

# **The Political Economy of Black Business Development: African American Urban Representation and Black Business Prosperity\***

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## **Abstract**

This paper investigates the relationship between African American local political power and outcomes for African American-owned businesses. It is hypothesized that the presence of an African American mayor and majority in the City Council would indicate a context of greater political power that would facilitate African American-owned business growth. Using regression analysis, we test the impact of local political representation on the number of businesses and sales volume. Our results show that cities with African American mayors have been more conducive than other cities to African American economic development both with regard to the numbers and sales activity. However, concentration of African American political power beyond fifty percent of City Council seats has diminishing returns.

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## Introduction

There is a general consensus that issues of economic stability and employment are among the most important now facing African Americans. One line of research has focused on the opportunities for economic improvement through business ownership. While there has been little change over the last quarter of the twentieth century in the earnings gap between races — African Americans earn approximately 76 percent of White American earnings — African Americans have been making notable strides in increasing self-employment. African American-owned businesses are increasing at a faster rate than that of the overall society and at an increasingly rapid rate (U.S. Census 1998). We examine basic tenets that help explain this development by analyzing the reciprocal nature of African American political representation and business enterprise. This study finds that African American political representation at the level of mayor and city council is important to business success because it provides sufficient empowerment for Blacks to be included in local governing coalition decision-making that affects business. We further explore why mayoral leadership and only moderate levels (less than 50%) of Black city council participation appear to be the most supportive situations.

The importance of full civil rights and inclusion in the political process as a prerequisite to increased opportunity in the economic sphere is evident in our society. Basic political economy theory suggests that at the most basic level, civil rights can be viewed as the right to utilize and own productive resources such as land, as well as the right to the proceeds of one's own labor, such that one is not a slave. Civil and political rights are the fundamental bases of economic change and development for Blacks. It is within the civil and political order that the distribution and organization of production is regulated. Participation and representation in this process is indispensable (Butler 1992). The price of participation is sufficient political power.

The relationship between political power and economics should be construed as a symbiotic, albeit, unequal relationship. This type of relationship is clearly seen where business elites trade power based on ownership of businesses limited to ethnic enclaves for a broader and perhaps a more diffuse power that is based on incorporation into the political structure. In essence, they trade economics for politics. A center coalition is formed by a compromise wherein the minority occupies positions in the political structure and multinational business interests are facilitated in the economy. This model reflects the theory of *dependent development*. The dependent development model posits that under conditions of colonization, local businesses could flourish, particularly when import of products and services from core (developed) countries was circumscribed. However, when new opportunities drew foreign investment and involvement institutionally, this brought "integration" into the world economy and the cessation of autonomous economic development. We may apply this model to the African American experience or that of other minority communities: under conditions of segregation (internal

colonization)(Ture and Hamilton 1992)), small (local) businesses served the community, and with civil and political rights came integration into the larger economy and a decline of the Black-owned enclave sector. Dependency theory argues that there ensued the overgrowth of the state sector that provided the means for co-opting indigenous elites and redirecting their attention toward rewards available from government and transnational corporate employment and away from self-employment. However, some variants of this theory suggest that co-optation is never complete; that a conscious minority elite can in turn garner resources in exchange for their cooperation with dominant economic actors.

Much of the analysis of ethnic enterprise, to date has been based on case studies (Clark 1975; Portes and Bach 1985; Waldinger 1997) and some comparative studies (Erie 1988). However, this paper employs a quantitative analysis of a relatively large sample of the largest American cities to assess the relationship of political empowerment to economic prosperity. In particular we focus on the question: if political empowerment is indispensable, is its increase and concentration also an asset to economic development? There is considerable disjuncture in the parameters of studies of the political economy of minority communities. Urban assimilation within the city boundaries was the focus of the earliest social science (urban ecology) paradigms (e.g., Glazier and Moynihan 1964). A paradigm shift began in the late 1960s focusing analysis at the level of the neighborhood or particular job sectors. Theories such as of the ethnic enclave as a third sector (Portes and Bach 1985) and ethnic economic niche development (Waldinger 1986; Model 1993) emerged within this more modern paradigm of minority economic assimilation. The present analysis returns discussion to the level of urban area defined by the city, as a salient parameter for analysis of political impact on economic outcomes. Our results clearly show that cities with Black mayors have been more conducive than other cities to Black economic development with regard to the numbers of Black businesses within a city and the sales activity of a city's Black business community, but there are diminishing returns to the concentration of Black political power when representation tips the fifty percent point

### **Black Political Power as Useless Economically or a Diversion?**

The relationship between political power and economic prosperity among African Americans has been approached from several distinct theoretical frameworks elaborated during the post-60s expansion of political economy theory. Barry Bluestone (1969) proposed a possible interdependence of politics and economics from the perspective of viewing the Black community as an *internal colony*. He wrote:

There is a form [of Black economic development] which is avowedly political and only secondarily economic in nature... Profits from the enterprise are plowed back into the organization both for further business expansion and for political action... As the economic

substructure expands, the political organization matures... [leading to] an integrated program of community action. (1969, p.142).

However, he considered the economic resources of the Black community too weak to be effective. The theory of internal colonialism suggested that the Black American community, as a largely segregated discrete entity, was fully dominated by its relations with the greater American society in the manner of a colony, reflecting third world conditions — under-education, unskilled labor, and absence of business connections — hence the capacity to base political power around generation of economic resources was lacking.<sup>1</sup> The good news is that with the passage of almost two generations, Blacks have emerged with top training and corporate and technical experience, and have shifted from providing goods and services in a truncated market comprised of the low income ghetto population (Butler 1991) to participating in the greater economy in emerging sectors of the business, technical, and media services, among others. So while the concern rightly rests with those who have yet to make the transition, the picture of thirty years ago is barely recognizable.

