Entrepreneurship-Centered Economic Development: An Analysis of African American Entrepreneurship in the Southern Black Belt

Ralph D. Christy and Wylin Dassie

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About the Authors

Ralph D. Christy is a Professor in the Department of Agricultural, Resource and Managerial Economics at Cornell University. Wylin Dassie is a Research Associate with the Interdenominational Theological Center(ITC) in Atlanta, GA. She has developed faith-based economic development programs within emerging communities in the South and in Kenya (East Africa). Ms. Dassie has a BS degree in Agricultural Economics from Florida A&M University in Tallahassee, FL(1994) and MSc. in Agricultural Economics from Cornell University, Ithaca, NY(1997).

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Section 1: Introduction

Though the U.S. economy is as strong as it's been in three decades, the landscape of America remains marred with high concentrations of poverty. While often most visible in its inner cities, this poverty affects America's less well-known areas, its "forgotten places," as well. Many of the most poverty-stricken of these unfamiliar areas are concentrated in America's hinterlands, where poverty has persisted for decades. Appalachia, Missouri Ozarks, the Mississippi Delta, Lower Rio Grande Valley, and the Ontonagon (a remote corner of Michigan's Upper Peninsula) are among the forgotten poor rural regions of the United States.

One persistently poor rural region[1] with historical and socioeconomic characteristics reminiscent of a former colonial economy is the southern "Black Belt." The southern economy, famous for its legacy of plantation agriculture, gave birth to what is currently known as the "Black Belt." The Belt spans eleven states, over 400 counties and has twice the national percentage of African-American residents. Wimberly and Morris assert that,

> "The South has 34 percent of the U.S. population and 41 percent of the nation's poverty. It has 45 percent of the nonmetropolitan population and 55 percent of the nonmetro poverty. The southern region has 53 percent of the African-American population and 57 percent of the nation's African-American poverty. Finally, the South has 91 percent of the black population and 95 percent of their poverty. For not only is poverty southern and nonmetropolitan, it disproportionately falls among African-Americans, the nation's largest racial minority. All of this is concentrated in the Black Belt."(Morris & Wimberly, 1992, pg. 28)

African-Americans in the rural South, along with their achievements, problems, history, and unique culture, have been largely ignored by public policy makers, academic researchers, and mainstream American society. Thus, the challenge of persistent poverty and its consequences are only familiar to very few individuals with the power and influence to effect needed institutional and attitudinal change.

Compounding the problem of social, political, and economic isolation of poor African-Americans in the rural South is the spatial dimension and the unique "scars" of history left behind by the old slave economy. This history contributes to the challenge of the Black Belt because

- misperceptions of policy makers and practitioners have resulted in the belief that *rural* is synonymous with *agriculture*. This misperception has led to insufficient rural development policies.
- distinctive problems facing rural African-Americans in the South are due not only to spatial and economic disparities, but also to a history of racial discrimination. This social phenomenon is perceived by many today as an irrelevant or "historical" problem with little or no bearing on current social systems.
- the "overlooked" conditions of rural African-Americans have helped transform the Black Belt into one of America's "forgotten places."

The Black Belt has a relatively high level of poverty, low average income, few job opportunities, high unemployment, and a large unskilled and uneducated population. It has traditionally been dependent on natural resource-based industries for economic growth.

Many factors have been identified as causes of the underdevelopment of southern rural Black Belt counties. Among them are:

- The legacy of plantation agriculture created by a thriving slave trade early in U.S. history. The abolition of slavery left southern African-Americans "rural peasants" under the sharecropping system that

dominated the Reconstruction South (Baer & Jones, 1992).

- The history of racial discrimination and persistent inequalities between blacks and whites in terms of income, wealth, access to capital, education, and other sociopolitical factors.
- De facto industrial policies developed to compensate for rural communities' disadvantages, such as structural, spatial, and human resource problems, in vying for industry. Costly incentives offered by these communities to industry established a perpetual cycle of diversion from human capital and indigenous development in favor of a system of "smokestack chasing."
- The inability of African-American rural, mutual-assistance institutions, such as churches, voluntary organizations, and other civic institutions, to advance communities in the marketplace. These organizations fail to boost economic growth largely because "...the economic efforts of mutual aid among African-Americans has been highly fragmented and geared more toward sheer survival as opposed to successful advancement." (Baer & Jones, 1992, pg. 31)

Strategies to ameliorate the problems of underdeveloped regions in the United States have varied in scope and scale. Several strategies have been implemented with varying rates of success. The failure of some of those strategies lies both in their focus on select economic problems while ignoring others, and in trying to fit "universal" methods to case-specific problems of development. While this study's goal is to assess the development challenges faced by African-American business owners in the southern Black Belt, it aims at being comprehensive without claiming to have the "universal" answer to all community development problems.

A number of studies have analyzed both African-American business ownership and African-American indigenous development strategies (Bates, 1973, Bearse, 1984 & 1993; Fratoe, 1993; Handy and Swinton, 1984; Woodard, 1997). However, the corpus of literature has primarily focused on urban areas, contributing little information for public and private policymakers on rural African-American-owned businesses. Bates purports that

minority business studies can be classified three ways:

1) Analyses of government programs that seek to assist and promote minority business
2) Analyses of minority business owners as individuals and the unique traits of the firms they operate[2]
3) Analyses of the impacts of minority business on others, i.e. clients, employees, community (Bates,1993)

Clearly, significant differences exist in socioeconomic characteristics, demographics, and other factors that affect business and community development between rural and urban areas. Thus, this study attempts to contribute to the body of literature on African-American business development from both a rural and urban perspective. It makes a comparison between the two, placing an emphasis on the former. In the study, we present a conceptual framework for entrepreneurial-centered economic development in the rural southern Black Belt. While the study's fundamental goal is to understand the role entrepreneurship might play in facilitating sustained economic growth in Black Belt counties, its specific objectives are to:

1) Analyze the contribution of entrepreneurship to the overall economic development of local communities. It does this through an investigation of demographic, socioeconomic, and small business development trends.
2) Determine the impact of socioeconomic and demographic characteristics on the incidence of African-American business ownership.
3) Suggest policy implications for an entrepreneurship-centered rural development strategy.

This study posits several hypotheses about the relation between human capital, economic well-being, and entrepreneurship. Briefly stated, we suggest that African-American business ownership will increase as:

- the rate of African-American high school completion increases.
- the rate of African-American college completion increases.

- the rate of African-American home ownership increases.
- the median household income of the entire county increases.
- the overall black population increases.

Additionally, we suggest that the locational attributes of a community affect African-American business ownership rates in the following ways:

- Counties that are considered more rural are expected to have lower African-American business ownership rates.
- The mere *distinction* between rural and urban counties will have a significant effect on the African-American business ownership rate.

This study examines the determinants of African-American business ownership, such as socioeconomic and demographic characteristics, and the significant role of rural institutions in community development. Section 2 lays the foundation for the study, presenting theoretical and conceptual frameworks that provide the basis for the analytical model of African-American business ownership in the Black Belt. Section 3 presents descriptive statistics on socioeconomic, demographic, and business development trends in the South. Trends in some of the variables included in the conceptual framework and the subsequent analytical model help develop an important historical framework for understanding the current problems facing these rural communities. Section 4 presents the methodology and results of the study, followed by conclusions in Section 5. This last chapter also discusses impacts of alternative policies on entrepreneurship-centered development strategies and implications of recent trends in African-American business ownership rates, African-American population migration back to the rural South, and institutional links to economic development.

Section 2: Building a Conceptual Understanding of an Entrepreneurship-Centered Development Strategy

Development theories of economic growth have largely ignored the existence of someone called an entrepreneur. Where they do exist, theories are somewhat fragmented. Most theories on entrepreneurship focus on three main factors: individual-specific factors, where the characteristics of the African-American business owner are emphasized; environmental factors, where the importance of access to markets, financing, labor force characteristics, and institutions (government, civic, legal and economic) are stressed; group factors, where the ability to mobilize the African-American population to facilitate institutional and attitudinal change is central to enterprise development. Examples of such changes include the Civil Rights Movement, affirmative action, and equal opportunity employment (Ahiara, 1993).

Drawing from a broad overview of growth and development theories, we formulated an analytical model of entrepreneurship and community development. This model serves as a guide to inquiries about current factors underlying the complex relationships of development. This model also provides the conceptual framework for entrepreneurship-centered rural economic development. The model's core elements are explained as follows.

Inputs

All communities are endowed with physical resources and levels of human and financial capital. Classical and neoclassical theories explain regional variations in growth by regional availability of land (physical resources), labor (human capital) and financial capital. The physical resources and capital (land and financial capital) available to a community are key elements in economic growth theory. While human capital does not, in these theories, have the predominance of financial capital, many economists believe that the human resource base must be directly considered in order to achieve economic development goals.

The connection between education and economic growth is exceedingly complex. It is far from easy to identify those fruits of education that are useful in economic endeavors. It takes years to develop entrepreneurial capabilities and years for these capabilities to prove their worth in production.

Outputs

The creation of small businesses generates employment opportunities, creates wealth, and leads to a broader tax base, improving such elements of infrastructure as education and transportation. Such outputs comprise a

sustainable economy that fosters development and growth.

The Entrepreneur

The inputs and outputs of the economic system are mediated by the entrepreneur who drives the process of economic growth. Voslee states that,

> "In its broadest sense an entrepreneur may be described as a person who has the ability to explore the environment, identify opportunities for improvement, mobilize resources and implement actions to maximize those opportunities... He is the catalyst of change, able to carry out new combinations, instrumental in discovering new opportunities." (Voslee, 1994, pg. 147)

In this conceptual model, the entrepreneur is the fuel for, and center of economic growth. He or she actuates the development process by creating small businesses, or by using innovative means to improve existing businesses. This process is powered by access to debt and equity capital, labor, and other inputs.

Rural Institutions and Rural Entrepreneurship

Kraybill and Weber acknowledge the ascendancy of political institutions over market and civic institutions with the following historical argument. Beginning with the New Deal in the 1930s, "the federal government [became] the moving force in creating institutions and organizations that raised living standards of low income rural residents" (Kraybill & Weber, 1995). New Deal policy, however, "created large, bureaucratic organizations that were slow to adapt to a rural economy in which employment and income were no longer based primarily on natural resources" (Kraybill & Weber, 1995). Much later in the 1980s, conventional wisdom held that,

> "…the institution of the market was strengthened by legislative and judicial action in response to perceived deficiencies of governments, shifting the focus from market failure as a rationale for government interventions to a focus

on 'government failure' as a reason for avoiding intervention. Agricultural commodity programs, as well as area and rural development programs, were widely criticized as unnecessary and ineffective." (Kraybill & Weber, 1995, pg. 1265)

Kraybill and Weber contend that civic organizations possess the potential for providing rural revitalization opportunities that market and political institutions are unable to offer in the 1990s. "These organizations, embedded in local culture, are important sources of information and feedback for economic and political organizations." Thus, the importance of civic organizations can and will play a major supporting role along with government in development efforts of rural communities. Sustainable economic growth strategies in rural communities can no longer exclusively consider enterprise innovation in isolation of necessary innovations in government and civic institutions. Innovative combinations supporting both institution and business efforts are imperative.

