

THREE ESSAYS ON CULTURE AND ECONOMIC ACTIVITY

by

Arielle John  
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Committee:

\_\_\_\_\_ Director

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_ Department Chairperson

\_\_\_\_\_ Program Director

\_\_\_\_\_ Dean, College of Humanities  
and Social Sciences

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By

Arielle S. John  
Doctor of Philosophy  
George Mason University, 2013

Director: Peter J. Boettke, Professor  
Department of Economics

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## ABSTRACT

### THREE ESSAYS ON CULTURE AND ECONOMIC ACTIVITY

Arielle S. John, Ph.D.

George Mason University, 2013

Thesis Director: Dr. Peter J. Boettke

This thesis examines the influence of culture on economic activity. I demonstrate that the concept of culture is similar to the concept of a constitution, since both emerge as spontaneous orders, both constrain and thus enable certain actions in order to generate predictable behavior and encourage cooperation within groups, and both bind people's decision-making in an "intermediate" way, making them rigid to change, but not static. I further examine the cultural constitutions of different ethnic groups in Trinidad and Tobago, and find that a person's culture influences her decision to become self-employed. Finally, I examine attitudes towards entrepreneurship in Trinidad and Tobago and demonstrate that while individuals there are alert to profit opportunities for cultural and institutional reasons, they are simultaneously discouraged from exploiting those profit opportunities for other cultural and institutional reasons. This thesis shows that to understand the incentives people weigh in their economic decisions, economists require a theoretical notion of culture that allows for a rich description of a group's history.

## INTRODUCTION

This dissertation offers three essays on how culture affects economic activity. Culture is a context that enables a person to ascribe meaning to every aspect of her existence. To better understand why people perceive and respond to incentives the way they do, economists must attempt to discover the subjective meanings behind people's choices. I offer an economic theory of culture, and I elaborate on how culture affects entrepreneurial activity in Trinidad and Tobago.

Austrian economists accept the duties of cultural economics and currently debate suitable ways to talk about culture. Proposed concepts include culture as capital, comparative cultural advantage, and culture as the rules of the game. In the first essay, my foremost goal is to contribute to this debate. Dissatisfied with the prevailing Austrian concepts of culture, Virgil Storr (2004: 32) proposes a novel one: "To my mind, *culture is much more like a constitution*" since a constitution "directs an individual away from certain types of activities and towards others, with constitutional rules serving as points of orientation." Accordingly, for any individual, "culture directs (but does not determine) his actions and acts as the prism through which he views his problem situation"(ibid.: 25). A reasonable analogy, but Storr does not give us the details. My proximate goals are therefore twofold. I first demonstrate that both culture and constitutions (1) emerge as spontaneous orders, (2) constrain and thus enable certain actions in order to generate

predictable behavior and encourage cooperation within groups, and (3) bind decision-making in an “intermediate” way, making them rigid, but not static. Secondly, I use the example of Trinidad and Tobago to show how a concrete and “thin” concept of culture as a constitution may adequately frame cultural and cross-cultural narratives that are “thick” in description.

In the second essay, I focus on the observation that Chinese, Syrians-Lebanese and whites have the highest levels of self-employment in Trinidad, while Indians have emerged as the new business class. However, relatively few black Trinidadians are self-employed. Using 2008 survey data, this study examines whether these apparent differences in self-employment rates can be explained by differences in attributes, or must be explained by other factors like ethnic inclination/disinclination due to historical/sociological factors. I find substantial differences in the self-employment rates of the various ethnic groups, with black Trinidadians having the lowest rates, Indians and Mixed Trinidadians have the second highest, and the Chinese, Syrians-Lebanese and whites having the highest probability of being self-employed of all ethnic groups. These differences in the probability that members of a given ethnic group will be self-employed persist even after controlling for individual characteristics that also affect self-employment choice. I conclude with a discussion of the various historical/sociological factors that might explain differences in ethnic self-employment rates including the effects of colonization, the importance that each group places on family ties, and each groups’ appraisal of its status and opportunities relative to the other ethnic groups in the country.

Opportunity identification and opportunity exploitation appear to be the two essential moments of entrepreneurship captured in “stage models” of the entrepreneurial process (Moroz and Hindle 2011). Arguably, these two moments map quite nicely into the different approaches to studying entrepreneurship advanced by Kirzner and Schumpeter. Kirzner (1973) stressed alertness to hitherto unnoticed profit opportunities as essential to entrepreneurial behavior. Schumpeter, on the other hand, saw opportunity exploitation as the essential aspect of entrepreneurship. Unfortunately, that cultural and institutional factors can differentially affect the different moments of entrepreneurship is somewhat underappreciated in the “stage model of entrepreneurship” literature. Thus, in the final essay, I highlight the possibility that the same cultural and/or institutional environment can differentially affect Kirznerian and Schumpeterian entrepreneurs. In order to demonstrate this point, I show that understanding entrepreneurship in Trinidad and Tobago requires that we focus on how Trinidadian culture and institutions differentially affect both moments of entrepreneurship.



## CULTURE AS A CONSTITUTION

### I. Introduction

Many of the concepts economists use to explain why some countries are rich and others are poor—concepts like institutions, legal origins, ethnic fractionalization, and geography—do not have controversial definitions. The concept of ‘culture’, however, means different things to different economists. Achieving consensus on the meaning of culture may improve our understanding of how it influences economic activity, in the same way that a shared understanding of institutions, for example, allows for advances in institutionalist economic theory.

To explain culture’s impact on economic activity, why is it useful to model culture as a *constitution*? I argue that just as a constitution frames interactions between government and citizens, culture provides people with a shared framework of meaning in which to make their economic decisions. People with different cultural constitutions will ascribe different meanings to their experiences. As a result of culture, then, they make different decisions.

Why culture? The “institutions matter” thesis arguably now leads explanations of economic development. People are unable to prosper without guaranteed freedoms in private property, business, finance, and trade. Yet institutional explanations of development leave some open questions that cultural explanations might answer. For

example, why do certain institutions of economic freedom malfunction when introduced in specific contexts, despite being effective in others? Some argue that culture determines whether an imposed institution will “stick” in a country or not (Boettke).

Furthermore, institutions can apply uniformly to all citizens of a country, yet we may still observe unequal performance across groups of people living there. Ostensibly facing the same institutional and even monetary constraints, why would we observe groups of people making different patterns of market decisions? Why would some groups prosper under the prevailing institutions, while others do not? Economists observe that, *ceteris paribus*, culture induces a specific response to an incentive. Thus people of different cultures may react differently to the same incentives. Much like personality differences can sometimes wholly explain the difference in life outcomes of two people who otherwise face the same objective constraints, culture therefore seems to explain the disparate performance of individuals in social groups, holding institutions constant.

I propose that we think about culture as a constitution in order to overcome two problems that affect the existing conceptions of culture. First, those economists who already identify the impact of culture as something to be explained often are looking for substantively different theoretical explanations of this impact. Economists agree that institutions work by providing constraints. We then dutifully search for results of these institutions—the actions and interactions incentivized by the constraints. But we have no comparable consensus of the general way in which culture works.

For example, Avner Grief (1994) shows that people in “individualist” cultures communicate with, trust, and depend on each other less than people in “collectivist”

cultures. Thus the individualists require formal institutions to keep interactions honest. Such institutions “support anonymous exchange” and therefore “facilitate economic development” (1994; 943). On the other hand, David Harper (2003) theorizes that people in individualist cultures value being unique, assertive, ambitious, and creative. Furthermore, they are more likely to want to change their environment as opposed to themselves. Individualist entrepreneurship is therefore more self-centered, while people in collectivist cultures partake in group-centered entrepreneurship. Both Grief and Harper define culture as something that can make people “individualist” or collectivist”. However, one story focuses on how culture influences the development of a particular institutional climate that can be more or less favorable to economic development; the other story focuses on how culture represents a psychological orientation that manifests in a particular style of entrepreneurship. In the first story, institutions are formed and henceforth do all of the work. The individual’s conception of herself and her agency drive the second story. Perhaps these approaches to the impact of culture can be unified. Presently, however, they offer disparate theoretical notions of how culture affects economic activity.

The second problem concerns the way economists define culture. Not all economists who examine culture define it outright. More importantly, however, the principal features of culture disappear in these definitions and analogies. Dissatisfied with the prevailing concepts of culture, Virgil Storr (2004: 32) proposes a novel one: “To my mind, *culture is much more like a constitution*” since a constitution “directs an individual away from certain types of activities and towards others, with constitutional rules serving

as points of orientation.” Accordingly, for any individual, “culture directs (but does not determine) his actions and acts as the prism through which he views his problem situation”(ibid.: 25). A reasonable analogy, but Storr does not give us the details. To demonstrate the strength of the analogy, one must demonstrate the number and relevance of similarities between both concepts. My proximate goals are therefore twofold. I first demonstrate that both culture and constitutions (1) emerge as spontaneous orders, (2) constrain and thus enable certain actions in order to generate predictable behavior and encourage cooperation within groups, and (3) bind decision-making in an “intermediate” way, making them rigid, but not static. Secondly, I use the example of Trinidad and Tobago to show how a concrete and “thin” concept of culture as a constitution may adequately frame cultural and cross-cultural narratives that are “thick” in description.

I believe that elaborating on Storr’s analogy raises understanding in cases where Austrian economics typically is not applied. Storr (2004) constructs a narrative that improves our picture of economic life in the Bahamas. Similar to the Bahamas in history, geography and even political structure (both nations follow the Westminster system), Trinidad and Tobago presents a distinct underdevelopment puzzle that one also may address through cultural narrative. The grand problem is to thickly describe why people we do not know make the choices that they make.<sup>1</sup> If the analogy of culture as a constitution permits some understanding of economic outcomes in Trinidad and Tobago, we justify its use.

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<sup>1</sup> Boettke (2001a: 11), on the ideal cultural theory, says: “We need universal theory to understand, but we need uniqueness to whet our desire to understand *the other*. We are

The following section summarizes the research program in cultural economics. Next, I list and defend the similarities between culture and constitution, first offering definitions of each concept. Before concluding, I use the example of Trinidad and Tobago to demonstrate that the analogy helps us understand how culture affects economic outcomes.

## **II. Cultural economics.**

Economists have fairly recently engaged the study of culture—a research program central to the work of anthropologists, sociologists, historians, geographers and cultural studies scholars. In his chapter entitled “The Revival of Cultural Explanation”, Eric L. Jones (2006: 3—30) argues that development economist Peter Bauer’s arguments most directly influenced the “intellectual *volte face* of the 1990s”—the reintroduction of culture to economic analysis. Cultural economics looks at the relationship between culture and economic outcomes. Both mainstream and heterodox economists study culture. William Jackson (2009: 195) explains that heterodox economic sociologists like Granovetter (1990) and Swedberg (1997), influenced by Durkheim and Weber, maintain an academic perspective that is harmonious with culture. Economic sociologists aim to “analyse the elements of a capitalist economy—markets, forms, workers/consumers, government, property rights and so forth—from the viewpoint of sociological theory”,

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enough alike to learn from one another, but we are also different enough so as to have something to learn.”

and for them, ”among the key ideas has been embeddedness, such that markets and other institutions are embedded in social structures and cannot be separated from them.”<sup>2</sup>

Austrian economists embrace the goals of economic sociology.<sup>3</sup> Particularly the “economic” part of economic sociology, since Austrians emphatically deny that to study culture involves abandoning the pure logic of choice. Lavoie and Chamlee-Wright (2000: 38--39) address this point, arguing that:

If there is a core of universal, abstract theory that economists like to claim is valid across the whole range of human societies, this core does not try to claim much that anybody would find controversial. That demand curves slope downward may be something that economists tend to feel very strongly about, but properly understood, it is not something non-economists need to consider as an ethnocentric bias that is open to challenge. It does not imply that what is demanded will be material things rather than spiritual values, or that businesses will necessarily do what they think will bring money profits. It comes down to saying that whatever people want, they want it at less cost in terms of other things they want. *By itself* economic theory is empty of any empirical punch. And yet it is a profoundly useful framework when it is *not* left by itself, that is,

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<sup>2</sup> Although Jackson (2006: 194) submits that “the best prospects lie with heterodoxy” because the work of heterodox economists is “historically specific, interpretive, and glad to have culture as a core concept”(ibid.: 200—201), he laments that heterodox economists “proceed with their own research agendas and specialized literatures. . . .” while “the same ideas are expressed in different conceptual language, which leads to overlap and misunderstandings. Pluralism of ideas and methods is valuable, but duplicating terminology hinders the heterodox cause and reduces its ability to present coherent alternatives to orthodoxy.” Finding an adequate and agreed upon conception of culture plagues even the economic sociologists.

when it is put to work on interpreting real historical and cultural phenomena in all their richly diverse detail.

Thus, to say that Jack's context colors his choices is perfectly consistent with the statement that Jack acts rationally. The contextual explanation only adds body to the story of why Jack acts the way he does. To say that he is acting rationally is simply not enough. Lavoie and Chamlee-Wright insist that "this whole contrast between rational self-interest and culture is misconceived" (ibid.: 42), since:

All rational deliberation takes place within cultural parameters. What serves as an incentive for somebody depends on what the person wants. What seems rational depends on the prevailing culture's understanding of things. Culture is not another factor to be considered in addition to rational incentives, it is the underlying meaning of the specific content of any rational choice.

It is easy to forget, when we belong to a similar culture, that other people do not simply live in different environments, but perceive the world differently. We can however, reconcile the notion that relative price changes affect behavior with the awareness that prices, costs, and benefits are strictly a matter of interpretation. Our plans and purposes stem from the meanings we attribute to things, and this meaning we derive from our culture. Since Austrians understand that interpretation of the world is culturally contingent, Austrian economics provides a decent starting point for the study culture.

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<sup>3</sup> For an Austrian critique of sociological approaches, see Boettke and Storr's 2002 article entitled "Post-Classical Political Economy—Polity, Society, and Economy in Weber, Mises and Hayek."

Moreover, compared to strict sociology and anthropology, Austrian economics subscribes to the core precepts of methodological individualism, methodological subjectivism, and non-interventionism. And contemporary Austrians profit from the legacy of scholars like Mises, Hayek and Buchanan. These intellectual benefactors have equipped us with insights relating to the spontaneous emergence of social orders as well as the evolutionary nature of the rules and customs that direct our behavior. These scholars focus on the impact of time and place—that is, of context—and enlighten us about the fundamental constraints on our cognition. Finally, compared to mainstream economists, Austrians do not bother with isolating the impact of culture, as they do not perceive it as an instrument or separate causal factor on its own.<sup>4</sup> Nor is Austrian economics so much concerned with generating testable hypotheses about culture as it is with thick ethnographic descriptions.<sup>5</sup> The Austrian economic sociology appears more conducive to the study of culture than other research programs in or outside of economics.

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<sup>4</sup> Geertz (1973: ??) also refutes the concept of culture as an independent causal factor, insisting: “Culture is not a power, something to which social events, behaviors, institutions, or processes can be causally attributed; it is a context . . . within which they can intelligibly . . . be described.” Lavoie and Chamlee-Wright (2008: 8) also quote Mark Jacobs (1994), saying: “We now tend to view culture as a context rather than a force; a “tool kit” of habits, skills, and styles from which people construct strategies of action in everyday life, rather than a set of ultimate values.”

<sup>5</sup> Guiso, Sapienza, and Zingales (2006: 23) for example, in full agreement with Avner Greif, remark, “Without testable hypotheses, however, there is no role for culture in economics except perhaps as a selection mechanism among multiple equilibria.” Their article entitled “Does Culture Affect Economic Outcomes?” proceeds by employing both religion and ethnicity as instrumental variables for culture. By the exclusion restriction, culture and economic development may affect each other, but since religion and ethnicity do not directly affect economic development, they isolate the impact of culture on development without worrying about reverse causality.



But are the Austrians getting it right? While the Austrians have overcome most of the major objections to cultural economics (see Jones 2006 for a discussion of these objections), their theories about how culture affects decision-making appear fraught with problems.

Throsby's (2001: 44) concepts of cultural resources and cultural capital, which Lavoie and Chamlee-Wright endorse (2000: 64), are plausible. Capital is seen as a set of endowments of resources, natural or manmade, that give persons, firms or countries an edge in the production of one thing or another. Different cultures do seem to have different resources and different levels of human capital. However, capital conveys a sense of something that can be straightforwardly acquired, stocked, replaced, traded, restricted, denied, and even chosen. Does this apply to culture? Not if a person is born into a cultural environment that is not of his choosing. Persons rarely purposely seek to accumulate culture. Values within the society will be so embedded in the cultural system that it will prove difficult and even undesirable for a person to abandon the way he sees the way world.

Furthermore, the concept of comparative cultural advantage, which Lavoie and Chamlee Wright (ibid.: 65) claim a culture "*must* have . . . no matter how poorly it scores in absolute checklists" also appears reasonable. However, as Storr (2004: 33) explains, the idea of comparative cultural advantages also frustrates, because "cultures can not readily be catalogued in terms of their absolute *strengths* and *weaknesses*" since, as stated before, "we cannot satisfactorily talk in terms of cultural resources." In sum, the major

critiques of Austrian concepts of culture are imperfect correspondence with the concept of culture and loss of the essential criteria that encompass culture.

