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DOES TRUST IN FEDERAL GOVERNMENT MATTER FOR SELF-EMPLOYED BLACK ENTREPRENEURS?

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Abstract

This paper examines the effects of trust in federal government on self-employed black entrepreneurs. The decision to be a black entrepreneur and the associated returns are likely to be sensitive to trust in federal government, as the history and political economy of race in the United States required federal government to introduce laws, legislation and institutions to alter the future behavior of whites in their market interactions with blacks. We find that among the self-employed, being a black entrepreneur is a negative determinant of various measures of trust in federal government. Parameter estimates from a bivariate estimator of black entrepreneur entry and income reveal that both increase with respect to several measures of trust in federal government. Our results suggest that the growth and performance of black entrepreneurs and black-owned firms has been inhibited by low trust of federal government.

JEL Classification: *H5, L2, Z0*

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I. Introduction

As a form of social capital, trust can be defined as the willingness to permit the future decisions of others to influence your welfare (Sobel, 2003).¹ The absence of trust can inhibit the level of economic activity in an economy, as many individual investment and consumption decisions depend upon the expected future actions of others (Knack and Keefer, 1997). When trust is high, individuals can expect future actions by others to be favorable to an investment and/or consumption decision with returns and costs in the future. In contrast, when trust is low, negative expectations about the future actions of others serves to reduce incentives to make investment and/or consumption decisions with long term benefits/costs. As such, the amount of trust that exists in a given society can matter for overall economic performance (Fukuyama, 1995) and for the success realized by individuals (Glaeser et.al, 1999).

Empirically, trust appears to matter for economic growth. In cross-country analyses of the determinants of growth, Knack and Keefer (1997), Moesen, Van Puyenbroeck and Cherchye (2000), and Zak and Knack (2001), all find that high levels of trust are positively and significantly related to economic growth. One key factor of economic growth is the introduction and diffusion of new technologies and management innovations by self-employed entrepreneurs. New technologies and management innovations can affect economic growth by increasing total factor productivity. Self-employed entrepreneurs also affect, perhaps disproportionately, the income distribution by creating new jobs (Davis, Haltiwanger, and Schuh; 1993). Given such a nexus, trust may be important for the number and performance of self-employed entrepreneurs in a given economy.

If trust matters for the number and performance of self-employed entrepreneurs, observed racial differences in the number and performance of self-employed entrepreneurs suggest that there are racial differences in trust.² This paper examines the effects of trust in federal government on self-employed

¹The term "social capital" was initially coined by Loury (1977). The most flexible definition of what constitutes social capital is that it consists of the networks, norms and trust that facilitate coordination and cooperation (Putnam, 1993).

²The relative performance and numbers of black entrepreneurs and self-employed are similar. U.S. Commerce Department (2001) data indicate that only 4 percent of all U.S firms are black-owned—a more formal measure of entrepreneurship.

black entrepreneurs. While trust in general is theoretically interesting, with plausible empirical consequences, trust in federal government is likely to be more important for self-employed blacks. Historically, the entry and performance of black entrepreneurs has been constrained by institutional barriers engendered by a political economy of race that denied blacks equal protection and citizenship in the eyes of the formal law (Woodward, 1955). As such, formal remedies by central government emerged, linking the welfare of blacks to the contemporary and future actions of government.

This paper is related to an existing but small literature examining the effects of social capital on the performance of black-owned firms (Fratoe, 1988, House, 2000). We extend this literature by examining the effects of a particular form of social capital on self-employed blacks—trust in federal government. Given central government’s role in discouraging and penalizing behavior that lowers the welfare of others, it is plausible that the number and performance of self-employed blacks will be sensitive to whether or not black entrepreneurs believe central government can successfully protect them against future actions by others that lower welfare. It is within this context that trust in federal government is potentially important for self-employed black entrepreneurs. We find that among the self-employed, being black is a negative determinant of trust and confidence in federal government. Parameter estimates from a bivariate estimator of black entrepreneur entry and performance reveal that both entry and performance increase with respect to trust and confidence in federal government.

Being self-employed is a necessary condition for being an entrepreneur. It is not sufficient however. The entrepreneurial venture/firm is usually construed to be a particular type of organizational form—such as a partnership or corporation, solely or majority-owned by an individual, and requiring significant amounts of capital. A self-employed individual can be a sole proprietor barbershop or beauty salon—enterprises that do not necessarily require significant amounts of capital in a relative sense. The General

In terms of performance, black-owned firms also have lower average gross receipts relative to all firms, and relative to other minority-owned (American Indian and Alaskan Native, Asian and Pacific Islander, Hispanic) firms. The self-employment rate of black Americans was 3.3 percent in 1997, which was low relative to the population as a whole, and with respect to all other racial minorities (Georgellis and Wall, 2000). The observed racial differences in self-employment also appear to have persistence, as they have existed throughout the twentieth century (Fairlie and Meyer, 2000).

Social Survey—the source of our data—does not allow us to identify firm capitalization or ownership structure. As such we cannot claim that the self-employed in our data are entrepreneurs in the sense described above. However, as the decision to be an entrepreneur is also a decision to be self-employed, our analysis is relevant to the decision to be an entrepreneur. In our empirical analysis we use, following Gentry and Hubbard (2000), self-employment status as an indicator of entrepreneurial status.

The remainder of this paper is organized as follows. Section II provides a theoretical perspective that rationalizes how trust in federal government institutions is potentially important for the black entrepreneurial environment. The data are described in section III. In section IV, we report for a sample of self-employed entrepreneurs, latent variable estimates for the determinants of several measures of trust in federal government institutions, and the effects of trust on the performance and entry of black self-employed entrepreneurs. The last section concludes.