Voslee asserts that while there has been a gradual accumulation of knowledge and insight as thinking on development has evolved over the past fifty years, the question of how to generate entrepreneurship and sustainable economic growth remains unanswered (Voslee, 1994). What is needed is a conceptual understanding of entrepreneurship and its role in the process of economic development. He contends that evidence from developing and developed countries supports the position that government should not manage development in detail. He states that:

> "Many forms of intervention have proved counterproductive and the importance of openness and competition has been acknowledged. Theory and practical experience indicate that interventions are more likely to hinder than help development unless they are market friendly." (Voslee, 1994, pg. 2)

This view supports the argument that interventions are most successful at facilitating growth if they provide a favorable environment for business. Michael Porter asserts that this can be accomplished if government uses public funds in ways that do not distort business incentives,

but rather to focus "on providing infrastructure to support genuinely profitable businesses."

The conceptual framework of this study's entrepreneurship-centered economic development is guided by some of the fundamental principles set forth by Michael Porter in his model of inner city economic development (see Figure 2.1). This model is based not on the idea of redistributing wealth, but creating wealth within disadvantaged communities. The goal of Porter's model is "to identify and exploit the competitive advantages of inner cities that will translate into truly profitable business" (Porter, 1995). Thus, the focus of such a model is the private sector, as opposed to government and social service organizations. Another important factor in his model is engaging skilled and experienced minorities in building businesses versus engaging them solely in the social service sector. What is essential to the proper functioning of such a model is that:

> "Government assume[s] a more effective role by supporting the private sector in new economic initiatives. It must shift its focus from direct involvement and intervention to creating a favorable environment for business. This is not to say that public funds will not be necessary. But subsidies must be spent in ways that do not distort business incentives, focusing instead on providing the infrastructure to support genuinely profitable business" (Porter, 1995, pg. 67).

Drawing from Porter, fundamental factors underlying the entrepreneurship-centered model in this study are:

- An economic versus a social focus, emphasizing the creation rather than the redistribution of wealth within the rural African-American community.
- An emphasis on the private sector, as opposed to the government and social service sector, that highlights the supportive role of the latter two sectors.
- An emphasis on skilled and experienced minorities engaged in entrepreneurial activities.

Our economic model, diagrammed in Figure 2.2, has several key components that concern relationships entailing reciprocity. Those components are both economic and non-economic (the entrepreneur, inputs and outputs, economic base, etc.). The outputs are what comprise the sustainable economic base, which is linked to sustainable economic development by positive economic growth. Four components of this system that constrain or enable development are: the amount and/or quality of human resources, technology, institutions, and the environment.[3] At the center of this model is the entrepreneur, who fuels this economic system and sets the development process in motion through creation of businesses or improvement of existing businesses.

Determinants of Entrepreneurship

This section describes the relationship between the variables (some of which were derived from the conceptual overview of entrepreneurship and economic growth and development theories above) expected to have a significant role in determining the rate of African-American business ownership and their subsequent impact on community development. Hypotheses are also set forth regarding how these variables directly or indirectly influence the rate of business ownership in a community. These determinants of entrepreneurship fall into three main categories: human capital, economic well-being, and locational attributes. They are explained to facilitate an understanding of the positive impacts of enterprise development. The aim is to also give policy makers insight into the variables that might be manipulated to enhance African-American business development initiatives.

There have been a substantial number of studies done on African-American business ownership and indigenous African-American development strategies. However, the bulk of literature has primarily focused on urban areas in the United States, leaving little information about rural African-American-owned business. The rural perspective must be included in order to analyze completely African-American enterprise development. The literature clearly indicates significant differences between socioeconomic characteristics in rural and urban areas, demographics, and other factors that affect business and community development. The following is a discussion of the specific

determinants of entrepreneurship in both rural and urban areas.

Human Capital Determinants

One explanation of persistent poverty in rural areas is the continued departure of persons with high levels of human capital, i.e. the education, training, and experience needed to fuel development efforts. African-American entrepreneurship relies on individuals with such human capital. Considering the direct relationship between education and income, increases in education levels will have an expected positive impact on the African-American business ownership rate.

Economic Well-Being Determinants

The availability of capital is crucial for existing businesses to expand and new ones to form. "Throughout the literature, access to capital has been recognized as a factor restricting black business ownership and limiting the size of black-owned businesses" (O'Hare, 1990). A major source of capital for many business owners is personal wealth, as opposed to loans. As with most of the socioeconomic characteristics of the African-American population, African-Americans lag far behind their white counterparts in the accumulation of wealth. O'Hare asserts that,

> "The major source of wealth for most U.S. families is equity in a home. Consequently, groups that have higher rates of home ownership are likely to have more wealth and more financial resources available...for business purposes" (O'Hare, 1990, pg. 101).

Thus, the rate of African-American home ownership will be used as a proxy for the quantity of capital controlled by African-Americans. It logically follows that wealth and income are directly related. The median household income of a community, a proxy for the economic well-being of the entire community, is also expected to be directly related to the rate of African-American business development.

Traditionally, black-owned businesses operated in a "protected" market. The fact that segregation and racial discrimination restricted the clientele of African-American-owned businesses initially served as a protective trade

barrier. However, with de-segregation came not only increased competition, but a decrease in demand for the products and services of African-American-owned businesses. Baer and Jones purport that, "...integration diminished the capacity and strength of the incidental collective actions of African-Americans toward economic development." As these "barriers to trade" fell, black business owners did not explore many market expansion activities. As such, African-American business started, and many continue, to serve a diminished clientele (O'Hare, 1990).

In its report on the characteristics of business owners, the *Economic Census* contains statistics that demonstrate the limits of the market for most African-American entrepreneurs. In 1987, minorities comprised 75-100 percent of the customers of over 40 percent of all African-American-owned firms in the United States. This restriction in clientele has serious implications for the rate of African-American business ownership. The percent of the population that is African-American is not only a proxy measure of the supply of African-American entrepreneurship but is also a measure of demand for products of black-owned firms. The African-American business owner's potential for success will be inhibited by the socioeconomic characteristics of the rural southern African-American population (high levels of poverty and subsequent low incomes). "To the extent that black-owned businesses serve solely or largely black customers, demand is simply the product of the number of blacks and their incomes" (O'Hare, 1990).

The size of the African-American population in a county and the average income of African-Americans in the county are thus proxies for business demand. We expect that as the average income of the African-American population increases, so does the rate of black business ownership. This does not always hold true, as African-Americans with higher incomes may patronize other businesses that are not African-American-owned.

Locational Attributes of a Community as Determinants

In his theoretical appraisal of entrepreneurship, Leibenstein recognizes that the incidence and nature of entrepreneurial activities depend on the nature and variety of markets necessary to launch a firm and keep it going. Thus, attention should be given to the

environment in which a firm operates. Along with a measure of rurality (distance from an urban area), other locational attributes include: available financial services, transportation services, access to information and technology, and links with government and civic institutions.

Section 3: Socioeconomic Characteristics of the Rural South

Poverty rates, levels of education, unemployment rates, and mortality rates are several common measures used to indicate the quality of life in a community. The problem of community development in the rural southern Black Belt stems from the apparent lack of "competitive advantages" necessary to successfully compete or withstand the vagaries of structural changes in national and global economies. Those competitive disadvantages arise from, among other things, low economic well-being and the resulting low quality of life in these underdeveloped communities. The following is an analysis of selected economic well-being and quality-of-life indicators.

Population Trends

Slavery, followed by legal forms of segregation and discrimination, had a substantial influence on the economic development of the African-American community. In the 1890s, a majority of the African-American population was concentrated in the rural South, a direct result of the old slave economy. Most were employed in the agricultural industry or in low-paying service occupations. Throughout this time, the socioeconomic status of African-Americans changed very little.

Since the turn of the century, several factors have contributed to changing the socioeconomic status of African-Americans. These factors include major structural changes in the agricultural and industrial sectors of the economy, subsequent African-American migration (from the South to the North), the Depression, World Wars, changes in federal governmental policy, and the Civil Rights Movement. During the 1920s, the percent of African-Americans residing in the South declined dramatically. This trend continued into the 1970s.

By 1970, 53 percent of African-Americans remained in the South (down from 90 percent in 1910). This decrease was the result of massive migrations to the North in search of job opportunities in the industrial sector. In 1980, of the 52.2 percent of blacks residing in the South, 40 percent were nonmetropolitan residents. By 1990, of the 54.3 percent of African-Americans in the South, only 28.3 percent were rural residents, and in 1994 that percentage dropped below 25 percent. This general decline in southern rural African-American populations mirrors the general decline in the national rural African-American population (see Figures 3.1.1 and 3.1.2).

In the mid-70s, this migration trend began to reverse. By 1990, the South had regained more than a half-million African-Americans leaving the North. These migrants left cities with already stagnant economies and returned or moved to areas where the economy was all but destroyed; areas where a small segment of the American population suffers some of the highest poverty rates, lowest educational attainment levels, and lowest incomes in the country. Stack, who studied the migration patterns of African-Americans from the rural South, noticed that African-Americans were returning to,

"…communities that by all statistical measures can only be assessed as some of the least promising places in all of America. The USDA has established a dismal category for them, the 'Persistent Poverty Counties', and certainly for the past fifty years or so, their major contribution to the American economy has been the production of out-migrants. That such places have now become destinations for a large scale return of African-Americans is a difficult fact for standard migration theories to digest." (Stack, 1996, pg. 8)

Why would individuals want to move to places of persistent poverty? Stack explains what seems to be economically irrational behavior in terms of a social debt or obligation. "Bad times back home can pull as well as push. People feel an obligation to help their kin or even a sense of mission to redeem a lost community" (Stack, 1996).

The most promising aspects of this push-pull effect are the characteristics of these returning African-Americans. This well-documented population migration has been termed the "middle class movement" by analysts, telling us something of the income, education,

and wealth of these in-migrants (Smith and Pedersen, 1997). Stack states that, "in the darkness before the dawn of the twenty-first century, as the southern countryside is gathering in people who have experienced other ways of life, who have come home with new ideas, new energy, new skills, new perspectives," there is a chance for new beginnings, a chance, "to remake the South in a different image." (Stack, 1996, pg. xvii)

Poverty Trends

A historical investigation of the trends in poverty levels in the United States reveals a general decline in the percent of persons below the poverty level in the past four decades. Since World War II, the percent of all persons (of all races) in the United States below the poverty level has been significantly reduced. Public policy campaigns, such as Lyndon Johnson's War on Poverty, further helped to close the poverty gap between blacks and whites (see Figure 3.2). Since 1968, however, the poverty rate for African-Americans has remained relatively steady, and a wide gap between poverty rates of whites and blacks remains.

