

Afro-American Issues, II, 1 (February, 1974), pp. 11-20. Respecting a critique of a more recent example of the "Scholarly dozens, see Herbert G. Gutman, "The World Two Cliometricians Made," *Journal of Negro History*, LX 1 (January, 1975), pp. 53-227.

29. Carter G. Woodson, *The Mis-Education of the Negro* (Washington: Associated Publishers, 1933).

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BLACK CAPITALISM: A QUANTITATIVE ANALYSIS

By Dr. Timothy Mason Bates

(New York: Praeger, 1973, 130 pp. \$13.50)

This study of small business borrowers from data supplied by the Small Business Administration (SBA) is one of the most comprehensive and analytical to be published thus far. Prof. Bates uses two sources of data, one supplied by the SBA central office in Washington and one supplied directly from regional office files. The data cover the metropolitan areas of Boston, Chicago, and New York in the fiscal years 1967 to 1970. Bates uses some twenty-two independent variables to explain the relative profitability of the 559 sampled black and 310 white firms.

Prof. Bates, after an extensive analysis of this SBA supplied data, reaches three general conclusions:¹

1. Some new jobs have been created for inner-city Blacks.
2. The SBA has subsidized many middle-income black entrepreneurs by providing them with long-term credit at easy terms.
3. Many borrowers have failed to repay their loans.

With a number of qualifications, Prof. Bates projects a total job increase of 5,087 in the three city sample due to his sampled black firms, which he compares to an official U.S. Labor Dept. estimate of 163,225 Blacks unemployed or underemployed in 1970 in the same 3 cities.²

Prof. Bates feels that the *major* cause for deficiencies in black business development lies in a lack of available credit, and he concludes that SBA loans with an average maturity of over 7 years at an interest rate of 5.5 to 6.5 percent (FY's 1967 to 1970) can help provide that credit. However, there is little or no discussion about the implications of the high leverage position of most SBA minority loanees, often

with a ten, fifteen, or more debt to equity ratio. Such a ratio would be considered high for even the most stable of large businesses such as utilities. Often the only "equity" such minority businesses have is a MESBIC loan which also requires fixed payments of principal and interest in good years and bad.

Prof. Bates does indicate that he found over a 45 percent default rate for his 559 minority business sample (44 percent for existing businesses and 47 percent for new businesses)³ and his sample was drawn during years of relative economic well being—fiscal years 1967 to 1970. During the present recessionary period, minority loan defaults and outright failures have been very severe, at least in part because of their highly leveraged SBA loan position.⁴ What is needed for minority businesses capital development besides SBA "credit" is true equity capital, not MESBIC loans with a fixed repayment schedule.

One very surprising result of Prof. Bates' multiple regression analysis is that "entrepreneurial experience has no clear-cut impact on business profits. Although the insignificance of the experience variable cannot be interpreted unambiguously, it is clearly possible that prior managerial experience on the part of the owner may have very little impact upon the level of profitability of a small business enterprise."⁵

The first observation that must be made about this surprising result is that Prof. Bates does not, apparently, distinguish between "entrepreneurial" and "managerial" experience. The variable he designates as "X₁₃—experience" does not make this distinction. Surely no one would suggest that there is no difference in the value to small business persons of years spent as the manager in some highly specialized job in a large corporation versus the same time spent initiating and operating his or her own business. Clearly more refinement in this variable is required.

Another possible explanation for this very surprising result, which differs from virtually all the literature in the field of small business development,⁶ is that Bates' sample is simply not representative of small business, that his data base is deficient in this area, or that the SBA data were improperly gathered or recorded. Otherwise, we might be led to a policy of advocating the initiation and operation of small business by anyone, irrespective of prior managerial or entrepreneurial experience.

Nothing at all is said about the impact of higher education or vocational training upon profitability, and this may be a key explanatory variable, particularly when appropriately coupled with entrepreneurial or managerial experience.⁷

As noted, Prof. Bates selected a sample of 310 white SBA loanees from the same SBA offices for the same years. His major criterion for this comparison group was that their sales be less than \$400,000 (unless there was a matching black business with sales greater than \$400,000). His regression results lead him to conclude that his black business sample "closely resembles" the white business sample; i.e., that "leading black businesses closely resemble" marginal white small businesses.⁸ However, it is not clear that the way in which he chose this

white comparison group would allow generalization beyond these two samples. Still these comparison results are interesting and suggest possible areas for future research.

In chapter 2, Bates provides a variety of rebuttals for the conclusions reached in the widely publicized paper by Brimmer and Terrell.⁹ Brimmer and Terrell, using a National Business League survey of 564 black businesses in seven cities, concluded that black business development is not a viable program to alleviate economic disparities between Blacks and whites and may in fact retard black economic development.

Bates argues that the NBL data is of questionable completeness, validity, and consistency and offers evidence to support this contention. If only the figures for firms providing complete and consistent information is included (192 of 564), then the average profit figure is almost double that reported by Brimmer and Terrell (\$6,834 versus \$3,480); and average sales for these firms is almost 80 percent greater (\$33,113 versus \$19,147).¹⁰

Further, Brimmer and Terrell argued that only "black businesses protected by a wall of segregation could survive white competition." Bates' figures indicate that "protected" Black businesses in his sample had a rate of return on net investment of 1.26 percent versus 16.62 percent for "unprotected" black businesses.¹¹ Of course, this may indicate a distinct problem of lack of equity capital for these unprotected businesses. Still, these results do provide some evidence that Brimmer and Terrell's conclusions are not fully founded on the present composition of the black business community or at least not those receiving SBA loans in Boston, Chicago, and New York (FY's 1967 to 1970).