II. How Trust in Federal Government Can Condition Black Entrepreneurship

The decision to be a self-employed entrepreneur is a trust-sensitive decision for at least two fundamental reasons. First, expected future returns depend upon expected future sales for the entrepreneurial firm. Future sales depend upon the private decisions of other agents—customers—to patronize the firm in the future. In this general way, every decision to be an entrepreneur is a proclamation of trust in other private agents. The decision to be an entrepreneur is also a proclamation of trust in government institutions, as one of the formal roles of government to protect and assure property rights. As such, the decision to be an entrepreneur is based on a belief that government authorities will not make future decisions that compromise the value of property rights represented by the investment and assets in the entrepreneurial firm. In a society where these two forms of trust are important for the entrepreneurial decision, entrepreneurial activity among individuals will be proportional to individual levels of trust.

To the extent that trust also conditions for entrepreneurs, optimal decisions about, for example, the ratio of debt to equity and organizational form, levels of trust can also condition performance as

measured by earnings and profitability. If for example, a sole proprietorship is the optimal organizational form for an entrepreneur that maximizes performance, but low trust in government to protect or resolve the interests of firm owners vs. customers in lawsuits, the entrepreneur may elect to organize, suboptimally, as a partnership. If entrepreneurs have low trust in government's ability to resolve the legal conflicts that could emerge between debtors and creditors, entrepreneurial decisions about the ratio to debt to equity could be distorted, resulting in suboptimal revenues, profitability and return on assets.

While the entrepreneurial environment is trust-sensitive in general, it is conceivable that the black entrepreneurial environment is relatively more trust-sensitive. In markets where black entrepreneurs are possibly subject to consumer discrimination, whereby nonblack customers experience disutility when purchasing from black sellers (Becker, 1971), black sellers can only make sales to nonblacks at a price lower than an identical good/service sold by a nonblack seller. Borjas and Bronars (1989) show that this type of discrimination inhibits both the number and performance of self-employed black entrepreneurs. In a economy where consumer discrimination persists across time, black entrepreneurs can never completely trust that future nonblack customers will not experience disutility as a result of making a purchase that will result in a lower future price for output. In this context, black entrepreneurs have low trust in the future decisions of nonblack customers, who could lower black entrepreneur welfare by continuing to indulge in discriminatory tastes that decreases the return on black entrepreneurial activity.³

Possible discriminatory behavior of future white customers is not the only source of potential welfare reductions for black entrepreneurs. The existence and viability of the self-employed black entrepreneur can also be a function of the future behavior of lending institutions, and special purpose government institutions designed to assist black entrepreneurs. Given discrimination in the market for business

³Given customer discrimination by whites against blacks, segregation—blacks selling to blacks only—could be an optimal response by black entrepreneurs. This however would constrain the number of black entrepreneurs as a result of the limited size of the black only market. Borjas and Bronars (1989) also demonstrate that segregation does not improve the incomes of black relative to nonblack entrepreneurs when output is a function of entrepreneurial ability, given tastes for discrimination by white customers.

credit (Blanchflower, Levine and Zimmerman, 1998), self-employed black entrepreneurs can potentially be denied credit in the future. Given discrimination in the provision of assistance by special purpose government institutions/agencies (Bates, 1998, 2002), self-employed black entrepreneurs can potentially be denied valuable special assistance such as subsidized credit, government contracts, and equity placements needed for ongoing viability. Thus, similar to the case of possible future discriminatory behavior by customers, the black entrepreneurial environment can be more trust-sensitive than the entrepreneurial environment in general as a result of possible welfare reducing future behavior by lending and special purpose government institutions/agencies.

Being subject to discrimination has been a longstanding salient feature of the black American experience, and it can explain relative black social disadvantage.⁴ In response to the historical discrimination suffered by blacks, federal institutions, laws, executive orders, and regulations emerged to constrain and discourage discriminatory behavior that lowered the welfare of blacks. It is in such an environment that trust in federal government by black self-employed entrepreneurs is relevant. When federal government formally commits to constraining/discouraging discriminatory behavior against blacks, the decision to become a self-employed black entrepreneur can be viewed as a proclamation of trust in the federal government's willingness and capacity to condition favorably the future behavior of customers, lenders, and the institutions of government itself, in their interactions with self-employed black entrepreneurs.

Federal antidiscrimination and equal opportunity laws need not of course change preferences, nor can they coerce whites into customer-seller type relationships with blacks. As Loury (2002) has indicated, antidiscrimination and equal opportunity laws can only effectively prohibit "discrimination in contract" but not "discrimination in contact". It is for example, one thing to legally prohibit discrimination in

⁴The black disadvantage engendered by racial discrimination affects various social and economic outcomes such as employment and earnings (Darity and Myers, 1998), wealth (Oliver and Shapiro, 1997), law enforcement (Kennedy, 1997), and health (LaVeist, 2002). Borjas and Bronars (1989) find that the relatively low rate of black self-employment can be explained by white customer discrimination. Hout and Rosen (2000) find that even after controlling for family, and other factors that plausibly explain self-employment, there still remain residual differences between the self-employment rates of blacks relative to whites—which suggests discrimination. Walker (1998) provides historical insight into the effects of discrimination on black entrepreneurship.

employment, but quite another to prohibit a white customer from either discounting, or refusing to purchase goods and services. from a self-employed black entrepreneur. It is not therefore clear why a black entrepreneur should trust federal government to condition favorably the future behavior of white customers. However, federal government is part of a society’s institutions—and institutions provide incentives that order human interactions by making human behavior more predictable and trustworthy (Moesen, Puyenbroeck, and Cherchye, 2000). As individuals discover that trust improves efficiency and economic performance, they will also discover that behavior consistent with “nondiscrimination in contact” complements rules against “discrimination in contract” enabling even higher returns to trust. In this context, trust in federal government by black entrepreneurs is warranted as it is based on a belief that federal government desires to maximize economic performance by providing incentives that maximize trust.

