

**Determinants of Self-Employment Among Immigrants and African Americans:
Opting Out or Acting on Advantage?**

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Extended Abstract

Research on occupational attainment has shown that newly arrived immigrants are overrepresented in occupations that are undesirable to the native population (Light and Karageogis, 1994; Light and Rosenstein, 1995; Portes and Rumbaut, 1996). African Americans are also overrepresented in occupations with dismal prospects for upward mobility, and are subject to discriminatory employment practices. The question of why so many first-generation immigrants decide to open their own business while African Americans exhibit relatively low rates of self-employment has garnered much research attention in the fields of sociology and economics, however, many unanswered questions remain. Furthermore, members of different immigrant groups exhibit significant variation in self-employment rates, although first-generation immigrants tend to have higher rates of self-employment than those from second- and third-generations. If the population of immigrants writ large is characterized by a predisposition to riskier endeavors (signified by the very decision to migrate across national borders) including risk-taking economic behavior such as self-employment, why do some immigrant groups (e.g. Koreans) engage in self-employment more than others (e.g. Vietnamese)? If cultural propensities explicate the observed differences in self-employment propensities between groups, such as those mentioned above, why do they exhibit significantly different rates of self-employment across different contexts (both spatial and temporal)? Differences in self-employment rates between different immigrant groups as well as African Americans illustrated in Figure 1 may be explicated by the extent of income inequality (or, labor market disadvantage) experienced by members of these groups.

Figure 1 about here

Whether different immigrant groups may encounter disparate receptions in the paid labor market is an empirical question, and its answer may elucidate the reasons for different self-employment propensities of immigrants. Conversely, differentials in the economic returns to self-employment compared with the wage/salary sector of the labor market may also account for the well documented disparities in rates of entrepreneurship between different immigrant groups. The analytical approach employed in this paper allows the inclusion of observations of self-employment rates over time and across different immigrant groups, thus facilitating the adjudication between these two possible explanations for variation in rates of self-employment for immigrants from different countries over time.

In this paper, I utilize data from three decennial censuses from 1980 to 2000 to determine the validity of these two competing explanations for observed self-employment disparities. I do this by comparing self-employment tendencies of the various foreign-born immigrant groups (those from China, Korea, Vietnam, India, English-speaking parts of the Caribbean, and Russia) with that of two native-born groups (African Americans and whites). As this project concerns the effects of disadvantage on self-employment propensities, my analysis includes only first generation immigrants, along with African Americans. Foreign-born immigrants are likely to experience more disadvantage than second and beyond generations for the following reasons: 1) Education received in

countries other than the US is likely to be undervalued, which is likely to result in a status disparity more acutely felt by first generation immigrants with high educational levels and extensive occupational experience; 2) First generation immigrants are more likely to reside in immigrant ethnic enclaves, which, arguably, provide expanded opportunities for aspiring entrepreneurs (Bailey and Waldinger, 1991); 3) Including only the foreign-born for the six immigrant groups of interest in my analysis allows me to investigate the aftermath of the 1965 Immigration Reform Act.

Among the earliest theories of entrepreneurship, cultural propensity toward self-employment was viewed as the major factor contributing to entrepreneurial activities of ethnic or national groups (Light, 1972; Light and Rosenstein, 1995; Granovetter, 1995). With the advent of the dual labor market theory (Piore, 1970), theoretical focus has shifted away from cultural propensity and toward adverse labor market conditions driving people into self-employment. Briefly, the dual or segmented labor market theory posits the existence of two labor market sectors, the core and the periphery. Jobs in the core sector are desirable as they allow for some insulation from competition, offer high returns on educational investments and the attainment of valuable work experience (Sakamoto and Chen, 1991; Dickens and Lang, 1985). Conversely, the peripheral sector contains jobs undesirable to most people – those which are poorly paid and offer little or no prospects of upward mobility.