If we are going to attempt to find an analogue in economics that is close to culture, there must be one that is superior to the others. As Geertz puts it, “Eclecticism is self-defeating not because there is only one direction in which it is useful to move, but because there are so many: it is necessary to choose.” Honing in on the contextual feature of culture, Storr (2004: 32) asserts:

To my mind, *culture is much more like a constitution* . . . . Remember, constitutions define the formal rules which govern a society. As Hayek (1960, 178) describes, a constitution assigns “specific powers to different authorities,” while limiting “their powers not only in regard to the subjects or the aims to be pursued but also with regard to the methods to be employed.” A constitution, thus, defines the rules of the games (for the referees and the players, the authorities and individual citizens) and consequently, both imposes constraints and defines and delimits the set of opportunities than an individual can legitimately exploit. It, therefore, directs an individual away from certain types of activities and towards others; within constitutional rules serving as points of orientation. Culture operates in the same way.

Storr’s book entitled “Enterprising Slaves and Master Pirates—Understanding Economic Life in the Bahamas” offers an analytical narrative that

introduces and implicitly operationalizes the constitution notion in the above paragraph, but does not defend the “constitution” analogy. Thus, there are insights left over from Storr’s book. I wish to expand Storr’s concept to show why his analogy of culture as a constitution is appropriate, or at least, more appropriate than other concepts. Even if the concept of culture as constitution is imperfect, it more closely resembles what culture is by showing how it actually works. Although I did not discuss in detail the shortcomings of the alternative concepts, I intend for these shortcomings to be illuminated as I elaborate on the constitution analogy.

### **III. Why culture is a like a constitution.**

The task of comparing culture to constitution demands an adequate definition of both.

Culture is a context that enables a person to ascribe meaning to every aspect of his existence. Clifford Geertz (1973: 89) defines culture as “an historically transmitted pattern of meanings . . . a system of inherited conceptions . . . by means of which men communicate, perpetuate, and develop their knowledge about and attitudes toward life.” People ascribe meaning to every aspect of their environment, and these meanings transmit through generations in patterns. A culture is thus a pattern of meaning. Culture operates by systematically matching a people’s ethos—“the tone, character, and quality of their life, its moral and aesthetic style and mood”—to their worldview—“the picture they have of the way things in sheer actuality are, their most comprehensive ideas of order.” Cultural systems operate at many levels, including, for example the national, ethnic, religious, ideological, musical, and academic level. Common references we make

to “French culture”, “Arabic culture”, or “hip-hop culture” testify to this multiplicity of levels of cultural systems.

Brennan and Buchanan (1980: 5) define a constitution in fundamental terms as “the set of rules, or social institutions, within which individuals operate and interact with one another.”<sup>6</sup> Buchanan (ibid.) uses the analogy of a game to explain what a constitution is:

A game is described by its rules—its constitution. These rules establish the *framework* within which the playing of the game proceeds; they set boundaries on what activities are legitimate, as well as describing the objects of the same how to determine who wins (emphasis mine).

Brennan and Buchanan’s definition clearly overlaps with Storr’s description of a constitution as a set of rules that shape behavior. Hayek (1960: 178), getting into the minds of the American constitutionalists in the 18<sup>th</sup> century, defines the term constitution with a political inflection:

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<sup>6</sup> Various definitions of the word “constitution” include the terms “rules,” “laws,” “conventions,” and “principles.” For example, the Political Dictionary defines a constitution as “the set of fundamental rules governing the politics of a nation or a subnational body.” “In political theory,” the Philosophy Dictionary says, a constitution contains “the written or unwritten laws or conventions that govern the powers and limits of political authority in the state.” Finally, the Columbia Encyclopedia defines a constitution as the “fundamental principles of government in a nation, either implied in its laws, institutions, and customs, or embodied in one fundamental document or in several.”

A constitution which in such manner is to limit government must contain what in effect are substantive rules, besides provisions regulating the derivation of authority. It must lay down general principles which are to govern the acts of the appointed legislature. The idea of a constitution, therefore, involves not only the idea of hierarchy of authority or power but also that of a hierarchy of rules or laws, where those possessing a higher degree of generality and proceeding from a superior authority control the contents of the more specific laws that are passed by a delegated authority.

Hayek thus views a constitution as a structure of rules defining and delimiting the functions of a political entity. Within that structure, some rules are more general. Those types of rules determine the tone of the lesser, more specific rules.

Constitutions exist in different forms—codified, uncoded, formal (written) and unwritten. Typically, governmental constitutions consist of codified rules. That is, one single document contains the constitution of a nation. Constitutions also exist at different levels.<sup>7</sup> Despite differences in form, all constitutions constrain the actions of the central authority in order to enable a range of actions by the governed.

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<sup>7</sup> Only in New Zealand, Israel, and the United Kingdom do uncoded governmental constitutions exist; one cannot pinpoint the Constitution of the United Kingdom in a single document since that constitution exists as a set of laws, statutes, and judicial decisions written down in various documents. As an example of level differences, Massachusetts has a state constitution, and the Articles of Incorporation of any firm functions as a constitution.

How are the two concepts similar? For some (Pejovich 2008), both constitutions and culture are essentially types of institutions.<sup>8</sup> But even if we concede that culture represents the informal rules of the game (which I am not inclined to do), we still do not know which specific institutions culture is more or less like. The concept of culture is also too intricate—even esoteric—to treat with too generally.<sup>9</sup> Therefore, saying culture is like any another institution limits us from saying all that we can about it. Austrian economists theorizing about how culture matters for economic outcomes are searching for analogues to culture that are relevant, meaningful, and concrete. Given these requirements (and acknowledging that form is difficult to separate from function), I show that culture shares several key criteria in common with constitutions. I identify three key similarities between cultures and constitutions—(1) both emerge as spontaneous orders, (2) like a constitution, culture constrains and thus enables certain actions in order to generate predictable behavior and encourage cooperation within groups, and (3) like a constitution, culture binds individual decision-making in an “intermediate” way, and hence both are rigid, but not static.

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<sup>8</sup> “Formal rules,” Pejovich (2008: 11) remarks, “are constitutions, statutes, common laws and other governmental regulations” while institutionalized informal rules include – “traditions, customs, moral values, religious beliefs and all the other norms of behavior that ... are transmitted from one generation to another via oral interpretation ... Informal rules are also called culture, the old ethos...” Pejovich implicitly grants the correspondence between constitutions and culture *qua* meta-institutions. But no one readily compares cultures with constitutions *per se*.

<sup>9</sup> Jackson (2009: 15) agrees: “The various meanings of cultures testify to its subtlety and depth. Social sciences have complex, protean subject matter, and social or cultural theory should be correspondingly rich. As long as the meanings of culture do not get out of

i. *Cultures and constitutions emerge as spontaneous orders.*

The ability to deliberately select and then amend rules, to write down those rules in one or several documents, and ultimately to enjoy a system that enforces those rules, does not mean that people designed those rules. In *The Constitution of Liberty* (1960: 184), Friedrich Hayek (1960: 184) corrects the misperception of design of the American Constitution, saying:

Much is sometimes made of the fact that the American Constitution is the product of design and that, for the first time in modern history, a people deliberately constructed the kind of government under which they wished to live. The Americans themselves were very conscious of the unique nature of their undertaking, and in a sense it is true that they were guided by a spirit of rationalism, a desire for deliberate construction and pragmatic procedure ... This attitude was often strengthened by a general suspicion of tradition and an exuberant pride in the fact that the new structure was entirely of their own making. It was more justified here than in many similar instances, yet still essentially mistaken. It is remarkable how different from any clearly foreseen structure is the frame of government which ultimately emerged, how much of the outcome was due to historical accident or the application of inherited principles to a new situation. What new discoveries the federal Constitution contained either

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hand, its plurality can be beneficial and dissuade us from simplistic theorising.” Here, Jackson is referring to plurality in defining culture, not theorizing about it.

resulted from the application of traditional principles to particular problems or emerged as only dimly perceived consequences of general ideas.

Later on in the book, Hayek (ibid.: 181) reiterates, saying “We must not believe that, because we have learned to make laws deliberately, all laws must be deliberately made by some human agency.” Hayek underscores the lack of pure intentionality of the American Constitution by demonstrating that the form of government specified by the constitution was not a form that any person or group of persons could have predicted. Constitutions, according to Hayek, emerge from conventional norms that groups of people have about order. Uncodified or unwritten constitutions therefore always will precede codified or written ones.

Hayek argues that the informal or tacit rules by which people abide inform written constitutions.<sup>10</sup> Written constitutions merely reflect informal rules for behavior. Although never really expressing *culture* as a constitution, Hayek also suggests that in many respects, these unspoken guidelines are even more powerful in shaping human behavior and steering our interactions than formal constitutions. He writes (ibid.: 62):

We understand one another and get along with one another, are able to act successfully on our plans, because, most of the time, members of our civilization conform to unconscious patterns of conduct, show a regularity in their actions that is not the result of commands or coercion, often not even of any adherence to



known rules, but of firmly established habits and traditions. The general observance of these conventions is a necessary condition of orderliness of the world in which we live, of our being able to find our way in it, though we do not know their significance and may not even be consciously aware of their existence.

The point Hayek insinuates here about culture is that, for the most part, individual behavior is guided by “habits and traditions” of unknown origins to persons involved. We know not why we either help or ignore strangers on the street, why we kiss or shake hands with people we just meet, or why we wear headscarves or hats. Even though we may be able to deduce superficial, time-and place-specific rationales for these actions, we are still not certain of the source of our actions. No one person among us designed these rules for the purpose that they fulfill at any point in time.

According to Hayek, written constitutions that command or coerce us to act are not required for humans to behave in a way that is conducive to their functioning.<sup>11</sup> To make the argument for spontaneous emergence even stronger, Hayek (*ibid.*: 63) insists that constitutional evolution is:

... possible only with rules which are neither coercive nor deliberately imposed – rules, which, though observing them is regarded as merit and though they will be

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<sup>10</sup> For a comparison of law to custom that denies Hayekian evolutionism, see Ekkehart Schlicht’s chapter entitled “The Law” (1998: 191—206).

<sup>11</sup> Hodgson (2006: 12) states this point too: “Clearly, the mere codification, legislation, or proclamation of a rule is insufficient to make that rule affect social behavior. It might simply be ignored, just as many drivers break speed limits on roads and many continental Europeans ignore legal restrictions on smoking in restaurants.”

observed by the majority, can be broken by individuals who feel that they have strong enough reasons to brave the censure of their fellows.

Hayek's argument for the primacy of informal rule structures over artificially imposed standards of conduct provides support for Storr's notion of culture as a robust constitution. Culture ultimately shapes our institutions (for example, constitutions), which in turn affect economic outcomes given a set of circumstances and endowments. But, since we merely inherit the patterns of meaning we use to interpret the world, we do not choose or design from scratch those institutions. Just as our constitutions do not descend from a *deus ex machina*, we do not wake up with a completely original ethos or worldview. Constitutions emerge from cultures, which also emerge. Hayek (*ibid.*: 63) continues, saying:

At any one stage in our evolution, the system of values into which we are born supplies the ends which our reason must serve. This givenness of the value framework implies that, although we must always strive to improve our institutions, we can never aim to remake them as a whole and that, in our efforts to improve them, we must take for granted much that we do not understand. We must always work inside a framework of both values and institutions which is not of our own making. In particular, we can never synthetically construct a new body

of moral rules or make our obedience of the known rules dependent on our comprehension of the implications of this obedience in a given instance.<sup>12</sup>

When Hayek talks about the habits, traditions, and values that shape our behavior, he is really referring to culture and cultural systems. Thus, an important feature of the Hayekian concept of culture is that culture emerges spontaneously, transmitting through generations of people, and taking forms unpredictable to the people who share that culture at any point in time. A constitution is a framework of rules guiding the actions of individuals within a country (or state, or firm) and inherited by generations before. Culture is also a framework of meaning guiding the actions of individuals within a region (or ethnic group, or religious group) and inherited by generations before. People adopt constitutions and they adopt culture—they do not freely invent or choose them. Both constitutional and cultural frameworks emerge in the absence of deliberate design, and thus the implications of spontaneity apply to both.<sup>13</sup>

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<sup>12</sup> Hayek (1960: 181) later says that, “Like the forces governing the individual mind, the forces making for social order are a multilevel affair; and even constitutions are based upon, or presuppose, an underlying agreement on more fundamental principles—principles which may never have been explicitly expressed, yet which make possible and precede the consent and written fundamental laws.”

<sup>13</sup> Boettke (1990: 72) explains that James Buchanan “challenges the very idea of extending the spontaneous order paradigm beyond the realm of economics.” This is because Buchanan feels that “Hayek’s conservatism doesn’t allow for the deliberate reform of the rules of the society.” Buchanan is referring to constitutional reform. However, Boettke defends Hayek’s position, arguing that if we reject neoclassical notions of optimality (as Austrians do), we have no reason to believe that markets should achieve optimality. “The superiority of the market process” he writes (ibid. 74) “lies not in its ability to produce optimal results, but rather in its ability to mobilize and effectively use knowledge that is dispersed throughout the economic system.” To say that culture

ii. *Culture and constitutions constrain action to generate predictable behavior and encourage coordination within groups.*

Why have constitutions developed? James Buchanan offers useful insights from Constitutional Political Economy in answering this question. According to Buchanan (1962: 51), an economic theory of constitutions begins with the theory of the social compact, which suggests that in order to prevent their lives from being miserable in the Hobbesian state of nature, individuals enter into contracts with governments who provide the people with security. That is, when people are not bound by any formal rules whatsoever, individuals search for a way to protect themselves from the arbitrariness of other individuals. The government steps in to draft and enforce rules in a way that aspires to promote peaceful exchange. This is one of the main goals of constitutions.

At the same, the government's powers are wide-ranging. Constitutionalism evolves with the crafting of the American constitution by the founding fathers. They did not mainly concern themselves with legitimizing government, as they did with keeping "government's Leviathan like proclivities in check" (1962: 51). Constitutions contain rules preventing judges and legislators from pursuing self-serving goals at the expense of upholding general principles. And, according to Hayek (1960: 179), "the reason for this need" is:

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and constitutions are emergent orders is not to imply that there exists some notion of a "best" culture or "best" constitution that we can achieve or design. In fact, applying Hayek results in a different conclusion. Cultures and constitutions may both result in human behavior that appears suboptimal from a welfare standpoint, but introducing artificial rules may not alter this behavior.

...that all men in the pursuit of immediate aims are apt—or, because of the knowledge of their intellect, in fact bound—to violate rules of conduct which they would nevertheless wish to see generally observed. Because of the restricted capacity of our minds, our immediate purposes will always loom large, and we will tend to sacrifice long-term advantages to them. In individual as in social conduct, we can therefore approach a measure of rationality or consistency in making particular decisions only by submitting to general principles, irrespective of momentary needs.

We cannot always trust ourselves to do right by ourselves, or even trust others to do right by us. Within groups, we therefore enter into constitutional contracts to ensure that we consistently live by and enforce our shared, long-term principles. Hayek implies that inevitable breakdowns in our ability to sustain our goals of peaceful exchange stem from the epistemic scarcity all human beings face. We are inherently inhibited in what we can know and foresee. Therefore we require rules to force our actions in line with our principles. To constrain the number of inevitable and adverse departures from these principles, constitutions emerge.

The rules comprising constitutions exist to create stable expectations of other people's behavior, which allows for peaceful coordination of activity. Recall that constitutions are an emergent order. By “order”, Hayek (1973: 36) means:

...a state of affairs in which a multiplicity of element of various kinds are so related to each other that we may learn from our acquaintance with some spatial or temporal part of the whole to form correct expectations concerning, the rest, or at least expectations which have a good chance of proving correct.

Constitutions therefore do not emerge with an intended purpose. However, they still have an observed function, which is to generate predictability and hence encourage social cooperation. When application of the law is arbitrary, people do not know what to expect from government, and peaceful exchange may suffer. Legal rules that match informal social rules are stable and predictable. This predictability coordinates activity and allows exchange to flourish. Constitutions, as institutions, “both constrain and enable behavior” since “institutions enable ordered thought, expectation, and action by imposing form and consistency on human activities” (Hodsgon 2006: 2).

The same can be said of culture. By adopting a pattern of meaning, we simplify our decisions without always having to know why we make those decisions. We also know what to expect of individuals within our culture because they are likely to impute the same meaning to things as we do, thereby making life more predictable for us all. The same epistemic scarcity that drives us towards constitutions also drives us toward culture.<sup>14</sup> According to Geertz (1973: 216—217), cultural systems:

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<sup>14</sup> Whitman (2009: 24) refers to rules in general, but may refer to customs within culture or constitutional rules when he says: “Rules are those directives that help people make decisions with some degree of certainty about which behaviors are acceptable (or expected) and which are not. That is, the primary function of rules is to lend predictability to one’s own choices as well as the choices of others (including their

...are extrinsic sources of information in terms of which human life can be patterned—extrapersonal mechanisms for the perception, understanding, judgment, and manipulation of the world. Culture patterns—religious, philosophical, aesthetic, scientific, ideological—are “programs”; they provide a template or blueprint for the organization of social and psychological processes, much as genetic systems provide such a template for the organization of organic processes. ... The reason such symbolic templates are necessary is that, as has been often remarked, human behavior is inherently plastic. Not strictly but only very broadly controlled by genetic programs or models—intrinsic sources of information—such behavior must, if it is to have any effective form at all, be controlled to a significant extent by extrinsic ones.