The percent of African-Americans below the poverty level in the United States in 1989 (30.7%) was three times that of whites (10.0%). The percent of African-Americans below the poverty level in both metropolitan and rural areas was more than double that of their white counterparts in 1992 (see Table 3.1).

Some of the primary reasons for the high concentration of poverty in the nonmetropolitan South include the lack of job opportunities, high concentration of low-wage industries that take advantage of unskilled labor, migration, family structure[4], and race.

The elderly and youth (less than 16 years of age) comprise a population of individuals who are less economically active and have a higher dependence on others (such as family and government) for their economic well-being. Historically, poverty rates for children have been higher than metro areas. In 1988, 24 percent of children in United States were in families below the poverty line. Although a higher proportion of married-couple families work in these areas, a substantial number of these families live below the poverty level and constitute the growing population of the "working poor." Table 3.2 shows percent of elderly, youth, and families in poverty.

Significant changes in the family structure are evident in the trends and patterns of marriage, divorce, and fertility (Rogers, 1991). The number of female-headed households have generally increased.

Trends in Educational Attainment

In 1920, almost 14 million acres of land were controlled by African-Americans, but by 1987, only 2.8 million acres remained. The disadvantaged—particularly ethnic minorities who were spun out of agriculture—were not adequately re-equipped, through education and training, to contribute to a changing economy. Empirical evidence shows a positive relationship between education and earnings, which highlights the importance of investment in education. Human capital theory supports the hypothesis that education and experience are directly connected to higher levels of income. The nature of the relationship between education and economic development is not as clear, however. Higher levels of education may contribute to economic growth and development, but the relationship between education and economic development is not as direct as the relationship between education and income.

In the past, poor rural communities were able to capitalize on their low-skilled populations by offering low cost labor to industry. Due to the impact of a global economy, the poor have become detrimental to their communities' economic health. Manufacturing firms in the late stages of capitalist development move freely and are able to take advantage of even cheaper labor in less developed countries. Those communities are left unable to adjust, can no longer provide cheap labor, and are not equipped to provide technical-skilled labor. These disadvantaged communities are thus left behind, unable to structurally adjust to a global economy where efficiency, comparative advantage, and competitiveness rule the day. Local governments have insufficient tax bases to support quality education. Further incentives to adequately fund local schools are often absent because those with high levels of education are most likely to migrate, leaving communities with as few resources as they started with. Ross and Rosenfeld observe the consequence of this under-investment in human capital in rural areas. They assert that, "if local workers lack the education and skills needed to

be flexible and technologically responsive, industries [that remain in these communities] will rely on workers from outside the local community to supply their needs. Thus, a community could experience economic growth without a substantial share of the local workforce benefiting from new jobs" (Ross and Rosenfeld, 1988). Unfortunately, this continues to be the reality for many poor rural communities.

A historical disparity exists between blacks and whites in educational attainment (see Figures 3.3.1 and 3.3.2). The gap is closing between the percent of blacks and whites completing high school, but widening for levels of higher educational attainment. This educational gap has significant implications for African-American employment opportunities in an economy where higher skills and educational levels are prerequisites for entering the labor market. These trends mirror educational attainment levels in the South, as demonstrated in Figures 3.3.3 and 3.3.4.

Unemployment

According to Killian and Hady, diversity of a local economy measures how evenly an area's workers are distributed across industrial categories, and specialization refers to the extent to which a single industry is the major source of employment in the area. Communities are classified as having a specialized industrial structure if a relatively large proportion of the labor force is employed in a single industry (such as agriculture, mining, textiles, durable manufacturing, public education/admin-istration). Killian and Hady assert that diversification is *not* synonymous with development.

Economic development involves both rapid and steady growth in income, employment and other indicators of welfare. Killian and Hady contend that a trade-off exists between rapid economic growth and stable economic growth, and overall economic performance generally depends on both the diversity of the local industrial structure and characteristics of dominant industries. So, the mere presence of jobs doesn't guarantee increased incomes or increased well being. The type of jobs available is a significant determinant of income levels. The industrial composition of the Black Belt is such that manufacturing dominates the job field and service industry provides employment for about a quarter of the working population (Falk

and Lyson, 1988). According to dual labor market theory, jobs can be divided into two sectors: core and peripheral. Industries in the core sector are large, diversified, capital intensive, high paying with opportunity for career mobility. In the peripheral sector, industries are relatively small, labor intensive, vulnerable to changes in the labor market, low paying with limited opportunity for career mobility. Individuals employed in peripheral sectors are more likely to be impoverished than those in the core sector. This is the case in many poor rural areas in the southern Black Belt. Falk and Lyson summarize the characteristics of these underdeveloped rural southern economies through a comparison to economies in the Third World. They purport that,

> "The industrial fabric of the South is woven of cloth similar to that found in developing countries. Like the industrial base in those countries, businesses in rural areas of the South are often characterized as being in the periphery sector of the economy, while core establishments are more likely to be found in the urban areas." (Falk and Lyson, 1988, pg. 8)

Despite this comparison, high unemployment rates that persist in the poor rural South indicate "reserves of labor" that might be mobilized to contribute to business development.

Overview of African-American Business Development Trends and Characteristics

Since 1972, the number of African-American-owned firms has substantially and steadily increased with an almost fifty-percent growth between 1987 and 1992. "The data show that African-Americans are starting business enterprises at a greater rate than Americans in general," (Woodard, 1997; see Table 3.3). This raises the question of where this business activity is geographically located and in what industries is it concentrated? Woodard observes that the geographic concentration of African-American-owned firms closely reflects population densities of African-Americans. As can be observed from Table 3.4, the rate of black business ownership (the number or black businesses per 1000 black persons) is relatively high for states with higher than the national average concentration of

African-Americans. For instance, in Florida, Georgia, and Virginia, the African-American business ownership rate is higher than that for the United States and the African-American population in all these states exceeds the national average of 12.1 percent.

The industry that accounts for the highest volume of African-American-owned firms is the service industry. This is a historical trend. "The fastest growing enterprises since 1977 are in industries requiring a high level of skill and education, such as business and health services and specialty trade contractors" (Woodard, 1997). Bates observed that "minority-owned businesses, traditionally concentrated in small-scale retail and personal service sectors, were historically an obscure sector of the economy" (Bates, 1993). However, the traditional minority business community that consisted of primarily small firms serving predominately minority clientele is changing. Minority businesses have begun to take advantage of expanding market opportunities with even larger firms geared toward corporate and government clients (Bates, 1993 and Woodard, 1997).

"Opportunities created by set-asides, preferential procurement policies, and the like have encouraged better-educated, younger entrepreneurs to create and expand business in finance, insurance, real estate, contracting, wholesaling, manufacturing and business services. Entrepreneurs in these emerging lines of business are younger, better educated, on average, and have higher earnings than other self-employed minorities" (Bates, 1993).

Although the face of African-American business is changing, Bates observes that the "traditional personal service and small scale retail fields account for a larger number of firms than the combined total of the emerging lines of business." Those owners of businesses in the traditional areas have, on average, lower education and earnings levels, and are in a state of continuous decline, particularly in the personal services sector. "Since the 1960s, the minority business community has started to diversify and expand in response to an influx of talent and capital, but continues to lag behind the non-minority small business universe" (Bates, 1993). Bates proposed that this lag is due

to constraints such as access to financial capital, geographic location, and discrimination.

Table 3.5 shows African-American-owned business industry concentration. Historically, African-American-owned firms have been concentrated in service and retail trade industries. Over time, the percent of African-American-owned firms in the service industry increased while those in retail trade decreased. This is consistent with national trends.

In 1987, the service industry possessed the highest concentration of African-American-owned firms in the United States, accounting for 49 percent of all African-American-owned firms. In 1992, 53 percent of black-owned firms were in the service industry and within this industry, business services accounted for the highest concentration of black-owned firms. Retail trade accounted for 16 percent in 1987 and 14 percent in 1992. The number of African-American-owned firms in the United States has increased from over 300,000 in 1982 to over 400,000 in 1987, employing over 200,000 individuals in 1987. The number of African-American-owned firms reached over 600,000 in 1992. In 1987, the greatest number of black-owned firms were businesses with less than $5,000 in receipts. These accounted for one percent of all employees of black-owned firms. Less than one percent of African-American-owned firms had receipts of one million dollars or more. These accounted for 35.7 percent of all employees of black-owned firms.

Though the small number of large of firms accounted for the employment of the most laborers in African-American enterprises, focusing on smaller firms is a more realistic strategy for development of depressed economies with comparative disadvantages in the rural South. Timothy Bates argues that "entrepreneurial ability is highly correlated with both education and income levels: successful business operators tend to be above average in both categories." (Bates, 1993). Thus, the low education and income levels of individuals in the rural South make an entrepreneurship-centered development strategy extremely challenging.

Section 4: Socioeconomic Characteristics of the Rural South and African-American Business Ownership: Procedures and Results

The fundamental objective of this investigation is to explain the relationship

between the incidence of African-American business ownership and several socioeconomic and demographic characteristics in rural and urban Black Belt counties. A discussion of the results will focus more on the rural southern Black Belt counties. To achieve this goal, we performed correlation analyses and estimated a regression model. Data used in this analysis were obtained from selected secondary sources.

a) African-American Business Ownership Rate (**BUS**) is from the *Survey of Minority-Owned Business Enterprise.*
b) Income (**INC**) and Black Income (**BINC**) are from the *Current Population Reports, Series P60-184, 188: Money Income of Households, Families, and Persons in the United States.*
c) Poverty (**POV**) is from the *Current Population Reports, Series P60-160, 163, 171, and 185: Poverty in the United States.*
d) Professional (**PROF**) is from the *1990 Census of Population and Housing, Equal Employment Opportunity (EE0) File.*
e) African-American Home Ownership (**HOM**), High School (**HS**), College (**COL**), and Percent of County African-American (**PER**) are from the *Current Population Reports Series P60-184, 188: Money Income of Households, Families, and Persons in the United States, or P60-160, 163, 171, and 185: Poverty in the United States.*

Characteristics of Study Area
The black business ownership rate varies substantially across a sample of 197 counties in 11 southern states: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Texas, and Virginia. The lowest black business ownership rate is 8 businesses per 1,000 black persons in Sunflower county, Mississippi. This particular county has an urban population between 2,500 and 19,999. It is not adjacent to a metropolitan area, and is thus considered rural in this study. The highest rate of black business ownership is 40 businesses per 1,000 black persons in Lancaster County, Virginia. This county is completely rural, with fewer than 2,500 persons living in urban areas and is not adjacent to any metropolitan area. Counties in this sample range from a 15 percent poverty rate (DeKalb County, Georgia, the central county of a metropolitan region) to 65 percent (Holmes

County, Mississippi, a county adjacent to a metropolitan region with an urban population between 2,500 and 19,999). There are 35 black-owned businesses per 1,000 blacks people in DeKalb. African-Americans make up 42 percent of its population and the median household income is $35,721. Conversely, only 13 black-owned businesses per 1,000 black people are in Holmes County and African-Americans make up 76 percent of the county population. The median household income of the county is only $9,809. In this study, each of these counties is classified as urban because of the size of its population and proximity to a metropolitan area.