Almost ten years after Bluestone, William Julius Wilson (1978) turned attention to the increased stratification within the Black community and emergence of an intermediary “elite,” a larger middle-class. Yet he reported no ties between Black political representation and Black economic development. Drawing insight from the theory of dependent development, he suggested that structural economic changes, brought about by globalization, were causing urban poverty and that “the political power and influence of the cities [was] on the wane...” (1978, p.139). He states,

It is this *politics of dependency* that changes the meaning and reduces the significance of the greater Black participation in urban political processes. And the militant cry of “Black control of the central city” has a hollow ring when one confronts the hard reality of the deepening urban fiscal crisis that has developed in the wake of industry dispersion and urban population shifts...It becomes clear that the internal resources needed by urban politicians to deal with the problems of the city continue to decrease. To suggest therefore that the solution to the problems of the Black poor is dependent on Blacks gaining political control of the central city is to ignore the fact that the fundamental bases of the urban crisis are not amenable to urban political solutions. (1978, p. 140).

He also states that “the significance of Black political control of the central city is not that it will provide a basis for economic and social mobility in the Black com-

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<sup>1</sup> Of these three “lacks,” clearly only the last “lack” was close to absolute, as education and skills were developed to serve niches within the Black community, such as education, health care, business services, and communications (Butler 1991).

munity... but that it will heighten the racial antagonism..." (1978, p. 120).

Again there is good news. First, that since the 1980s, many formerly declining cities have experienced a notable renaissance. Second, as argued by theories of associated dependent development (dos Santos 1998), a dependent condition as opposed to a colonized condition is one with possibilities, albeit, ambivalent ones. For instance, economic capacity may be attained in cooperative association with dominant outside economic forces (the East Asian model), and may (or may not) be used as the basis for autocentered, and potentially independent and competitive economic ownership for the underdeveloped group.<sup>2</sup> Wilson takes for granted the accessibility of white collar jobs and the existence of a Black middle-class, rather than seeing its emergence as the fruit of the on-going struggles and strategies led by Black people, which as we have pointed out above, changed the face of their skills, resources and opportunities since 1969. Given the growth of White-collar jobs, we are now asking the question, what makes not only better jobs, but ownership, increasingly available?

Wilson and Martin (1982) compared Black business development in Miami to Cuban American development as an ethnic enclave. They found no beneficial ties between politics and economics. On the one hand, they found that Black businesses could not rely on government connections as a route to large contracts and enhanced economic capacity. On the other hand, they suggest that Black reliance on government employment decreases interest in business entrepreneurship. Relying on dual economy theory, they argue that an enclave economy becomes dynamic because community-based horizontal and vertical business linkages give "primary sector"-like advantages of market domination and multiplier effects. The Black community businesses did not exhibit these patterns and were stagnating as "secondary sector" businesses. They argue that African American impatience with low earnings in start-up businesses and ease of entry into government jobs are a cause of the continued low level of economic development within the Black community. They cite a study conclusion that "more highly trained Blacks, who could be promising entrepreneurs, seem to prefer jobs with government agencies..." (1982, p. 157). Given this class structure, Wilson and Martin suggest that there is no tie between the business needs of Black entrepreneurs and the government Black elite. They conclude that "as a result, the political power of the Black community often by-passes the Black businessmen. Most of the representatives of the community are either workers or ministers" (1982, p. 157).

This is a very interesting conclusion and is supported by empirical evidence in Black communities across America. However, they somewhat truncate dual economy theory by not employing its analysis of the third sector, the government sector. In a manner similar to dependent development theory of the state, dual

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<sup>2</sup> If not, dependent development leads an identity between the elite and the outside economic elite upon which it is dependent and to which it is responsible for reproduction of relations of exploitation within the community.

economy theory views the government sector as a source of advantage that transforms a competitive business into a monopolistic enterprise. Hence, the government sector has a very important role to play and is never simply a source of stagnant bureaucratic positions. Further, we question whether conditions are being created to supercede the Black community class structure with a non-commercial petty-bourgeoisie as the top tier, particularly in cities where the conjuncture of political and economic development is present, such as Atlanta, Detroit, or Silver Spring, Maryland. Do the conclusions pertaining to Miami in 1982, where White, and later Cuban, rather than Black, political power predominated, apply elsewhere? We suggest that Black local political incorporation may be one route to entry into primary sector conditions.

### The Government Sector

What are the resources which political control of the government sector might make available? We have found these to be extensive and critical. For instance, theorists of dual economy identified government procurement, licensing, regulation and joint ventures (such as in armaments and aerospace) as routes for firms to attain primary sector conditions of large scale and market domination. Wilson and Martin reflect the importance of this connection with their suggestion that lack of capital may discourage center-economy (primary sector) entry "by preventing competition [by Black-owned firms] for public contracts" (1982, p.157). Waldinger (1996) presents most of the important assets related to government entrenchment in his study of shifts in the share of jobs in particular industrial sectors held by ethnic and racial groups in New York City between 1970 and 1980. Yet, inexplicably, these resources are generally devalued. The reasons may rest in the oft-held (atheoretical and hence, *ideological*) perception that the government sector is fraught with problems and less than forthcoming with solutions (Reed 1995).