Some studies have shown that labor market disadvantage exerts a positive influence on the likelihood of self-employment in the past (Boyd, 2000; Evans and Leighton, 1989). Other researchers posit that disadvantage encountered in wage/salaried employment also exists in the self-employment sector, thus, it does not constitute a sufficient push out of the paid labor market (Borjas, 1990). Are race, ethnicity, and/or immigrant status still salient issues to consider when examining labor market disadvantage? Is labor market disadvantage persisting for minority groups, or is it on the decline? There is evidence that the disadvantage African Americans experienced in the labor market started to decline after the Civil Rights Movement, and has continued to decline (Wilson, 1980). Furthermore, Sakamoto, Wu, and Tzeng (2000) find that disadvantage has significantly decreased for African Americans and Chinese Americans since 1950. Conversely, Cancio, Evans, and Maume (1996) found the race-based disadvantage in the labor market to have gained in significance in the seventies and eighties for African Americans.

Table 1 about here

Preliminary analysis results presented in Table 1 indicate that labor market disadvantage is experienced by the vast majority of the ethnic/racial groups whose self-employment patterns I examine in this paper, to varying extents. Notably, only a small fraction of this disadvantage can be explained by differences in human capital (education), age or productivity (hours worked). In addition, many immigrant groups appear to experience greater earnings inequality relative to whites when pertinent work-related covariates are introduced into the model. Particularly, a comparison of coefficients from Models 1 and 2 shows that Russian immigrants as well as those from

China, India, and Korea suffer from a greater degree of labor market disadvantage (or, more directly, lower incomes relative to whites) given equal levels of education, hours worked, state of residence and the socioeconomic status of the job they hold. This suggests an alternative conceptualization of the effect of labor market disadvantage on self-employment, sometimes referred to as “status inconsistency” (Min, 1996).

It is logical to suppose that those who feel that the returns to their human capital investment are not adequate in the labor market are likely to have a relatively high level of educational/occupational status. If, then, members of a relatively large group of co-ethnics with a relatively high level of educational and/or occupational attainment decide to opt out of the paid labor market in favor of self-employment, they are much more likely to be able to do so, as they are surrounded by people who can, collectively, amass the means necessary for small business formation.

Because it is likely that greater length of residence in the United States is associated with higher incomes (due, in part, to language acquisition as well as a greater familiarity with the nuances of the US labor market), I have included interaction effects between immigrant group membership and the number of years spent in the United States. Future iterations of this paper will more thoroughly elaborate on the interpretation of these coefficients. In addition, three-way interaction may be included in order to assess the extent to which education levels of immigrant groups in light of the length of stay in the United States illuminate the extent to which the devaluation of educational attainment decreases with increased exposure to the inner workings of the US labor market.

The start-up costs associated with establishing one’s own business are substantial. Nonetheless, some economically disadvantaged groups, such as the immigrant groups examined here, may use social capital to mitigate a paucity of financial resources in a number of ways. First, social capital represents access to information. This is an important facilitator of gaining market advantage, especially where natives compete for business in the enclave economy with ethnic businesses. Access to information represents a resource that natives are unlikely to have. Second, social capital in an enclave setting provides access to pooled financial resources (as in the case of rotating credit associations) and to a cheap (perhaps free) co-ethnic labor supply. The latter can serve as a means to gain advantage over competitors, while the former can allow even the recently arrived immigrants (those with lowest levels of equity and financial capital) to engage in self-employment. Finally, social capital may facilitate trust in contractual relationships, and minimize shirking of payment or responsibility – risks that are inherent in any entrepreneurial endeavor (Granovetter, 1995).

Individuals who are subject to deleterious conditions in the labor market, such as being trapped in the peripheral sector, may desire to opt out and become self-employed, however, it is unlikely that those at the very bottom rungs of the wage/status hierarchy would be able to amass the means necessary to start a business. This is why the ability to mobilize resources may separate those who wish to become self-employed from those who are able to actualize this goal.