Although no one is cultureless, and human beings transmit patterns of meaning, culture does not originate within us. Our genetics and instincts do not provide us with enough information to live together and to coordinate our activities in a mutually beneficial way. We do not have this type of information naturally. Cultural systems therefore provide us with external “blueprints” or “templates” for behavior that allow our

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responses to one’s own choices). Predictability results from a reduction in the amount of information individuals must collect and process, and it is desirable because it enhances individuals’ ability to make plans and to coordinate with each other... To predict the effect of either pure case-by-case or pure standard-based decision making, the agent must possess and process an untenable amount of information and predict the behavior of an untenable number of other agents. The informational burden and cognitive load are simply too great.”

behavior to be effective. By effective, I mean behavior that is less arbitrary and more conducive to the attainment of our plans. Like constitutions therefore, culture constrains and therefore enables behavior.

The precedence of culture over constitutions also relates to the function of each. Since shared frameworks of meaning generate predictability and coordinates activity within a group of people, constitutional systems of rules that match cultural systems will achieve the same general goals.<sup>15</sup> Thus a constitution will match ethos to worldview in a way that stabilizes the expectations of people and promotes exchange within that culture. This is an alternative way of stating the point that the form institutions take is culturally contingent. Constitutions are merely social institutions embedded in cultures. “The presence of a written Constitution” Lavoie and Chamlee-Wright (2000: 20) reiterate, “will be of little help if the underlying cultural norms which main its legitimacy are dead.”

*iii. Cultures and constitutions are intermediate, and therefore rigid but not static.*

A final fundamental similarity in the analogy of culture as a constitution is that cultural systems, like constitutional systems, direct behavior only generally, and therefore allow for changes to those systems now and then. Rules or customs must therefore reflect “intermediacy”—they cannot be extremely general nor extremely specific. Whitman (2009: 38) explains why:



Any system of abstract rules will produce occasional failures in satisfying the customary functions of the order, such as communicating ideas or coordinating economic behavior. This fact creates an endogenous impulse to make exceptions or appeal to vague standards—the matching principle at work. To resist extreme applications of the matching principle, a system of rules must have a means of accommodating it to some degree.<sup>16</sup>

Whitman (2009: 40) differentiates the rules of a spontaneous order from the spontaneous order itself, but insists that:

The rules that encourage the growth of a spontaneous order will, taken as a whole, tend to display an intermediate degree of abstraction. A system governed by rules that are too specific or too abstract will fail to coordinate expectations of people working within the order that emerges, whereas rules of intermediate abstraction economize on mental space while minimizing vagueness. Intermediate abstraction is not enough; however, the rule set also needs to be ... robust to small deviations, and open to emergence of new rules.

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<sup>15</sup> If we relax the assumption that social structures are distinct from cultural ones (source??), we might view the constitutional system as one type of cultural system.

<sup>16</sup> On abstraction, Hayek (1973: 29) says: “Abstract concepts are a means to cope with the complexity of the concrete which our mind is not fully capable of mastering.” He also says that “We never act, and could never act, in full consideration of all the facts of a particular situation, but always by singling out as relevant only some aspects of it...”(1973, p. 30). We therefore deal with complexity by filtering it—ascribing relevance to some things while ignoring others.

As an order that communicates ideas and coordinates economic behavior, a constitution is therefore a system of abstract rules. Codified constitutions represent the supreme law, and the supreme law does not undergo frequent change. The entrenched nature of rules within a constitution differs depending on the level of those rules. The most entrenched rules are quite immune to change and are hence robust to small deviations. But, governments find it necessary to change rules from time to time, particularly at lower, more specific levels. All amendments to the United States Constitution prove that while the Constitution is rigidly enforced, it is “living”—that is, it still accommodates change and is thus open to the emergence of new rules. According to Pejovich (2008: 71), “There is no reason to assume that federal courts will avoid making decisions inconsistent with the Constitution, as the Supreme Court showed in *Kelo v City of New London*.”<sup>17</sup> Still, that constitutions are generally rigid confirms the role of institutions in generating predictable outcomes from other people. “To the extent that the evolutionary process responds to the human need for predictability, “Whitman (2009.: 41) maintains, “we should expect the resulting rules to possess an intermediate degree of abstraction.” The Constitution in its totality therefore, is rigid, but allows for change when change is called for.

Although Whitman does not refer to culture explicitly (nor constitutions for that matter), he exemplifies this intermediate nature of rules within etiquette and language, as well as law. Rules of language have to be just flexible enough to cope with inevitable adjustments, but not completely fickle as to make misunderstanding the norm. While

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<sup>17</sup> Pejovich (ibid.) continues: “The Public Choice School explains (and human nature

written constitutions are completely observable, the patterns of meaning that groups possess are generally not. However, we observe habits, customs, and shared behaviors within groups that testify to the culture. These features of culture change now and then as the new and different generations of people entering a cultural system internally but not purposely spark that change. Hence cultural systems, like constitutional systems, are intermediate in terms of their abstract rules. According to Jones (2006: 47):

Despite recurrent evidence of malleability, some degree of fixity—but transient fixity—does remain. Economists will not be surprised that fixity is only conditional. However settled a culture may appear, it is really in permanent disequilibrium. Cultures are never as rock-solid as they seem; a sort of continental drift is always at work. If that analogy suggests an interminable geological timescale, remember that earthquakes reveal how abruptly the most sluggish system can be transformed.

By invoking the metaphor of continental drift, Jones is showing us that cultures are fairly robust to small deviations. However, he reminds us that occasionally, small changes may set a culture on a new path.<sup>18</sup>

Cultures also exhibit a rigid but dynamic evolution. Lavoie and Chamlee-Wright imply that cultures are open to the emergence of new rules by reminding us that

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underscores) that some court decisions may well be out of tune with the Constitution.”

<sup>18</sup> Deidre McCloskey’s (2006) account of the favorable shift in attitudes towards merchants in sixteenth century Holland provides evidence of such paradigmatic changes.

culture is but an aspect of our decision-making (2000: 23). “Cultural studies” they say, “shows that culture is not an immutable given with which a society must learn to love. Nor is it homogenous within nations, or even within families. It is a complex of diverse tensions, ever evolving, always open to new manifestations and permutations” (ibid.: 13). Culture may bind certain actions of a people. However, that does not stop individuals from adopting new frameworks of meaning, even though the change may only be partial. Insofar as cultures function to generate predictable behavior and maintain social coordination, this process will always be one of adjustment toward equilibria, and changes in culture will occur. Just as cultural practices change over time to reflect shifting beliefs, new information, and even globalization, constitutions are updated as a country’s experiences with questions of human rights and the extent government oversight accumulate. And as Geertz described, human nature is inherently plastic. Like constitutional systems therefore, cultural systems survive throughout successive generations, but changes take place from time to time as a people’s ethos or worldview changes. While both culture and constitutions are rigid therefore, they are never static.<sup>19</sup>

Some of the features belonging to both culture and constitutions appear to get lost in concepts like cultural capital, and comparative cultural advantage. The subtleties of culture (spontaneous origin, predictability function and robustness to small deviations, for example) seem to not even apply to those concepts.

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<sup>19</sup> On constitutions, Brennan and Buchanan (1985: 34) state: “The very notion of a rule implies existence through a sequence of time periods. We could hardly describe a game by its rules if they were made up at the beginning of each round of play. Rules tend to be quasi-permanent; they “live” longer than outcomes of decisions made under them.”

Cultural capital and comparative cultural advantage are not wholly erroneous concepts, just imprecise ones. However, the analogy of culture to constitutions is not perfect either. How far does it go? For example, if culture is everywhere, are constitutions everywhere? Can we say that (uncodified) constitutions guide any and all groups of people? Does a theory of constitutional change give us a theory of cultural change, or vice versa?<sup>20</sup> Can certain cultures thrive under or adjust to implanted constitutions? And, if we can make judgments about institutions (how they provide for private property, freedom of contract and the rules of law), why can't we make judgments about cultures? At this point, these questions are open-ended.

However, I do observe enough relevant correspondences between the concepts of culture and constitutions to warrant the analogy. Further similarities may also exist—we attempt to codify culture in various places including religious books, folk songs, paintings, and so on. Can we use the analogy of culture as a constitution to produce analytical narratives of economic life? The next section explores the concept's broad applicability to entrepreneurship narratives.

#### **IV. Example from Trinidad and Tobago.**

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<sup>20</sup> Probably not. According to Boettke, Coyne, Leeson and Sautet (2005: 289): “Few economists have ventured a theory of cultural and institutional change. Our most sophisticated intellectual tool-kit is best designed for the analysis of situations in which change is absent and most attempts to discuss change within this framework simply eliminate the discussion of change by way of construction. The tool-kit of comparative statics does not permit a discussion of change *per se*, but an analysis of the situation prior to the intervening change and the situation after the change has had its effect. Nowhere in the analysis is an examination of how the change in fact took place. But that is precisely what is required.” Although my analogy submits that cultures change, and change develops happen unintentionally, these statements do not have much analytical traction by the preceding authors standards.

Like many ex-colonies in the Caribbean, history provided Trinidad and Tobago with a society of many ethnicities, whose distinct original cultures have by now fused into something manifestly ‘Trinidadian’. In a working paper, I show, using the 2008 Continuous Sample Survey of Population sample, that the different ethnic groups exhibit distinct economic patterns—Africans have the lowest self-employment rate (16.7 percent), a rate which is not comparable to that of Indians or Mixed persons, and especially not to Chinese, Syrians-Lebanese and Whites, the CSW group, (35.5 percent). The CSW group has the highest self-employment rate. Furthermore, while Indians, Africans and Mixed persons have roughly the same distribution of educational attainment, the majority of Chinese, Syrians-Lebanese and Whites are university graduates/foreign educated or have attained secondary school completion. On the basis of monthly income, we see that once again, Africans, Indians, and Mixed persons have similar relatively normal distributions. CSW on the other hand, are over-represented at high levels of income.

Chinese, Syrians-Lebanese and Whites almost appear then to be living in a different country than the other ethnic groups given these patterns. Substantial differences exist between Africans and Indian economic performance too, particularly with the emergence of a new business class of Indian entrepreneurs. How does culture account for these differences? Can we say that each group abides to its own constitution? Perhaps, yes. Selwyn Ryan and Lou Anne Barclay’s book entitled “Sharks and Sardines—Blacks in Business in Trinidad and Tobago” (1992) tells a story about Afro-Trinidadians (and other ethnic groups) attempting to become entrepreneurs after independence in 1962.

Ryan and Barclay's book is littered with possible explanations for the relatively poor performance of Blacks by 1992. In the early 1900s, the planter class took deliberate steps to raise taxes and make land acquisition difficult for blacks (ibid: 4), blacks depended on volatile crop prices for their success yet spent their incomes "lavishly" (ibid: 8), and blacks tended to borrow too much credit from white planters, who ended up seizing blacks assets when the blacks could not repay (ibid: 9). Blacks also frequently migrated to urban areas in search of jobs and schools, thus forfeiting their lands to Indians, who preferred to work in rural areas (ibid: 11).

Many of these behavioral patterns remained in the Afro-Trinidadian constitution over time. Ryan and Barclay's 1991 survey found that blacks continued to exhibit low educational attainment and run smaller size firms, with limited family involvement in their businesses and a decreased propensity to employ professional consultants to assist them (ibid: 18). Black females preferred sole-proprietorship (ibid: 27), their parents were not supportive and, these women were only inclined to pursue self-employment out of economic hardship (ibid: 115). One black businessmen surveyed suggested that since blacks had always been provided for as slaves, they did not develop ethics of struggle and survival like Indians (ibid: 65). On the other hand, the bankers surveyed claimed that blacks especially exhibited irresponsibility and "immorality" with their debt, and that the need to signal style and status was more important to the black culture than frugality (ibid: 77). Bankers also claimed that blacks cared little about legal incorporation, management training, auditing and getting insurance (ibid: 78). All of this implies that

blacks faced a specific set of culturally inherited constraints resulting in the rigid economic and social patterns described above.

In terms of other ethnic groups, Ryan and Barclay claim that Indians, Chinese and Syrian-Lebanese learned the virtues of hard work, thrift and planning for the future from their ancestors, who saved greatly in preparation for the return to their homelands (145). Those three groups, like Whites, also formed business associations to support their ethnic group's success in business. Bridget Brereton, in her book "Race Relations in Colonial Trinidad, 1870 – 1900" (1979: 36), also mentioned that among the white elite, "a high value was placed on family connections" and French Creoles routinely inbred and intermarried to keep economic networks and kinship tight. The Whites constitution prevented them for the most part from marrying outside their group, but enabled them to stick closely together and cultural transmission was very powerful and persistent.

In contrast, blacks never saw themselves as transients—in their worldview, they always regarded themselves as Trinidadians and hence focused instead on "education rather than business as a vehicle for social mobility" (ibid: 146). Black parents discouraged their children from becoming businessmen, choosing instead to instill academic values so that their children could grow up and secure status from "good" jobs, particularly in the public service. Brereton (1979: 85) also argues that Afro-Trinidadians were more likely to seek status by investing in education, not entrepreneurship – "school represented the main chance of mobility for the sons of black and coloured lower class and lower middle class" (ibid: 85). Investing in school featured predominantly in the African constitution, which directed their behavior towards business activities.



As mentioned in the literature, Chinese, Syrian-Lebanese and White Trinidadians established strong ties and kinship, and fostered associations to help each other. Many of them are now successful entrepreneurs. The fact that this group developed a different culture suggests that individuals within this group operate under a different constitution—they face a different set of particular set of constraints that prevent them from following certain actions (public sector jobs), but enable them to follow others (business). This would explain why these groups economically outperform Africans, who historically refrained from cooperating with each other, and whose families tended not to support their business endeavors. The persistence of these patterns demonstrated by Ryan and Barclay’s 1991 study and by my recent work implies the emergence and evolution of sub-cultures in Trinidad that follow customs or constitutional rules with rigid constraints persisting since independence in 1962.

#### **IV. Conclusion**

The curious aspect of the “culture matters” research program is that it removes from, but at the same time adds to the frustration of those members of the economics profession who are inclined to offer development-enhancing strategies for economies. In the mainstream, some economists perceive culture as a roadblock or dismiss it as obfuscating notion. Others focus on foreign aid or exporting institutions that have been successful in Western cultures to try to help countries formulate the right policy and institutional mixes that will quicken their economic development. However, culture indirectly but fundamentally shapes economic outcomes to a large extent, and therefore to assume that much can be done in the way of implanting institutions, injecting financial

capital, increasing foreign direct investment and foreign aid is often misguided and disastrous, when these top-down impositions do not conform to underlying institutions or rules (Boettke, 2001b; Ostrom, 2005).

In Austrian economics, the beauty of the cultural economics research program is that it makes an attempt to document how the cultural systems and rules of the game for heterogeneous groups of people have originated, evolved, and how that evolution has taken place in response to changing physical, political and economic conditions. Yet the Austrian formulation has some missing pieces, particularly in their current discussion over whether culture should be treated as capital, comparative advantage, or if it can be reduced to the rules of the game or a set of mental models. This lack of cogency stunts a potential Austrian cultural economics from making much progress.

The constitutional conception of culture has its own issues; nonetheless, we may reasonably think of culture as a constitution since both emerge spontaneously, constrain behavior to generate predictable outcomes, and are rigid, but not static. Storr's conception is relatively novel, but also still applicable in the real world. The constitution analogy gives us an opportunity to frame cultural economic analysis in a way that is perhaps more profitable than is currently being undertaken.

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## ETHNICITY AND SELF-EMPLOYMENT IN TRINIDAD AND TOBAGO: AN EMPIRICAL ASSESSMENT

### **I. Introduction**

Self-employment rates differ across the main ethnic groups in Trinidad and Tobago. These differences in self-employment rates persist over time, and some have become even more pronounced with time. For instance, the 1980 Census reveals that, while 41.9 percent of Syrian-Lebanese Trinidadians were self-employed, only 8.9 percent of African-Trinidadians worked for themselves in that year (Ryan and Barclay 1992). Twenty-eight years later, the figures were 71.43 and 13.66 percent, respectively.<sup>21</sup> The purpose of this paper is to determine whether these disproportionate self-employment rates remain even after controlling for those personal characteristics that typically affect the probability that an individual is self-employed. Finding that the rates do remain, we propose other factors like ethnic inclination or disinclination toward self-employment due to historical/sociological factors.

