where a hybrid arrangement, agreed by trade unionists, employers and government, introduces a DC element into occupational DB schemes so as to share risks between workers and pensioners in an orderly way. The Netherlands is not necessarily a dominant model but suggests that, if claims are to be made about U.S. institutions as examples for other countries, those claims would benefit from being set, at least briefly, in a wider international context.

References

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1. Industrial Organization


Robert W. Fairlie and Alicia M. Robb engage the reader in a challenging quest to identify why Asian-owned businesses have the best, and Black-owned businesses have the worst, average outcomes of all major racial and ethnic groups in the United States. This quest is policy relevant, given the importance of successful business ownership for job creation, economic growth, income generation, and wealth accumulation. More specifically, improving the performance of minority-owned and disadvantaged businesses may help reduce earnings and wealth inequalities since upward income mobility and fast earnings growth are more likely for business owners than wage employees. Hence, there is a strong case for diverting attention from the much studied determinants of business start-up prospects for minorities to the less studied factors associated with their business performance. The case is strengthened by the fact, revealed by the current study, that ethnic disparities in business performance are much larger than in business ownership.

The book reads like a high-quality, well-researched detective story. The search into the underlying causes of racial differences in business outcomes is novel and made possible by the privileged allowance of the authors to use an exclusive, confidential, and restricted-access data source: the Characteristics of Business Owners (CBO) conducted by the U.S. Census Bureau. It contains detailed information on the characteristics of business owners and their firms, including various performance measures, and it is unique in the sense that it includes a large sample of minority-owned businesses. So far, it has been used by only a handful of researchers because usage is allowed only at the premises of, and after approval by, the Center for Economic Studies and all output must pass strict disclosure regulations. This adds to a secretive atmosphere of the book, alluding to a privileged feeling of being allowed to its readership.

Chapter 2 describes the “victims” and how seriously they are affected by the “crimes.” A comprehensive picture is given of the current state and recent trends in these “crimes,” i.e., racial disparities in (business ownership and) business outcomes. It is derived from a thorough study of the existing empirical literature combined with the authors’ own empirical measurements. The latter are based on combining and comparing various widely used sources of government data with the CBO. The CBO includes four interesting measures of business outcomes: a binary measure of business closure between 1992 and 1996, net profit level in classes in 1992, the number of employees in 1992 (though all the analyses only use the binary measure “any personnel hired”), and sales levels in 1992.

A consistent pattern emerges, actually over the past twenty years and according to all four outcome measures: Black-owned businesses have the worst outcomes and Asian-owned firms perform best, on average. For example, Black firms are, on average, half as likely as White firms to hire employees, whereas Asian-owned businesses are almost 40 percent more likely to hire employees than White businesses.

Chapter 3 introduces possible “suspects,” i.e., factors that may explain the observed performance gaps between ethnic groups. Potential suspects
are identified based on two sources. First, a careful analysis of previous studies identifying determinants of business ownership and performance and, second, descriptive statistics based on the CBO. The usual suspects are identified, like education and various sorts of work experience, i.e., in a managerial capacity and in a similar business. The effect of family business background is studied thoroughly and this is a contribution to the literature in itself. Not only is business performance related to the presence of a self-employed family member but also to work experience in a family-owned business. The idea is that a self-employed family member captures intergenerational links in the preferences or capabilities required for entrepreneurship. Self-employed parents may also create role models. Work experience in a family-owned business may capture the effect of having acquired less formal general business human capital.¹

The suspects are included in regression equations explaining business closure, profits, sales, and personnel, respectively, estimated on the CBO. All analyses are performed both including and excluding controls for the required level of start-up capital and the industry in which the entrepreneur is active. The authors’ motivation for this dual approach is that start-up capital and industries may be associated with business performance but, at the same time, be endogenous variables in the following sense. Potentially more successful businesses may have access to larger amounts of start-up capital such that a positive association between start-up capital and business performance may not be causal. In the same vain, the choice of industry may be guided by the required levels of (business) human and financial capital, which, in turn, determine business success directly. The number of hours worked is excluded from all analyses based on the same concern: it may well be that working fewer hours is caused by a lack of success instead of vice versa.

The authors, thus, claim to focus on exogenous owner and firm characteristics that predict business success. However, I have some doubts about the validity of this claim. Some of the included variables can also be considered “less exogenous.” What about the choice for education levels and whether or not to work in a similar business, in a managerial capacity, or in a family business? Wouldn’t it be the case that investment decisions in these forms of human capital by individuals (and their parents) are guided by potential (business) career prospects? In that case, all these human capital variables are endogenous too, as is, in fact, acknowledged and addressed in, for instance, David Card (1999), Zvi Eckstein and Kenneth I. Wolpin (1989), Dean S. Karlan and Martin Valdivia (2006), Philip Oreopoulos (2006), and Simon C. Parker and Mirjam Van Praag (2006). This may have consequences for the proper interpretation of the estimates. For instance, a positive correlation between education and business performance does not necessarily imply that prolonging an individual’s education would improve their business performance if education is endogenous. This implication is not valid if, for example, the positive correlation is due to an underlying unobserved variable, such as intelligence (affecting education levels and business performance).