The role of trust in federal government can be incorporated into a simple model of black entrepreneurial entry. Assume that entry for a typical black entrepreneur is an increasing function of expected profit: $E_i = f(\pi_i^e)$, where E_i is entry by black entrepreneur i , and π_i^e is expected profit. The expected market price p_i^e , of black entrepreneurial output is subject to discounting at rate $d \in (0,1)$. The discount rate d reflects the myriad of ways in which the future behavior of others can cause total revenue received for black entrepreneurial output y_i to decrease relative to the total cost $C(y_i)$ of producing it.

Future behavior by others that results in a discounted price of $p_i^e = p(1 - d)$ for y_i includes, but is not limited to, customer discrimination by nonblack customers faced by black entrepreneurial firm. It could also reflect uncertainty as to whether or not special purpose government programs designed to assist black entrepreneurs will continue, say as a result of uncertainty about how the U.S Supreme court will decide upon the constitutionality of such programs, and/or how a particular presidential administration, U.S congress, or federal agency will condition policy on such programs.

While the typical black entrepreneur recognizes that the price received for y_i can be possibly discounted at rate d , he also has a degree of trust in federal government defined by $\theta_i \in [0,1]$. As an index, θ_i measures the degree to which the black entrepreneur believes the federal government can condition

favorably the behavior of agents faced by the black entrepreneur in such a way that they will not discount the price of black entrepreneurial output. Expected market price for black entrepreneurial output is $p_i^e = p[1 - d(1 - \theta_i)]$, and $\partial p_i^e / \partial \theta_i > 0$. Given d and θ , expected profit for the typical black entrepreneur producing output y_i is $\pi_i^e = p[1 - d(1 - \theta)]y_i - C(y_i)$. It is easy to show that for $E_i = f(\pi_i^e)$, $\partial E_i / \partial \theta_i > 0$, as $\partial \pi_i^e / \partial \theta_i > 0$. Both black entrepreneur entry and expected net income are increasing functions of the level of trust in federal government.

Our theoretical perspective of how the black entrepreneurial decision is conditioned by trust views the decision to be an entrepreneur and the subsequent performance, as a function of trust in federal government. To trust federal government reflects the extent to which it is believed that federal government, can and will condition favorably the future behavior of the customers, lending institutions, and government institutions that interact with self-employed black entrepreneurs. Below, we explore this empirically, by examining for various measures of trust in federal government, the determinants of trust in federal government, and its effects on the number and performance of self-employed black entrepreneurs.

III. Data

The General Social Survey (GSS) is the source of our data. GSS data constitute a nationally representative sample of adults living in the United States.⁵ Conducted by the National Opinion Research Center (NORC) at the University of Chicago, the GSS was initiated in 1972, with surveys in 1973-1978, 1980-1993, 1994, 1996, 1998, and 2000. The first 19 surveys were annual, and has samples of approximately 1500 adults. Black Americans are oversampled in 1982 and 1987. Starting in 1994, the GSS is biennial with a sample of 3,000 adults. GSS data are generated by in-person interviews and are based on questions relating to various demographic and attitudinal variables. In addition, variables relating to topics of special interest—so-called topical module questions—are included on a rotational basis in particular years of the GSS.

⁵GSS data are available at www.icpsr.umich.edu:8080/GSS/homepage.html

Our sample is selected on the basis of a GSS respondent being self-employed and having provided a valid response to a question asking the extent to which the respondent trusted federal government. Given this criterion, the following demographic variables on a sample of 184 self-employed respondents were constructed: age (AGE), years of education (EDUC), number of hours spent working (HRS), real income (INC) and binary variables indicating whether or not the respondent is foreign born (FBORN), has a father that is foreign born (DADFOR), had a father that was self-employed when the respondent was a child (DADSE), black (BLK), married (MAR), female (FMALE), and lives in the south (SOUTH). The 1987 GSS questionnaire also asked respondents questions about their level of trust and confidence in federal government. As measures of trust in federal government, we use the following ordinal variables: the extent to which the respondent has trust in federal government (FEDTRUST), confidence in the U.S Congress (CONLEGIS), confidence in the executive branch of federal government (CONFED), and confidence in the U.S Supreme Court (CONJUDGE).

The GSS questions upon which each variable is based, along with its coding are provided in the appendix. Our choice of what demographic variables to select from the GSS is motivated by a desire to mitigate unobserved heterogeneity in our estimates of the effects of trust in federal government on the black entrepreneurial decision and performance. Obviously, the GSS does not measure every individual characteristic that may be important for a particular behavior. However, our limited set of demographic variables are a set confounding covariates that potentially eliminate unobserved heterogeneity. Hout and Rosen (2000) found that the primary factors that determine self-employment for an individual are whether or not one's father was self-employed, and father's foreign ancestry. When conditioned on race, father's ancestry and self-employment status also explain the intergenerational transmission of self-employment. Given the significant explanatory power of father's ancestry and self-employment status, we are confident that our use of the variables DADFOR and DADSE mitigate, if not eliminate entirely, any unobserved heterogeneity in our estimates of the effects of trust in the federal government on the performance, and decision to be a self-employed black entrepreneur.

Table 1 reports the mean and standard deviation of each variable. Relative to the overall sample,

black self-employed entrepreneurs are: younger, less educated, less likely to have had a father who was self-employed, more likely to be foreign-born, work fewer hours, have lower incomes, less likely to be married, and more likely to be in the south. The measures of confidence and trust in federal government are such that higher values starting at one indicate diminishing levels of trust. Relative to the overall sample, black self-employed entrepreneurs have less confidence in the executive branch of government, less confidence in the U.S Supreme court, less confidence in the U.S Congress, and less trust in the federal government.