The Beale Code classification of counties, a scheme used to classify counties in this sample as rural or urban, is shown in Table 4.1. For purposes of this investigation, those counties with a Beale Code of 0-6 are considered urban, and those with a code of 7-9 are classified as rural. We wanted a relatively conservative measure so we used the Beale Codes because it allowed for the sharp distinction between rural and urban places, especially smaller towns adjacent to urban areas that have the characteristics of urban places. The average business rate of those counties considered urban in this investigation is 15.7 (per 1,000 persons), the mean percent of the population that is black in these 144 counties is 39 percent, per capita black income is $6,138; and median household income is $22,072. The average black business ownership rate of those counties considered rural in this study is 17.6 (per 1,000 persons), and the mean percent of the population that is African-American is 47 percent, higher than that of the urban counties. However, per capita income of the black population is lower ($5,715) for these 53 rural counties, and median household income of these counties is also lower; $18,872. The average black poverty rate of 39 percent for rural areas in this sample is higher than the rate in urban counties, 37 percent. Table 4.2 shows the number of counties in each Beale Code category, their average business rate, and the highest and lowest business rates in each category.

Overview of Correlation and Regression Analyses
Economic theory makes qualitative statements about economic phenomena, but does not provide any quantitative measure of the relationship between economic variables. To supply empirical substance to this economic

theory of African-American business development, correlation and regression analyses were used to observe the relationship between black business ownership rates and an area's socioeconomic and demographic characteristics.

Both regression and correlation analyses are concerned with how one variable is related to another. Specifically, regression analysis is concerned with the way one variable, the dependent variable, is related to one or more other variables, the explanatory variables, holding all others constant. The aim of regression analysis is to predict the variability of the dependent variable in terms of the known values of the independent variables. It should be noted that regression analysis deals with the dependence of one variable on one or more other variables. For example, this study will examine the relationship between the incidence of African-American-owned firms (the dependent variable) on various socioeconomic and demographic explanatory variables. By contrast, the objective of correlation analysis is simply to measure the strength of association between two variables. It can not make any assertions about the causation of the incidence of black business ownership.

Description of Dependent and Explanatory Variables

Theoretical Model of African-American Business Ownership

The theoretical foundation and conceptual analysis of entrepreneurship-centered economic development presented in this section leads to an analytical model to explain the relationship between African-American business ownership (a proxy for entrepreneurship), and various socioeconomic and demographic characteristics of the population. The theoretical model follows:

$$BUS = f \text{ (Availability of Capital, Wealth, Infrastructure, Human Capital/Resources, Employment, Technology, Institutional Linkages, Environment) where BUS is the African-American Business Ownership Rate.}$$

Dependent Variable

The rate of African-American business ownership (BUS), a proxy for entrepreneurship, will be measured by the number of African-American-owned businesses in each county, divided by the black population and multiplied by 1,000. This rate will yield the number of

African-American-owned firms per 1,000 African-Americans in a county. The sources of data used to compute this rate were the *1992 Survey of Minority-Owned Business Enterprises* and *1990 Census of Population Housing Characteristics*. The rate is computed as follows:

$$BUS = \frac{\text{(Number African-American-Owned Businesses)}}{\text{(Number of African-Americans in County)}} \times 1000$$

Human Capital Variables

The variables representing characteristics of the labor force and the management capacity within a county will be calculated by the number of African-Americans, 25 years and older, completing high school and four years of college, respectively. This can be divided by the total number of African-Americans in the county and multiplied by 1,000 (consistent with the measurement of the dependent variable) to get the rate of high school and college completion for the black population in a county. The suggested relationship derived from theory is that an increase in African-American high school and college completion will be followed by an increase in the rate of black business ownership. They are computed as follows:

$$HS = \frac{\text{(Number African-Americans complete high school)}}{\text{(Total number of African-Americans in county)}} \times 1000$$

$$COL = \frac{\text{(Num African-Americans complete 4 yrs college)}}{\text{(Number of African-Americans in county)}} \times 1000$$

Economic Well-being Variables

The home ownership rate, as discussed earlier, is used as a proxy for wealth. The suggested relationship between African-American home ownership and black business ownership is positive, meaning that an increase in the level of black wealth will result in an increase in the incidence of African-American business ownership. Wealth is a measure of the supply of entrepreneurs and of demand for products of black firms, and is computed as follows:

$$HOM = \frac{\text{(Number of African-American home owners)}}{\text{(African-American Population in county)}} \times 1000$$

Another measure of demand is the African-American population, which is calculated by the percent of the county population that is African-American (PER). PER was computed by dividing the number of African-Americans in a

county by the total population. We suggest that as the African-American population concentration increases, so will the rate of African-American business ownership.

The median household income (INC) of a county is a proxy measure of the economic health of a county. It is suggested that as the overall median income of a county increases, the rate of black business ownership will increase as well. The sources of these data are: *USA Counties 1996* on CD-ROM prepared by the Census, the *1990 Census of Population and Housing,* and the *Equal Employment Opportunity* (EEO) machine readable data file.

Locational Attributes of Community

The extent to which a community is able to benefit from concentration by being adjacent to a thriving or economically stable urban or metropolitan area will be considered and calculated by using a dummy variable which will distinguish urban from rural counties. In this study, counties with a Beale Code of 0-6 were classified as urban and those with a code of 7-9 were considered rural. This grouping of rural and urban differs from the Census classification of 0-3 as metropolitan/urban and 4-9 as nonmetropolitan/rural. This deviation from the Census's grouping is due to the fact that those counties with Beale Codes of 4, 5, and 6 were uncharacteristic of rural areas, due to their population size and adjacency to metropolitan areas.

Categorical (Binary) Variables

Categorical or qualitative variables (variables that cannot be measured on a numerical scale) indicating the presence or absence of an attribute (e.g. rural or urban) were included in the empirical model to represent the suggested difference in the rate of African-American business ownership in rural versus urban counties. A categorical variable is an artificial variable constructed such that it takes the value unity whenever the qualitative phenomena it represents occurs, and zero otherwise. The categorical variables included in this model were specified as either additive or multiplicative. This was done to measure the extent to which the intercept and slope coefficients of the two categories (rural and urban) differ. Specifically, the coefficient for URBAN will tell how much the value of the intercept term that receives the value of one (in

this study, this category is urban) differs from the intercept coefficient of the base category (the category assigned a value of zero, the rural category is considered the base, reference, or omitted category). The coefficients of the product of the explanatory variables and the binary variable (URBAN*HOM, URBAN*HS, URBAN*COL, URBAN*PER, URBAN*INC) will tell us by how much the slope coefficients of the urban regression model differ from the slope coefficients of the rural regression model.

Results of Correlation Analysis

The main objective of the correlation analysis is to determine the relation between black business ownership rates and various socioeconomic and demographic characteristics of an area. A sample of 197 counties was divided (rural and urban) and separate correlation analyses were estimated for rural and urban counties in order to gain an understanding of the association between variables depending on the geographical classification of an area. Pairwise correlations were calculated and an examination of the Pearson correlation matrix uncovered some intriguing results.

In rural counties, the correlation between the African-American business ownership rate and per capita income of the black population (BINC) was +0.48, as shown in Table 4.3. This suggests that the income level of the African-American population is fairly important in determining the black business ownership rate. In urban counties, the correlation between per capita income of the African-American population and black business ownership rate was also strong, +0.64 (see Table 4.4). The correlation between black business ownership rate (BUS) and median income (INC) of the entire county in rural counties was +0.46 and the association between these variables (BUS and INC) was stronger and positive in urban counties, +0.64. O'Hare found that the correlation between rural black income and black business ownership rate was positive but relatively weak, +0.48. In this study, however, it seems that both black per capita income and median income of the entire county are both moderately to strongly associated with BUS in rural and urban areas. This suggests that not only is overall economic climate of the county an important determinant of black business success, but so is the income level of the black

population, a proxy for demand of goods and services.

No striking differences exist between the correlation of the black home ownership rate and black business ownership rate in urban and rural counties. The correlation between black business ownership rate and black home ownership rate in rural and urban counties were +0.51, and +0.49, respectively, suggesting that the wealth of the African-American population is also fairly important in determining the black business ownership rate in both rural and urban counties.

The correlation between black business ownership rate and the percent of the population that is African-American was relatively small and negative for both rural and urban counties, -0.23 for rural and -0.17 for urban. O'Hare found that the percent of the population that is African-American was also negatively associated with black-owned-business rates in rural areas of southern states (O'Hare, 1990).

The correlation between the African-American college completion rate and black business ownership rate was small, but positive, for rural counties (+0.06) and much larger for urban counties (+0.57). This suggests that the rate of college completion is a more important determinant of the incidence of black business ownership in urban than in rural areas. This can be explained by the migration of individuals with high school degrees in search of economic opportunities out of rural areas. The opposite holds true for the correlation between the African-American rate of high school completion and the black business ownership rate. For rural counties, the correlation is positive and much larger (+0.40) than that for urban counties (+0.12). O'Hare found that a positive association of +0.44 existed between black business ownership rates and the percent of rural blacks with a high school education, and a positive but a weak relationship between black-business ownership rates and the share of adults with a college degree, +0.19 (O'Hare, 1990). O'Hare's results are consistent with the findings of this investigation. These findings suggest that in rural areas, higher percentages of high school graduates will mean more African-American-owned businesses.

Another measure of human capital is the number of African-Americans holding professional and managerial positions. The correlation between the percent of African-

Americans with managerial and professional positions and the African-American-business rate in rural areas is negative and extremely close to zero (-0.02) while in urban areas it is much higher and positive (+0.54). This finding implies that the percent of blacks in professional and managerial occupations in urban areas has a relatively strong and positive association to black business ownership. In rural areas, the association between the percent of blacks with managerial and professional occupations and the incidence of black business ownership is extremely weak and negative. O'Hare also found the correlation between the percent of blacks employed in managerial or professional occupations and the black business rate in rural areas to be weak and negative -0.01. He asserts that,

> "The low correlation between the share of blacks in management and professional positions and the black business ownership rate may be due to select out-migration of blacks. It is possible that the most able black managers and professionals leave rural areas, for areas where there is more opportunity and where the racial climate is more benign." (O'Hare, 1990, pg. 102)

The poverty rate in the black population has similar correlations in both rural and urban counties. It is -0.50 in urban and -0.45 in rural counties. See Table 4.5 for the mean value of these variables.