Waldinger views the government sector as a diversion. He concludes that Blacks, by moving into government sector jobs, even professional level jobs, have *forgone* involvement in entrepreneurial and corporate sector industries which would ultimately provide greater upward mobility. He argues that White population shifts to the suburbs led to opportunities for minorities in the city to attain jobs of higher status on the job queue as defined by Lieberman (1980). Native-born Blacks are "the big losers" in the shifts because of "their reliance on public-sector employment on the one hand and the persistence of low self-employment rates, on the other hand (1986, p. 395)."

There is... a line between immigrant business success and the growth of opportunities for the broader ethnic community that is dynamic in a way that has no parallel in the relationship between Blacks and the public sector; this linkage is actually a further source of Black displacement [from business opportunities](1986, p. 395).

The two conditions — low private-sector involvement and low self-employ-

ment — may co-exist. However, the causal processes are unclear at best. Based on associated dependent development theory, we suggest that this occupational structure may provide leverage for increased market opportunities for Blacks to become entrepreneurs over their life-course. While Waldinger denounces this shift of Blacks into government, he is quite clear that public sector employment is the option of choice for some very sound and strategic economic considerations: (1) good jobs in the private sector are frequently unavailable due to discrimination; (2) greater opportunity for career upward-mobility through promotions; (3) higher than average earnings, particularly for Black men, which can lead to capital formation; and (4) greater stability of employment. This last factor has been shown by Oliver and Shapiro (1995) to have a large, if not the largest, correlation to accumulation of family wealth, a critical factor in business start-up. To this may be added, (5) experience with and contacts for government procurement opportunities. Waldinger further establishes that, unlike the Irish public employment sector during the heyday of White ethnic-controlled city “machines,” Blacks are over-represented in the ranks of managerial and professional jobs, and that opportunities extend to “the highest levels.” He further cites that “these positions are also effective vehicles for movement into higher social class” (1986, p. 392).

It is an open question whether the net benefits of entry into most immigrant business niches outweigh the benefits of entry into the government sector (a comparison that we do not seek to make in this article).<sup>3</sup> It is true that business ownership is one viable route to wealth accumulation, but benefits to individual owners and workers as part of multiplier effects can be very limited. The jobs created in the Hispanic-dominated garment manufacturing sector and those in the Asian-dominated retail sector, are not necessarily of sufficient quality to attract Black Americans. These industries, which may be seen as forming a sort of tertiary sector within the secondary sector, are of the type where competition overwhelmingly takes the form of cost competition. These situations are not necessarily conducive to group economic advancement (Sassen 1991; Sanders and Nee 1987; Bonacich 1987).

### **Political Power Translated into Economic Power for other Solidarity Groups**

Roger Waldinger (1996) provides another model of group use of political power in

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<sup>3</sup> A major issue in comparison across ethnicity and race is that African Americans are part of the dominant ethnicity “American,” and approximate to the dominant paradigms in economic activities as they are culturally integrated. Thus, there is likely a high tendency for Black businesses of any size, duration or level of success, to be corporations in terms of legal status. Data on these is generally unavailable, as business owner data is primarily collected for sole proprietorships and partnerships (Bates 1993). In contrast, immigrants are more likely to operate in or close to the informal or tertiary sectors, and thus, individual ownership may be the relatively more common business form. This skews comparison of ethnic business success and African American business success, again suggesting that the relative value of development of a government sector or tertiary manufacturing sector is unclear.

his study of Italian use of politics to frustrate attempts to end their construction industry control. While the focus is on the struggle to gain unionized construction employment, this activity is intermediary to construction business development as the forum for development of skills and contacts. Studies of other social minorities who attained political majorities and dominance within cities often concluded that this became a means for group economic advancement (Clark 1969; Dahl 1961; Moynihan 1964). Steven Erie's work,

*Rainbow's End* (1988), provides a critical assessment of this literature related to Irish Americans. He argues that while the benefits of patronage do appear to have been substantial, the economics of the machine provided uplift for the elites who entered into business but a mixed result for the masses. Public employment, welfare, and patronage-related private sector jobs did provide a significant portion of the Irish immigrant population with economic stability, however, it was stability at the bottom of the middle-class, in blue collar employment, and thus, it did not form the basis for upward mobility into the White-collar middle class for the masses of the Irish. Erie acknowledges that the Irish may have taken functionary positions because of "blocked mobility," and they grabbed at politics as a source of aid in the climb. Erie then suggests that Black political regimes cannot achieve machine status because of the diffusion of control over economic largess to the national level and the fiscal crisis of municipalities, and thus will prove unsuccessful in advancing their group economically.

There is clear evidence that Black urban regimes are not political machines, as they do not (1) emerge at a time of rural/communal-urban transition; (2) regularly organize the electorate; (3) distribute divisible benefits to buy votes; (4) rely on sponsorship of vice for funding or annexation of suburbs; or (5) refrain from group and class appeals. Considering this last point, race and class appeals serve as the foundation as well as an objective of Black politics. African American political incorporation was the product of the mostly second-generation Black power urbanites of the 1970s and 1980s (Reed 1980). We argue that rather than viewing Black political incorporation as an analogous development to machine politics, African American political power appears rather to be its antithesis. While the Irish machines specialized in keeping power through exclusion (initially of second wave immigrants) (Erie 1988, p. 163), Black politics function on the opposite premise: on inclusion and an end to repression (Jones 1978). We suggest that African American political power, and the larger 1960s human and civil rights movement which it helped spur, served as tools for ending exclusion.

