“What Could Have Been:
Macrosimulating the Economic Injury Caused by Desegregation”

by

B.B. Robinson, Ph.D.

Overview

Twenty-twenty hindsight is perfect. However, when it comes to macrosimulations, hindsight is usually inaccurate because it does not account for stochastic occurrences that inevitably impact historical outcomes. Nevertheless, it is sometimes meaningful to attempt to macrosimulate what might have been. In this case, the following question is posed: “What would be the structure of Black business enterprises today had certain aspects of desegregation not unfolded?” This is a simple question, which is difficult to macrosimulate accurately. However, it may be possible to obtain a glimpse of what the answer to the question might be using a very simple approach.

This short paper considers the question by performing a simple analysis of U.S. Census Bureau data on Minority-Owned Businesses. A special report on this topic was prepared for the year 1969; subsequent reports appeared for years ending in 2 and 7—i.e., as part of regular quinquennial economic censuses. We use data from the 1969 special report and from the 2002 quinquennial report, along with certain very simplistic assumptions to derive estimates that provide a view of how Black business enterprises might have evolved had certain aspects of desegregation not occurred.

Assumptions

Before we explain more fully the macrosimulation process and the results thereof, it is important to entertain certain obvious issues that are related to this topic: (1) What is meant by restricting the desegregation process? and (2) What are the specific assumptions? Let us consider them in turn. First, the restriction on the desegregation process that is assumed here is that the dilution of Black communities would not have occurred. This paper is not designed to explore all of the social ills that expanded, accelerated, and that were compounded by Black flight from Black communities. However, it is worth mentioning aspects of this process that are often mentioned in the social dialogue that occurs when one discusses the plight of Black Americans over the past forty years.

For example, it is argued that, even though Blacks have made great progress in closing the gap with White Americans in educational attainment, Black students have suffered tremendously in public school systems that gave mainly White teachers the responsibility for educating Black students. Most of these teachers have limited interest in the development of Black children; they are in the classroom for the very reason that most of persons take employment—the paycheck. These circumstances are quite different from conditions that existed before desegregation, where, at least in the south, Black teachers who were linked closely to the Black community were responsible for teaching Black students. Most of these teachers were forced to leave the classroom due to their inability to meet new standards that were imposed after desegregation.

Another issue that surfaces when discussions about the evolution of Black communities arise is that upper income Blacks were often the first to leave Black communities. These were individuals who were likely to be educated and have above average income relative to their neighbors. The loss of these persons meant that some of the most qualified leadership filtered out of Black communities.

However, the factor that we are most concerned with in this analysis is the extent to which Black businesses disappeared from Black communities or were affected structurally in adverse ways as certain Blacks filtered out these communities, and as other conditions in these communities turned from favorable to unfavorable. It is this factor that we would like to restrict in our analysis. In other words, let us take as a major and important assumption for the analysis that Black communities remained intact after desegregation and lost none of their members.

It would be worthwhile to discuss all of the implications of this restriction. However, here again, this paper is not designed to undertake such a discussion. Suffice it to say that the retention of highly educated and high income Blacks could have boded very well for Black communities all over America.

Second, the specific assumptions that are imposed are: As already mentioned, it is assumed that Black communities do not experience the dilution that actually occurred over the past 40 years. As concomitant assumptions, let us assume that, although the number of Black businesses would continue to grow, the ratio of Black businesses with employees would remain stable. This is an important assumption that is based on outcomes in the broader U.S. economy.[1] The final assumption, which is supported by Cutler et al. (1999), is that the late 1960s represented the pinnacle of Black community development. Cutler et al. indicate that housing desegregation begins to be operationalized in the 1970s; consequently, we begin to see the dilution of Black communities at that time.

To summarize the assumptions and basis for this macrosimulation, we conclude that Black business strength in Black communities was at its height, structurally, in the late 1960s. We assume that, although the number of Black businesses is expected to have grown since that time, based on the restriction that we impose, the ratio of Black business with employees would have remained fairly constant. We assume that without housing desegregation, Black businesses would have retained the customer base required to support employees. The implication is that there would be significantly more

[1]Data from the Bureau of the Census show that the ratio of firms with employees to the overall number of firms in the U.S. economy has held steady in the 25 percent range since 1987; it assumed that a similar ratio is applicable for the past 40 years.

Black businesses today that operate as employers. These businesses, in turn, because of the captive demand for their goods and services, would have higher levels of receipts. These receipts would serve as a great source of income and wealth to Black communities. The ultimate question is "how significant a difference did housing desegregation make in the evolution of Black businesses with employees and on the level of total receipts that accrue to such Black businesses?"

The Macrosimulation

Now that we have the key assumptions behind us, let us now discuss how the macrosimulation is conducted. First, we use Census Bureau data from the 1969 special report to prepare a ratio of Black firms with employees to the total number of Black firms, and a ratio of the gross receipts that are earned by Black firms with employees to the receipts earned by all Black firms. Second, we develop similar percentages using Census Bureau data for 2002—the most recent year for which data are available. At the same time, we also compute the following values for 1969 and 2002 using Census Bureau data: The average number of employees per firm with employees and the average value of gross receipts per firm with employees.