In summary, given the characteristics of most rural areas, we expect the rate of black business ownership to be lower (on average) than in urban areas. Black-business ownerships varied widely between counties. Inspection of the summary statistics from this study show that for this sample of 197 southern Black Belt counties, the average black business ownership rate in the 53 rural counties is slightly higher (16.7 businesses per 1,000 African-Americans) than that for the 144 urban counties (15.7 black-owned businesses per 1,000 black persons). These results are not too surprising as the rate of black-business ownership will naturally vary across counties depending on the prevailing economic climate as well as characteristics of the black population. A closer examination of the data also confirms this fact. The data reveals that

black business rates vary among rural and urban counties depending on the levels of African-American home ownership, poverty levels, per capita income, levels of educational attainment, economic conditions of the entire county, and other characteristics of the black population. An important point, then, is that variations from the expected relations between rural and urban African-American-business ownership are most often due to the specific economic and geographic characteristics of each county. This reinforces the need for case-specific development strategies as opposed to blanket policy solutions.

Description of Regression Model

A cross section of 197 Black Belt counties was chosen to estimate a general multivariate ordinary least squares regression model. The counties selected have the following general characteristics: they were defined to be either nonmetropolitan or metropolitan by the *Bureau of the Census.* They each consist of populations that are more than 25 percent African-American and they contain 100 or more black-owned firms (as measured by income and employment data from the *1992 Surveys of Minority-Owned Business Enterprises Reports*).

The single regression equation with binary variables was estimated as follows:

$$BUS_i = \alpha_1 + \alpha_2 URBAN + \beta_1 HOM + \beta_2(URBAN*HOM) + \beta_3 HS + \beta_4(URBAN*HS) + \beta_5 COL + \beta_6(URBAN*COL) + \beta_7 PER + \beta_8(URBAN*PER) + \beta_9 INC + \beta_{10}(URBAN*INC) + u_i$$

where:

BUS, HOM, HS, COL, PER, and INC are defined earlier in this section. URBAN is the categorical variable, and URBAN*HOM, URBAN*HS, URBAN*COL, URBAN*PER, URBAN*INC are all interaction terms. The coefficients on these interaction terms are the differential slope coefficients that will indicate the extent to which the slope coefficient of the urban model differs from that of the rural model, as explained above. (See Figure 4.5.1).

If the observations are rural (URBAN = 0), then:

$$BUS_{rural} = \alpha_1 + \beta_1 HOM + \beta_3 HS + \beta_5 COL + \beta_7 PER + \beta_9 INC + u_{rural}$$

or, if the observations are urban (URBAN=1), then

$$BUS_{urban} = (\alpha_1 + \alpha_2) + (\beta_1 + \beta_2)HOM + (\beta_3 + \beta_4)HS + (\beta_5 + \beta_6)COL + (\beta_7 + \beta_8)PER + (\beta_9 + \beta_{10})INC + u_{urban}$$

Specification of Model

The final empirical model selected is somewhat different from the theoretical model, although it holds some of the same variables included in the theoretical model. A lack of data, difficulties in measurement, and high pairwise correlations between many independent variables (leading to problems of multicollinearity) led to the omission of several variables in the empirical analysis. Several of the variables in the locational attribute category, such as transportation, financial services, and access to information and technology, were omitted due to lack of data and difficulty in measurement (Dassie, 1998, pg.102). The variables that were highly correlated were the African-American rate of college completion, the rate of African-Americans with managerial and professional occupations, the median income of the entire county, and per capita income of the African-American population in the county. The African-American poverty rate was also highly correlated with the median income of the entire county.

To avoid complications due to multicollinearity, the rate of African-Americans with professional and managerial occupations, per capita black income, and African-American poverty rate were omitted from the empirical regression equation. Because per capita black income (another proxy for the demand for the products of African-American-owned firms and supply of African-American entrepreneurs) was highly correlated with median household income of the entire county (INC), and since INC also served as an indicator of the overall economic health of the county, it was used in place of average black income in this model. The African-American rate of college completion was used instead of the rate of African-

Americans with managerial or professional occupations because empirical evidence supports the thesis that those with college degrees hold the majority of the managerial and professional occupations. So, we are left with the empirical model that included the explanatory variables described above.

$$BUS_i = \alpha_1 + \alpha_2 URBAN + \beta_1 HOM +$$
$$\beta_2(URBAN*HOM) + \beta_3 HS +$$
$$\beta_4(URBAN*HS) + \beta_5 COL +$$
$$\beta_6(URBAN*COL) + \beta_7 PER +$$
$$\beta_8(URBAN*PER) + \beta_9 INC +$$
$$\beta_{10}(URBAN*INC) + u_i$$

Results of Regression

A single regression equation with binary variables included to account for the differences in rurality was estimated for all 197 counties to determine the relationship between the dependent variable, BUS, and the independent variables discussed above. All variables carried expected signs and all were statistically significant with the exception of INC, URBAN*COL, and URBAN*INC. The insignificance of these interaction terms suggests that there is no noteworthy difference between the slope coefficient of COL and INC in the rural and urban equations. Forty eight percent of the observed variation in BUS was explained by variation in the independent variables.

The results of the regression and the calculated elasticities that allow for the comparison of variables with different units are shown in Table 4.6.

In rural areas, the variables with the greatest impact on BUS are: HOM, HS, and PER, demonstrated by their coefficients along with their elasticities. The comparatively low elasticities (all below 0.13) of these same variables in urban areas suggest that they are not as influential in determining the rate of African-American business ownership in urban areas.

In rural areas, the elasticities for HOM, HS, and PER were 0.37, 0.53, and 0.47, respectively. The fact that they are inelastic implies that increases in black home ownership rate, and African-American high school and college completion rates would result in less than proportionate increases in the black business ownership rate. These variables are even more inelastic in urban areas: 0.09, 0.13, and 0.06 for

HOM, HS, and PER, respectively. Although the impact of these variables on the incidence of black business ownership may be small for both rural and urban areas, they have a greater impact on black business ownership rates in rural areas.

The coefficient of URBAN (the differential intercept) indicates by what amount the intercept coefficient for the urban counties differs from the intercept coefficient for rural counties. The results show that the African-American business ownership rate in urban areas is higher on average than that in rural areas for this particular sample. This finding is in line with our initial hypothesis about the effect of geographical classification (rural or urban) on the African-American business ownership rate.

The African-American home ownership rate of a county (HOM), a proxy measure for wealth, proved a more influential factor in determining black business ownership rates in rural counties. The elasticity of HOM in rural areas, 0.37, suggests that a one percent increase in HOM would increase BUS by approximately 0.37 percent. The elasticity of HOM in urban areas 0.09, suggests that a one percent increase in the African-American home ownership rate would only result in a 0.09 percent increase in the African-American business ownership rate. This means that there is less of an impact of home ownership, a proxy for wealth, on the incidence of black business ownership in urban areas. The fact that the level of wealth in the black community is more important in rural than urban areas suggests that in urban areas, African-Americans who either want to start a business or expand an existing business have slightly more options available for securing financial capital and may not have to rely as much on personal wealth for financial capital. In rural areas, there are typically fewer institutional lenders, and "local banks are often too small and too conservative to make loans to entrepreneurs..." (Fratoe, 1993).

The African-American rate of college completion did not have the large impact that the high school completion rate (HS), black home ownership rate (HOM), and African-American concentration (PER) variables did on the incidence of African-American business ownership in rural areas. An examination of the elasticities indicates that COL had the least effect on black business ownership in rural areas (COL elasticity is 0.18 compared to the HOM, HS, and PER elasticities of 0.37, 0.53 and 0.47

respectively). This low impact of COL on black business ownership rates in rural areas can be explained by the migration of residents with high school degrees to urban areas in search of better professional or educational opportunities. Inspection of the correlation matrix shows that in urban areas, the association between BUS and COL was fairly strong and positive (+0.58) and in rural areas, positive, but close to zero (+0.06), indicating almost no association between the two variables. The opposite is true for the African-American high school completion rate, HS. In urban areas, the association between black business ownership rate and HS is positive, but weak (+0.12); in rural areas, the association between the two variables is stronger (+0.40).

The concentration of African-Americans in a county (PER) had a greater impact on BUS in rural areas. A one percent increase in the black population in rural areas would result in an increase of approximately 0.47 percent in the incidence of black business ownership. In contrast, a one percent increase in the black population in urban areas would only increase the black business ownership rate by 0.06 percent. The reason most cited for this is that black business clientele are predominately African-American (Woodard, 1997; O'Hare, 1990; Bearse, 1993; Handy & Swinton, 1984).

In their analysis of the determinants of the rate of growth of black-owned business, Handy and Swinton found that growth in the size of the market, measured by percentage increases in the black population, was a significant factor in the number of black businesses. In keeping with the hypothesized relationship between PER and the incidence of black business ownership, an increase in the concentration of African-Americans in the county will increase rate of black business ownership. This limited market for African-American business makes the characteristics of a black population extremely important. These characteristics include the level of wealth and other factors that effect the ability to expand the economic capacity of the black community. The significance of the concentration of the black population in rural counties is attributed to the higher degree of African-American concentration and population isolation in rural areas where the black firm is more dependent on the immediate and relatively homogenous population. Rural populations are more geographically dispersed than urban

populations. Therefore, urban areas benefit from higher density and usually more diverse populations (for instance, African-Americans tend to live in areas with other minorities, such as Hispanics, that the clientele of black firms comprise.

Section 5: Conclusions and Policy Implications

Although many studies focused on entrepreneurship-centered development in urban areas, little information is available on rural African-American business ownership. This study is unique in that it focuses on African-American entrepreneurship as a community development strategy in rural communities in the southern Black Belt. Further, of the studies that already exist, many are exclusively anecdotal and few are quantitative. This study attempts to analyze the demographic and socioeconomic characteristics of the African-American population, as well as the economic condition of the environment in which the firm must operate. Another significant feature of this study is that it not only establishes a conceptual framework for entrepreneurship-centered rural economic development, but also tests an empirical model with its foundation in this conceptual framework. Most importantly, this framework can be used to guide future quantitative studies of rural African-American business and community development. We hope, in its comparative nature, that this study will be a significant contribution to the literature on African-American business development. The most salient features of this study are its emphasis on rural African-American business ownership and its determinants and policy implications for entrepreneurship-centered rural economic development in the southern Black Belt.

This study's fundamental question: Is there something in the socioeconomic and demographic make-up of an area that either retards or accelerates black business development? This section will summarize the empirical answers to this question, discuss policy objectives and implications, and end with a discussion of suggestions for future research. At the core of our results are the following observations:

- Several socioeconomic and demographic characteristics of a county prove to be

influential factors in determining African-American business development.