### **Black Political Representation as Helpful to Black Business Associated Dependent Development**

Would Black politicians necessarily promote Black businesses instead of responding to the interests of the majority-White corporate sector with its vastly greater



resources? And, if they do focus on minority- or Black-owned businesses, how is political power translated into economic power? What are the mechanisms? Analyses of economic effects of Black political power in urban governments have tend to concur on the structural issues at play, but differ on expectations of the net results of the interplay of Black control over resources of politics and economic constraints of the corporate economy. They concur on the fiscal distress of urban areas and subsequent paucity of resources to effect change, and the structural effects of globalization and the decline in manufacturing and unionized jobs with good returns for low education workers (Eisinger 1988; Reed 1988; Burman 1995). Reed (1998) argues that Black mayoral regimes are characterized by progrowth politics. While Black political empowerment emerged from Black protest, the individuals who assumed office also arose from within "modernizing" urban coalitions led by corporate leaders who promote growth and infrastructural development conducive to their advanced service economy, an economy that progressively creates elite prosperity at the expense of marginalization and impoverishment of the masses. We concur with this model, which we relate to the model of dependent development that emerged from study of the mass impoverishment outcomes of Third World political independence without economic independence (dos Santos 1998). However, the issue here is a narrow one: does Black political empowerment improve the prosperity of Black-owned businesses? A careful reading of the literature on progrowth politics, (associated) dependent capitalism and, center coalitions (Stone 1989) finds that this possibility is strong.

Eisinger (1982) argues that Black mayors pursue a *dual strategy*. The first prong is using their appointment powers to name minorities to head city personnel departments and other major agencies, who have then launched aggressive affirmative action programs, producing a dramatic increase in the minority share of public employment. Black mayors are also using affirmative action to award city contracts to minority businesses. For example, prior to Atlanta's set aside programs, Blacks, while being the numerical majority, received only about one-tenth of one-percent of city contracts. After implementation of the affirmative action program in Atlanta, the proportion of procurement contracts attained by Black businesses increased to nearly 35 percent (Bates and Williams 1995). The second prong consists of a strategy of "trickle down." Black mayors form alliances with the White business community to promote downtown redevelopment "hoping to create private sector job opportunities for minorities" (cited in Erie 1988, p. 263). Eisinger argues that promotion of class unity at the elite level across race is possible because it serves the White multinational elite interest and the successful Black businessmen, who would not have been admitted to the governing coalition if it had been otherwise. A division of labor occurred where Black politicians were left to cope with the problems of crime, strikes, welfare, unemployment, etc., as the responsible authorities serving to deflect attention from the aggrandizement of the White business elite. The Black politicians do enjoy a large measure of loyalty from the

Black poor which provides stability. Thus the Black politicians and business elite are viewed as *compradors* in a system of dependency.

Reed (1988; 1995) accepts that Black political incorporation did lead to benefits to the middle-class and entrepreneurial sector. And although he decries the level of capitulation to progrowth corporate interest policies of Black governments as unnecessary capitulation, he stops short of accepting that Black governments were either useless or mere puppets without agency caught in the web of dependency. As Burman (1995) points out, this dependency does cut both ways and thus some concessions for the maintenance of elite cohesion must be made by the White elites. These concessions are significant for the nascent Black businesses while economically insignificant for the dominant transnational corporate sector. The picture that emerges is a united effort between transnational capital interests and local Black political representation in favor of infrastructural and downtown development conducive to making the city competitive economically. There are concessions made to Black business interests in exchange for Black political cooperation, perhaps to the dismay of the White local business sector who perceive Black entrepreneurs as a threat to their market shares. In the event of a fundamental clash, transnational capital's trump card rests in the mobility of capital as compared to the static basis of Black power (Burman 1995:182). However, for all its vaunted mobility, transnational capital has proven to prefer concessions to departure, particularly given the limited selection of cities which have the resources of world-cities, even second tier world-cities, such as Atlanta. The importance of face-to-face transactions and telecommunications links makes certain cities emerge as increasingly concentrated sites for global control (Sassen 1991), hence mobility may be relative. Far from being insignificant, Black political power retains important capacities to leverage Black business interests, albeit very conditional. The concept of *associated dependent development* has been used to distinguish a situation where the governing minority elite attains sufficient capacity and coordination to extract benefits despite its junior position in terms of the overall economic output (dos Santos 1998).<sup>4</sup> They are organized as a "relatively strong state."

### **The Politics of Legislating, Networking, and Pressure: Opening Business Opportunity**

While Black urban representation and Black economic development differ in significant ways from Irish machine politics and ethnic enterprise, there is evidence that Black politics of economic inclusiveness may be a form of associated depen-

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<sup>4</sup> It also argues for a political outcome of democracy with stability despite the escalating demands for economic inclusion and redistribution by the masses. Critics argue the long run incompatibility of democratic rule and economic inequality (dos Santos 1998). However, in the context of U.S. urban politics, stability is likely in the absence of overwhelming outside factors as particular urban populations do not constitute a democratic majority. Urban rebellion, however, is not ruled out.

dent development advancing minority, particularly African American, business interests. There is emerging information that Black representation does provide a positive institutional environment for Black economic development. Economist Timothy Bates (1997, 1993) finds positive results in his study of 1987 data on 138 cities; and economist Thomas Boston (1999) documents the evolving relationship. There is even evidence that Black political representation, without a majority vote, may make a difference (Feagin 1988), although most evidence points to the effectiveness of Black incorporation within a ruling coalition for effectiveness (Brown-ing, Marshall and Tabb 1986; Sonenshein 1993).