Bates also notes that there is a substantial difference in the percentage of firms in the "protected" category between the two sample populations—63 percent (NBL) versus 38 percent (SBA). He further shows that his SBA sample of existing black firms (285 of the 559 total) had average sales of \$74,100 and profits of \$7,000 versus the much lower figures for the NBL sampled firms (NBL sample collected about 1967).¹²

Concluding Comments

By including both SBA loan and regional office files data, Prof. Bates has compiled and used a much more complete set of black business statistics than has heretofore been used in the literature. His use of net profits (albeit from IRS returns), depreciation, various asset data, outside job, outside income, and outside net worth is an important and valuable addition to the substantive literature in this area.¹³

Obviously, a sample of 559 black businesses from census total of 195,000 (FY 1972)¹⁴ does not provide a sufficient sample to generalize his results to the whole population. Still Prof. Bates' results with regard to the profitability of the "unprotected" black businesses points the way for further investigation as well as providing at least a partial refutation of the Brimmer and Terrell thesis. Also his

comparison of black and white businesses provides some interesting ideas for further study.

Prof. Bates' results with regard to the insignificance of business experience for profitable operation seems less credible. Also his failure to distinguish "entrepreneurial" from "management" experience is an important error. Much more data are needed on the implication of both managerial and entrepreneurial experience on black business success before any firm conclusions can be drawn. Also, the important variable of education is not included in the analysis, and there is some evidence that it is most important for rapid, higher growth and small business development.¹⁵

Prof. Bates' failure to distinguish the differential importance of debt versus equity capital is a most important omission, particularly because Prof. Bates argues that lack of "credit" is the critical lack for black (or white) business development. However, a more complete analysis of the capital needs of black business, including an analysis of the differential needs for debt versus equity capital must await a future study.

On the whole, Prof. Bates' study is well worth reading for those with an interest in minority business development. Those without a knowledge of statistics may find parts of the book hard going, but their perserverance will be well rewarded.

Prof. Bates is to be congratulated for an important study of a very difficult problem area.

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NOTES

1. Timothy Mason Bates, *Black Capitalism: A Quantitative Analysis* (New York: Praeger, 1973), p. 128.

2. Ibid., pp. 126-127.

3. Ibid., pp. 88

4. Lloyd L. Hogan, "The Impact of the Current Crisis on Black-Owned Businesses," *The Review of Black Political Economy*, Vol. 5 No. 3 (Spring 1975), pp. 314-321. In this article Lloyd Hogan analyzes the substantial deleterious impact of present recession on black business.

5. Bates, op. cit., p. 63.

6. An article in the *Federal Times* (August 5, 1970), reporting an SBA survey of reasons for failure of small businesses, indicated that nine of the ten reasons most often given were related to a lack of managerial and/or entrepreneurial experience. See also Edward B. Roberts "Entrepreneurship and Technology," in *Factors in the Transfer of Technology*, eds., William Gruber and Donald Marquis (Cambridge, Mass.: The M.I.T. Press, 1969), pp. 219-237 and Arnold C. Cooper, *The Founding of Technologically-based Firms* (Milwaukee, Wisc.: Center for Venture Management, 1971).

7. Michael Belletire and Samuel I. Doctors, "Education and Training: The Missing

Ingredient in Minority Capitalism," *Journal of Small Business Management* (Fall, 1973), pp. 11-16.

8. Bates, op. cit., pp. 66-67.

9. Andrew Brimmer and Henry Terrell, "The Economic Potential of Black Capitalism," *Public Policy*, a paper presented before the 82nd annual meeting of the Am. Economic Association, New Orleans, Dec. 29, 1969.

10. Bates, op. cit., pp. 22-23.

11. Ibid., p. 30. Bates defined "protected firms" as "barber shops and beauty shops, funeral parlors, eating and drinking places, entertainment, hotels, convalescent and rest homes, cosmetic manufacturers and distributors, photographic studios, insurance and real estate, and medical services." See note 10.

12. Ibid., pp. 26-27.

13. Ibid., pp. 38-41.

14. U.S. Department of Commerce, Bureau of the Census, 1972, Survey of Minority Owned Business Enterprises (Washington, D.C.: U.S. Superintendent of Document, Nov. 1974).

15. See Roberts, op. cit. and Arnold Cooper, op. cit.

THE EDUCATION OF BLACK FOLK: THE AFRO AMERICAN STRUGGLE FOR KNOWLEDGE IN WHITE AMERICA

By Allen B. Ballard

(New York: Harper and Row, 1974, 173 pp.)

The author, a seasoned black administrator and teacher in one of America's most integrated urban (New York City) educational institutions of higher learning, addressed himself to a thought-provoking and currently pertinent issue in this book. *The Education of Black Folk* is at once readable, scholarly, and advocating.

In the eight chapters, Allen Ballard paints a dynamic portrait of the black struggle for knowledge (and education), tracing its historical development through the days of slavery, emancipation, reconstruction, and the most recent tumultuous campus revolutions of the mid-sixties and early seventies. His masterly description of the activities of some of the giants in the black quest for knowledge was equally penetrating and vivid: "The only avenue for captive African people in America was through the knowledge contained in books." Like the famous Black abolitionist, David Walker, Ballard argued that American Blacks "must obtain the best education possible." The awareness and movement for black education in institutions of higher learning did not come into full swing until well after the Civil War, when "a good number of institutions of higher learning (colleges) for Blacks were created by white philanthropists and churches."

White America concocted these "pseudo-colleges," as they saw it, "to educate the second class Black minds and civilize the instincts of at least a portion of the