Ethnic minorities tend to be overrepresented in self-employment and several studies have attempted to explain the link between ethnicity and entrepreneurship in various contexts. Clark and Drinkwater (2000), for instance, found that ethnic minorities

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<sup>21</sup> The updated self-employment rates are calculated from the 2008 Continuous Sample Survey of Population, a representative sample of the Trinidadian labor-force commissioned by the government, which contains 22,932 individuals who reported their

in England and Wales are sometimes forced to engage in self-employment because of discrimination in the paid-employment market but that cultural differences also partly explain differences in entrepreneurial ambitions. Borooah and Hart (1999) likewise found that blacks from the Caribbean were less likely to be self-employed than Indians in the UK both because they were less inclined to enter business due to social factors related to their ethnicity and because they were less likely to possess the attributes that are positively associated with self-employment. Similarly, Levie (2007) found that new business activity varies with both migrant status and ethnicity in the UK but that an individual's migrant status has a larger impact on his propensity to engage in entrepreneurship than his ethnicity. In fact, ethnic minorities had reduced levels of new business activity in the first few years after migration. And, Clark and Drinkwater (2010) have sought to explain changes in the self-employment rates of different ethnic groups in the last decade of the twentieth century in the UK.

Comparing self-employment amongst blacks and Asians in large metropolitan areas in the US, Boyd (1990) found that differences in self-employment rates in part had to do with differences in the utilization of social networks. Similarly, Boyd (1990, 1991) found that black self-employment was negatively affected by the availability and desirability of public sector jobs. Likewise, Fairlie and Meyer (1996) found that self-employment rates differ substantially across sixty ethnic and racial groups in the United States in 1990. Additionally, Fairlie and Meyer (2000) found that blacks had substantially lower self-employment rates than whites throughout the twentieth century in the US and

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employment type. Individuals who report their employment status as “employer” and

that these differences are not due to blacks being concentrated in low self-employment industries and were not substantially affected by demographic shifts like the racial convergence in economic attainment. Also, Lunn and Steen (2005) found substantial differences in self-employment rates across different Asian ethnic groups in the US even after controlling for individual characteristics like age, immigration, education and marital status.

Some studies of the interaction between ethnicity and self-employment in Trinidad and Tobago do exist. For instance, Ryan and Barclay's (1992) examination of patterns of occupational stratification found that Trinidadians of African descent dominate the public sector, earn the lowest income on average, and are the least likely to be successful employers compared to any other ethnic group in the two-island republic. Unfortunately, relatively few quantitative studies have focused on the relationship between ethnicity and self-employment in the Caribbean, and no recent studies have examined the relationship between ethnicity and self-employment in Trinidad and Tobago. Researchers have simply not attempted to offer robust empirical analysis from nationally representative surveys that allow for cross-group comparisons with current, reliable data.

In this paper, we offer empirical evidence to account for the important differences in self-employment rates across the six main ethnic groups in Trinidad and Tobago. We also examine the possible explanations for these differences by examining select demographic patterns of the ethnic groups. We find that ethnicity affects self-

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“own-account worker” groups-employed are treated as self-employed.



employment in Trinidad and Tobago, even after controlling for all other factors that are positively related to self-employment, and that patterns of self-employment stratification have persisted over time. *Section II* offers a brief description of Trinidad and Tobago and describes in detail the sample data that we employ. *Section III*, then, provides the binary probit model we use in order to determine the probability of an individual being self-employed given that person's ethnicity and individual characteristics, and reports and discusses our results. Next, *Section IV* highlights several historical/sociological factors that might account for the differences in probability of being self-employed. *Section V*, offers concluding remarks.

## **II. Context and Data**

Located in the Caribbean, eleven miles east of the tip of Venezuela, Trinidad and Tobago is an English-speaking two-island republic, about the size of Delaware, which gained its independence from Britain in 1962. The primary export is natural gas. Like many ex-colonies in the Caribbean, history provided Trinidad and Tobago with a society of many ethnicities, whose distinct original cultures have by now fused into something manifestly 'Trinidadian'. Once a slave colony engaged in sugar and cocoa production, the colonial powers introduced other ethnic groups like Indians and Chinese to replace the supposed labor vacuum that would be created by emancipated slaves. The country's two dominant ethnic groups are Indian and African/black Trinidadians. Since the last decade of the twentieth century, Indians have slightly outnumbered blacks. Whites (of British, French, Portuguese and German descent), Chinese, and Syrians-Lebanese comprise, in

total, less than two percent of the population of 1.3 million. About one-fifth of the country's population identifies as Mixed – most with African heritage.

The six major ethnic groups in Trinidad have historically coexisted with minimal violent conflict, yet ethnic tensions are apparent. Despite notions of ethnic harmony and 'Creolization' on the island, issues of ethnicity still present themselves. Trinidadians perceive ethnicity to be important, and that perception *per se* often renders it so. For instance, like persons in many other ethnically diverse societies, Trinidadians have always tended to vote along ethnic lines.<sup>22</sup> Additionally, different patterns of business ownership across different ethnic groups have at times worsened political-ethnic conflict in the country. The 1970 Black Power Revolution in Trinidad, for instance, took place in part because Afro-Trinidadians became exasperated with their low economic status relative to other ethnic groups in the country.

This study of ethnicity and self-employment in Trinidad and Tobago employs data from the Continuous Sample Survey of Population (CSSP) commissioned by the Ministry of Planning and Development's Central Statistical Office (CSO). The CSSP was primarily designed to obtain information on employment, unemployment and other labor force characteristics of the population as a whole as well as for various subgroups of the population. Several researchers have employed this survey to conduct investigations of

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<sup>22</sup> See Premdas (2007: 110-146). According to the author, "Except for one election in 1986, when a single integrated multi-ethnic 'rainbow' party assumed power, and another election in 1995, abundant evidence demonstrates the entrenched pattern of ethnic voter preference" (ibid.: 113). Arguably, the 2010 election, in which an ethnically diverse party won in a landslide, suggests that tribal politics in Trinidad "begin to end" about once every decade.

related social and economic phenomena in Trinidad and Tobago.<sup>23</sup> Although the CSSP contains data for only a limited cross-section of the population, for our purposes, it is preferable to the Census because the CSSP contains detailed statistics about the labor force, including data on each individual's income, gender, occupation, the industry sector they are employed in, and other demographic information that might explain employment choice.<sup>24</sup>

For our study, we draw a sample from the 2008 CSSP – the most recent available survey. In that year, CSO interviewers questioned 34,732 individuals about their economic status, ethnic group affiliation and other personal characteristics. The unit of observation in our study is the individual. Since the focus of this paper is on economically active individuals, we only consider those in the survey who report themselves as currently self-employed or salaried employees, thus excluding people classified into other miscellaneous occupational categories. We also omit the unemployed. For similar reasons, we restrict our sample to those who are at least 16 years old. We further narrow down the sample by generally eliminating all observations for whom data on any variable of interest in the study is missing, all observations within a

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<sup>23</sup> See for instance Olsen and Coppin (2001), Strobl and Walsh (2003), Coppin and Olsen (2007).

<sup>24</sup> The number of individuals in the 2008 CSSP represents 3.12 percent of the total population, indicating that the Census would have more observations. The CSSP is probabilistic however – the households are selected based on a stratified sampling methodology. Had we utilized the Census, we would have had to determine an appropriate probabilistic sample. The self-reporting of ethnicity in the CSSP and the Census are another potential negative, the limitations of which are mentioned in Fairlie and Meyer (1996: 760). While neither source is perfect, the only existing and available source of the type and amount of data required for our empirical study is the CSSP. Hence the CSSP is authoritative.

category when that category is not relevant to the study, and all observations within a category when less than 100 people fill that category.<sup>25</sup> The final sample therefore contains complete information for 16,149 individuals – just about half of the original CSSP from 2008, and 1.5 percent of the population of Trinidad and Tobago in 2008. Of the individuals in the sample, 9,544 are male and 6,605 are female. This approximate 3:2 ratio of men to women does not reflect the 1:1 ratio in the full survey. Since our goal, however, is not to make a conclusion on the levels of self-employment in the broader society but to discuss whether there are statistically meaningful differences in the probability that individuals within specific groups will be self-employed, it matters less that our sample is representative of the survey of the Trinidadian population, and more that the various categories utilized in the study are large enough, and that there are not systematic biases affecting various groups and sub-groups. Below, we discuss in detail the main variables of interest.

Since the main purpose of this study is to determine the effect of select factors on choice to be self-employed, we classify workers into two broad types – self-employed and salaried employees. Self-employed workers are defined as those individuals who identify themselves as mainly self-employed in their own (not incorporated or incorporated) business.<sup>26</sup> Among the self-employed, an important distinction arises between employers and own-account workers. Employers are those workers who, working on their own account or with one or a few partners, hold the type of job defined

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<sup>25</sup> A rule of category elimination is necessary when models used are fitted by maximum likelihood. See Long and Freese (2006:77) for a discussion of sample observation under ML.

as a self-employed job, and in this capacity, on a continuous basis (including the reference period) have engaged one or more persons to work for them in their business as employees. They have paid help. Own-account workers are defined as those workers who, working on their own account or with one or more partners, hold the type of job defined as a self-employed job, and have not engaged on a continuous basis any employees to work for them during the reference period. Own-account worker thus have no paid help. The second broad class of worker is the salaried employee, who does not hold a self-employed job. We combine private enterprise employees, statutory board employees, government state enterprise employees, and central and local government employees to form this class.<sup>27</sup> The self-employment rate is defined in the usual way as the fraction of those working that are self-employed. For the total sample of 16,149 economically active men and women, 3,186 are self-employed and 12,963 are employees, giving a sample self-employment rate of 19.7 percent (see the first row of Table 1).<sup>28</sup>

In the overall sample, 40.3 percent are African, 38.6 percent are Indian, and 20.4 percent identify themselves as Mixed.<sup>29</sup> In contrast, the Chinese, Syrian-Lebanese, and

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<sup>26</sup> Based on the International Labor Organization definition.

<sup>27</sup> The two worker categories omitted from the sample are learners/apprentices and unpaid workers; they do not fall into either of the relevant categories: salaried or self-employed.

<sup>28</sup> In case a sample in which approximately one-fifth of the labor force is self-employed appears extreme, note that this statistic roughly conforms to the probabilistic CSSP, in which 16.49 percent of persons are employers and own-account workers. Given that the survey is itself representative of the population, we conclude that the sample is too, at least on this basis.

<sup>29</sup> The term “African” will be used to reference African-Trinidadians (“black” will also be used), “Indian” will be applied to Indian-Trinidadians, “Chinese, Syrian-Lebanese and

white ethnic groups contribute almost trivial numbers to the sample – 38, 11, and 58 individuals respectively. As such, they are lumped into one group – labeled the “CSW” group for the purposes of our paper – a group that, in total, contributes just over the 100-observation (0.66 percent) minimum we require for inclusion of a category in the sample. This combination is justifiable because all three ethnic groups historically belong to the same social and economic class.<sup>30</sup> Furthermore, they display similar labor force characteristics, including exceptionally high self-employment rates and incomes (as will be shown below). The Chinese, Syrians-Lebanese and whites may contribute small numbers to the sample population, but they are not “trivial” ethnic groups and thus cannot be excluded from the study. The sample proportions of each ethnic group diverge very slightly from the original CSSP as well as the actual population figures on Trinidad and Tobago where Indians outnumber Africans by roughly two percent, and, taken together, the CSW group account for just about two percent of the population. As noted previously, however, these differences are not consequential for our purposes.

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White” or “CSW” to Trinidadians of Chinese, Syrian-Lebanese and Caucasian origin, and “Mixed” to persons who identify themselves ethnically as such.

<sup>30</sup> Although homogenizing can sometimes be counterproductive, Trinidadians themselves tend to treat these ethnic groups as similar. As Sudama (1983:83) says, “...there was an indigenous bourgeois stratum which sprung from and merged into the independent urban petty bourgeoisie. This group was composed almost exclusively of local whites – English and French Creoles – together with Portuguese, Syrians and Chinese. While the Syrians and Chinese can be regarded as racially and ethnically distinctive from the local whites, they seem to have more in common with the local whites than with the other racial groups in the population and hence are treated collectively as part of the local white community.”

**Table 1: Type of Worker by ethnic group, percentage**

Type of Worker	African	Indian	Chinese, Syrian and White	Mixed
<b>Employee</b>	<b>83.88</b>	<b>77.31</b>	<b>64.49</b>	<b>79.26</b>
Statutory Board	2.79	1.63	1.87	3.56
Government State				
Enterprise	3.62	2.77	2.80	3.65
Central and Local				
Government	27.30	17.39	1.87	16.51
Private Enterprise	50.16	55.51	57.94	55.55
<b>Self-employed*</b>	<b>16.12</b>	<b>22.69</b>	<b>35.51</b>	<b>20.74</b>
Own Account				
worker	13.16	16.06	15.89	16.51
Employer	2.96	6.63	19.63	4.23
Total	100.00	100.00	100.00	100.00

\*Indicates self-employment rate for each ethnic group.

See Table 1, for internal group self-employment rates in our sample, which is the key focus of this paper. From the table, we can see that Africans have the lowest self-employment rate of the four ethnic groups, at 16.1 percent. This number is lower than the average self-employment rate for the sample, which is 19.7 percent. In fact, Africans are the only ethnic group to perform below average. One-fifth of Mixed persons in the sample are self-employed, and therefore their rate is just about average. Indians have an internal group self-employment rate of 22.7, which ranks second only to the Chinese, Syrian/Lebanese, and White Trinidadians, who substantially outperform all the other groups, with a 35.5 percent self-employment rate.<sup>31</sup>

<sup>31</sup> In fact, 19 percent of the Whites sampled are self-employed, as are 47 percent of the Chinese, and a remarkable 82 percent of Syrians-Lebanese. Trinidadians generally regard “Syrians” (as they are called) as quintessential businessmen, particularly in the garment industry. Entrepreneur is thus an ethnic label on that group.

Besides ethnicity, the demographic attributes pinpointed in the survey are gender, age, highest level of educational attainment, income group and marital status. We also examine industry worked in (technically not a personal characteristic, but an important criterion determining employment choice).

The data from the CSSP has some drawbacks. For example, we cannot compare how many hours self-employed persons and salaried employees work per week, nor can we examine more specific education data like the type of school and type of degree earned. Furthermore, we do not know whether employers are incorporated or unincorporated, and many self-employed individuals may work in the informal sector. Some of the included groups have a low number of observations, which is another drawback of the sample, but this may be expected from a country with such a small population. In general, however, the sample is the best available to paint a picture of the labor force in Trinidad and Tobago. Important differences in employment types can still be observed.

### **III. Empirical model, results and discussion**

In the sample for Trinidad and Tobago, part of the group differences in self-employment rates that were reported in Table 1 are certainly due to differences in the distribution of individual characteristics (overlooking the unobservable personal/psychological traits, like risk aversion, that also influence self-employment choice). The aim of this paper is thus to determine whether, even after controlling for these differences in individual characteristics, ethnicity is still a significant determinant of



self-employment in Trinidad and Tobago. To achieve this goal, we estimate probit models with and without controls for these characteristics.

Table 2 below presents these variables in list form, along with their expected sign. Empirical studies of self-employment generally find that individual observable characteristics are an important determinant of who is self-employed. Indeed, being male, older, and more educated with a more secure marital status tend to raise the probability that an individual will be self-employed (see, for instance, Fairlie and Meyer 1996).

**Table 2: Expected signs on variables of interest\***

<b>Explanatory variables</b>	<b>Expected Sign</b>
<b>Ethnic group</b>	
African	n/a**
Indian	Positive
Chinese, Syrian/Lebanese, White	Positive
Mixed	Positive
<b>Male</b>	Positive
<b>Age</b>	
Age	Positive
Age squared/100	Negative
<b>Education</b>	
Primary school	n/a
Some secondary	Negative
Secondary with degree	Negative
Some university	Negative
University with degree	Negative
<b>Marital status</b>	
Single	n/a
Married but living alone	Positive
Had a partner but now living alone	Positive
Married	Positive
Common law	Positive

\* Dependent variable is “self-employed”

\*\*Where “n/a” is marked, I use this variable as a category of reference.

In estimating the effect of ethnicity on self-employment in Trinidad and Tobago, the model we use closely follows the empirical method employed by Fairlie and Meyer (1996), but adjusted to represent our specific focus on the sample for Trinidad and Tobago and its peculiarities.<sup>32</sup> The main hypothesis we test is that membership in any ethnic category significantly affects an individual’s probability of being self-employed, *ceteris paribus*, and furthermore that inclusion in all but the African ethnic group increases this probability. In order to test the hypothesis that ethnicity impacts self-employment, we estimate a binary probit model of self-employment choice.<sup>33</sup> The dependent variable,  $selfemp_i$ , is equal to 1 if the individual is self-employed, and 0 if the person is a salaried employee. Formally, we assume that an individual  $i$  in ethnic group  $j$  is self-employed if

$$x_i^* \beta + \alpha_j + \varepsilon_i \geq 0$$

where  $x_i^*$  is a vector of individual characteristics for person  $i$ ,  $\beta$  is the vector of coefficients on these characteristics, and  $\alpha_j$  is the coefficient on a dummy variable for

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<sup>32</sup> Some major differences include (1) the exclusion of the ‘year of immigration’ independent variable, which is not pertinent to Trinidad and Tobago since the major ethnic groups there have been well-entrenched for over a century and immigration to the country is trivial compared to immigration to the US; (2) the exclusion of the ‘English-speaking ability’ variable, which is not relevant to Trinidad and Tobago where the language is homogeneous, and; (3) fewer ethnic groups represent the Trinidad and Tobago sample compared to the US sample.