Bates' pioneering work (1997, 1993) provides evidence of the potential of Black urban representation to enhance Black entrepreneurial success. Bates found that Black businesses in cities with Black mayors in 1982 and 1987, were more numerous, larger—had higher gross sales and more employees—and had lower rates of failure than Black businesses in cities with White mayors. The number of Black-owned businesses and the rate of new Black business formation were also higher. He controlled for level of unemployment, theorized to be negatively correlated with the rate of creation of self-employment, and the size of the cities measured in terms of median income, as private purchasing power, or government expenditure. Black urban representation was limited to the presence or absence of mayors. In response to the conventional wisdom that over-representation of Black Americans in government jobs causes a corresponding under-representation in self-employment, Bates writes:

Lack of opportunities in business certainly has pushed Black Americans onto other career paths in the past. But occupational patterns rooted in a lack of opportunities can change substantially when new doors open. Black mayors in big cities such as Atlanta indeed opened those doors during the 1970s and 1980s; Black self-employment flourished. Clearly, a lack of opportunities thwarts Black entrepreneurship, not a lack of interest.

Further evidence that low Black self-employment rates and success may be better explained by lack of opportunities is provided by a study of the level of interest in entrepreneurship conducted in 1987. Based on a survey of six factors measuring interest in entrepreneurship of young adults of Asian, White, Hispanic and Black heritage, African Americans had the highest scores consistently across measures (Bates and Dunham 1992). Bates argues that Black political representation as mayors corresponds to the development of policies which promote Black business development.

Thomas Boston (1999) emphasizes the transformation in the universe of Black business that occurred with the opening of the formerly closed government contract market by affirmative action, set-aside, procurement and joint venture policies, particularly at the local government level. Atlanta began the process in 1975, two years before federal legislation mandated minority participation in con-

struction contracts, and approximately 200 other cities followed suit within two years. These programs provided opportunities to minority and women-owned firms to diversify out of traditional retail and personal service lines of business. They side-stepped existing "old boy networks" which historically had made government procurement among the least diverse in terms of number of firms participating, and made it instead among the more open markets, as private industry has still tended to exclude minority businesses. He writes:

*The ability to diversify away from personal service and retail activities into non-traditional industries is the most important legacy of minority business affirmative action policies. New market opportunities meant faster growth possibilities, greater profitability and increased employment capacity. Black-owned firms that did not receive city contracts directly benefitted nonetheless because affirmative action hastened the decline of racial stereotypes, improved networks between Black and White entrepreneurs, and encouraged private companies to emulate public sector affirmative action initiatives (1999, p. 14).*

Further, set-aside and goals programs create an incentive for established White-owned firms to joint venture with minority firms, allowing the latter to build reputations and financial bases that result in future contracts (Hodge and Feagin 1995).

Boston uses regression analysis to see if, among the 88 cities with over 200 Black-owned businesses, there was greater growth where there were affirmative action plans prior to 1987, and finds that this was true but not statistically significant. Therefore, it is not the existence of the affirmative action plan, (in itself), but its effective implementation that is the relevant factor. Boston reports that effectiveness varied from city to city given whether they were actually implemented, suffered legal challenge, the impact of negative images seized upon by local media, and the extent of local opposition (1999, p. 18). In short, the effectiveness of these programs depends upon a complex political balance. We suggest that Black political representation and Black political incorporation — effective Black influence within a ruling coalition — in particular, may be critical factors.

These programs provide opportunities for diversification, for growth to stable and competitive size, for gaining experience, as well as the networking and business ties, which are fundamental to Black start-up businesses. A major factor in the vitality of minority enterprise reported by Boston is the huge disparity in the number of minority-owned enterprises that must "begin from scratch," without prior market shares. Based on a National Federation of Independent Business study, only 49 percent of non-minority entrepreneurs become owners by starting a business; 28 percent purchase an existing business and 15 percent inherit a family business. Among Blacks, as much as 94.3 percent begin new businesses while less than 3 percent enter by each of the other routes (Boston 1999, p. 76). Clearly programs which set-aside a share of a market for minority participation create major incen-

tives for new entrepreneurs to compete.

On the other hand, this incubator effect is not widespread or significantly limiting of existing firms' ability to compete as only approximately 13 percent of all young small businesses nation-wide sell goods and services to the government and they comprise only 3.0 percent of the firms receiving assistance at the state or local level. Bates did find significant improvement in the level of capitalization, the failure rate, and the revenues of firms which received government "assistance." Bates, however, cautions that measuring the level of government assistance may be difficult. Most firms do not view winning a government contract through a competitive bid process when an affirmative action program is in force as involving "assistance" (Bates 1997, p. 227). Hence, the politically created opportunities for minority contracting may not register as benefits depending on how survey questions are structured. Programs of assistance involving finance and managerial training primarily are the type likely to be reported as receipt of assistance.

Further, Boston points to the difficulty in assessing the growth and prosperity of Black businesses because of the limitation that the main form of corporate ownership, Sub-Chapter corporations, are not included in the Census data. Firms which have larger receipts, employ more workers, and have lower rates of failure are often corporations, and there may be proportionately more majority-Black owned businesses organized as corporations (one indicator of success) in cities with high levels of Black representation. Boston reports that 4 percent of Black firms nationwide are corporations, but of those that are approved for participation in the minority-owned program of the City of Atlanta, a whopping 57.9 percent are corporations, with mean revenues of \$606,208 in comparison to \$44,668 among those firms which were sole proprietors or partnerships (1999, p. 27). Therefore, the currently available census data on business ownership tends to prejudice results against cities where Black business is most successful, providing a very conservative estimate of their vitality.