Some of the measured effects of the suspects on performance measured by Fairlie and Robb are novel, others in line with earlier research outcomes. For instance, as is commonly found, the presence of a self-employed family member is not related to business performance, whereas education shows a positive relationship. The authors conclude that managerial experience has mixed effects on business performance. My reading of the results, though, is that managerial experience and performance are related significantly positively according to all measures with one exception: business closure. This may be evidence of a positive relationship between managerial experience and an entrepreneur’s outside options and, therefore, the probability of voluntary business disclosure, not due to a lack of business success (Van Praag 2003). Work experience in a similar business and, especially in a family-owned business, contributes strongly to business performance. Fairlie and Robb interpret the premium earned on experience in a family-owned business as: “Family members may impart more trust and give more responsibilities to their workers, which

¹ I would like to thank Joop Hartog and Menno Pradhan for their comments on an earlier version. Intergenerational links are also captured by business inheritances and gifts, although these turn out to be quite rare events.
in turn leads to successful business ventures” (p. 70). However, an alternative interpretation with distinct implications would be consistent with the result too: business owners are more selective in their choice of family members as employees. This would, in fact, be a logical consequence of the fact that it is more difficult to fire a family member than an outsider since firing may disturb the relationship between the employer and the employee, which is more harmful within a family.

Another “suspect” has insufficient stage coverage: general work experience. The authors just mention that it has no effect on business performance. Surprisingly, this result, pertaining to human capital, the focus of the current study, is not shown in any of the tables. This is all the more surprising because, as it will turn out in chapter 5, general work experience is one of the main explanatory factors of the Asian/White firm performance gap. Start-up capital and business success are strongly correlated, consistent with earlier results and various sorts of interpretations, among others, binding liquidity constraints that hinder the growth path and development of the firm (Parker and Van Praag 2006).

Chapter 4 identifies the relative importance of the various suspects, i.e., determinants of business performance, in explaining performance differences between Black and White firms. What is the quantitative contribution of, for example, the substantially lower chances of Blacks to have a self-employed family member or work experience in a family-owned business, possibly due to the fact that they have been raised, relatively often, in single parent families? And what is the role of differences between Black and White firms in terms of the availability of financial means? The authors unravel to the bone, in an impressive manner and based on various data sources, to what extent and why Black firms experience lower levels of (family) wealth, start-up capital and suffer from lending discrimination. This could explain part of the Black/White business performance gap.

The effects of these differences on the relative business performance of Black firms are identified using the Blinder–Oaxaca decomposition technique (Alan S. Blinder 1973; Ronald Oaxaca 1973) or a modified version that is able to cope with nonlinear outcome measures (binary or categorical) owing to Fairlie (2005). The combined relative effect on group performance differences is measured of (1) the different distributions of the determinants of business performance and (2) their effect size given the corresponding estimated coefficients in the performance equations. Applying these decomposition techniques, Fairlie and Robb show that their well measured and less endogenous firm and owner characteristics explain the racial gap for a very large part, ranging from 50 percent (profits) to nearly 100 percent (business closure). Start-up capital (including, to my opinion, the unobserved differences in variables underlying or covarying with start-up capital levels such as a preference for large scale businesses) turns out the most important explanatory factor. Other factors with (less) explanatory power are, among others, work experience in a family-business, marital status, and education.

In chapter 5, Fairlie and Robb perform an identical analysis, explaining the superior performance of Asian businesses over White firms. This analysis might provide important guidelines of how disadvantaged groups may utilize business ownership to advance. Three observable characteristics turn out to explain why Asian firms outperform White firms: start-up capital, education, and general work experience. The decompositions, including industry controls and start-up capital, explain between 96 percent and 161 percent of the total performance disparities between Asians and Whites, dependent on the outcome measure considered. Apparently, these percentages turn out substantially larger than one hundred in some cases, which puts the earlier achievements in explaining the performance differences between Black and White-owned firms for 50 to almost 100 percent in a somewhat different light.

The authors conclude that the outcomes of minority-owned and disadvantaged businesses may be improved by targeted policies to alleviating barriers to raising capital and help people acquire higher levels of education and business

2 It is not clear whether the standard or pooled Blinder–Oaxaca decomposition technique is used by the authors. The equations in the appendix suggest it would be the standard method, i.e., where separate group regressions are estimated, but the discussion of results suggests otherwise.
human capital through work experience. In my opinion, these policy recommendations are relying on an as yet untested assumption that the measured associations are causal effects.

Notwithstanding my critique on the assumption that the determinants of business performance are exogenous, I am truly very enthusiastic about this study. I sincerely recommend it to economists, students, policymakers, and practitioners (bankers, consultants) who are interested in successful entrepreneurship, human and financial capital, and/or minority-owned businesses. Interest in the economic advancement of ethnic minority groups in general may define an even broader base of readers. The study is so well crafted in the sense that all possible data sources are used, turned upside down, and the meaning of each and every number available is interpreted based on all existing knowledge from as many as possible and also unexpectedly new sides. All facts thus found are discussed using a fact-based tone avoiding sentiments that often dominate discussions about issues (“crimes”) with such a critical social character. These are major achievements of detectives Fairlie and Robb.

References


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O Economic Development, Technological Change, and Growth


This book explores the forces that lie behind Japan’s modest growth record of the 1990s and early 2000s and the basis for official projections of a low 2 percent average GDP growth rate during this period. The authors examine the question of whether the Japanese economy can achieve a higher rate of growth along with fiscal stability. They focus mainly on a theoretical and policy framework that will raise Japan’s potential growth. In the initial stage (Stage I: January–March 2006), they surveyed the effect of information technology (IT) on economies in the United States and East Asia, and proposed a new theoretical structure for analyzing the relationship between IT and productivity growth. In the second stage, they applied this theory in a modified econometric model and carried out alternative forecast simulations. Based on their findings, the authors propose fiscal and industrial development policies, particularly with regard to IT, to raise Japan’s potential growth.

This book consists of fourteen chapters. Chapters 2–4 examine Japan’s growth record and the implications for future growth projections. The authors discuss the nature of the IT/E-business revolution and see that the transformation is far greater than simply the development of new technologies and their application to production processes in the IT industries. The revolution influences what is