Historically, self-employment has served to elevate the status of under-privileged groups in the United States (Fairly and Meyer, 1996). Entrepreneurs could avoid the effects of discrimination within labor markets, and maximize financial returns on human and social capital. However, evidence of the economic advantage associated with self-employment has been disputed, particularly for those who are disadvantaged in the labor market (Model, 1985; Gibson, 1988; Portes and Jensen, 1989; Bailey and Waldinger, 1991; Portes and Zhou, 1996). Results of the analysis of income differentials between the self-employed and those in the wage/salary sector of the labor market presented in Table 2 indicate that the fiscal impact of self-employment varies by ethnic/immigrant group membership.

Table 2 about here

A simple visual comparison between the fluctuations in proportion self-employed among the ethnic/immigrant groups examined here and the economic impact of self-employment for members of these groups suggests that this may be a stronger determinant of self-employment rates than labor market disadvantage. Interestingly, Korean and Russian immigrants, the most entrepreneurial of the seven ethnic/racial groups of interest, exhibit patterns of self-employment that most closely approximate the vacillations of the economic benefits from that activity. The proportion self-employed among Chinese and Indian immigrants also correspond, somewhat, with the fluctuations in the economic effects of self-employment, although not quite as closely as Koreans and Russians. One potential explanation for this is that some immigrant enclave economies facilitate greater ease of entry into and exit out of self-employment. Enclave residence may provide members of these immigrant groups with access to up-to-date information on the business climate of the community. This access may allow Korean and Russian enclave residents to quickly react to changes in the fiscal incentives (or costs) associated with self-employment.

This paper aims to contribute to the body of self-employment literature by evaluating the merits of two competing explanations for disparities in self-employment rates between different immigrant groups and African Americans. Preliminary results indicate that compared to labor market disadvantage, the economic returns to self-employment may be a much stronger predictor of the group differences in rates of self-employment. This may be due to the residential patterns of most of the groups examined here. Immigrants and African Americans tend to reside in ethnic enclaves characterized by dense social ties facilitating easier and more rapid information transfer. If information can travel down network paths relatively quickly and without impediments, it is more likely to be acted upon. Subsequent drafts of this paper will present a greater body of empirical evidence of the degree of correspondence between self-employment propensities and labor market experiences (whether in the wage/salary or the self-employed sector) of immigrants and African Americans, as well as a more elaborated conceptual model informing the methodological approach taken here.

Figure 1: Percent Self-Employed Within Race/Immigrant Groups, 1980-2000

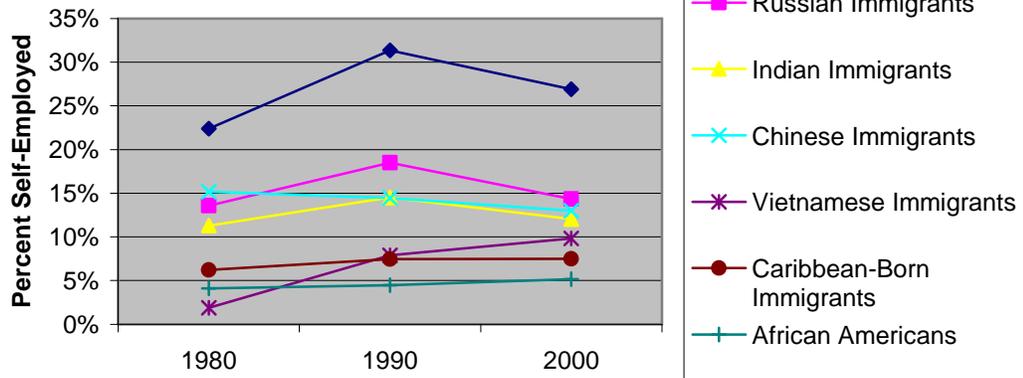


Table 1: OLS Analysis of Income Inequality (comparison group: native-born Whites), 1980-2000