Given these ratios and averages, we developed three scenarios and estimate the following values: (1) The number of Black firms with employees that would have existed in 2002 had the ratio of firms with employees stabilized at the 1969 level; (2) the value of gross receipts for Black firms with employees had the 1969 ratio of firms with employees and the ratio of gross receipts to total receipts been maintained up to 2002; (3) given the number of Black firms with employees that would have existed in 2002 under scenario 1, the level of receipts for Black firms with employees if they earned the average amount of receipts that were actually earned in 2002.

The results of these computations and estimates are presented in Table 1 below:

Table 1.—Macrosimulation with 1969 and 2002 Census Bureau Data on Minority-Owned Businesses

	All firms		Firms with employees			Firms without employees	
	No. of firms	Gross receipts ($1,000)	No. of firms	Employees	Gross receipts ($1,000)	No. of firms	Gross receipts ($1,000)
1969 Census Data	321,958	10,639,135	89,941	370,064	8,934,482	232,017	1,704,653
1969 Ratios			27.94%		83.98%	72.06%	16.02%
Average receipts/employees per firm		33		4	99		7
2002 Census Data	1,197,567	88,641,608	94,518	753,978	65,799,425	1,103,049	22,842,183
2002 Ratios			7.89%		74.23%	92.11%	25.77%
Average receipts/employees per firm		74		8	696		21
Ratio differences: 2002 less 1969			-20.04%		-9.75%	20.04%	9.75%
Apply 1969 firm and receipts ratios to 2002 Census totals	1,197,567	88,641,608	334,548		74,439,026	863,019	14,202,582
Differences: 2002 estimated less 2002 actual	0	0	240,030		8,639,601	-240,030	-8,639,601

	All firms		Firms with employees			Firms without employees	
	No. of firms	Gross receipts ($1,000)	No. of firms	Employees	Gross receipts ($1,000)	No. of firms	Gross receipts ($1,000)
Mixing Ratios and Averages: Apply 1969 firm ratios and 2002 average receipts per firm to 2002 Census data	1,197,567	250,769,659	334,548		232,898,068	863,019	17,871,591
Differences: 2002 estimated less 2002 actual	0	162,128,051	240,030		167,098,643	-240,030	-4,970,592

Results

Table 1 shows that 27.94 percent of Black businesses had employees in 1969; these firms accounted for 83.98 percent of all Black businesses gross receipts. By 2002, only 7.89 percent of Black firms had employees. This is a dramatic decline in the percentage of Black-owned business with employees, and is likely due to the loss in customer base that resulted as certain Blacks filtered out of Black communities. The firms with employees accounted for 74.23 percent of Black businesses gross receipts in 2002. Given the nearly 1.2 million Black firms in 2002 and the nearly 28 percent of Black firms with employees in 1969, there would have been 240,030 more black firms in 2002 had the 1969 ratio held.

Taking the analysis further, if there had been 334,548 Black businesses with employees in 2002, rather than the 94,518 that actually had employees, and if this estimated number of firms would have accounted for the same proportion of gross receipts that were accounted for by firms with employees in 1969, these firms would have earned $8.6 billion in additional gross receipts.

It is realistic to permit the number of Black businesses to grow to their 2002 level; Black entrepreneurs make decisions to start enterprises for reasons other than the conditions in Black communities. However, given these businesses, it is rational to revise their distribution between employers and nonemployers as defined by this macrosimulation. It is, however, somewhat unrealistic to constrain the gross receipts that would have been earned by this newly estimated number of employer firms. Using the assumption that the newly estimated employer firms earn gross receipts that are equivalent to those actually earned by employer firms in 2002, we estimate that total gross receipts would be $167.1 billion higher than the gross receipts actually earned by Black businesses with employees in 2002. This is a very substantial difference.

In other words, the macrosimulation indicates that, had the ratio of Black firms with employees stabilized at the 1969 level, and if these firms earned gross receipts that are equal to those actually earned by Black firms with employees in 2002, then these firms would have earned a total of $232.9 billion. The $232.9 billion in gross receipts only represents about 2.2 percent of the nation's gross domestic product (GDP) in 2002. Similarly, the aforementioned $167.1 billion in additional estimated gross receipts represents only 1.6 percent of GDP. However, these additional estimated gross receipts would more than account for the sum total of all means-tested social benefits that were extended by Federal and state and local governments to Black Americans during 2002.

Given a 2002 Black American population of 35.7 million, the additional $167.1 billion in gross receipts, much of which would likely be in the form of wages and salaries, would mean an additional $4.7 thousands dollars in income to every Black man, woman, and child.

This additional income would go far in alleviating many of the economic and financial difficulties that Black Americans face today. Again, however, this would have likely only occurred had Black communities not been diluted by housing desegregation.

I am not a proponent of segregation. Black and Whites should be able to enjoy all of the freedoms, including living wherever they so choose, that are provided for in the U.S. Constitution and laws of the land. However, today we find in American cities isolated pockets or communities that are constituted primarily of one ethnic group: White; Asian; Hispanic; and Black. Then there are communities that are blended with multiple ethnicities. It seems however, that predominantly Black communities are the only communities that have little representation from other ethnic groups. On the other hand, Blacks appear to struggle to register representation in the communities of other ethnic groups. It is understandable that Blacks wanted to make a statement after Civil Rights were won and laws preventing housing discrimination were enacted. However, Blacks may have done themselves a major disservice by bolting from Black communities to join other communities—at least economically. A major point of suffering in the Black community has been business: Too few and too small. The simple macrosimulation presented in table 1 highlights the harm that Blacks may have inflicted upon themselves. Of course, this is all twenty-twenty hindsight.

References

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