<sup>33</sup> Logit and probit extend the log-linear model to allow a mixture of categorical and continuous independent variables to predict one or more categorical dependent variables. Probit models are the norm in studies of this type.

ethnic group  $j$  which captures all omitted characteristics of group  $j$ . If we assume that  $\varepsilon_i$  is normally distributed, then the probability that individual  $i$  is self-employed is  $\Phi(x_i^* + \alpha_j)$ , where  $\Phi$  is the cumulative normal density function.

The basic estimation equation differs for each of the six specifications utilized. Each regression differs in the number of variables included. Most of the independent variables are categorical. The full list of explanatory variables and their categories include:

- $rethnic_j$  – the ethnic group of the individual, with four categories: *african*, *indian*, *csw*, and *mixed*. The coefficients on these dummies correspond to  $\alpha_j$  in the formal model described above. To reiterate, we are interested in the effect of ethnicity on the probability of being self-employed in Trinidad and Tobago.
- $male_i$  – the gender of the individual, a binary independent variable equaling 1 if *male* and 0 if not. The coefficient on this variable as well as all the variables listed below is included in the vector  $\beta$ .
- $age_i$  – the age of the individual.
- $agesqp_i$  – the square root of *age* divided by 100.
- $rreduc_i$  – the individual’s highest level of educational attainment. The five categories include *primary*, *somesec*, *secdeg*, *someuni* and *unideg*.
- $marital_i$  – the individual’s marital status, which includes five dummies: *single*, *marlone*, *nowlone*, *married*, and *commlaw*.

- $rrindus_i$  – the industry worked in, which includes eight dummies: *agrifor*, *petrol*, *manufac*, *construc*, *wholret*, *transtor*, *finance* and *commsoc*.
- $\varepsilon_{it}$  – a term that incorporates all unobserved variables having an effect of self-employment.

So, for example, in specification (5), the favored specification, the model's estimating equation is as follows:

$$\Pr(\text{selfemp} = 1) = F \left( \begin{array}{l} \alpha_1 \text{indian} + \alpha_2 \text{csw} + \alpha_3 \text{mixed} + \beta_0 \text{male} + \beta_1 \text{age} + \beta_2 \text{agesqp} \\ + \beta_3 \text{some sec} + \beta_4 \text{secdeg} + \beta_5 \text{someuni} + \beta_6 \text{uni deg} \\ + \beta_7 \text{marlone} + \beta_8 \text{nowlone} + \beta_9 \text{married} + \beta_{10} \text{commlaw} \end{array} \right)$$

If  $\alpha_j$ , the ethnic group coefficient, is significant, this implies that ethnicity is a non-trivial determinant of self-employment in Trinidad and Tobago.

After carrying out each probit regression, we first test individual coefficients with a Wald test at the 5 percent significance level. For those regressions with categorical independent variables, the Wald test is a test of whether being in that category compared with being in the reference category affects the outcome. Furthermore, as mentioned previously, each of the six specifications contains a different combination of independent variables. Therefore, we also conduct omnibus tests of each added categorical variable. That is, we test the joint hypothesis that all indicators within a variable are zero. We accomplish this by using likelihood-ratio tests, which are meant to justify the addition of

the categorical variables in each specification.<sup>34</sup> Each previous specification counts as the restricted model (except between specifications 1 and 2).

The results of the regressions are presented in three different formats. First, we present in Table 3 the raw output for each specification, including coefficients and standard errors. Second, we include Table 4, a table of predicted probabilities for selected individual profiles. These predictions are based only on specification (5), the model which excludes industry. Thirdly, we present a table of discrete changes in selected predicted probabilities in order to show how the probability of an individual being self-employed changes as membership in many of the categories change. These predictions are also based solely on the favored specification (5).

The results in Table 3 will be discussed first. In specification (1), we measure the impact of membership in an ethnic group *alone* on the probability of being self-employed. We find that compared to Africans (the reference category), the probability of an individual being self-employed increases if they belong to any other ethnic group, as predicted in Table 2. The results for Indians, Chinese, Syrian-Lebanese and White persons, and Mixed persons alike are statistically significant.<sup>35</sup>

Specification (2) measures the impact of gender and age only. As predicted, being male also has a very significant, increasing effect on the probability of being self-

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<sup>34</sup> These tests are appropriate given that we use exactly the same sample in every one of the specifications.

<sup>35</sup> Note that when CSW is used as the reference category (in alternative specifications not reported here), membership in any other ethnic group significantly *reduces* an individual's probability of being self-employed. That is, in comparison to Chinese, Syrians-Lebanese and Whites as a group, the African, Indian, and Mixed persons in the sample are all less likely to be self-employed.

employed. The z-statistic on male is 17.41, and the coefficient on *male* tells us that being a man increases the probability of being self-employed by 42.9 percent. Interestingly, age is not statistically significant, and has the wrong sign (negative). Age squared/100 also has the opposite sign to what was predicted, and is statistically significant. That is, an additional year of age would actually have an *increasing* effect on the probability of being self-employed. However, age itself has no effect. These results for gender and age hold true for every specification in the sample. The self-employment gap between males and females falls as additional individual characteristics (industry not considered) are controlled for.

Specifications (3) and (4) add controls for education and marital status respectively. Likelihood-ratio tests from specifications (2) to (3) and from (3) to (4) confirm that the inclusion of these controls is significant and therefore justified. In specification (3), the effect of some secondary schooling loses its significance (not its sign), but all other education categories remain negative and statistically significant compared to receiving only a primary education.<sup>36</sup> Thus, compared to having only received a primary school education, greater educational attainment actually *decreases* the probability that a Trinidadian will be self-employed. Finally, married individuals are more likely to be self-employed than individuals who have never been married regardless of whether they are in a common law or standard marriage, are married but living alone,

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<sup>36</sup> Compared to Trinidadians with a university degree, those with a lower level of educational attainment have an increased probability of being self-employed. Persons with some university education have a decreased probability compared to those with a university degree.

or are living with their partner. Having had a partner but now living alone does not impact a person's probability of being self-employed significantly.

Specification (5) controls for all individual characteristics and also includes ethnic group. Here we find that the significant effect of being male falls to a 35.9 percent increase in probability compared to females. In this model, the negative effect of age is almost significant, with a z-statistic of -1.73. Higher levels of educational attainment still decrease the probability that an individual will be self-employed, and persons in some state of marriage are always more likely to be self-employed. The key result of this specification is that, even after controlling for individual characteristics like gender, age, educational and marital status, ethnicity still has a major impact on the probability that an individual will be self-employed. Coefficients on ethnicity either do not change, or become larger when individual characteristics are included, underscoring the importance of ethnicity.

The final specification (6), one adding industry, displays similar results. Like in Fairlie and Meyer (1996), we control for industry given the tendency of some industries to produce larger numbers of entrepreneurs. The likelihood-ratio test supports the inclusion of these industries. Ethnicity remains statistically significant when we control for industry.

The second approach we use to analyze the regression results is to examine predicted probabilities generated from the favored model (specification 5 which controls for demographic characteristics but does not include industry). The predicted probability in the binary probit model is defined as:

$$\hat{P}(y = 1|x) = \Phi(x\hat{\beta})$$

where  $\Phi$  is the cumulative distribution function for the normal distribution with variance

1. For a given set of values of the independent variables, we compute the predicted probabilities, as well as confidence intervals for these predictions, and arrange them in Table 4.

This table is divided into males and females. For the average man in the sample (using the means of all other independent variables), the regression-adjusted self-employment rate is 22.7 percent, about twice what it is for women. The regression-adjusted self-employment rates for average individuals in each ethnic category display a similar pattern to the raw, pre-regression rates. Women have lower rates across the board. Further, recall that Africans were the only ethnic group to have a self-employment rate below the sample average. We observe the same result here. We also examine selected profiles of men and women in the different ethnic groups. Individuals who hold university degrees and are also married have lower self-employment rates in general than persons who only have a primary school education and who are also single. The three profiles with the highest predicted probabilities of being self-employed are: CSW, primary educated, single men (48 percent); CSW, primary educated, single women (34 percent); and CSW, university degree holding, married men (31 percent). African (5 percent) and Indian (8 percent) university degree holding, married women, and male, married, African university graduates (10 percent) have the three lowest rates. Again,



being African, female and more educated decreases a person's probability of being self-employed substantially.

Lastly, we examine the regression results by computing discrete changes in selected predicted probabilities. Again, we use only specification (5), which tests for the impact of ethnic group as well as individual characteristics. Given that ethnic group, education, and marital status are categorical variables, discrete change is preferred to marginal effects. The discrete change in variable  $x_k$  from  $x_k$  to  $x_k + \delta$  is the change in the predicted probability of an event, and equals

$$\frac{\Delta \Pr(y = 1|x)}{\Delta x_k} = \Pr(y = 1|x, x_k + \delta) - \Pr(y = 1|x, x_k)$$

We calculate discrete change by setting the levels of all other variables at their means, except for those variables in which one category is changing. Table 5 contains these calculations for men and women. The results bolster what is displayed in Tables 3 and 4. For each ethnic group, achieving some university education (diploma/certificate) as opposed to just completing primary school is one of the strongest ways to decrease the probability that one will be self-employed. This change in the probability of being self-employed is -0.28 for those in the CSW group, indicating that self-employment in this ethnic group is the most negatively affected by this level of education. Africans who go from being single to married increase their probability of being self-employed by the greatest proportion: 0.04.

In summary, the probit regressions described above illuminate two defining features of the Trinidad and Tobago labor force. First, a person's ethnicity impacts his or

her probability of being self-employed significantly, even after controlling for individual characteristics that also affect the self-employment decision. Secondly, there are substantial differences in the self-employment rates of the various ethnic groups, with Africans having the lowest rates, Indians and Mixed have the second highest (and very similar regression-adjusted rates), and the Chinese, Syrians-Lebanese and Whites having the highest probability of being self-employed of all ethnic groups.

#### **IV. Alternative explanations**

Since differences in ethnicity partly explain differences in self-employment even when we control for individual characteristics, it is likely that other factors including ethnic inclination/disinclination due to historical/sociological factors play a non-trivial role in the self-employment decision. Once again, blacks have the lowest self-employment rates in Trinidad and Tobago, while Mixed and Indian persons have average and above-average rates of self-employment. The Chinese, Syrian-Lebanese and white ethnic groups demonstrate the strongest participation in self-employment. Several studies discuss the differences in business attitudes, practices, and experiences of Trinidad's different ethnic groups throughout history, and we highlight key points within these studies that might explain the differences in self-employment between blacks and other ethnic groups.

Ryan and Barclay's *Sharks and Sardines – Blacks in Business in Trinidad and Tobago* (1992), offers the most comprehensive examination of Afro-Trinidadian businesspeople and businesspeople compared to other ethnic groups after independence in Trinidad. The book consists of the results and analysis of a quantitative review

(without using regressions) of businesspeople using the 1980 Census, in addition to a qualitative survey of 100 black and 50 white businesspeople. Ryan and Barclay found that blacks were overrepresented in the public sector and underrepresented among private sector employees and the self-employed. They claim that blacks were very entrepreneurial post-emancipation in 1834. However, while previously-enslaved and newly-free blacks performed well, their descendants performed poorly making them less likely to engage in business. The authors offer several possible explanations for this result.

In the early 1900s, for instance, the planter class took deliberate steps to raise taxes and make land acquisition difficult for blacks (ibid: 4), blacks depended on volatile crop prices for their success yet spent their incomes “lavishly” (ibid: 8), and blacks tended to borrow too much credit from white planters, who ended up seizing blacks’ assets when the blacks could not repay (ibid: 9). Blacks also frequently migrated to urban areas in search of jobs and schools, thus, forfeiting their lands to Indians, who preferred to work in rural areas (ibid: 11). Additionally, in the 1970s and 1980s, following the Black Power revolution, the new government instituted business development policies to make blacks more “self-reliant” by providing capital grants, training subsidies, and commercial subsidies to them, for example (ibid: 17). Ryan and Barclay’s 1991 survey found that despite the government’s incentives, blacks continued to exhibit low educational attainment and run smaller size firms, with limited family involvement in their businesses and a decreased propensity to employ professional consultants to assist them (ibid: 18). Black females, they found, were only inclined to pursue self-employment

out of economic hardship (ibid: 115). The majority of those surveyed complained that access to capital and meddling government bureaucracy were major constraints to the success of their businesses at that time (ibid: 28).

In the mid-1980s, Ryan and Barclay add, following the drop in oil prices that precipitated the country's devastating economic downturn, more black-owned businesses failed. At this time, survey results showed that blacks had a distrust of hiring and patronizing those of their own race (ibid: 60). Black businessmen complained that their counterparts did not support each other because blacks dominated the population at the time; hence they felt no requirement to stick together the way Indians did, for example (ibid: 63). One black businessmen surveyed suggested that since blacks had always been provided for as slaves, they did not develop ethics of struggle and survival like Indians (ibid: 65). Racism by other ethnic groups was cited as another hindrance to black success. They also complained that the state machinery worked too slowly for them (ibid: 61). On the other hand, the bankers surveyed claimed that blacks especially exhibited irresponsibility and "immorality" with their debt, and that the need to signal style and status was more important to the black culture than frugality (ibid: 77). Bankers also claimed that blacks cared little about legal incorporation, management training, auditing and getting insurance (ibid: 78). Furthermore, the authors also blame black performance in that period on that notion that blacks were less savvy and less cutthroat than other entrepreneurs due to their historical lack of experience with in business and poor family involvement in business (ibid: 79).

Brereton (1979: 85) similarly argues that Afro-Trinidadians were more likely to seek status by investing in education and not entrepreneurship, because “school represented the main chance of mobility for the sons of black and coloured lower class and lower middle class” (ibid: 85). Additionally, Crichlow (1998) explains how the whites were able to consolidate their dominant position in business in the 1960s and 70s, because the elites benefited most from post-independence industrialization programs created by the government. In the aftermath of independence, blacks clamored for the government to make the distribution of power and wealth more equitable (ibid: 76). However, as Crichlow (ibid.) points out, the government’s efforts to correct the social and economic imbalance through the formation of small-business development and land-settlement schemes targeted at affected groups led to negative unintended consequences—an increase in the size of the informal economy due to households maximizing income now received from both formal and informal activities, and preferential treatment based on race in loan dissemination. Edmunds and Felton (1990) similarly determined that the traditional elite and foreign firms control the large, formal businesses in Trinidad. According to their study, eighty percent of micro-businesses are informal but only formal micro-business owners have the opportunity to grow.<sup>37</sup>

Bonaparte (1969), however, insists that there is a *general culture* of business based on what he terms “Creolization”, which he believes contributes to *negative*

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<sup>37</sup> Whether racism interferes with self-employment cannot be treated with adequately in this paper, however, the increase in the informal economy speaks to the distribution of self-employed types. Since Africans and to a lesser extent, Indians, were the main beneficiaries of these small-business schemes, it is more probable then that they would

attitudes toward business in the country (ibid: 298). Although Bonaparte (ibid.: 290-291) finds that different racial/cultural groups have different value systems (“every racial and cultural group that interacts in the business system has a particular role and attitude toward business”), he ultimately contends that Trinidadians in general simply do not like to work, businessmen shun modern techniques, and managers show little respect for formal training. He also finds that managers and those in authority do not trust their subordinates, thus engaging in inefficient monitoring. Paternalism in business is also rife, and risk-taking is uncommon, especially among whites who do not take risks “because of their secure social identity in the society.” Like, Bonaparte, Birth (1996) declares that there is common but unfounded racial stereotype in Trinidad which is that “Creoles live ‘now for now’ and Indians plan for the future” (ibid: 79). Instead, Birth (ibid.: 80) argues that “in Trinidad ‘changes in objective conditions and ways of exploiting the environment have produced cultural practices which are more and more held in common across ethnic boundaries.’” Both Bonaparte (1969) and Birth (1996) suggest that different ethnic groups in Trinidad display distinct characteristics but that there are more similarities than there are differences between groups.

Our analysis suggests that there is more support for Brereton (1979), Crichlow (1998) and Ryan and Barclay (1992), who claim that there are meaningful ethnic differences in Trinidad with regards to business, than Bonaparte (1969) and Birth (1996) who suggest that there are not meaningful differences. Our analysis cannot support or refute the qualitative explanations that they propose. If Brereton (1979), Crichlow (1998)

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have a higher participation in the informal economy, or a higher percentage of own-

and Ryan and Barclay's (1992) explanations are correct, however, then we would expect these differences in ethnic rates of self-employment to persist over time. If Chinese, Syrians-Lebanese and Whites established strong ties and kinship and fostered associations to help each other, as Ryan and Barclay (1992) contend, then a significant accumulation of and ethnic/cultural capital, including contacts, tried-and-true business techniques, as well as tangible assets like commercial space and money, are defining features of these groups today. Such features are heavily conducive to success in the business world. This would explain why these groups outperform Africans, who historically refrained from cooperating with each other, and whose families tended not to support their business endeavors.