	Model 1			Model 2		
	1980	1990	2000	1980	1990	2000
Race/Ethnicity/Immigrant Group						
(Constant)	9.55	10.06	10.41	6.82	7.27	7.88
African Americans	-0.43	-0.43	-0.39	-0.22	-0.20	-0.18
Russian Immigrants	0.05	0.12	-0.07	-0.37	-0.27	-0.15
Caribbean-Born Immigrants	-0.37	-0.21	-0.23	-0.30	-0.17	-0.15
Chinese Immigrants	-0.22	-0.16	-0.02	-0.41	-0.37	-0.26
Vietnamese Immigrants	-0.63	-0.36	-0.31	-0.10	-0.17	-0.20
Indian Immigrants	0.12	0.11	0.16	-0.14	-0.22	-0.09
Korean Immigrants	-0.15	-0.17	-0.10	-0.30	-0.37	-0.37
Work-Related Covariates						
Age				0.13	0.13	0.11
Age Squared				0.00	0.00	0.00
Grand mean-centered education				0.03	0.04	0.05
Grand mean-centered SEI				0.01	0.01	0.01
Grand mean-centered Hours Worked				0.01	0.02	0.02
State of Residence (coefficients not shown)				--	--	--
Interaction Effects for foreign-born:						
Years in US*Russian Immigrant				0.04	0.03	0.03
Years in US*Caribbean-Born Immigrant				0.01	0.01	0.01
Years in US*Chinese Immigrant				0.03	0.03	0.02
Years in US*Vietnamese immigrant				0.05	0.02	0.02
Years in US*Indian Immigrant				0.04	0.03	0.01
Years in US*Korean Immigrant				0.03	0.03	0.02
R squared	0.021	0.016	0.014	0.358	0.423	0.406

Note: **Bolded** coefficients significant at $p \leq .05$

Note: **Bolded & Italicized** coefficients significant at $p \leq .001$

Table 2: OLS Analysis of Income Differential between the Self-Employed and Those in the Wage/Salary Sector (comparison group: native-born Whites), 1980-2000

	Model 1			Model 2		
	1980	1990	2000	1980	1990	2000
Race/Ethnicity/Immigrant Group						
(Constant)	9.53	10.04	10.39	6.81	7.26	7.88
African Americans	-0.42	-0.41	-0.38	-0.22	-0.20	-0.18
Russian Immigrants	0.05	0.11	-0.07	-0.16	-0.21	-0.23
Caribbean-Born Immigrants	-0.36	-0.20	-0.22	-0.28	-0.16	-0.14
Chinese Immigrants	-0.23	-0.17	-0.02	-0.41	-0.38	-0.26
Vietnamese Immigrants	-0.61	-0.35	-0.30	-0.44	-0.20	-0.18
Indian Immigrants	0.12	0.11	0.16	-0.22	-0.27	-0.11
Korean Immigrants	-0.17	-0.20	-0.12	-0.41	-0.43	-0.31
Work-Related Covariates						
Self-Employment Status	0.17	0.15	0.13	-0.12	-0.13	-0.12
Age				0.13	0.13	0.11
Age Squared				0.00	0.00	0.00
Grand mean-centered education				0.03	0.04	0.05
Grand mean-centered SEI				0.01	0.01	0.01
Grand mean-centered Hours Worked				0.01	0.02	0.02
State of Residence (coefficients not shown)				--	--	--
Interaction Effects Self-Employment Status by Race/Ethnicity/Immigrant Group:						
Self-Employed*African American				-0.10	-0.14	-0.05
Self-Employed*Russian Immigrant				0.18	0.26	0.12
Self-Employed*Caribbean-Born Immigrant				-0.22	-0.05	0.06
Self-Employed*Chinese Immigrant				0.24	0.19	0.07
Self-Employed*Vietnamese immigrant				0.35	-0.07	0.02
Self-Employed*Indian Immigrant				0.19	0.30	-0.01
Self-Employed*Korean Immigrant				0.20	0.14	-0.03
R squared	0.025	0.019	0.016	0.360	0.425	0.408

Note: **Bolded** coefficients significant at $p \leq .05$

Note: **Bolded & Italicized** coefficients significant at $p \leq .001$

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