- The characteristics that are important determinants of rural African-American business ownership rates in this sample of 197 southern Black Belt counties are the rate of African-American home ownership, the rate of African-American high school completion, and the concentration of the African-American population.
- The incidence of black business ownership between rural and urban areas differs, and significant variations exist within rural areas in terms of socioeconomic and demographic characteristics of the black population and the economic condition of the county.

These results had the following implications for our original hypotheses.

Human Capital Variables
- In rural areas, as the African-American high school completion rate increases, the rate of African-American business ownership will increase.
- As the African-American college completion rate increases, the rate of African-American business ownership will increase.

Economic Well-being Variables
- As the rate of African-American home ownership increases, African-American business ownership rate will increase.
- An increase in the median household income of the entire county will not necessarily affect African-American business ownership rates.
- As the African-American presence in the overall population increases, the rate of African-American business ownership will increase.

Locational Attributes of Community
- Counties that are considered more rural are expected to have lower African-American business ownership rates.
- The geographical classification of a county is significant—that a county is rural or urban will have a significant effect on the relationship between the African-American business ownership rate and the explanatory variables.

Knowing that disparities exist between rural and urban areas in terms of human capital, overall economic well-being, and other attributes that effect business and economic development, and having observed the continuous decline of agriculture in rural areas, it makes sense to develop strategies void of solely agricultural-based policies and programs. Rather, a business and community development strategy such as the one set forth in this study, should be adopted.

Policy Implications
In this study, the concentration of African-American population, wealth as measured by African-American home ownership rate, and rate of African-American high school completion were found to be the most significant determinants of African-American business ownership rates in rural areas. What needs to be assessed, given these empirical findings, is the degree to which these factors can be used as policy levers. Thus, an examination of population out-migration (often spurred by stagnant economic conditions), factors affecting wealth levels of rural residents (such as inability to sustain incomes), and the education of rural youth will be our discussion focus. Our ultimate goal is to forge a better synthesis between African-American rural entrepreneurship and rural economic development.

The rural economy has lagged behind in development due to its isolation from centers of economic activity, the difficulties in structural adjustment that stem from inadequate rural institutions, and the characteristics of the labor population (Rural Revitalization Task Force, 1989). Rural residents who have the ability to migrate to areas where economic prosperity seems to be more of a reality, do so in order to escape poor economic conditions. So, human capital development has the effect of increasing not only individual incomes; in a rapidly changing economy, it also increases mobility.

Rural communities are poorly equipped to provide job opportunities for individuals with college degrees. The flight of these educated individuals from rural communities erodes the property tax base, which serves as the major source of income for schools and other public services.

These stagnant economic conditions: inability to sustain incomes, insufficient tax bases, and limited opportunities for highly-

skilled or highly-educated individuals all stem from, among other factors, the inability to adapt to structural changes in the national economy. It is abundantly clear that the agricultural sector is becoming a less important economic entity in many rural communities. Transformations of the agricultural sector of the rural economy have created major human resource problems. Failure in public response is due partly to the lack of well-organized, rural community institutions stretching from local communities to the state, region, and nation, providing a voice for rural society. This major transformation of rural areas is not well understood, and as a result is left without a strategy to resolve critical problems.

Many local communities are turning to indigenous development strategies, such as the one in this study, of entrepreneurship-centered economic development. With such strategies, public policy makers are preoccupied only with creating an "enabling environment" for business. In this sense, market-oriented forces become important remedies for rural development problems, as opposed to relying on the public sector exclusively. But, the role of social capital (i.e., civic institutions, churches, clubs) is becoming a major factor in fostering community development.

For example, faith-based institutions can play an important role in economic development of African-American rural communities. Many societies have been successful at bridging the sacred and the secular, and their customs and culture allow for the imtermingling of the two. Western societies, however, have "compartmentalized" these aspects of life and leave no room for much intermingling, understandably so. It is believed by some that this compartmentalization is problematic for several reasons, the most significant being the absolute neglect of planners, researchers, and others involved in economic development to consider the role of faith-based institutions, specifically churches, in community development efforts.

Early in the history of African-Americans in the South, churches were used as educational facilities and a vehicle for economic, political, and social empowerment. The church is still a facilitator for the attitudinal change and education needed for economic and human development. The church has a perspective that is unique, considerably different from other institutions in a community, an organization

(social capital) that has not been well recognized or used by economic development strategists.

From the empirical findings of this and similar studies, it is clear that the *general* policy objectives for these rural areas would be to:

- retain financial capital.
- encourage in-migration or stem out-migration by providing incentives to individuals with high levels of human capital.
- stimulate business development and economic growth.

The types of instruments or policy levers available would be:

- Capital subsidies
- Improvement of infrastructure
- Tax breaks and relaxed regulations

These policies should be directed toward entrepreneurs or existing private sector employees (Brown, 1997). This is a *general* picture of policy goals, levers, and targets[5]. However, a closer examination of the *specific* factors determining the incidence of African-American business owners in rural areas and the subsequent impacts on rural development in local communities is now in order.

The results of this study provide insight into what factors can be used as policy levers in rural African-American community development. The empirical results show the extent to which human capital, wealth creation, African-American population concentration, and social capital are influential in determining black business ownership in rural communities.

Endnotes

1) A region may be defined as "an historically evolved, contiguous territorial society that possesses a physical environment, a socioeconomic, political, and cultural milieu, and a spatial structure distinct from other regions and major territorial units." (Rankin & Falk, 1991). All of the aforementioned pockets of poverty that span the American landscape share these common characteristics and are evidence of the geographical concentration of poverty in this country.

2) Category two represents the vast body of studies on entrepreneurship in development literature.

3) The environment, as a driving force, is significant because it is the ecological support system for development. Whatever economic decision is made must be done so with the environment in mind.

4) Single female-headed households have the highest rate of poverty because of the increased need for income resulting from the presence of children in the home, inability to work full-time (or at all) due to child care responsibilities and the absence of additional earners within the household. In 1992, the percentage of black female-headed families in the rural South was 54.7 percent and 30.5 percent for their white counterparts.

5) The term *policy target* refers to the group, region, etc. that a policy is directed toward.

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Table 3.1: Percent of Persons Below Poverty Level in the South and the United States by Race and Residence

South

	Metropolitan			Nonmetropolitan	
	African-American	White		African-American	White
1986	29.0	9.9		43.6	16.5
1987	30.3	10.1		44.2	14.8
1988	31.0	10.2		41.0	15.0
1989	28.3	10.2		40.2	14.3
1990	28.8	10.2		41.6	15.0
1992	32.1	8.8		40.2	15.0

United States

	Metropolitan			Nonmetropolitan	
	African-American	White		African-American	White
1986	28.6	9.7		42.3	15.1
1987	30.7	9.6		44.1	13.7
1988	28.9	9.1		39.6	13.1
1989	29.6	9.2		40.8	13.5
1992	31.9	8.3		40.8	13.5

Table 3.2: Percent of Families Below Poverty Level by Type of Family for Selected Years

Year	All Families		Families with Female Head		Families with 65 & Older Head	
	Black	Whites	Black	White	Black	White
1982	33.0	9.6	56.2	27.9	29.4	7.3
1986	28.0	8.6	50.1	28.2	22.1	5.4
1989	27.8	7.8	46.5	25.4	19.6	5.3
1990	29.3	8.1	48.1	26.8	24.2	4.5
1993	31.3	9.4	49.9	29.2	22.6	5.2

Table 3.3: United States and Black Participation in the Ownership of American Businesses: Selected Statistics, 1972-1992

Year	U.S. Pop. (000s)	Total # of U.S. Bus. (000s)	Gross Receipts of U.S. Bus. (000s)	Back Pop. (000s)	# of Black Bus. (000s)	Gross Receipts of Black Bus (000s $)
1972	209,896	12,978	2,495,000	23,465	188	5,534
1977	220.239	14,741	4,384,000	25,122	231	8,645
1982	232,188	14,546	6,842,000	27,508	339	12,444
1987	243,308	18,351	10,208,000	29,325	424	19,763
1992	255,419	20,498	12,214,000	31,659	621	32,197

Year	U.S. Bus. per 1,000	Total Bus. Gross Rec. per Cap ($)	Blacks as % of U.S. Pop.	Black Bus. as % of U.S. Bus.	Black Bus. Gross Rec. as % of U.S. Bus Gross Receipts	Number of Black Bus. per 1,000 Persons	Black Bus. Gross Rec. per Cap ($)
1972	61.83	11,885.21	11.18	1.45	0.22	8.00	235.85
1977	66.93	19,917.01	11.41	1.57	0.20	9.20	344.13
1982	62.65	29,468.79	11.85	2.33	0.18	12.33	452.36
1987	75.42	41,953.47	12.05	2.31	0.19	14.46	673.93
1992	80.25	47,819.29	12.39	3.03	0.26	19.61	1017.01

Table 3.4: Black Business Ownership Rate and Total Business Ownership Rate for the United States and 11 Southern States in 1992

State	# of Black Owned Bus.	Rate*	Total # of Bus.	Rate**	Black Bus. as % of Total Bus.	Black Pop. as % of Total State Pop.
Alabama	14,707	14.4	227,119	56.2	6.5	25.3
Arkansas	5,738	15.3	159, 820	67.9	3.6	15.9
Florida	40,371	22.9	1,000,542	77.3	4.0	13.6
Georgia	38,264	21.9	425,118	65.6	9.0	27.0
Louisiana	20,312	15.6	236,589	56.1	8.6	30.8
Mississippi	14,067	15.4	135,497	52.7	10.4	35.6
North Carolina	29,221	20.1	439,301	66.3	6.7	22.0
South Carolina	18,343	17.6	197,330	56.6	9.3	29.8
Tennessee	14,920	19.2	325,371	66.7	4.6	16.0
Texas	50,008	24.7	1,256,121	74.0	4.0	11.9
Virginia	26,100	22.4	391,451	63.3	6.7	18.8
United States	620,912	20.7	17,253,14	69.4	3.6	12.1

***Number of Black Businesses per 1,000 Black Persons:**
Black Bus. Ownership Rate = (Total # Black-owned businesses in state) X 1,000 / (Total # of Black persons in state)

$$\text{Black Bus. Ownership Rate} = \frac{(\text{Total \# Black-owned businesses in state})}{(\text{Total \# of Black persons in state})} \times 1{,}000$$

**Number of Businesses per 1,000 Persons
State Bus. Ownership Rate = (Total # Businesses in State) X 1,000 / (Total state population)

$$\text{State Bus. Ownership Rate} = \frac{(\text{Total \# Businesses in State})}{(\text{Total state population})} \times 1{,}000$$