### **Measuring Local Associated Dependent Development**

While past research has shown that the presence of a Black mayor has a significant positive effect upon Black economic development, it has not provided us with an understanding of the factors that might impede or enhance the effect of Black political power upon Black economic development. How might the effect of a Black mayor upon Black economic development vary by different contexts? We propose that the presence of a Black mayor will reflect the development of Black political empowerment which may be used to create market opportunities for Black businesses both in the government sector and among private firms which interact within the jurisdiction and regulatory reach of urban government. Black representatives may also enact programs which support the emergence and growth of Black-owned firms. The local political context of the city government in which a Black mayor

finds herself or himself matters a great deal. The numbers of politically like-minded city council members on a city council — and for this paper, Black council members — will undoubtedly influence what a Black mayor, or any mayor, can do and hope to accomplish. Having a greater number of political allies clearly gives a mayor greater opportunity and capability to enact his or her policy agenda, and higher levels of Black council representation would ostensibly bolster the power of a city's Black mayor. Browning, Marshall, and Tabb's (1984) concept of *incorporation*, or the degree to which Blacks are in the dominant policymaking coalition, is especially relevant here. Where Blacks exercising political power are incorporated within the ruling coalition, creation of common business interests served the larger corporate sector's need to maintain a favorable and stable political environment of regulatory, planning and financing/bonding support, as argued by Burman (1995).

We argue that the implementation of affirmative action, set-aside and training programs will be most consistent where Black political incorporation took place. Thus, consistent with Browning and Tabb's measure of incorporation, the interaction of a Black mayor with greater levels of Black city council representation is expected to more effectively enhance Black business development than will the interaction of a Black mayor with lower levels of Black council representation.

There are several additional ways that we believe varying context might affect the nature of the effect a Black mayor has upon Black economic development for which we control. First of all, Black mayors in cities with larger Black population percentage might be more likely to foster Black business development than those in cities with smaller Black population percentage because of their ability to draw upon a key constituency that provides the necessary electoral and governing support giving them bargaining power within the ruling coalition. Hence, we expect that Black mayors in cities with larger Black population percentage will have a more significant influence upon Black economic development than those in cities with smaller ones. Another significant factor of context which might influence the nature of a Black mayor's capacity to respond to the needs of Black business is a city's poverty rate. Here it might be argued that a Black mayor would be forced to respond to more economically depressed city environments and thus would be more likely to foster Black economic development than a Black mayor in a more prosperous city. On the other hand, Boston's (1999) work suggests that a higher poverty rate is related to a decreased market which would negatively impact Black business development, so the effect of political representation and poverty rate may to some extent cancel each other rather than enhance support for Black business.

### **Dataset and Method for Analyses**

This analysis of the relationship between African American political power and economic development uses a data set created by merging several data sources. The data on Black-owned firms, their numbers in a city, and their business activity

in a city are compiled by the Census Bureau of the U.S. Department of Commerce and are available in the *Surveys of Minority-Owned Business Enterprises* (SMOBE) from the *Economic Census*. We used the 1992 version of these data. Our data set includes firms with paid employees in cities having population sizes of at least 25,000 residents, a total of 259 cities.

Data for our independent variables are drawn from a number of other sources collected in the period 1987-1988. The *U.S. County and City Data Books* provide the data for economic and demographic factors for cities, the total and Black population, the number of civilian jobs, and mean family income. The Joint Center for Political and Economic Studies' annual publication *Black Elected Officials: A National Roster* was our reference in determining the presence of Black mayors and city council members. This source is the most comprehensive list of all of the Black elected officials at the federal, state, and local government levels and provides annual data for the presence of Black urban officials for the cities in the data set. The International City Managers Association's annual publication *Municipal Year Book* provided the total number of city council members for each city.

We use regression analysis to estimate models of the number of Black-owned firms with paid employees and their extent of business activity (sales, receipts, and value of shipments) of these firms for each city, our dependent variables. The dependent variables are 1992 data, in consideration of the fact that the effect of elected officials upon Black economic development would take some time to become manifest, and hence, necessarily involves a lag of several years.

### **The Empirical Model**

The goal of the analysis is to explore the effect of the presence of Black elected officials and Black political incorporation on cities' Black economic development, as measured by the numbers of Black-owned firms with paid employees and the business activity of these firms. In this section, we discuss each of the independent variables of the models we use for analysis and our expectations of their effect upon Black business development across cities.

*Black mayoral presence* is measured by a dummy variable indicating whether a Black mayor governed the city in 1988. *Black city council representation* is a proportional measure dividing the total number of Black city council members by the total number of city council members. We estimate two models: a basic model of Black mayoral presence, and a model of the interaction of Black mayoral presence with varying levels of Black city council representation. Within the second model, we define Black political *incorporation* as the combination of a Black mayor with Black city council representation greater than fifty percent of the seats. The presence of a Black mayor with Black city council representation up to fifty percent of the seats reflects a somewhat lower level of Black representation which we refer to as *Black participation*. We expect both of these interactions to have positive effects

upon Black business development.

The next set of variables control for demographic and economic factors of urban context which affect business outcomes in general, and Black business outcomes in particular, across cities.

*Median Family Income* and *Per Capita Civilian Employment* provide measures of the economic health of a city. Levels of median income indicate the economic base a city has with regard to economic demand. *Percent of a City's Total Population that is Poor* as discussed above may have a positive impact due to the presence of a Black regime securely in power and focused on poverty alleviation. However, this may not be the case: a larger population of poor citizens may have a negative effect upon Black business development because of higher levels of poverty will necessarily depress the general business environment of a city.

*Percent of a City's Total Population that is Black* provides a test of how demographic and socioeconomic conditions strongly related to the degree of Black political incorporation affect Black business development. We expect the Black population percentage of a city will have a direct relationship to the numbers and business activity of Black businesses. The relative size of a city's Black community will greatly influence the degree of political incorporation (Jones 1978). Finally, given the historical and current concentration of African Americans in the southern region of the nation, we included a dummy variable for southern cities. We expect the variable *South* to have a positive effect upon Black business development because of the general [drop ] concentration of African Americans within the region.