In sum, although there are differences in the individual characteristics of ethnic group members, previous research suggests that the cumulative effects of history, and to a lesser extent government policy, explain the large variation in self-employment between ethnic groups.

## **VI. Conclusion**

In this paper, we demonstrate that self-employment rates differ substantially for the four major ethnic groups in Trinidad and Tobago. The differences between those ethnic groups persist even after controlling for individual characteristics, like age, marital status, and education. The fact that Africans have the lowest probability of being self-employed, and that Chinese, Syrians-Lebanese and Whites have the highest, can be explained partially by the effects of colonization, the importance each group places on

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account self-employed workers.

things like family ties, and each of the groups' appraisal of its status relative to the other ethnic groups in the country throughout history.

Our study finds support for the general notion that a combination of specific historical and sociological factors can play a role in the persistence of wildly disparate self-employment rates between ethnic groups coexisting in the same nation. In the case of Trinidad and Tobago, blacks are underrepresented among the self-employed due to several factors, including limited access to and experience with capital, as well as the effects of government policy targeted at improving black entrepreneurship. And while these factors may render the costs of entering self-employment relatively high, the benefits to seeking alternative forms of employment are also substantial—blacks stand to achieve status and income parity with Indians and elites by educating themselves into the professions, and blacks stand to achieve economic stability by entering the public sector. While some self-employed blacks do prosper as business-owners, the average black individual deciding on her occupation sees entrepreneurship as less attractive and less promising.

Fairlie and Meyer (2000) find the same occupational pattern for African-Americans in the United States, and point to the substantial literature describing the skewed pattern of business ownership in the United States (*ibid.*: 762). However when adjudicating between historical and sociological theories of self-employment, the authors stress that the theory of “ethnic resources” does not explain African-American underrepresentation well. They claim that “recent estimates of the rate of intergenerational transmission of self-employment imply that very little of the current



black/white gap in the self-employment rate can be attributed directly to the lack of business experience several generations ago” (ibid.: 775). Their findings thus do not correspond to what researchers working on Trinidad have proposed, but we can only point out here that African-Americans in the United States did not have the same experiences as blacks in Trinidad and Tobago. What is particularly different in the case of Trinidad and Tobago is that blacks have historically dominated the population, and now constitute the second largest majority by a difference of only 2 percent. What this suggests is that blacks in Trinidad did not face the disadvantages/advantages of being a minority group. Their historical dominance in politics and the public sector not only implies their experience with business is limited, but that they generally perceive higher gains to be made for their group in the public service as compared with self-employment.

Own-account workers dominate employers in Trinidad and Tobago, suggesting that (except for CSW) self-employment in Trinidad is not really entrepreneurship in the “true” sense and might be disguised unemployment (see Earle and Sakova 2000). This makes sense, considering that the opportunity cost for Africans, Mixed persons, and to some extent Indians, of choosing self-employment is the substantial salary one might earn as a private or government employee, particularly if one spent enough time in school. Hence, the data shows most ethnic groups choosing to be employees, and a negative relationship between education and self-employment rates (own-account workers probably have had minimal education).

Further directions for this research would be to attempt a multinomial probit model, which predicts membership in various categories of employment, such as private

employee, government employee (recall that this has an ethnic component too; as Table 1 shows, Africans favor government jobs to a large extent), employer, own-account worker, and unemployed. Furthermore, the incorporation of additional relevant variables—such as time spent looking for last job, hours of work, access to income, sources of income, geographic factors like the local unemployment rate, and family background—should make for a more robust treatment of the underlying ethnic patterns. For this to occur, however, we would have to undertake our own sampling of the population, an immense task to be sure, but one that would bring us closer to understanding the ethnic differences in the diverse society under study. Considering the role of government policy in another paper would also allow for better evaluation of the underlying patterns of employment of the varied ethnic groups in Trinidad and Tobago.

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**Table 3: Probit Equations for Self-Employment, dependent variable ‘self-employed’**

Explanatory variables	Specification					
	(1)	(2)	(3)	(4)	(5)*	(6)
Ethnicity dummies?	Yes	No	No	No	Yes	Yes
Individual characteristics?	No	Yes	Yes	Yes	Yes	Yes
Industry dummies?	No	No	No	No	No	Yes
<i>Ethnic Group</i>						
Indian	0.240 (0.026)				0.239 (0.028)	0.152 (0.029)
Chinese/Syrian/White	0.617 (0.126)				0.778 (0.132)	0.667 (0.138)
Mixed	0.174 (.031)				0.258 (0.032)	0.208 (0.034)
<i>Male</i>						
		0.429 (0.025)	0.374 (0.025)	0.370 (0.025)	0.359 (0.026)	0.460 (0.028)
<i>Age</i>						
Age		-0.014 (0.011)	-0.020 (0.011)	-0.005 (0.011)	-0.009 (0.011)	-0.020 (0.012)

Age squared/100	47.981 (13.515)	51.608 (13.556)	29.974 (14.095)	35.949 (14.167)	50.924 (14.678)
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***Education***

Some secondary	-0.049 (0.029)	-0.061 (0.029)	-0.069 (0.030)	-0.034 (0.031)
Secondary with degree	-0.384 (0.038)	-0.407 (0.039)	-0.446 (0.039)	-0.343 (0.042)
Some university	-0.717 (0.081)	-0.737 (0.081)	-0.756 (0.081)	-0.616 (0.084)
University with degree	-0.522 (0.054)	-0.540 (0.055)	-0.596 (0.055)	-0.418 (0.059)

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***Marital status***

Married but living alone	0.118 (0.051)	0.093 (0.051)	0.092 (0.052)
Had a partner but now living alone	0.027 (0.060)	0.029 (0.061)	0.048 (0.063)
Married	0.185 (0.032)	0.136 (0.033)	0.131 (0.034)
Common Law	0.133 (0.039)	0.132 (0.039)	0.147 (0.041)

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***Industry***

Petroleum and Gas.	-2.677 (0.222)
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Other manufacturing						-1.094 (0.068)
Construction						-1.124 (0.060)
Wholesale and retail trade, restaurants and hotels						-0.427 (0.060)
Transport, storage and communication						-0.318 (0.066)
Financing, insurance, and real estate services						-1.206 (0.075)
Community, social and personal services						-0.881 (0.059)
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Sample size	16149	16149	16149	16149	16149	16149
Log likelihood	-7966	-7533	-7401	-7383	-7324	-6793
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Notes: (1) The sample consists of economically active and employed workers who are at least 10 years old. (2) The dependent variable is equal to 1 if a person's chief job activity is self-employment, and 0 if employed by a private or public employer. (3) Standard errors are in parentheses below the coefficient estimates. (4) All equations included a constant. (5) The omitted/reference categories for ethnic group, education, marital status, and industry are African, primary school, single, and other agriculture, forestry, hunting and fishing.

\*This is our favored specification, as it controls for ethnic group as well as all individual characteristics, while omitting industry.

**Table 4: Predicted probabilities for selected profiles, dependent variable ‘ self-employed’**

Profile	Male		Female	
	Probability of being self-employed	Confidence interval	Probability of being self-employed	Confidence interval
Average	0.2274	[0.2187, 0.2361]	0.1109	[0.1031, 0.1188]
African	0.1834*	[0.1720, 0.1948]	0.0862*	[0.0781, 0.0943]
Indian	0.2536*	[0.2408, 0.2663]	0.1302*	[0.1192, 0.1411]
Chinese/Syrian/White	0.4505*	[0.3489, 0.5521]	0.2787*	[0.1923, 0.3652]
Mixed	0.2596*	[0.2422, 0.2770]	0.1342*	[0.1213, 0.1471]
African, university degree, married	0.1006	[0.0806, 0.1205]	0.0495	[0.0377, 0.0612]
Indian, university degree, married	0.1493	[0.1243, 0.1744]	0.0791	[0.0627, 0.0955]
CSW, university degree, married	0.3084	[0.2154, 0.4014]	0.1916	[0.1193, 0.2639]
Mixed, university degree, married	0.1538	[0.1266, 0.1809]	0.0819	[0.0643, 0.0995]
African, primary school, single	0.2064	[0.1885, 0.2243]	0.1169	[0.1028, 0.1309]
Indian, primary school, single	0.2810	[0.2590, 0.3029]	0.1706	[0.1514, 0.1898]
CSW, primary school, single	0.4836	[0.3782, 0.5890]	0.3398	[0.2421, 0.4376]
Mixed, primary school, single	0.2873	[0.2621, 0.3126]	0.1754	[0.1544, 0.1964]
Other agriculture	0.5351	[0.4931, 0.5770]	0.3219	[0.2803, 0.3635]
Petroleum and gas	0.0048	[-0.0011, 0.0107]	0.0008	[-0.0004, 0.0021]
Other manufacturing	0.1572	[0.1371, 0.1772]	0.0598	[0.0485, 0.0711]
Construction	0.1500	[0.1366, 0.1633]	0.0563	[0.0475, 0.0650]
Wholesale and	0.3672	[0.3448,	0.1868	[0.1713,

retail trade		0.3896]		0.2024]
Transport, storage, communication	0.4090	[0.3790, 0.4389]	0.2175	[0.1908, 0.2443]
Finance, insurance, real estate	0.1317	[0.1099, 0.1535]	0.0476	[0.0372, 0.0580]
Community, social, personal	0.2138	[0.1987, 0.2289]	0.0895	[0.0807, 0.0983]

\*These values indicate regression-adjusted self-employment rates for men and women.

**Table 5: Discrete changes in selected predicted probabilities, dependentvariable 'self-employed'**

Direction of $\Delta$		$\Delta P(\text{self-employed})$	
From	To	Male	Female
African	Indian	0.0701	0.0440
African	Chinese/Syrian/ White	0.2671	0.1925
African	Mixed	0.0762	0.0480
<i>African</i>			
Primary school	Some secondary	-0.0204	-0.0142
Primary school	Secondary degree	-0.1114	-0.0729
Primary school	Some university	-0.1616	-0.1013
Primary school	University degree	-0.1382	-0.0884
Single	Married but living alone	0.0241	0.0142
Single	Had partner, now living alone	0.0074	0.0043
Single	Married	0.0360	0.0213
Single	Common law	0.0231	0.0135
<i>Indian</i>			
Primary school	Some secondary	-0.0239	-0.0182
Primary school	Secondary degree	-0.1360	-0.0971
Primary school	Some university	-0.2031	-0.1386
Primary school	University degree	-0.1712	-0.1195
Single	Married but living alone	0.0293	0.0192
Single	Had partner, now living alone	0.0090	0.0058
Single	Married	0.0434	0.0287
Single	Common law	0.0280	0.0183

*Chinese/Syrian/White*

Primary school	Some secondary	-0.0276	-0.0258
Primary school	Secondary degree	-0.1734	-0.0350
Primary school	Some university	-0.2784	-0.2763
Primary school	University degree	-0.2264	-0.1921
Single	Married but living alone	0.0368	0.0309
Single	Had partner, now living alone	0.0115	0.0095
Single	Married	0.0539	0.0457
Single	Common law	0.0352	0.0295
<i>Mixed</i>			
Primary school	Some secondary	-0.0241	-0.0185
Primary school	Secondary degree	-0.1378	-0.0991
Primary school	Some university	-0.2063	-0.1418
Primary school	University degree	-0.1737	-0.1221
Single	Married but living alone	0.0297	0.0196
Single	Had partner, now living alone	0.0091	0.0059
Single	Married	0.0440	0.0293
Single	Common law	0.0284	0.0187

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## KIRZNERIAN AND SCHUMPETERIAN ENTREPRENEURSHIP IN TRINIDAD AND TOBAGO

### 1. Introduction

Moroz and Hindle (2011) identify four types of entrepreneurial process models published in the entrepreneurship literature. Of the four, the “stage models of entrepreneurship” divide the entrepreneurial process into two or more phases/tasks (see, for instance, Baker and Nelson 2005; Baron 2007; Bhave 1994; Bygrave 2006; Corbett 2005; Cunnen and Makelow 2007; Fayolle 2007; Hornsby et al. 1993; Jones and Coviello 2005). Although these efforts differ in the stages that they emphasize and how they discuss those stages, there is a great deal of overlap between them. Opportunity identification and opportunity exploitation, for instance, appear to be the two essential moments of the entrepreneurial process. Arguably, these two moments map quite nicely into the different approaches to studying entrepreneurship advanced by Kirzner and Schumpeter.

Recall that Kirzner (1973) stressed alertness to hitherto unnoticed profit opportunities as essential to entrepreneurial behavior. He defined the entrepreneurial element in decision-making as “that element of alertness to possibly newly worthwhile goals and to possibly newly available resources” (ibid.: 35). For Kirzner (ibid.), what he defines as the entrepreneurial element in human action is not possession or exploitation

of market information, but rather, alertness to that information. Opportunity identification, for Kirzner, is the sine qua non of entrepreneurship.

Schumpeter, on the other hand, saw opportunity exploitation as the essential aspect of entrepreneurship. He stressed the “carrying out of new combinations” of the means of production as the essential entrepreneurial function. The entrepreneur, for Schumpeter, creates new goods, improves the quality of existing goods, creates new methods of production, opens new markets, finds new supplies of resources, or discovers new ways to organize an industry. Schumpeter’s entrepreneur is an innovator and a natural leader. Her entrepreneurial moment occurs when she is seizing an opportunity to do things differently.

Although recent efforts have sought to reconcile these two approaches to understanding, most theorists agree that, even if there is not a difference in kind between the entrepreneurs posited by Kirzner and Schumpeter, there is certainly a difference in emphasis.<sup>38</sup> Unfortunately, that cultural and institutional factors can differentially affect the different moments of entrepreneurship is somewhat underappreciated in the “stage

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<sup>38</sup> On being the same entrepreneur, in *Competition and Entrepreneurship* (1973: 72) Kirzner himself acknowledges a similarity, stating that “. . . Schumpeter’s entrepreneur and the one developed here can in many ways be recognized—and let me add, reassuringly recognized—as the same individual.” He further remarks (ibid.: 79—80): “In many respects the picture of the entrepreneur which I have sought to delineate shows much resemblance to that elaborated by Schumpeter. The Schumpeterian innovator is, after all, the decision-maker whose alertness to unnoticed opportunities has enabled him to depart from the routine repetitive working of widely known opportunities.” Kirzner adds that “my entrepreneur and Schumpeter’s innovator-entrepreneur have in common that, at least for their essentially entrepreneurial role, they contribute no factor services to production; the profit they win is not compensation needed to attract a necessary input into the production process. . . . What the entrepreneur contributes is merely the pure

model of entrepreneurship” literature. Moreover, since the literature that focuses exclusively on opportunity identification following Kirzner and the literature on opportunity exploitation following Schumpeter have tended to proceed independently of one another, the dominant view, by default, seems to be that cultural and institutional environments similarly affect both moments of entrepreneurship. So, for example, a hostile entrepreneurial environment would depress and distort both Kirznerian and Schumpeterian entrepreneurs.

Can cultural and institutional factors differentially affect opportunity identification and opportunity exploitation? It is possible, for instance, to imagine an institutional environment that makes exploiting entrepreneurial opportunities difficult (e.g. one where property rights are insecure or access to capital is restricted) but where individuals still notice entrepreneurial opportunities. Similarly, it is possible to imagine a cultural context where entrepreneurs identify “perverse” opportunities (e.g. opportunities to profiteer or to gain through black or grey market activity) but are not encumbered in any way by the prevailing institutions from exploiting those “perverse” opportunities. Distorting the identification of entrepreneurial opportunities and depressing the exploitation of entrepreneurial opportunities are conceptually different barriers to entrepreneurship and ought to be treated separately.

The importance of keeping separate what a potential entrepreneur sees from what a potential entrepreneur actually does can be appreciated when considering a context like Trinidad and Tobago, where a vibrant entrepreneurial spirit appears to exist amongst

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decision to direct these inputs into the process selected rather into other processes” (ibid.:



Trinidadian blacks but where very few Trinidadian blacks (relative to other ethnic groups) are engaged in entrepreneurship. Interviews with Trinidadians reveal a propensity to discover and even plan to exploit entrepreneurial opportunities but a reticence when it comes to actually exploiting those opportunities. Stated another way, Trinidadians are skilled at the aspects of entrepreneurship that Kirzner emphasized (opportunity identification) but appear unskilled at the aspects of entrepreneurship that Schumpeter emphasized (opportunity exploitation).

In this article, we highlight the possibility that the same cultural and/or institutional environment can differentially affect Kirznerian and Schumpeterian entrepreneurs. Specifically, we argue that understanding entrepreneurship in Trinidad and Tobago requires that we focus on how Trinidadian culture and institutions differentially affect both moments of entrepreneurship. Thus, Section II highlights and differentiates between the two key moments of entrepreneurship: opportunity identification and opportunity exploitation. We also explore in this section how culture and institutions can differentially affect both moments. Section III describes the context, data, and methods we use in our investigation of entrepreneurship Trinidad of Tobago. In Section IV, we identify features of the cultural and institutional environment in Trinidad and Tobago in order to demonstrate why opportunity identification occurs amongst Trinidadian blacks, at the expense of opportunity exploitation. Section V offers concluding remarks.