The observed racial differences in trust and confidence in federal government motivate our analysis below. The differences in the levels of trust and confidence in federal government between black and self-employed entrepreneurs in general suggest that if the entrepreneurial decision is trust-sensitive, the black entrepreneurial decision could possibly be constrained, relative to other entrepreneurs, by low levels of trust and confidence in federal government. Given the trust-sensitivity of the entrepreneurial decision, our goal is to determine whether or not being a black self-employed entrepreneur matters for the level of trust and confidence in federal government among all self-employed entrepreneurs. Given the underrepresentation of black self-employed entrepreneurs, we then explore whether or not the level of trust and confidence in federal government matters for entry and performance.

IV. Results

We first examine whether or not being a black self-employed entrepreneur is a determinant of several measures trust and confidence in federal government. Only one question in the GSS asked specifically about trust in federal government. Three other questions measured respondents levels of confidence in several federal government institutions. In general trust and confidence are similar, as both reflect one's beliefs and sentiments about the capacity, commitment, and intent of others. As such, we view the trust and confidence variables as representing the willingness of respondents to let government and its institutions impact their future welfare.

Table 2 reports Ordinal Probit estimates of the determinants of trust/confidence on our four measures of trust/confidence in federal government. Identification of the parameters required constraining the constant term to be zero.⁶ Pseudo- R^2 is reported as a goodness-of-fit measure. There is variance in the number of observations across the specifications, which results from a given specification having missing observations on at least one of the variables. The parameter estimates suggest that among self-employed entrepreneurs, being black is a significant determinant of trust/confidence in government. For all four measures, being black significantly reduces trust/confidence, whereas being black and in the south increases trust/confidence.

The differential impact on trust/confidence in federal government of being black and being black and in the south, seems paradoxical. However, it could simply reflect the legacy of the civil rights movement in the south. Blacks in the south may have more confidence/trust in federal government as a result of the region having benefited from high profile and effective government civil rights interventions. The south for example, witnessed federal troops assisting the integration of schools, a disproportionate share of court-mandated school integration, and was the primary beneficiary of the Voting Rights Act. These episodes may have had a positive effect on the level of trust/confidence in federal government for blacks in the south, relative to blacks elsewhere, with persistence over time.

While the magnitudes and significance of being black, and being black and in the south are sensible, the insignificance of many of the other demographic variables across the four measures of trust/confidence in Table 2 are a cause for concern. That so many variables are insignificant raises the possibility that the trust/confidence in government specifications are misspecified. As such, unobserved heterogeneity could be the source of bias in the parameter estimates and inflation in the standard errors of the parameters.

The unobserved heterogeneity could also result from the fact that for a given self-employed respondent, his answer to a given trust/confidence question is some linear or nonlinear combination of his

⁶An Ordinal Probit specification is a latent variable regression model that divides a latent variable y^* into J ordinal categories, where $y_i = m$ if $\tau_{m-1} \leq y_i^* < \tau_m$ for $\sum_1^J m_i$. In Stata, estimation of the model's parameters, which includes the $J-1$ thresholds (τ_{m-1}, τ_m) , proceeds by making an identifying assumption that the constant term is zero. See Long and Freese (2001).

response on another trust/confidence question. This would constitute a clustering of responses on the trust/confidence questions (CONFED, CONJUDGE, CONLEGIS, FEDTRUST), by individuals. Unobserved heterogeneity in this context is simply the failure to observe how a similar or dissimilar an individual's level of trust/confidence for one measure is to another.

Given the possibility of unobserved heterogeneity, we reestimate the trust/confidence specifications in Table 2 with: (1) robust standard errors, and (2) robust standard errors with adjustment for individual clustering on the set of trust/confidence in government questions. The robust standard errors are standard sandwich-type estimators of the covariance matrix. For the cluster adjustment, the robust standard error is adjusted for clustering around individuals response to the four questions on trust/confidence in government.⁷Our clustering variable (question) is binary representing whether or not all four of the questions on trust/confidence in government were answered. This binary variable mimics the actual positive correlation in responses to the four questions on trust/confidence in government. The estimation of the standard error proceeds on the assumption that there is independence across question clusters, but not within—as there may be correlated responses for individuals.

Table 3 reports the determinants of trust/confidence in federal government with robust standard errors. The significance of the parameters approximate the results in Table 2. The coefficient on black is still significant across all four measures of trust. Table 4 reports parameter estimates with

⁷Correcting for clustering proceeds simply by modifying the robust sandwich estimator of the covariance matrix for clustering as in Zorn(2000). Let V be the information matrix, and u_i an empirical and consistent estimate of the true population residuals, then for sample size N , a robust estimate of the covariance matrix (V_R) :

$$V_R = V \sum_{i=1}^N [u_i' u_i] V$$

If there are a total of C clusters, each with n_i observations, the robust estimate of the covariance matrix adjusted for clustering (V_C) is:

$$V_C = V \sum_{j=1}^N [(\sum_{i=1}^{n_j} u_{ij})' (\sum_{i=1}^{n_j} u_{ij})] V$$

robust standard errors, and with adjustment for individual level correlation between the four questions on trust/confidence in federal government. The increase in the significance of the parameters is dramatic, with only DADSE, LAGE, FMALE, and MARRY failing to achieve significance in at least one trust/confidence in federal government specification. Being black and being black and in the south are significant across all the specifications.