## Results

Table 1 shows the twenty-three cities with Black mayors in 1988, the level of Black representation on city council, and several characteristics. Thirteen cities display Black political incorporation as the presence of a Black mayor and Black representative holding more than fifty percent of city council seats. Ten cities show significant Black political participation, defined as presence of a Black mayor and some city council representation, but less than controlling (less than 50%). The percentage of the population which is Black directly relates to this categorization, however, the number of businesses per 1,000 Black population shows no relationship.

Table 2 reports the results from analyses of the numbers of Black-owned enterprises with paid employees within a city and of the business activity of these firms. It is evident that Black political power is an important determinant of Black business formation and activity. Model 1 tested simply the effect of the presence of a Black mayor on numbers of Black enterprises and on the business activity (sales, receipts, and value of shipments) of these firms. The coefficients (180.6 and 204.1) demonstrate a positive, statistically significant effect of increasing both numbers and receipts. This is consistent with the findings of Bates (1995).



**Table 1**  
**Cities with Black Mayors and Levels of Political Participation,**  
**1988**

City	Participation Level with City Council	Percent Black	Black Businesses Per 1000 Black Population	Total Population
East Orange, NJ	1.000	.88	.311	74,380
East St. Louis, IL	.944	.97	.287	43,795
Gary, IN	.889	.78	.725	123,707
Washington, DC	.692	.67	.765	613,187
Birmingham, AL	.667	.62	.321	269,657
Newark, NJ	.667	.58	.736	286,026
Atlanta, GA	.611	.67	.656	400,218
Compton, CA	.600	.58	1.012	88,620
New Orleans, LA	.571	.60	.397	509,053
Pontiac, MI	.571	.41	.367	72,275
Camden, NJ	.571	.56	.483	86,975
Detroit, MI	.556	.73	.304	1,063,047
Richmond, VA	.556	.54	.589	206,287
Oakland, CA	.444	.44	.912	365,661
Newport News, VA	.429	.33	.370	165,016
Baltimore, MD	.368	.58	.316	746,166
Chicago, IL	.360	.39	.729	2,827,995
Philadelphia, PA	.353	.39	.694	1,606,104
Richmond, CA	.333	.45	.445	84,875
Little Rock, AR	.286	.34	.815	172,328
Inglewood, CA	.200	.53	.900	106,530
Los Angeles, CA	.200	.15	4.654	3,381,688
Chester, PA	.200	.63	.073	42,643

**Table 2**  
**Analysis of the Development of Black-Owned Enterprises with**  
**Paid Employees, 1992: Weighted Least Square Analyses**

Independent Variables	Number of Black Firms with Paid Employees		Sales, Receipts and Value of Shipments of Black Firms with Paid Employees (\$1,000)	
	Model 1	Model 2	Model 1	Model 2
Black Mayoral Presence	114.15** (42.31)	—	87,029.64*** (30,645.67)	—
Black Mayoral Presence City Council Representation >50%	—	123.96 (69.86)	—	67,075.14 (50,561.52)
Black Mayoral Presence City Council Representation 0 and < 50%	—	109.72* (49.27)	—	96,026.23*** (35,660.01)
Median Family Income (\$)	5.5 x 10 <sup>4</sup> (.001)	5.5 x 10 <sup>4</sup> (.001)	0.28 (0.78)	0.30 (0.78)
Per Capita Civilian Employment	58.63 (107.36)	58.13 (107.74)	48,616.09 (77,759.94)	49,619.83 (77,070.46)
Percent Black	290.64**** (52.42)	280.47**** (53.01)	38,915.62 (37,970.93)	41,308.38 (38,368.71)
Percent Poor	165.37 (161.91)	163.72 (162.69)	88,049.25 (117,272.50)	91,402.76 (117,757.60)
South	21.59 (11.99)	21.65 (12.03)	5,990.55 (8,681.77)	5,853.92 (8,707.70)
Constant	-51.98 (70.27)	-61/17 (70.65)	-38,179.31 (50,898.38)	-39,935.30 (51,133.60)
N	159	159	159	159
Adjusted R <sup>2</sup>	.39	.38	.08	.07

Unstandardized Coefficient Estimated with Standard Errors in Parentheses  
 \*p<.05. \*\*p<.01. \*\*\*p<.005. \*\*\*\*p<.001.  
 Values are rounded to 0.01, with some exceptions.  
 STATA 6.0 was used for the analysis.

Model 2 shows that not only are there significant differences in the numbers and total sales activity of Black firms between cities with Black mayors and those without, there were important differences among Black mayoral cities related to the level of Black representation. Black political incorporation, or the presence of a Black mayor and Black representation as a majority of city council, proved to have little effect on the numbers or receipts of Black firms. Instead, the presence of a Black mayor with a level of Black city council representation below fifty percent showed large and significant interaction effects. Other variables had little direct relationship to Black business outcomes except the percent poor, which was a sig-

nificant positive relationship in three of the four equations. One other contextual variable, the per capita civilian employment rate, was significantly associated with greater numbers of Black businesses when level of representation is taken into consideration.