## **2. Moments of entrepreneurship**

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So much has been written about entrepreneurship that notions of what entrepreneurs do and how they do it often differ from author to author. In an attempt to summarize and evaluate the numerous models of entrepreneurial process that exist in published, peer-reviewed journals and books, Moroz and Hindle (2011) scour the literature on entrepreneurship. The authors develop a taxonomy for the models of entrepreneurial process they find in the literature. They refer to one particular class of models as “stage models of entrepreneurship.” Theories or concepts used in stage models, according to Moroz and Hindle, tend to “divide into a priori stages major tasks or phases” in the entrepreneurial process (ibid.: 11). In particular, these models demonstrate “a focus on stages or events based on the concept of opportunity or cognitive phases that involved decision making.” (ibid.: 12). These stages of entrepreneurship tend to cover two moments in time: first, the moment the entrepreneur envisions an opportunity (the authors cite terms used in the literature including “opportunity recognition,” “discovery,” “trigger phase,” “triggering event,” “need recognized,” “opportunity choosing,” and “opportunity evaluation,”) and second, the moment the entrepreneur takes advantage of the opportunity (“opportunity development,” “business planning,” “idea implementation,” “formation,” “product introduction,” “commitment phase,” “exploitation,” “execution,” “opportunity commercialization,” and “opportunity refinement.” Arguably then, the entrepreneurship literature tends to stress two stages, or rather, moments of entrepreneurship: opportunity identification and opportunity exploitation.

Entrepreneurship—in particular the cultural and institutional environments that encourage, distort, and depress entrepreneurship—has received a lot of attention from Austrian economists including Hayek (1948), Mises (1949), Schumpeter (1950; 1961), Kirzner (1973; 1997; 1999), Lavoie (1991), Boettke (1993; 2001), Sautet (2000), Chamlee-Wright (1997; 2005) and Storr (2004). We elucidate the two distinct moments of entrepreneurship that are the focus of this paper by referencing the work of two of these economists—Israel Kirzner and Joseph Schumpeter.

### ***2.1 Kirznerian opportunity identification.***

Kirzner highlights opportunity identification as the decisive entrepreneurial moment. According to Kirzner, opportunities to earn entrepreneurial profit characterize markets. These opportunities exist because of past errors of over-pessimism and over-optimism that necessarily occur in the market as a result of the uncertainty that characterizes action-in-the-world.<sup>39</sup> The alert entrepreneur discovers these earlier errors. Thus, in order for discovery to occur, a person must be vigilant to such errors and embody a ‘natural alertness’ (ibid: 72). The successful Kirznerian entrepreneur is receptive to available opportunities and is “always ready to be surprised” (ibid.). While discovery of these errors/opportunities must involve surprise, discovery ultimately

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<sup>39</sup> Kirzner explains these errors. According to him (:167)., “Market participants may mistakenly believe that others will buy even at very high prices or that others will be prepared to sell at very low prices. Such over-optimistic mistakes are very natural” He further states (ibid.: 168) that “Some participants in the high-price market may refrain from buying (because of the high price) and remain without the commodity, even while that commodity is available in another market” and hence that “market participants are (over-pessimistically) unaware of what others *might* be willing to pay (or be willing to sell for.”

depends on alertness. As he writes, “Discovery is attributable, at least in significant degree, to the entrepreneurial alertness of the discoverer” (ibid: 75).

For Kirzner, entrepreneurial alertness does not require the entrepreneur to possess superior knowledge of market data. According to Kirzner (1973: 67), “the elusive notion of entrepreneurship is . . . not encapsulated in the mere possession of greater knowledge of market opportunities.” The knowledge required for production is a service available in the market, retrieved by hiring suitably skilled and suitably informed workers. What distinguishes the entrepreneur then, is that she knows to look for those workers who possess the superior knowledge she is after. Neither does the entrepreneur have to invent new information “*ex nihilo*”; she only has to be alert to “the opportunities that exist *already* and are waiting to be noticed” (ibid.: 74, italics his). Alertness to information, therefore, not possession of information, is the essential entrepreneurial element in human action (ibid.: 68).

Kirzner (1999:13) does not deny that entrepreneurial alertness “must unavoidably express itself in the qualities of boldness, self-confidence, creativity and innovative ability”, nor does he deny that people differ in their endowments of these psychological characteristics. He further acknowledges that there is a context in which individuals operate which includes differing tastes, resources and technology, as well as different cultural and institutional environments, and that this context also affects what opportunities the would-be entrepreneur will end up seeing (1997: 72). But, the act of noticing the entrepreneurial opportunity is more significant than any other action associated with the entrepreneur. As Kirzner (1973: 81, italics his) reiterates:

For me, the important feature of entrepreneurship is not so much the ability to break away from routine as the ability to perceive new opportunities which others have not yet noticed. Entrepreneurship for me is not so much the introduction of new products or of new techniques of production as the ability to *see* where new products have become unsuspectedly valuable to consumers and where new methods of production have, unknown to others, become feasible. For me the function of the entrepreneur consists not of shifting the curves of cost or of revenues which face him, but of *noticing that they have in fact shifted*.

Thus the moment of entrepreneurship that matters for Kirzner is the moment that the entrepreneurial opportunity is seen or identified.<sup>40</sup>

Several scholars have sought to defend and extend Kirzner's analysis. Shane laments the fact that "most research on entrepreneurship investigates the entrepreneurial process after opportunities have been discovered" (200: 448). To corroborate Kirzner's view that opportunity identification is paramount to the process, Shane then looks for empirical evidence and finds that entrepreneurs who recognized business opportunities to exploit a three-dimensional printing invention recognized those opportunities in an

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<sup>40</sup> To be sure, Kirzner believed that only opportunities that were exploited were really identified. As he (1999:13) wrote, "If he has not seen that opportunity in so shining a light that it drives him to its implementation in spite of the jeering scepticism of others, and in spite of the possibility of its ultimate failure—then he has *not* really "seen" that opportunity" (italics his). Still, it is fair to say that Kirzner tended to focus on opportunity identification rather than opportunity exploitation. Our describing a particular group of entrepreneurs as Kirznerian is not to say that they exhibit all of the

idiosyncratic fashion—without searching for those opportunities, and without possessing any special talents or backgrounds. Sautet (2000) insists that the entrepreneur’s main function is in discovering overlooked profit opportunities, opportunities that exist because of previous errors and uncertainty. He further says that firms learn by discovery, meaning that alertness to profit opportunities strengthens the entrepreneur’s abilities to learn, which compounds her aptitude for discovery. As expected, all these studies focus on opportunity identification.

### ***2.2 Schumpeterian opportunity exploitation.***

Opportunity exploitation, on the other hand, is the dominant feature of the Schumpeterian entrepreneur.

In *The Theory of Economic Development*, Schumpeter (1951: 66) focuses on the fundamental phenomenon of economic development—“the carrying out of new combinations” of the means of production. An act of entrepreneurial innovation occurs, for example, with the advent of a new good or a new method of production, opening of a new market, discovery of a new source of raw materials, or carrying out a new way of organizing an industry. In short, entrepreneurship “consists primarily in employing existing resources in a different way, in doing new things with them” (ibid.: 68). The persons responsible for this process are entrepreneurs; “it is the carrying out of new combinations that constitutes the entrepreneur” (ibid.: 73). When a person ceases to perform that function, she ceases to be an entrepreneur.

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characteristics that Kirzner attributed to his entrepreneur, but merely to suggest that they exhibit this chief characteristic.

According to Schumpeter (ibid.: 79), “entrepreneurs are a special type.” They have uniquely identifiable characteristics that allow them to innovate. These include leadership, foresight, authority, and initiative (ibid.: 74). The entrepreneur does not have to be especially creative, since the knowledge requisite for an innovation is ubiquitous in society (Hayek 1945). What differentiates the entrepreneur is that he has the drive or will to exploit opportunities and transform innovations into reality. This conduct is “special” because doing things differently involves a natural reluctance to break with the norm (ibid.: 84). Thus what matters for Schumpeter is not that the entrepreneur can conceive of an innovation, but that he, as a leader, is able to carry it out. As he (ibid.: 85) writes:

The specific problem of leadership arises and the leader type appears only where new possibilities present themselves. . . . It is no part of his function to “find” or “create” new possibilities. They are always present, abundantly accumulated by all sorts of people. Often they are also generally known and being discussed by scientific or literary writers. In other cases, there is nothing to discover about them, because they are quite obvious. . . . Now, it is this “doing the thing,” without which the possibilities are dead, of which the leader’s function consists. . . . What is to be done in a casual emergency is as a rule quite simple. Most or all people may see it, yet they want someone to speak out, to lead, and to organise. Even leadership which influences merely by example, as artistic or scientific leadership, does not consist simply in finding or creating the new thing but in so impressing the social group with it as to draw it on in

its wake. It is, therefore, more by will than intellect that the leaders fulfill their function, more by “authority,” “personal weight,” and so forth than by original ideas.

Again, for Schumpeter, the important entrepreneurial moment occurs when the entrepreneur actually exploits opportunities for entrepreneurial profit. Any invention that is dreamed up but is either not carried or not used in a manner that improves existing production is deemed “economically irrelevant” (ibid.: 86).

Elsewhere, Schumpeter uses the term “creative destruction” to describe entrepreneurial innovation. By this he means the creation and destruction of value that accompanies radical innovation. Companies see their profits disappear as technological improvements make old combinations obsolete. The essence of the Schumpeterian entrepreneur is his very active role in this process of creative destruction; he exploits entrepreneurial opportunities rather than just passively noticing those opportunities.

Thus, while Kirzner stresses “seeing” the entrepreneurial opportunity, for Schumpeter, entrepreneurship is primarily in the “doing”.

### ***2.3 The role of culture and institutions in opportunity identification and exploitation.***

While there has been a great deal of literature that discusses how culture and institutions affect entrepreneurship, that literature has not tended to stress how they might affect the two moments of entrepreneurship differentially.

#### ***2.3.1 Culture.***



Since Weber's (1930) discussion of how the spirit of modern capitalism in the West led to economic prosperity, economists, sociologists, anthropologists, and entrepreneurship scholars have focused on how culture impacts economic activity (see Lavoie and Chamlee-Wright, 2001; Chamlee-Wright, 1993 and 1997; Granovetter, 2004; Gudeman, 1986; Harrison and Huntington, 2000; Berger, 1991; Bird-David, 1992a and 1992b; and Boettke and Storr, 2002). Much of the empirical work within the entrepreneurship literature has concentrated on how differences in national cultures affect either rates of entrepreneurship or the characteristics of entrepreneurs in that context.<sup>41</sup>

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<sup>41</sup> Following Hofstede (1980), entrepreneurship scholars have argued that cultures that are more individualistic, more comfortable with uncertainty, more masculine and that have low power distance are likely to have higher levels of entrepreneurship. Thus collectivist, risk-averse, feminine and high power distance cultures are likely to have lower levels of entrepreneurship. As Hayton *et al* (2002, p 34) argue, Hofstede's taxonomy of cultural values and their effects on entrepreneurship has inspired much of the behavioural research that exists on the relationship between national culture and enterprise. Using either Hofstede's results or other surveys that attempt to measure national or regional culture, studies such as Shane's (1992 and 1993) and Davidson's (1995) have discussed the impact of culture on national rates of innovation and firm-formation rates respectively. These studies corroborate Hofstede's contention that a certain set of national and regional cultural characteristics is related to the national and regional levels of entrepreneurship (Hayton *et al*, 2002, p 35).

The other major strand of empirical work on culture and entrepreneurship has relied on surveys of entrepreneurs in various cultures, focusing on how entrepreneurs differ across countries or regions (Hayton *et al*, 2002, p 37). Shreinberg and MacMillan (1988) and Shane *et al* (1991) discuss how the motives of entrepreneurs differ across cultures. McGrath *et al* (1992) and Mueller and Thomas (2000), on the other hand, focus on the similarities between entrepreneurs across contexts. Similarly, Morrison (1999, p 68) concludes that the ideal typical entrepreneur, regardless of culture, 'is intelligent and analytical; is an effective risk manager and networker; possesses a strong set of moral, social and business ethics, exhibits a basic trader's instinct; and is dedicated to life-long learning in its many forms'. Entrepreneurs, regardless of context, appear to have higher masculinity, individualism scores and lower uncertainty avoidance scores than non-entrepreneurs in their respective countries.

Although not explicitly stressed in the entrepreneurship literature, it is clear however that some cultural environments can suppress one moment of entrepreneurship but encourage the other. For example, it is possible for some aspects of a culture to heighten the identification of entrepreneurial opportunities but simultaneously dampen the exploitation of those opportunities. And, it is possible for some aspects of a culture to distort the identification of entrepreneurial opportunities but simultaneously to enhance the exploitation of those opportunities. The system of *blaat* (or favors) in Russia is one example. The network both encourages entrepreneurs to chase profiteering opportunities rather than profit opportunities but also facilitates the exploitation of those profiteering opportunities.

Storr and Butkevich (2007) observe that certain factors like a legacy of communism or colonialism can distort entrepreneurship within a country. The authors utilize works of literature as a way of demonstrating the cultural frames of entrepreneurship from the viewpoint of the oppressed. Gogol's *Dead Souls*, for example, tells the story of a civil servant who tricks the economic system and becomes rich for it. Such a tale speaks to "the Russian conception of entrepreneurship as an act of deception and their suspicion of strangers" (ibid.: 255), due to Russians' experience under Soviet rule. Similarly, In Ngugi wa Thiongo's *Devil on the Cross*, entrepreneurs are portrayed as parasites, a depiction in keeping with the experience of Black colonies after independence. Since political patronage was granted to the colonizers, the colonized "either convinced themselves that success was impossible and so did not try, or they began to equate success in business with connections, bribery, kickbacks, etc." (ibid.:

256—257). As was evident in their literary works, the political cultures extant in both post-Soviet and post-colonial societies tended to depress entrepreneurship in general.

### ***2.3.2 Institutions.***

Secure property rights draw clear boundaries between what's yours and what's mine, and legally enforceable contracts uphold voluntary agreements—these are institutions central to entrepreneurial identification and exploitation. People that do not have secure property rights are fundamentally constrained—they are not free to use their property in a manner they desire. Where one may identify a lucrative opportunity from the use of her property, she cannot exploit it if she does not have the right to. And if she never had the right to the property, she is not likely to identify profit opportunities in the first place. Private property rights allow for profit opportunities to emerge, and these opportunities provide the incentive for people to seek entrepreneurial profits. Profits presuppose prices (which signify value), and prices presuppose that one is free to exchange, that is, that property rights are secure. Where property rights are not respected or are non-existent, individuals are less likely to try to take advantage of these opportunities.

Thus, as with culture, the institutional environment may make people more or less likely to identify entrepreneurial opportunities, and more or less likely to exploit these opportunities.

We show in the fourth section that the tendency for Trinidadians to be Kirznerian entrepreneurs, that is, identifiers of entrepreneurial opportunities, as opposed

Schumpeterian entrepreneurial exploiters, can be explained by factors relating to Trinidad and Tobago's culture and its institutions.

### **3. Context, Data and Methods**

Trinidad and Tobago is an ethnically diverse, former British colony (independent as of 1962) located in the Caribbean with a track record of political stability, peace, economic freedom and an income per capita of \$22,100 as of 2010.<sup>42</sup> Unfortunately, scholarly attempts to explain the institutions that impact entrepreneurial opportunity identification or exploitation in Trinidad and Tobago are rare, and some of the existing explanations are inadequate.

For instance, claiming that Trinidadians are not forward-looking and simply do not like to work, Bonaparte (1969) concluded that the Trinidadian culture itself is a deep-rooted impediment to success in business. He states: "Work is accepted as an inevitable part of everyday life but there is no reason for going after it" and, "There is little anxiety about the future" (ibid: 290). He further observed that Trinidadian businessmen are not inclined to taking risks, to relying on the advice of formally trained managers, or to trusting their subordinates.

Birth (1995) also sought to explain the work ethic in Trinidad, particularly the phenomenon of educated men in Trinidad who "have no jobs and no inclination to work" (ibid: 79). Birth argues that Trinidadians underperform because two notions of time are at conflict within them. One is the notion that time is rigid and schedules must be obeyed, which they learn in school. On the other hand, they hold on to the pervasive notion that

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<sup>42</sup> Source: CIA The World Factbook—Trinidad and Tobago.

their actions are time-independent or time-flexible—that time is not something that they need to always schedule. Citing a conclusion by McClelland, Birth states that: “being able accurately to conceive of the future and to set goals in the future are important features of the ‘entrepreneurial personality’” (ibid: 81). Therefore, because some Trinidadians expect that they can negotiate time, they also tend to be less forward-looking, less productive and less entrepreneurial.