Table 3.5: Percent of African-American-Owned Businesses in the United States by Industry

Industry	1972	1977	1982	1987	1992
Service	**35.0**	**44.0**	**43.4**	**49.4**	**53.6**
Agriculture, Forestry & Fishing	2.2	2.2	1.4	8.7	1.6
Construction	1.0	9.1	6.8	1.9	7.0
Manufacturing	2.0	1.8	1.2	8.7	1.7
Transportation &Public Utilities	11.4	10.0	1.2	15.6	1.2
Wholesale Trade	1.0	1.0	1.2	15.6	1.2
Retail Trade	**19.0**	**24.0**	**24.8**	**16.4**	**14.0**
Finance, Insurance & Real Estate	4.0	4.2	4.4	1.7	6.6

Table 4.1: Explanation of Beale Codes Beale Code Population Size and Adjacency to Metropolitan Area

0	Central counties of metro areas, population of 1 million or more
1	Fringe counties of metro areas, population of 1 million or more
2	Counties in metro areas, population between 250,000 and 1 million
3	Counties in metro areas, population of fewer than 250,000
4	Counties adjacent to a metro area, urban population of 20,000 or more
5	Counties not adjacent to metro area, urban population of 20,000 or more
6	Adjacent to metro area, urban population between 2,500 and 19,999
7	Not adjacent to a metro area, urban population between 2,500 and 19,999
8	Completely rural or fewer than 2,500 population, adjacent to a metro area
9	Completely rural or fewer than 2,500 population, not adjacent to a metro area

Table 4.2: Black Business Ownership Rates by Beale Code Category

Beale Code	# of Counties	Mean Black Business Ownership Rate	Maximum Black Ownership Rate	Minimum Black Business Ownership Rate
0	5	24.6	35.1	17.3
1	7	12.8	15.3	9.4
2	30	18.3	28.3	11.3
3	16	15.7	19.5	10.2
4	15	14.2	20.5	8.8
5	12	15.6	24.9	8.9
6	59	14.4	24.3	9.0
7	35	14.5	27.7	8.0
8	9	21.5	32.1	12.6
9	8	17.6	39.8	15.0

Table 4.3: Correlation Matrix of Rural Counties

	BUS	HOM	HS	COL	PROF	PER	INC	BINC
BUS								
HOM	0.51							
HS	0.40	0.18						
COL	0.06	0.01	-0.38					
PROF	-0.02	0.01	-0.34	0.68				
PER	-0.23	-0.68	-0.28	0.11	0.13			
NC	0.46	0.59	0.64	-0.18	-0.14	-0.72		
BINC	0.48	0.34	0.75	-0.09	-0.07	-0.42	0.82	
POV	-0.45	-0.36	-0.73	0.14	0.12	0.49	-0.85	-0.59

Table 4.4: Correlation Matrix of Urban Counties

	BUS	HOM	HS	COL	PER	PROF	INC	BINC
BUS								
HOM	0.49							
HS	0.12	0.42						
COL	0.57	0.36	-0.21					
PER	-0.17	-0.51	-0.30	.13				
PROF	0.54	0.46	-0.23	0.88	0.08			
INC	0.64	0.56	0.33	0.42	-0.40	0.49		
BINC	0.64	0.36	0.41	0.52	-0.23	0.55	0.85	
POV	-0.50	-0.18	-0.51	-0.27	0.26	-0.29	-0.78	-0.29

Table 4.5: Mean Values of Variables for Rural and Urban Counties

Variable	Mean (Rural counties)	Mean (Urban counties)
BUS	16.73	15.72
HOM	10.61	14.94
COL	143.83	148.02
PER	21.66	25.6
PROF	31.61	37.69
BINC	5,714.72	6,138.04
INC	18,872.00	22,072.00
POV	0.39	0.37

Table 4.6: Results of Regression and Calculated Elasticities

Variable	Coefficient	Standard Error	T-Stat	P-Value
Intercept	-15.3288*	5.7783	-2.653	0.0087
URBAN	15.2341*	6.5837	2.314	0.0218
HOM	0.5816*	0.1089	5.338	0.0001
URBAN*HOM	-0.4905*	0.1210	-4.053	0.0001
HS	0.0613*	0.0220	2.788	0.0059
URBAN*HS	-0.0477**	0.0264	-1.808	0.0722
COL	0.1355*	0.0637	2.126	0.0348
URBAN*COL	-0.0152	0.0710	-0.215	0.8302
PER	16.6162*	5.4616	3.042	0.0027
URBAN*PER	-14.3040*	6.5955	-2.169	0.0314
INC	0.0003	0.0003	1.267	0.2067
URBAN*INC	0.0000	0.0003	0.168	0.8667

Adjusted R2	**0.4751**
F Statistic	17.120 (0.0001)
Mean of BUS	15.99
*	< 0.05 level of Significance
**	< 0.10 level of Significance
DW Stat	1.764

Calculated Elasticities

	RURAL	URBAN
εHOM	0.3690	0.0866
εHS	0.5270	0.1281
εCOL	0.1754	0.2184
εPER	0.4681	0.0579
εINC	0.3384	0.4212

Figure 2.1: Porter Structural Attractiveness Model for Economic Development

Old Model For Development	New Model For Development
Focus: Social	*Focus*: Economic
Goal: Redistribute Wealth	*Goal*: Create Wealth

Emphasis:

Old Model

- Government, Social Organization
- Subsidized Business
- Isolation from Larger Economy
- Companies Serve Local Community
- Skilled Minorities Engaged in Social Service Sector
- Special Institutions Created
- Disadvantages Counterbalanced with Subsidies
- Government Involved Directly Providing Services or Funding

Emphasis:

New Model

- Private Sector
- Profitable Business
- Integration with Regional Economy
- Export Oriented Companies
- Skilled & Experienced Minorities Engaged in Building Business
- Mainstream, Private Sector Institutions Enlisted
- Disadvantages Addressed Directly
- Government Focused on Improving Environment for Business
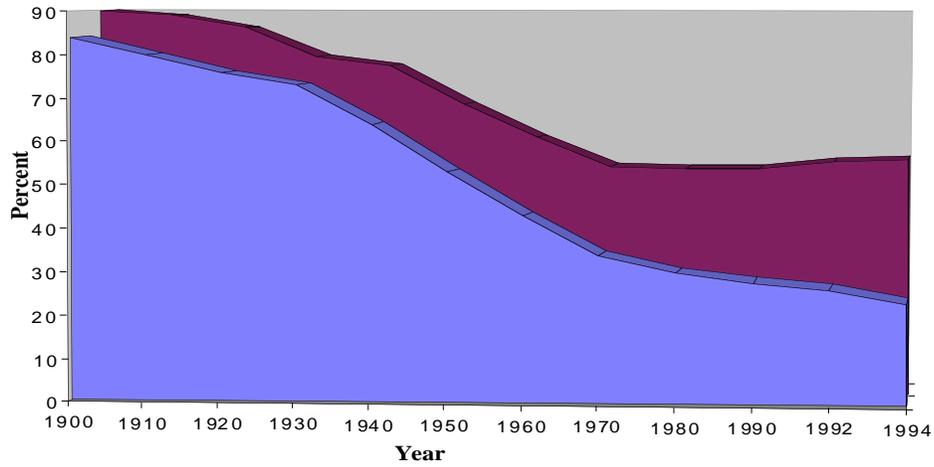
Figure 3.1.1: African American Population in the South by Residence