That being a black entrepreneur outside of the south is positive and significant for all the parameter estimates reported in Table 2 - 4 suggests that the trust/confidence specifications identify the effects of being a black entrepreneur on trust/confidence in federal government. The parameter estimates suggest that relative to entrepreneurs in general, black entrepreneurs outside the south have lower levels of trust/confidence in federal government. If the entrepreneurial decision in general is trust-sensitive, the significantly lower levels of trust/confidence in federal government of black entrepreneurs could have implications for their entry and performance.

Our measure of entry for black entrepreneurs is based upon whether in our GSS sample of self-employed individuals, a given respondent is black. GSS data provide no information on the date in which the individual became self-employed. We cannot therefore identify whether or not a given self-employed respondent is actually a new entrant into self-employment.⁸ Nonetheless, the GSS is a random sample. As such, the proportion of blacks in our sample of self-employed individuals approximates the probability that blacks in the U.S population as a whole select into self-employment. In this context, specifying and estimating conditional mean functions for black entrepreneurial entry within in a random sample of the self-employed, even if they are not actual new entrants into self-employment, enables identification of the parameters that explain actual de novo entry into self-employment.

To examine the effects of trust on the entry and performance of black entrepreneurs, we posit that entry and performance are related through a correlated error structure. Our measure of performance is the income of black entrepreneurs. To the extent that black entrepreneur entry and income are both a function of trust/confidence in federal government, the disturbances due to trust/confidence in federal

⁸The GSS does not contain repeated observations on the same individuals, which does not permit an determination as to whether a given individual entered into, or exited out of, self-employment.

government can be correlated. Our measure of black entrepreneur entry is binary. Black entrepreneur income is also measured as binary variable, based upon whether or not log of income is greater than the overall sample average. As both entry and income are binary, and are possibly related through a correlated error structure, we estimate the parameters of the two conditional mean functions in a Seemingly Unrelated Probit Regression (*SUPR*) model.⁹

Our *SUPR* specification of the entry and performance of black entrepreneurs specifies the conditional mean of both as a function of demographic control variables, and a measure of trust/confidence in government. As the original trust/confidence in federal government measures are ordinal, we constructed four binary variables measuring black entrepreneur confidence in the U.S. Supreme Court (CONCRT), in the U.S. Congress (CONCONG), in the Executive Branch (CONEXEC), and Trust in the U.S. Government (TRGOV). These binary variables were constructed for each black entrepreneur as follows: CONCRT = 1 if CONJUDGE = 1, CONCONG = 1 if CONLEGIS = 1, CONEXEC = 1 if CONFED = 1, and TRGOV = 1 if FEDTRUST = 1.¹⁰

Table 5 reports *SUPR* parameter estimates for conditional mean function specifications of black entrepreneur entry and performance across four different measures of trust/confidence in government. Given the possibility of unobserved heterogeneity, robust standard errors are estimated. For economy of space, the parameters on the control variables are only reported for the entry specification.¹¹ As a check of model adequacy, the Chi-square statistic for the null hypothesis of zero correlation in the errors is

⁹Seemingly Unrelated Probit Regression (*SUPR*) is a latent variable analogue of Seemingly Unrelated Regression for systems of regression equations. In a *SUPR* framework, the general specification for two latent variables is:

$$\begin{aligned}\text{Prob}(Y_1 = 1 \mid \mathbf{x}_1) &= \phi(\mathbf{x}_1'\beta) + \epsilon_1 \\ \text{Prob}(Y_2 = 1 \mid \mathbf{x}_2) &= \phi(\mathbf{x}_2'\beta) + \epsilon_2\end{aligned}$$

where $\phi(\cdot)$ is a standard normal distribution, and conditional on the vector of explanatory variables \mathbf{x}_1 and \mathbf{x}_2 : $E(\epsilon_1) = E(\epsilon_2) = 0$, $Var(\epsilon_1) = Var(\epsilon_2) = 1$, and $Cov(\epsilon_1, \epsilon_2) = \rho$.

¹⁰See the Appendix for the definition and coding of the initial ordinal variables.

¹¹For the performance specification, the controls are: number of hours spent working (HRS), the log of age (LAGE), the log of years of education (LEDUC), marital status (MARRY), and gender (FMALE).

reported. The parameter estimates reveal that jointly, black entrepreneur entry and performance are an increasing function of confidence in the Supreme court, U.S. Congress and U.S. Government. Increases in the level of trust in U.S. government has only a significant positive impact on black entrepreneur entry.

To examine the sensitivity of the parameters to possible correlation in responses to the questions on trust/confidence in government, Table 6 reports the *SUPR* parameter estimates with robust standard errors, and with individual clustering on the trust/confidence in government questions. The results show that the coefficients on the government trust/confidence variables are positive and significant for both entry income for all four measures of trust/confidence in government. In addition, virtually all of the control variables in the conditional mean functions for black entrepreneur entry and income are significant.¹²

Overall, the parameter estimates in Tables 5 - 6 suggest that trust/confidence in government matters for black entrepreneur entry and performance. As the level of trust/confidence in government by black entrepreneurs increases, so does their entry and performance. As trust is the willingness to let one's welfare be determined by the future choices of others, the parameter estimates suggest that the entry and performance of black entrepreneurs are conditioned by beliefs regarding how the U.S. Supreme court, U.S. Congress, Executive branch, and government overall will condition their future welfare. That the coefficients on the trust/confidence in government variables are large relative to the other demographic control variables also suggests that trust/confidence in government matters more than other factors that condition entry and performance.

¹²For the conditional mean function for black entrepreneurial income, all of the control variables are significant when the robust standard errors are adjusted for individual clustering on the trust/confidence in government questions.

