	1.48	0.138	-0.2427263	1.748276
*Significant = .05						
**Significant = .10						
/lnalpha	3.608059	0.0617638			3.487004	3.729114
Alpha	36.89438	2.278737			32.68788	41.6422
Likelihood-ratio test of alpha=0: chibar2(01) = 5.3e+05 Prob>=chibar2 = 0.000						

firm entry. Black elected officials appear to utilize their election, bully pulpit and policy to support the interests of Black entrepreneurs.

PCTBLK has an interesting result that requires further research. It reveals that in the presence of other variables in the model, the portion of the county's population that is Black contributes negatively (-1.523459) to Black-owned firm entry. Intuition would suggest that the negative value for PCTBLK may be due to its high correlation with BELECT, since it is assumed that the presence of a large Black population has a causal effect on the number of Black officials in elective office. However, Pearson Correlations provide information regarding the nature of the relationship between PCTBLK and BELECT.[10] Although seemingly arbitrary, a reading closer to .7 is the common standard for a strong association. At .4384 their correlation is not expected to impart ambiguity within the model. Thus, PCTBLK's negative value in the model is not readily apparent and is a clear opportunity for future research regarding the Black population characteristics and Black firm entry.

Discussion and Policy Implications

This study developed and explored the hypothesis that Black elected officials have and can foster the formation of a Black entrepreneurial class. Appealing to economic theory regarding new firm entry, it was posited that Black elected officials, in the form of political capital, could presumably affect fairness in the allocation of public contracts and enforce equal opportunity laws governing commerce in a political jurisdiction. Thus, the presence of Black elected officials could lower barriers to firm entry faced by Black American en-

Table 4. Zero-Inflated Negative Binomial Regression

			Number of obs	=		2593
			Nonzero obs	=		329
			Zero obs	=		2264
			LR chi2(10)	=		113.31
Inflation model =	LOGIT		Prob > chi2	=		0.0000
Log pseudolikelihood =	-2942.873					
Dependent variable =	NETENTRY					
	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
BELECT	0.0280362	0.0048349	5.8	0*	0.01856	0.0375124
PROFITS	0.0006981	0.0002816	2.48	0.013*	0.0001461	0.0012501
SALES	-0.0009171	0.0002241	-4.09	0*	-0.0013563	-0.0004779
PCTBLK	-1.523459	0.6423097	-2.37	0.018*	-2.782363	-0.2645547
DENSITY	0.0001282	0.000036	3.56	0*	0.0000575	0.0001988
HBCU	-0.0109587	0.0279158	-0.39	0.695	-0.0656726	0.0437552
CONFED	-0.5747653	0.2665335	-2.16	0.031*	-1.097161	-0.0523692
NORTHEAST	-0.0272383	0.2894063	-0.09	0.925	-0.5944642	0.5399877
SOUTH	0.8635213	0.3410917	2.53	0.011*	0.1949938	1.532049
WEST	0.5247853	0.3521772	1.49	0.136	-0.1654693	1.21504
_cons	5.549567	0.2179257	25.47	0*	5.122441	5.976694
*Significant = .05						
**Significant = .10						
inflate						
PCTBLK	-3.719297	0.5266787	-7.06	0*	-4.751568	-2.687026
BELECT	-0.1724812	0.0483121	-3.57	0*	-0.267171	-0.0777913
_cons	2.995536	0.1488021	20.13	0*	2.703889	3.287183
/lnalpha	0.3523929	0.2570676	1.37	0.17	-0.1514503	0.8562361
alpha	1.422467	0.3656702			0.8594606	2.354283
Likelihood-ratio test of alpha=0: chibar2(01) = 1.7e+05 Pr>=chibar2 = 0.0000						
Vuong test of zinb vs. standard negative binomial: z = 4.22 Pr>z = 0.0000						

trepreneurs. A Limit Profit Model of firm entry in which political entry barriers is postulated to deter the entry of Black-owned firms was developed and estimated with national data on Black-owned firms and the number of Black elected officials.

Parameter estimates from the Limit Profit Model suggest that Black-owned firm entry is indeed impeded by political entry barriers and Black elected officials reduce those barriers. This finding has at least three plausible and supporting explanations. First, it shows that Black elected officials create an environment conducive to Black entrepreneurship. Second, it suggests that Black elected officials enable Black-owned firms' access to public contracts which provides an inducement for them to enter the market. Third, it suggests that Black elected officials exercise their potential authority over the rules, regulations and laws governing equal opportunity with respect to commerce in their political jurisdictions; that is, county, state, federal, which enhances the prospects for Black-owned firms' participation in public and private markets.

The parameter estimates reported in this study reveal historical and contemporary factors that have constrained the formation and growth of a Black entrepreneurial class. Growth and survival prospects for the Black-owned firm are extremely important due to re-

search findings that suggest small business owners' hire persons like themselves; Blacks hire Blacks, Whites hire Whites (Bates 1997). Implications for community development and economic policy include but are not limited to:

1. Public policies and expenditures supporting business development and economic growth to reduce social problems in Black American communities; and
2. The development of strategies to increase participation of Black Americans in voting and office holding; and
3. Black elected officials emphasizing Black entrepreneurial participation in public contracting; and
4. Increases in constituent demands for rewards and accountability; and
5. Growth in business training programs to increase the number of Black entrepreneurs; and
6. Increases in employment opportunities of Black Americans along with growth in Black entrepreneurship and wealth; and
7. More political and social competition for political power and access to public resources.

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Notes

[1] Black-owned firms had the lowest average revenue per firm at only $86,000, employing a mere 700,000 persons – there were more black-owned firms (823,500) than employees.

[2] McAfee, Mialon and Williams (2004) provide an overview of various definitions of entry barriers from many authors that have evolved through time and juxtaposed those with Bain's.

[3] In addition, the GPRF permits a specification of the mean value of a discrete integer-valued dependent variable as a nonlinear function of independent variables that is analogous to standard linear regression frameworks, permitting ease of interpretation of parameter coefficients.

[4] These methods were chosen instead of others because in the OLS Regression count data are highly non-normal and are not well estimated by OLS regression.

[5] Measuring goodness-of-fit provides an assessment of the efficacy of the Poisson Regression Model underlying the parameter estimates. Goodness of fit can be shown in a variety of ways including Pseudo-R^2, plotting residuals against the fitted values to assess variances or Deviance and Pearson chi-square divided by the degrees of freedom to detect overdispersion or underdispersion.

[6] The ZINB model introduces unobserved discrete heterogeneity to differentiate those variables that always have zero counts and those that are at risk of having a zero count. The ZINB model combines the negative binomial regression model with a binary logit or probit model, differentiating the variables that always have a zero count from those that do not. Inflation designates the class of variables used to define those in the zero class (inflate = 1).

[7] To calculate the probability of observing a particular count, the results from the count equation must be adjusted according to the probability of the observation being in the always zero category (Long and Freese 2001).

[8] The test measures the equality of the mean and the variance imposed by the Poisson distribution against the alternative that the variance exceeds the mean. In this case, the null hypothesis (H_o) becomes there is no difference between variance and mean versus the alternative hypothesis (H_a) that the variance is larger than the mean – overdispersion (Cameron and Trivedi 1998).

[9] The Vuong statistic is the standard for testing the hypothesis that $E[m_i] = 0$ and shows it has a limiting standard normal distribution. It is a bi-directional statistic where large values of v favor ZINB and small negative values favor the standard negative binomial model.

[10] The correlation coefficient measures the strength of a linear relationship between two variables. The correlation coefficient is always between -1 and +1. The closer the correlation is to +/-1, the closer the relationship is to being perfectly linear.

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