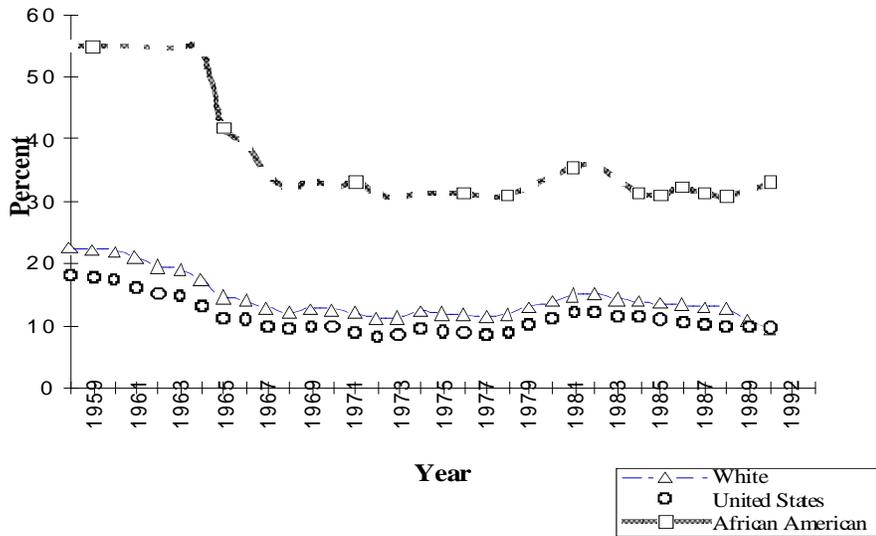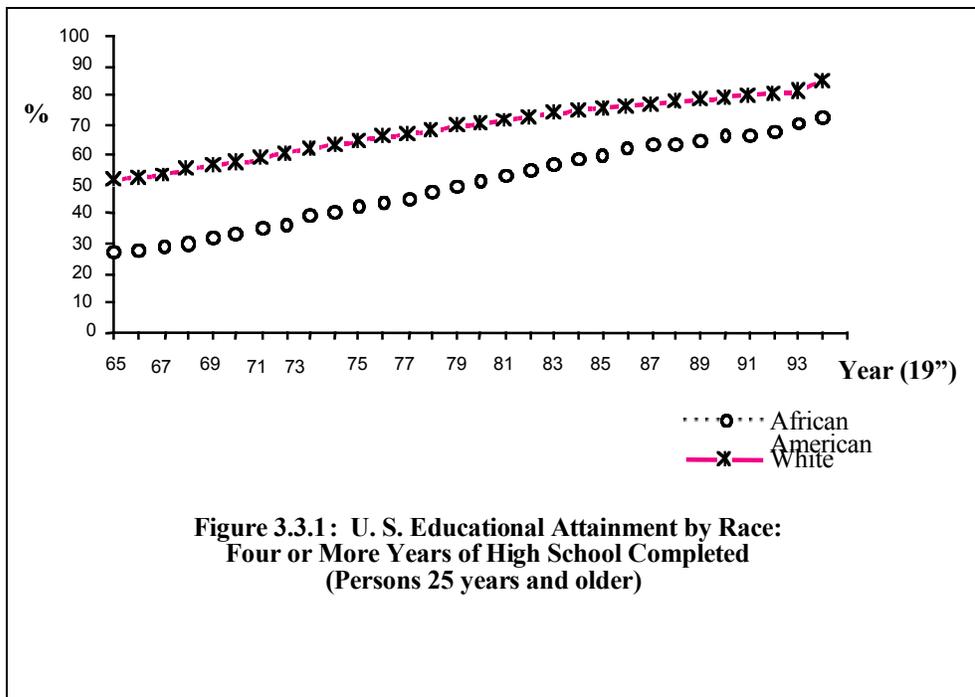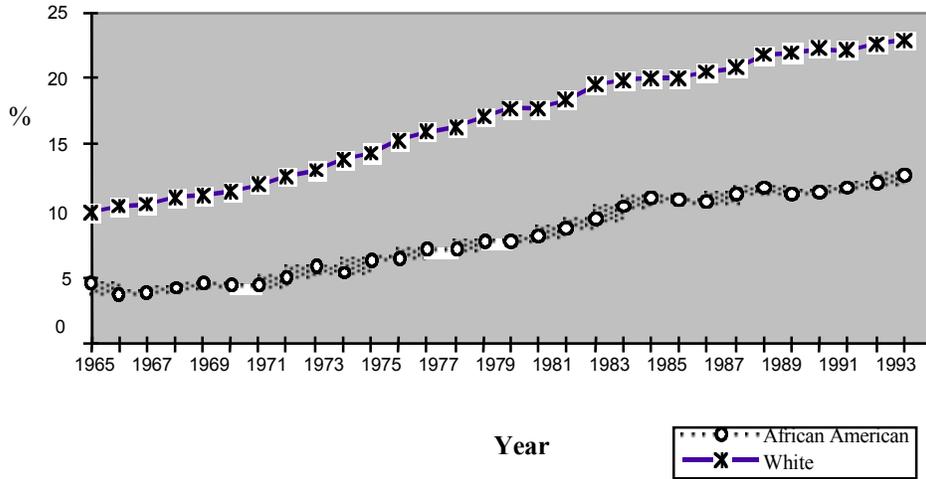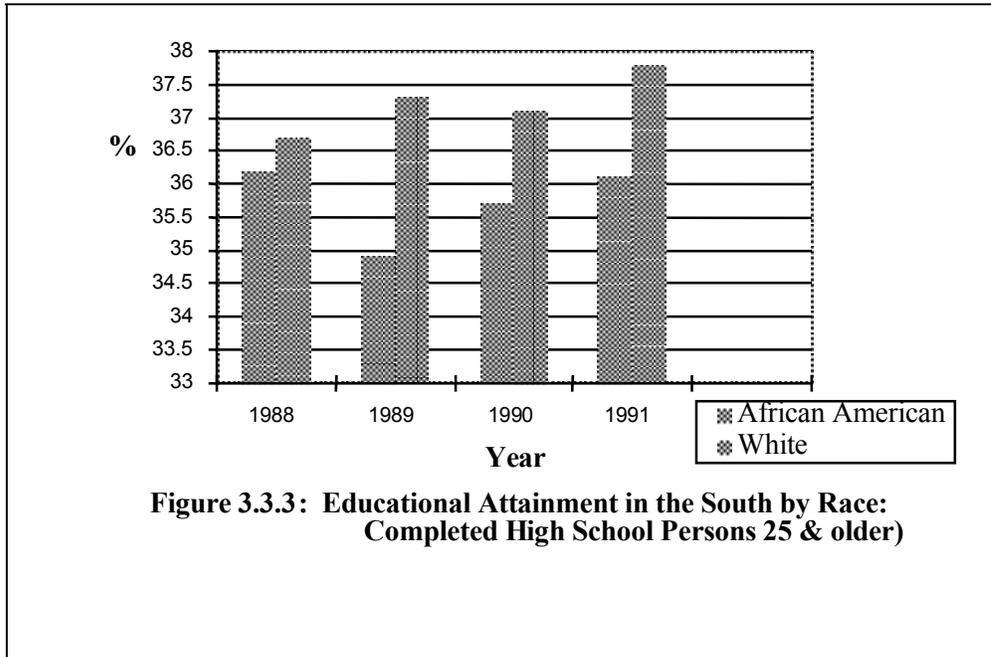**Figure 3.1.2 : African American Population in the U. S. by Residence**
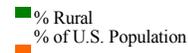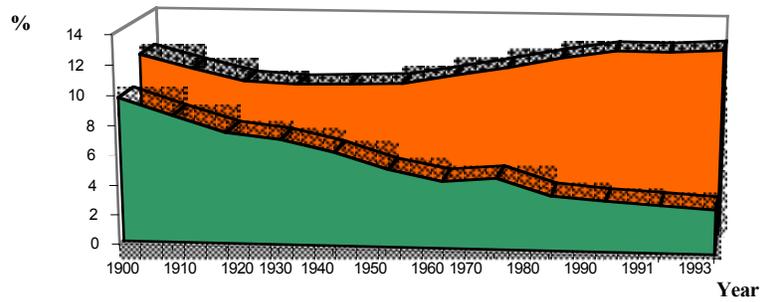
Figure 3.2: U.S.Poverty Level By Race

**Figure 3.3.1: U. S. Educational Attainment by Race:
Four or More Years of High School Completed
(Persons 25 years and older)**

Figure 3.3.2: U.S. Educational Attainment by Race:
Four or More Years of College Completed
(Persons 25 years & older)

Figure 3.3.3: Educational Attainment in the South by Race:
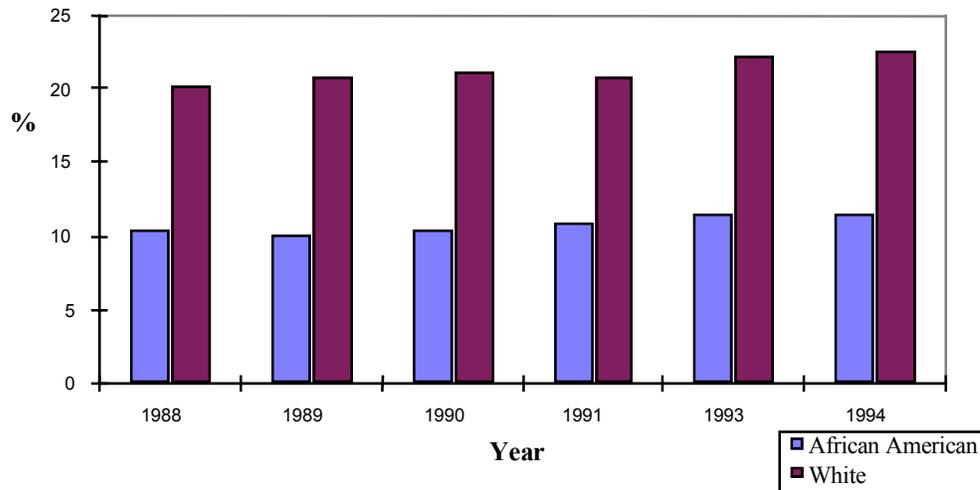**Completed High School Persons 25 & older)**

Figure 3.3.4: Educational Attainment in the South by Race:

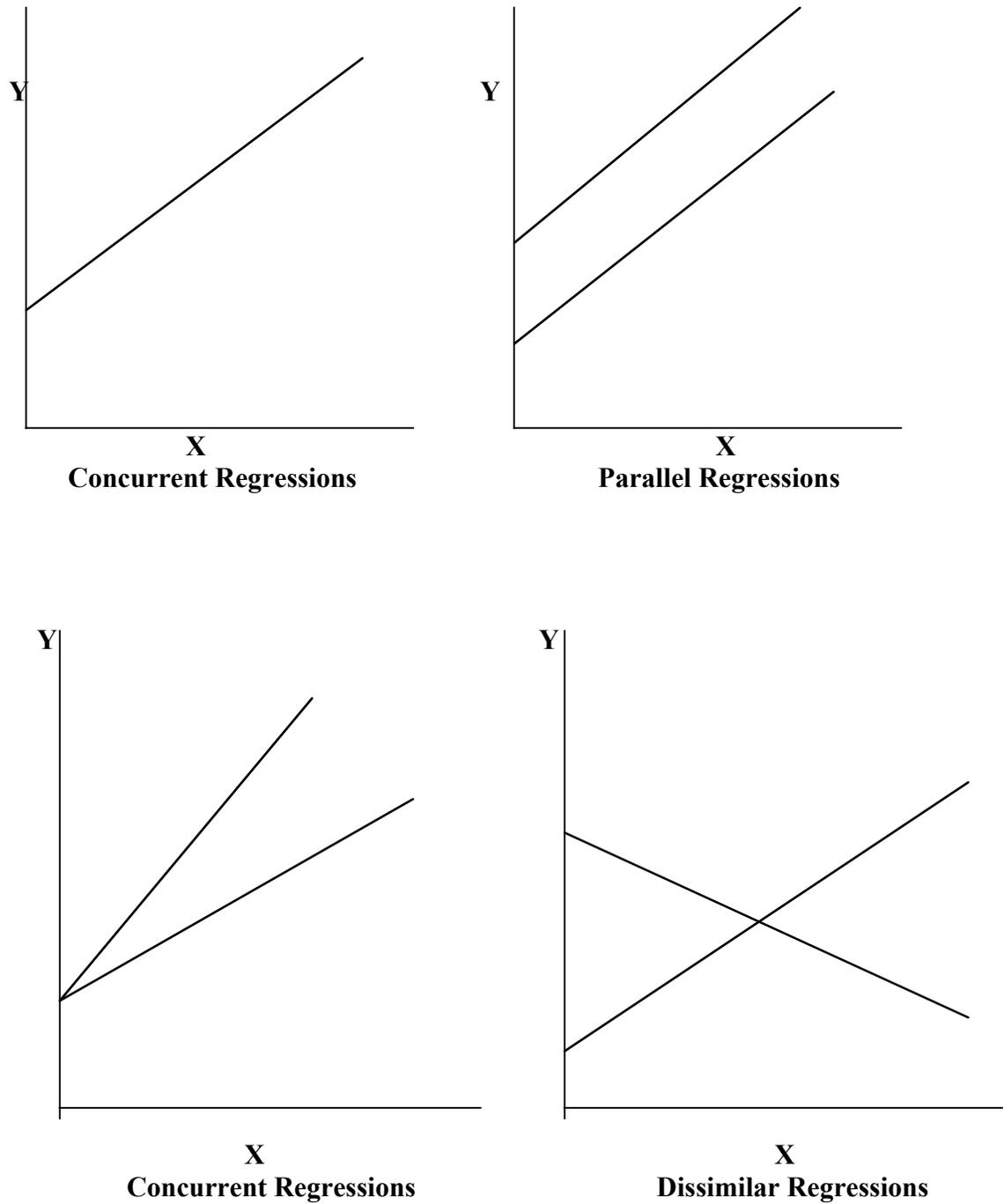**Four or More Years of College Completed Persons 25 years
& older)**

Figure 4.5.1:   Types of Relationships Between Two Regression Models