In order to examine how Trinidad's culture and institutions affect entrepreneurial opportunity identification and exploitation there, we employ a mixed methods approach involving both qualitative and quantitative methods. The interviews utilized in this survey were conducted in July and August 2009 in Trinidad. Thirty subjects agreed to the interviews—16 were employees, 6 were business owners, another 6 were managers, and 2 were selected as “experts” on Trinidad’s society (the editor of a national newspaper and the C.E.O. of a state-owned communication company). Apart from the experts, the majority of interviewees worked in the construction/industrial aggregate industry, which was selected because our contacts within that industry were able to give us access to their employees.

General questions were asked of everyone and specific questions targeted each of the four groups of interviewees. The questions asked covered a range of concerns, since the purpose of these interviews was to generally understand entrepreneurship and attitudes towards work in Trinidad, and how politics, culture, and ethnicity interacted with work choices. Specific questions asked of the sixteen employees included “What’s your relationship with your manager or boss?” and “Do you think there are many

opportunities/obstacles for starting a business here?” We augment the qualitative data with quantitative data was compiled by the Central Statistical Office of the government of Trinidad and Tobago.

Unlike Bonaparte and Birth, we find that Trinidadians are indeed entrepreneurial, particularly in the Kirznerian sense of being alert to profit opportunities and setting concrete goals. However, their plans do not translate into entrepreneurial actions—that is, they fail to be successful Schumpeterian entrepreneurs—not because they are intrinsically lazy, but because their culture and institutions interrupt their exploitation of these plans.

#### **4. Opportunity identification but not exploitation in Trinidad**

The majority of interview subjects had identified an opportunity that they "hoped" to someday exploit. These opportunities varied a great deal, and the industries identified included hairstyling, truck rental and transport, plant rental, accounting services, and food. Moreover, most had not only identified these opportunities but had formulated plans to exploit them. Employees identified opportunities and made detailed plans, even if the ideas and plans were not grandiose. Among the reasons they identified for wanting to open a business included the ability to be financially secure and cope with uncertainty, to take care of parents and family, to express a passion for some art, to capitalize on gaping holes they saw in current production processes, including generally poor customer service, and because of a vibrant economy (one employee emphatically said that “Trinidadians have money to spend”).

Although a majority had identified opportunities for entrepreneurial gain, and several had formulated even detailed plans to exploit these opportunities, very few had

actually moved to exploit them. The individuals surveyed had worked in their current jobs for an average of five years, and many did not plan to start their businesses until they were older and well established. While the interview subjects were quite emphatic that they would eventually exploit these opportunities that they identified, based on their experience managers insisted these entrepreneurial plans were “just talk” on the part of workers.

#### ***4.1 Inheritance of British institutions and the post-colonial political culture.***

From independence in 1962 to the present day, the British institutions of private property and the rule of law have to some degree prevailed in Trinidad and Tobago. As mentioned in section 2.3.2, private property and the rule of law are the institutional prerequisites for productive entrepreneurship and development. What was simultaneously achieved in 1962, however, was the adoption of the British-style welfare state, with a well-organized and well-developed bureaucracy. As a group, these inherited institutions played dual roles. The existence of the “good institutions” of private property and the rule of law make entrepreneurial identification of the kind gleaned from the interviews possible. However, post-colonial policies instituted by the welfare state dampens the drive for exploitation of these opportunities.

Like many former British colonies in the Caribbean, the Trinidad and Tobago government machinery resembles that of Britain in terms welfare provision. The Trinidad and Tobago government appears to have filled the void left by the then British government, which was prior to independence responsible for all aspects of society and economy. Apart from retaining a parliamentary democracy, the Privy Council of

London remains Trinidad's highest law court of appeal. Under the GATE program, the government fully covers higher education tuition fees at both public and private institutions. The government is also responsible for after-school job training opportunities, and small business development. Indeed, interviewees responded that they planned to go to the government to provide them with further business development strategies and capital. This accepted paternalistic role of government appears to inhibit entrepreneurial exploitation in Trinidad, as the initiative to get one's business going seems to rest to some degree with the state. Further, ultimate reliance on the state for education (particularly at the tertiary-level) and jobs preclude the necessity for exploiting entrepreneurial opportunities.

The government stifles entrepreneurial exploitation in more specific ways. For instance, the government is directly in charge of branding the nation's cultural image. The Ministry of Community Development, Culture and Gender Affairs is the arm of the government responsible for this. Trinidad's premier cultural expression is its pre-Lentem Carnival festival held annually in February or March. Aspects of the festival include parties, singing and orchestral competitions, and the two-day parade of costumes that attracts thousands of participants and spectators. While private business organizations called 'Carnival bands' provide the standardized costumes and hold parties during the festival season, the government is also involved in Carnival activities and has ultimate oversight over Carnival-related activities. For instance, the state's involvement in competitions and events related to Carnival include the provision of venues, security, prize money for participants, stipends for adjudicators, and refreshments. Would-be



entrepreneurs who perceive of entrepreneurial opportunities in this area are hampered from exploiting them since the pecuniary benefits accrue to those in the service of the government or private sector organizations with an established presence in Carnival-related industries.

The government also has complete oversight in the oil and natural gas sector. Oil revenues have been able to keep the revenues of the Trinidad and Tobago government higher than many of its Caribbean counterparts, and arguably, the government's uses of this oil revenue allows it to finance social services at a higher level than would be sustainable without oil derived revenues. Furthermore, the public has formed expectations about the use of these large revenues, including the notion that competitiveness and diversification of the economy are bonafide responsibilities of the state. Therefore, as a result of the safety net that exists in Trinidad, as well as cultural expectations about the role that the state must play in the economy, Trinidadians are arguably less likely to feel a sense of economic urgency, and hence less likely to resort to exploitation of entrepreneurial opportunities.<sup>43</sup>

While private property and the rule of law encourage the identification of opportunities that is evident from the interviews, Trinidadians are less likely to feel a sense of economic urgency and commit to those opportunities because the social safety net appears to them very strong, and also because entrepreneurial discoveries are always expected to be captured by someone else, in many cases the government.

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<sup>43</sup> Admittedly, this could facilitate entrepreneurial exploitation as it minimizes the downside of entrepreneurial failure; other factors combine with the large social safety net to dampen entrepreneurship.

We further argue that there exists a post-colonial *political* culture in Trinidad that also differentially affects opportunity identification and opportunity exploitation there. On the one hand, it sends a signal that Trinidadians ought to be developing their country, and this creates an atmosphere where people are always looking for entrepreneurial ventures. At the same time, however, Trinidadians, and especially Afro-Trinidadians, are taught that they are unable to succeed without assistance and that they are owed favors from the government, an expectation that ultimately stymies their exploitation of entrepreneurial opportunities.

Furthermore, the dependent culture is not just limited to people's relationship with their government. In Trinidad, according to the responses, individuals culturally feel more comfortable relying on their parents. People live with their parents well into their twenties and thirties without the social stigmatization that would inevitably occur in places like the United States. When Trinidadians lose their jobs, they often turn to their families for financial support during the time that they are unemployed. Thus, although they may make entrepreneurial discoveries, Trinidadians' exploitation of these opportunities are stymied by the lack of necessity of following through with an entrepreneurial plan, particularly when reliance on one's entrepreneurial talents gives way to a culturally acceptable reliance on the family or the state for financial support.

Through the process of decolonization emerged a culture that encouraged Trinidadians to improve their country on their own efforts. Such a culture should encourage many different categories of entrepreneurship – political, commercial, and social—because of the people's desire to build up the country and turn it into something

distinctly Trinidadian. Indeed, the multiple instances of entrepreneurial identification in the interviews reflect this desire to think through how one can succeed by removing the shackles of dependence.

#### ***4.2 Ethnically-based social networks and post-colonial business culture.***

Ethnically based social networks offer access to resources that encourage and facilitate entrepreneurship amongst some groups (i.e. Whites and Indians) and diverts and even hampers it amongst others (blacks). Additionally, there exists in Trinidad a post-colonial *business* culture that both celebrates its hard working and entrepreneurial roots and also accords low prestige to entrepreneurship relative to government jobs. A racial stigma further explains the lack of opportunity exploitation amongst Trinidadian blacks.

Trinidad would appear to be like any other plantation economy, or any other Eastern Caribbean country, except for its distinct ethnic makeup. Trinidad's ethnic makeup consists of 40 percent Indian, 37.5 percent African, 20 percent mixed and 1.2 percent other ethnic groups, which includes Whites and Chinese and Middle Eastern peoples. This breakdown has several consequences for entrepreneurship, which will be discussed below.

The last 1.2 percent of population, who will hereby be characterized as elites, have traditionally been the owners of big businesses. Over generations, this control has been passed down and the children who inherit their ancestors companies tend to remain in the same business. Edmunds and Felton (1990) demonstrated that the traditional elite

and foreign firms control the large, formal businesses in Trinidad.<sup>44</sup> Therefore, a minority ethnic group retains control over the most profitable sectors of the economy.

African- and Indian- Trinidadians tend to engage in smaller, less profitable ventures, like import and export of clothing, or gardening businesses, and hence never come to be as high earners as elites. Thus the opportunity cost of becoming an entrepreneur is very high, and as such as non-elites are more likely to be drawn to bureaucratic jobs. Elites on the other hand, tend to be somewhat absent in politics.

Indians present a special case. They have a higher self-employment rate than blacks, and many are economically successful. Historically, Indian indentured laborers acquired landholdings that they eventually passed down to their descendants, so that Indians have by and large had land available to support their families' goals. Land could be used as collateral or liquidated to pursue specific career objectives. Thus with a more secure financial backing, it is unsurprising that a higher percentage Indians have succeeded in business than blacks. In medical and engineering school, Indians also predominate. Indians own several big business and rich Indians have a social status almost on par with elites there. Within some Indian families therefore, the capital is

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<sup>44</sup> Additionally, Crichlow (1998) explains how the whites were able to consolidate their dominant position in business in the 1960s and 70s, because the elites benefited most from post-independence industrialization programs created by the government. In the aftermath of independence, blacks clamored for the government to make the distribution of power and wealth more equitable (ibid: 76). However, as Crichlow (ibid.) points out, the government's efforts to correct the social and economic imbalance through the formation of small-business development and land-settlement schemes targeted at affected groups led to negative unintended consequences – an increase in the size of the informal economy due to households maximizing income now received from both formal and informal activities, and preferential treatment based on race in loan dissemination.

available to buy a house or start a business venture if one so desires. This is truer for elites and less true for Africans, and therefore the exploitation of entrepreneurial activities is deeply tied to one's ethnic group.

In general, elites and Indians are more secure in their economic standing. Economic success in Trinidad is, like elsewhere, relative. The richest Trinidadians are satisfied with the benefits of being upper-middle class. These include having connections and therefore being able to get things done. For instance, one (White) CEO mentioned in his interview that despite the high crime rate and the fact that he would never dare to walk through the streets of Port of Spain for fear of being kidnapped or worse, he would never migrate from Trinidad. The reason he gave was that he is fully aware that if his son was arrested or his daughter suddenly fell gravely ill, they would not have to languish in a jail cell or in a hospital waiting room. The CEO admitted that he has only to pick up the phone and call the head of police or the head of the hospital, or better, the Minister of National Security or of Health, and the situation would be rectified immediately. He said he would never dream of getting that type of special treatment in British or American society. Simply being treated with power and deference is a social benefit tied to one's social standing, which is based on income, connections, and ethnic group. Thus in Trinidad, elites are more likely to engage in entrepreneurial activities because of their historical inheritance. Those who are not in the elite group are more likely to be blocked out of entrepreneurship because they lack the family networks or connections. Without these networks, they are better off earning a living in bureaucracy or politics. The same goes for poorer Whites or Indians, but to a lesser extent than for blacks in Trinidad.

There are several studies that discuss the differences in business attitudes, practices and experiences of Trinidad's different ethnic groups that might explain the differences in self-employment between blacks and other ethnic groups. Ryan and Barclay's *Sharks and Sardines – Blacks in Business in Trinidad and Tobago* (1992), offers the most comprehensive examination of Afro-Trinidadian businesspeople and businesspeople from other ethnic groups after independence in Trinidad. The book consists of the results and analysis of a quantitative survey (without using regressions) of businesspersons using the 1980 Census, in addition to a qualitative survey of 100 black and 50 whites businesspeople. Ryan and Barclay (ibid) found that blacks were overrepresented in the public sector and underrepresented among private sector employees and the self-employed. They claim that blacks were very entrepreneurial post-emancipation in 1834. But, that, while blacks who had been enslaved performed well, their descendants performed poorly making them less likely to engage in business. They offer several possible explanations for this result.

In the early 1900s, for instance, the planter class took deliberate steps to raise taxes and make land acquisition difficult for blacks (ibid: 4), blacks depended on volatile crop prices for their success yet spent their incomes "lavishly" (ibid: 8), and blacks tended to borrow too much credit from white planters, who ended up seizing blacks assets when the blacks could not repay (ibid: 9). Blacks also frequently migrated to urban areas in search of jobs and schools, thus, forfeiting their lands to Indians, who preferred to work in rural areas (ibid: 11). Additionally, in the 1970s and 1980s, following the Black Power revolution, the new government instituted business development policies to

make blacks more “self-reliant” by providing capital grants, training subsidies, and commercial subsidies to them, for example (ibid: 17). Ryan and Barclay’s 1991 survey found that despite the incentives, blacks continued to exhibit low educational attainment and run smaller size firms, with limited family involvement in their businesses and a decreased propensity to employ professional consultants to assist them (ibid: 18). Black females, they found, were only inclined to pursue self-employment out of economic hardship (ibid: 115). The majority of those surveyed complained that access to capital and meddling government bureaucracy were major constraints to the success of their businesses at that time (ibid: 28).

In the mid-1980s, Ryan and Barclay add, following the drop in oil prices that precipitated the devastating economic downturn, more black businesses failed. At this time, survey results showed that blacks had a distrust of hiring and patronizing those of their own race (ibid: 60). Black businessmen complained that their counterparts did not bolster each other because they had the largest population at the time; hence they felt no requirement to stick together the way Indians did, for example (ibid: 63). Racism by other ethnic groups was cited as another hindrance to black success. They also complained that the state machinery worked too slowly for them (ibid: 61). One black businessmen surveyed suggested that since blacks had always been provided for as slaves, thus, they did not develop ethics of struggle and survival like Indians (ibid: 65). On the other hand, the bankers surveyed claimed that blacks especially exhibited irresponsibility and “immorality” with their debt, and that the need to signal style and status was more important to the black culture than frugality (ibid: 77). Bankers also claimed that blacks

cared little about legal incorporation, management training, auditing and getting insurance (ibid: 78). Furthermore, the authors also blame black performance in that period on that notion that blacks were less savvy and less cutthroat than other ethnicities of entrepreneurs due to their historical lack of experience and poor family involvement in business (ibid: 79).

Brereton (1979: 85) similarly argues that Afro-Trinidadians were more likely to seek status by investing in education, not entrepreneurship – “school represented the main chance of mobility for the sons of black and coloured lower class and lower middle class” (ibid: 85). According to some of the interviewees, government jobs in Trinidad also tend to be seen as more secure, and there is less prestige attached to being an entrepreneur in Trinidad. After leaving school, there is an importance attached to finding a bureaucratic job, because it is viewed as not only stable, but difficult to obtain and hence an accomplishment. The competition for those jobs is strong, and therefore one has to have the right connections to secure that job. Hence an individual is viewed as being either very intelligent or knowing very important people if they obtain the government job. In contrast, a person trying to start their own business is seen as perhaps taking a foolish risk and the expectation is that the person will tend to that business part time while having a “real”, permanent job in a government position or at one of the bigger private firms, many of which were, until very recently, government-owned. Next to government jobs therefore, entrepreneurship just does not appear to be as profitable and thus the opportunity cost of actually becoming a business owner is high.



Due to the ethnically-specific social networks and post-colonial business culture therefore, exploitation of entrepreneurial opportunities is inhibited for some African-Trinidadians more so than for any other ethnic group, even though they have the drive or spirit to seek out opportunities.

## **5. Conclusion**

The case of entrepreneurship in Trinidad and Tobago is only illustrative of the phenomenon wherein it is possible that the cultural and institutional environment in a country or place may encourage opportunity identification but discourage opportunity exploitation. Whether there is a difference between Kirznerian and Schumpeterian entrepreneurship is arguable. However, those scholars who apply these types tend to work in isolation; it is uncommon to apply both to one case (even though Kirzner himself admitted that the entrepreneur he was describing and Schumpeter was describing could exist within the same individual). Those who apply Schumpeter in their discussion of culture tend to focus only on the entrepreneurial exploitation part. All the papers in Kirznerian tradition are concerned with those variables that that distort entrepreneurial identification of opportunities. While authors in both sets of literature have captured the important dimensions of entrepreneurship, they underestimate the possibility of a disconnect between entrepreneurial identification and exploitation. Focusing on instances where the disconnect exists allows us to move away from characterizations of cultures as progress-prone or progress-resistant, and instead focus on these gaps between identifying and exploiting across cultures.

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## CURRICULUM VITAE

Arielle S. John graduated from St. Augustine Girls High School in Curepe, Trinidad and Tobago, in 2002. After working in Trinidad for two years, she moved to Frederick, Maryland to pursue her undergraduate degree in economics. She received her Bachelor of Arts from Hood College in 2008, and received her Master of Arts in Economics from George Mason University in 2010.