## Discussion

Our findings clearly support the importance of Black mayoral presence to Black business numbers and revenues, as reported by Bates (1995). However, our postulate that more Black empowerment in the form of Black political incorporation should result also in greater numbers and vibrancy of Black businesses has not been borne out unequivocally. Rather, increased political representation, in the form of Black incumbents in *some percent of city council seats but not over fifty percent*, was positively related to Black business success while incorporation involving Black representation in over fifty percent of seats was positive but insignificant. Black political participation beyond the mayoral level may increase (1) the tendency to committed and thus effective implementation; which leads to (2) transformation of opportunity structure; and (3) creating capacity. This is consistent with the analysis of Boston (1999). We theorized, in congruence with dependency theories, the need to consolidate strong state power, even on the local level, as a means for bringing about changed contexts for excluded groups' business opportunities. However, our findings suggest that while racial or nationalist entrenchment and cohesion may be part of the equation of political strength, coalition building may be another. Situations of sharing, or partnership, or diversity, with significant Black participation (city council representation) and leadership (Black mayor), yet also with avenues open to participation by representatives of other racial and ethnic groups in city governance, are the most successful contexts.

This is consistent with the analysis of Butler (1992) who concluded from his historical analysis of Black business success that the existence of successful linkages with the dominant White business and political community are crucial. In cases where these linkages based on mutual cooperation in economic development existed, such as Durham, North Carolina, around the turn of the twentieth century, the Black business community prospered. However, where the Black business community was encompassed almost entirely within a Black community isolated by hostile White society, such as in Tulsa, Black businesses experienced some success, but ultimately faced destruction due to predatory aggression by members of the White society. In general, he points out, if Black businesses appear "too successful" and their economic prosperity is not shared, and perhaps yielding a predominant share of returns to Whites, then a situation of competition and hostility emanating from White interests is likely to ensue. In line with these observations, it may be that where Blacks are perceived as controlling all or most political power, which are generally also situations of high Black population percentages, White dominant

elites opt out of participation economically, leading to disinvestment and declining economic opportunities for all. This is also consistent with Wilson's (1978) discussion of the effects of Black political empowerment.

This finding of the importance of shared political representation to enhancement of Black political effects on economic success is also consistent with associated dependent development theories, such as advanced by Burman (1995). Economic advancement may be a game of balance, of seizing opportunity within the interstices of transnational elite developments. Without political power or economic assets the game cannot be played; and with absolute power, there is no game. So our findings support the importance of Black political power, and the development of influence in other elected government positions; but, they also support the importance of coalition building. This has been seen in analyses of ethnic urban machines which were successful and exhibited longevity. They became not only tools of consolidation of a particular ethnic group's position with respect to government resources, but also a tool for incorporating other ethnic groups into the socio-economic structure (Erie 1988). It is the general exclusion of African Americans from these urban ruling coalitions which drove Black communities to urban rebellion to bring about change in the absence of acceptance and inclusion.

An interesting question for future research is whether the numbers of Black businesses and their activity are increased in situations of Black empowerment *and* diversity. Erie points to a "down-side risk of today's slow-growth politics is that the new rainbow coalition may produce a small pot of gold for the Black political elite, while browns, yellows, and even the Black underclass are left chasing the mirage" (1988, p. 262). If our theory that Black political empowerment is based on politics of inclusion is correct, then we would expect outcomes in cities with Black mayors to be better for Latino, Asian, and women and other disadvantaged group entrepreneurs in general than in cities without Black mayors. Does political empowerment work in the same manner for other disadvantaged groups and does political empowerment of Blacks hold out opportunities for other disadvantaged groups?

Further study of the Black mayoral cities with moderate Black city council representation may turn up other commonalities which underlie their association with enhanced outcomes for Black businesses, such as level of integration, quality of schools, business sectors with unusual growth, etc. We may further ask whether other combinations of racial political participation, such as significant council representation with other minority or White mayors, are also conducive. On the other hand, continuation of the racial divide in privilege in this society, evidenced through unemployment and difficulty of business formation among Blacks, has the effect of magnifying feelings of relative deprivation among emerging Black middle classes, particularly those with (relatively) independent ownership resources. On the ideological level, there is evidence of awareness among Black middle classes, including business owners, that their prosperity and control over assets is not simply the result of individual excellence and is not supported by the status quo (Thernstrom

and Thernstrom 1997). Hodge and Feagin (1995) point out that Black business interests, while congruent in some dimensions with White business interests, are also a form of resistance. Blacks view business development as a source of independence from the conditions of discrimination and prejudice to which they are otherwise subject every day in many jobs. Burman (1995) suggests that the Black upper-middle and upper-classes have the potential to enter into alliance with discontented lower classes, posing a threat which the White elite must check by making concessions, and if pressed, by the threat of flight. Business is a form of freedom and independence for Blacks, which presents a class-politics wild-card within the racialized class formation of the modern world-system.

### Conclusion

Political power does give one a stake in the economic game. The attainment of the rights of citizenship and the political rights attendant thereupon laid the basis of African Americans to enter into business opportunities within the dominant market. Historically, power in elected local office and government bureaucracies has been associated with the ability to gain a share of the huge resource exchange that the government sector mediates. The benefits of this political leverage may accrue primarily to elite formations among the minority group. However, there is little evidence that participation and domination of government by oppressed ethnic and racial groups *causes decreased* involvement in entrepreneurship. Instead, a focus on government seems to reflect a rational and strategic response to blocked mobility within the private sector. That government becomes a useful tool for creating conditions of increased opportunity was supported by our findings. However, linear increase in Black political incorporation has limits to its effectiveness in enhancing Black business development. We found that the situation of Black mayoral incumbency and significant but not majority Black political representation on city councils was most conducive to Black business numbers and level of activity. Further research is needed to see to what extent this evidence reflects the importance of a socio-political environment of "sharing" or "partnership" rather than subordination and superordination. It is clear, however, that the nature of ruling coalitions relationship to economic development is complex and important.

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