V. Conclusion

As a form of social capital, trust can be important for individual decisions with outcomes that depend upon the future behavior of others. The entrepreneurial decision is one such trust-sensitive decision. Given the history and political economy of race in the U.S., the black entrepreneurial decision is likely to be sensitive to trust in federal government. The extent to which government can favorably condition the future behavior of customers and lenders faced by black entrepreneurs, will warrant high trust, and make attractive the decision to be a black entrepreneur. This paper provides evidence that social capital matters for the black entrepreneurial decision as it is sensitive to trust in federal government. We find that black entrepreneurial entry and performance is proportional to several measures of trust and confidence in federal government.

We also find that being a black entrepreneur is a negative determinant of trust in federal government. Given the positive effects of trust on black entrepreneur entry and performance, our findings suggest that the growth and performance of black entrepreneurs has been inhibited by low levels of trust in government among actual and potential black entrepreneurs. As for the sources of this low level of trust, the theoretical perspective of our analysis suggests that it is based upon the strength of black entrepreneurs beliefs as to whether or not government can favorably condition the future behavior of customer, lenders, and even government institutions themselves, faced by black entrepreneurs.

Our findings on the determinants and impact of confidence in the U.S. Supreme court are instructive and illustrative. Low confidence by actual or potential black entrepreneurs in the Supreme court could be based on uncertainty regarding how the court will view the constitutionality of race-based set-aside programs in the future.¹³ To the extent that minority set-asides induce black entrepreneurship (Chay and Fairlie, 1998), uncertainty among actual and potential black entrepreneurs about how the Supreme court will view the constitutionality of such programs in the future could be a source of low trust in

¹³See for example *Richmond vs. Croson* (488 US 489) and *Adarand vs. Peña* (515 US 200).

the court.¹⁴ The results in this paper are consistent with such a causal nexus. Trust/confidence in government appears to matter for the growth and performance of black entrepreneurs. As such, this paper identifies trust/confidence in government as another factor that explains the underrepresentation and differential performance of black entrepreneurs and black-owned firms.

¹⁴For a contrary view on whether minorities actually benefit from set-aside programs, See Myers and Chen (1996).

Table 1
Sample Means and Standard Deviations*

Variable	Sample	White Self-Employed	Black Self-Employed	Other Self-Employed
AGE	50.94 (17.64)	51.64 (17.71)	46.52 (17.39)	49.6 (16.87)
BLK	.125 (.332)	- -	1 (0.0)	- -
CONFED	2.08 (.698)	2.07 (.689)	2.23 (.752)	2.00 (.816)
CONJUDGE	1.75 (.653)	1.74 (.639)	1.86 (.757)	1.5 (.577)
CONLEGIS	2.09 (.578)	2.09 (.573)	2.13 (.625)	1.75 (.500)
DADFOR	.044 (.205)	.045 (.208)	.043 (.208)	0.00 (0.0)
DADSE	.534 (.501)	.561 (.498)	.312 (.479)	1.0 (0.0)
EDUC	12.01 (3.36)	12.21 (3.07)	10.83 (4.85)	11.20 (3.35)
FBORN	.076 (.266)	.045 (.208)	.217 (.422)	.400 (.548)
FEDTRUST	2.71 (.668)	2.68 (.660)	2.91 (.668)	2.60 (.894)
FMALE	.348 (.477)	.359 (.481)	.261 (.449)	.400 (.548)
HRS	42.21 (19.28)	42.69 (19.13)	40.62 (20.96)	34.67 (16.16)
INC	24390.87 (25724.61)	25691.76 (26601.39)	17833.89 (20449.88)	14750.00 (13562.36)
MAR	.587 (.494)	.615 (.488)	.348 (.487)	.800 (.447)
SOUTH	.342 (.476)	.301 (.460)	.609 (.499)	.400 (.548)
<i>N</i>	184	23	156	5

Notes:

* Standard deviations are in parentheses.

N = number of observations.

Table 2
Determinants of Trust and Confidence:
Ordinal Probit Estimates

Measure of Trust/Confidence:	<i>CONFED</i>	<i>CONJUDGE</i>	<i>CONLEGIS</i>	<i>FEDTRUST</i>
Regressors:				
DADFOR	.181 (.472)	1.06 (.485) ^c	.579 (.506)	-.178 (.453)
DADSE	.353 (.219)	-.584 (.224) ^a	-.095 (.226)	-.021 (.212)
FBORN	.642 (.586)	.716 (.527)	.637 (.562)	-.055 (.498)
SOUTH	-.122 (.643)	.257 (.251)	-.199 (.263)	-.005 (.245)
LAGE	-.643 (.337) ^b	-.084 (.345)	.112 (.357)	-.435 (.335)
LEDUC	-.545 (.121)	-.637 (.409)	.801 (.435) ^c	.486 (.398)
FMALE	-.121 (.218)	-.055 (.223)	-.427 (.231) ^c	-.075 (.215)
MARRY	.087 (.219)	.090 (.223)	-.341 (.231)	.183 (.216)
BLK	1.06 (.558) ^b	.974 (.521) ^c	1.05 (.563) ^c	1.11 (.509) ^b
BLK × SOUTH	-1.36 (.745) ^c	-1.78 (.699) ^a	-1.04 (.729)	-.888 (.665)
<i>Pseudo-R</i> ²	.059	.098	.100	.051
<i>N</i>	128	129	129	131

Notes:

Standard errors in parentheses

N = Number of observations

^a Significant at the .01 level

^b Significant at the .05 level

^c Significant at the .10 level

Table 3
Determinants of Trust and Confidence
Ordinal Probit Estimates:
Robust Standard Errors

Measure of Trust/Confidence:	<i>CONFED</i>	<i>CONJUDGE</i>	<i>CONLEGIS</i>	<i>FEDTRUST</i>
Regressors:				
DADFOR	.181 (.514)	1.06 (.551) ^c	.579 (.619)	-.178 (.609)
DADSE	.353 (.201) ^c	-.584 (.214) ^a	-.095 (.223)	-.021 (.209)
FBORN	.642 (.480)	.716 (.303) ^b	.637 (.418)	-.055 (.438)
SOUTH	-.122 (.239)	.257 (.243)	-.199 (.241)	-.005 (.218)
LAGE	-.643 (.303) ^b	-.084 (.336)	.112 (.338)	-.435 (.371)
LEDUC	-.545 (.396)	-.637 (.418)	.801 (.356) ^b	.486 (.371)
FMALE	-.121 (.221)	-.055 (.230)	-.427 (.235) ^c	-.075 (.219)
MARRY	.087 (.213)	.090 (.207)	-.341 (.225)	.183 (.207)
BLK	1.06 (.477) ^b	.974 (.259) ^a	1.05 (.547) ^b	1.11 (.481) ^b
BLK × SOUTH	-1.36 (.740) ^c	-1.78 (.598) ^a	-1.04 (.717)	-.888 (.578)
<i>Pseudo-R</i> ²	.059	.099	.100	.051
<i>N</i>	128	129	129	131

Notes:

Standard errors in parentheses

N = Number of observations

^a Significant at the .01 level

^b Significant at the .05 level

^c Significant at the .10 level

Table 4
Determinants of Trust and Confidence:
Ordinal Probit Estimates
Standard Errors Robust, and Adjusted for Clustering
On Trust and Confidence Questions

Measure of Trust/Confidence:	<i>CONFED</i>	<i>CONJUDGE</i>	<i>CONLEGIS</i>	<i>FEDTRUST</i>
Regressors:				
DADFOR	.181 (.016) ^a	1.06 (.198) ^a	.579 (.069) ^a	-.178 (.047) ^a
DADSE	.353 (.071) ^a	-.584 (.051) ^a	-.095 (.096)	-.021 (.012)
FBORN	.642 (.010) ^a	.716 (.400) ^c	.637 (.252) ^b	-.055 (.012) ^a
SOUTH	-.122 (.019) ^a	.257 (.015) ^a	-.199 (.080) ^b	-.005 (.040)
LAGE	-.643 (.172) ^a	-.084 (.304)	.112 (.001) ^a	-.435 (.002) ^a
LEDUC	-.545 (.044) ^a	-.637 (.145) ^a	.801 (.016) ^a	.486 (.124) ^a
FMALE	-.121 (.125)	-.055 (.075)	-.427 (.089) ^a	-.075 (.056)
MARRY	.087 (.013) ^a	.090 (.067)	-.341 (.049) ^a	.183 (.068) ^b
BLK	1.06 (.058) ^a	.974 (.015) ^a	1.05 (.091) ^a	1.11 (.041) ^a
BLK × SOUTH	-1.36 (.075) ^a	-1.78 (.313) ^a	-1.04 (.281) ^a	-.888 (.011) ^a
<i>Pseudo-R</i> ²	.059	.099	.100	.051
<i>N</i>	128	129	129	131

Notes:

Standard errors in parentheses

N = Number of observations

^a Significant at the .01 level

^b Significant at the .05 level

^c Significant at the .10 level

Table 5
Seemingly Unrelated Bivariate Probit Estimates:
Black Entrepreneur Entry and Performance
Robust Standard Errors

Measure of Trust/Confidence:	<i>Confidence in U.S Supreme Court</i>	<i>Confidence in U.S Congress</i>	<i>Confidence in Executive Branch of Government</i>	<i>Trust in U.S Government</i>
ENTRY:				
CONSTANT	-1.17 (3.52)	-.160 (3.35)	-1.25 (3.66)	-.895 (3.59)
DADFOR	.786 (.536)	.549 (.519)	.702 (.543)	-2.39 (.549) ^a
DADSE	-.985 (.545) ^c	-.693 (.411) ^c	-.881 (.381) ^b	-.402 (.456)
FBORN	1.30 (.543) ^b	1.54 (.530) ^a	1.29 (.567) ^b	1.19 (.589) ^b
SOUTH	.313 (.279)	.547 (.325) ^c	.562 (.433)	.499 (.448)
LAGE	.699 (.713)	.250 (.668)	.731 (.714)	-.327 (.645)
LEDUC	-.991 (.605) ^c	-.663 (.601)	-.946 (.652)	.374 (.763)
FMALE	-.196 (.413)	-.256 (.409)	-.263 (.386)	-.242 (.479)
MARRY	-.272 (.424)	-.516 (.342)	-.471 (.381)	-.238 (.407)
CONCRT	9.72 (.673) ^a	-	-	-
CONCONG	-	8.62 (.413) ^a	-	-
CONGOV	-	-	9.01 (.544) ^a	-
TRGOV	-	-	-	11.53 (.705) ^a
PERFORMANCE = INCOME:				
CONSTANT	3.77 (4.16)	1.12 (3.70)	.671 (3.65)	1.25 (4.15)
CONCRT	2.23 (.683) ^a	-	-	-
CONCONG	-	9.28 (.373) ^a	-	-
CONGOV	-	-	9.65 (.459) ^a	-
TRGOV	-	-	-	1.11 (.847)
$\chi^2_1: \rho = 0$	54.16 ^a	29.32 ^a	36.44 ^a	483.47 ^a
<i>N</i>	96	97	95	97

Notes:
Standard errors in parentheses
N = Number of observations
^a Significant at the .01 level
^b Significant at the .05 level
^c Significant at the .10 level

Table 6
Seemingly Unrelated Bivariate Probit Estimates:
Black Entrepreneur Entry and Performance
Standard Errors Robust, and Adjusted for Clustering
On Trust and Confidence Questions

Measure of Trust/Confidence:	<i>Confidence in U.S Supreme Court</i>	<i>Confidence in U.S Congress</i>	<i>Confidence in Executive Branch of Government</i>	<i>Trust in U.S Government</i>
ENTRY:				
CONSTANT	-1.17 (.277) ^a	-.160 (1.79)	-1.25 (.039) ^a	-.895 (.453) ^b
DADFOR	.786 (.004) ^a	.549 (.187) ^a	.702 (.002) ^a	-2.39 (.002) ^a
DADSE	-.985 (.345) ^a	-.693 (.422) ^c	-.881 (.008) ^a	-.402 (.412)
FBORN	1.30 (.097) ^a	1.54 (.382) ^a	1.29 (.005) ^a	1.19 (.284) ^a
SOUTH	.313 (.077) ^a	.547 (.078) ^a	.562 (.007) ^a	.499 (.149) ^a
LAGE	.699 (.286) ^a	.250 (.632)	.731 (.010) ^a	-.327 (.609)
LEDUC	-.991 (.319) ^a	-.663 (.159) ^a	-.946 (.001) ^a	.374 (.651)
FMALE	-.196 (.230)	-.256 (.111) ^b	-.263 (.005) ^a	-.242 (.061) ^a
MARRY	-.272 (.246)	-.516 (.012) ^a	-.471 (.001) ^a	-.238 (.166)
CONCRT	9.72 (.223) ^a	-	-	-
CONCONG	-	8.62 (.151) ^a	-	-
CONGOV	-	-	9.01 (.177) ^a	-
TRGOV	-	-	-	11.53 (.102) ^a
PERFORMANCE = INCOME:				
CONSTANT	3.77 (1.17) ^a	1.12 (.391) ^a	.671 (.028) ^a	1.25 (.495) ^a
CONCRT	2.23 (1.03) ^b	-	-	-
CONCONG	-	9.28 (.217) ^a	-	-
CONGOV	-	-	9.65 (.176) ^a	-
TRGOV	-	-	-	1.11 (.093) ^a
$\chi^2_1: \rho = 0$	102.12 ^a	63.54 ^a	28.57 ^a	84.86 ^a
<i>N</i>	96	97	95	97

Notes:
Standard errors in parentheses
N = Number of observations
^a Significant at the .01 level
^b Significant at the .05 level
^c Significant at the .10 level

Appendix
Definition of Variables

<u>Variable</u>	<u>Definition: GSS Question: GSS Coding</u>
AGE:	Age of respondent: Respondent's age: <i>Numeric value for age</i>
BLK:	Binary variable equal to one if the respondent is black: What race do you consider yourself? <i>WHITE = 1, BLACK = 2, OTHER = 3</i>
CONFED:	Respondent's level of confidence in the executive branch of government: Would you say that you have a great deal of confidence, only some confidence, or hardly any confidence at all in the executive branch of government? <i>A GREAT DEAL = 1, ONLY SOME = 2, HARDLY ANY = 3</i>
CONJUDGE:	Respondent's level of confidence in the U.S Supreme Court: Would you say that you have a great deal of confidence, only some confidence, or hardly any confidence at all in the U.S Supreme Court?: <i>A GREAT DEAL = 1, ONLY SOME = 2, HARDLY ANY = 3</i>
CONLEGIS:	Respondents's level of confidence in Congress: Would you say that you have a great deal of confidence, only some confidence, or hardly any confidence at all in congress?: <i>A GREAT DEAL = 1, ONLY SOME = 2, HARDLY ANY = 3</i>
DADFOR:	Binary variable equal to one if the respondent's father was foreign born: Were both your parents born in this country?: <i>BOTH IN U.S. = 0, MOTHER ONLY = 1, FATHER ONLY = 3, MOTHER, FATHER DON'T KNOW = 4, FATHER, MOTHER DON'T KNOW = 5, NOT FATHER, MOTHER DON'T KNOW = 6, DON'T KNOW FOR BOTH = 7, NEITHER IN U.S. = 8</i>
DADSE:	Binary variable equal to one if the respondent's father was self-employed when the respondent was a child: Was your father self-employed or did he work for someone else?: <i>SELF-EMPLOYED = 1, SOMEONE ELSE = 3, NO DAD NEVER HAD JOB = 3</i>
EDUC:	Highest year of school completed: What is the highest grade in elementary school or high school that you got credit for?: <i>Numeric value for years completed</i>
FBORN:	Binary variable equal to one if the respondent is foreign-born: Was respondent born in this country?: <i>YES = 1, NO = 2</i>
FEDTRUST:	Respondent's level of trust in federal government: How much does respondent trust federal government: <i>ALMOST ALWAYS = 1, MOST OF TIME = 2, SOME OF TIME = 3, ALMOST NEVER = 4</i>
FMALE:	Binary variable equal to one if the respondent is a female: Respondents sex: <i>Male = 1, Female = 2</i>
HRS:	Number of hours spent working: How many hours did you work last week, at all jobs?: <i>Numeric value of hours worked</i>
INC:	Respondent's annual income: Respondent's income in constant 1986 dollars: <i>Numeric Value</i> ¹
MAR:	Respondent's marital status: Marital status: <i>MARRIED = 1, WIDOWED = 2, DIVORCED = 3, SEPARATED = 4, NEVER MARRIED = 5</i>
SOUTH:	Binary variable equal to one if the respondent lives in the south: Region of Interview: <i>NEW ENGLAND = 1, MIDDLE ATLANTIC = 2, E. NORTH CENTRAL = 3, W. NORTH CENTRAL = 4, SOUTH ATLANTIC = 5, E. SOUTH CENTRAL = 6, W. SOUTH CENTRAL = 7, MOUNTAIN = 8, PACIFIC = 9</i>

Notes

¹ Real income is measured in constant 1986 dollars.

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