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by

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LOCAL ECONOMY AND ETHNIC ENTREPRENEURS

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THE LOCAL ECONOMY

In reaction to current emphasis upon internal, supply-side causes, some entrepreneurship researchers have recommended a balancing stress upon the neglected demand-side. Thus, Waldinger, Ward and Aldrich (1985, p. 589) observe that a "common objection to cultural analysis" is its lack of attention to "the economic environment in which immigrant entrepreneurs function." Instead of this lop-sided treatment, they recommend "an interactive approach" which looks at the "congruence between the demands of the economic environment and the informal resources of the ethnic population." Since they wrote, this reaction has achieved the strength of a movement of thought in the entrepreneurship literature (see Morokvasic, Phizacklea, and Waldinger, 1987, p. 6). In principle, a compensatory reaction to cultural analysis is appropriate as a complete explanation of immigrant or ethnic entrepreneurship demands attention to both the demand side and the supply side. Lop-sided explanations must be partial, incomplete, and to that extent wrong.

In practice, case studies easily detect demand-side influences on entrepreneurship, but they have difficulty in measuring their relative importance or effect. For example, in his study of New York City's garment industry, Waldinger (1986, chapters 1, 4) stressed the economic advantages that lured immigrant Dominican and Chinese entrepreneurs into this industry. These economic advantages included low returns on economies of scale, instability and uncertainty of product demand, small and differentiated product markets, agglomeration advantages, access to cheap labor, and vacant niches caused by exodus of predecessors. These demand-side attractions did not negate what Waldinger (1986, p. 31) called the "predispositions toward entrepreneurship" of the immigrants, and Waldinger treated the predispositions as well as the economic incentives. But his case study approach allowed him no way to measure the relative importance of the various demand-side and supply-side factors.

In another case study, Light and Bonacich (1988) studied Korean entrepreneurs in Los Angeles. In an attempt to do justice to supply-side and demand-side causes, they examined both the internal ethnic and class resources of the Korean immigrants and the characteristics of their economic niche. With regard to the latter, they stressed the absence of competition from big retail chains in the inner city, a product of economic disincentives arising from low income consumers and high-crime business sites. More broadly, they called attention to the selective effects of the "investor's exemption" provision of the U.S. immigration law, the tax advantages of independent contractors rather than employees, the timely elimination of "fair trade" laws in liquor retailing, and lax enforcement of wage and sanitary provisions of the labor code. These external influences created an economic niche in which Korean entrepreneurs could exploit their class and ethnic resources. But their case study methodology did not permit the authors to weight as well as to catalogue the supply-side and demand-side factors affecting Korean entrepreneurship.

Bailey's (1987, p. 22) study of New York City's restaurant industry encountered the same problem. Acknowledging the importance of cultural

predisposition and ethnic solidarity in restaurant entrepreneurship, Bailey (1987, pp. 53-55) looked for "important causes" that previous studies had "neglected." These neglected causes turned out to be "market and technological conditions" that facilitate small business, privileged access to the cheap labor of coethnics, and lack of entrepreneurial interest among native-born workers. Bailey's catalog included all the factors, but could not weight their relative importance.

HOW MARKET DEMAND WORKS

Just how does market demand affect immigrant and ethnic entrepreneurship? A simple answer proclaims that where opportunities "exist," local groups share them equally. Explaining this view, Swinton and Handy (1983, pp. 32-33) declare that the "rate of growth of opportunities for business expansion" constrains the "rate of expansion of Black business ownership." When business in general expands, Black-owned firms get a share; and when business in general stagnates, Black business will stagnate as well. When extrapolated to all local groups, this view becomes the equal expansion hypothesis. Suppose, for example, that a metropolitan region has 26 ethnic minorities (groups A through Z), and 450 industries. In this circumstance, a one percent increase in market opportunities would yield a one percent increase in the entrepreneurship of groups A through Z. Similarly, a one percent increase in the aggregate entrepreneur population would be equally shared by groups A through Z, each of which would obtain a one percent increase in its entrepreneurship.

In actuality, market opportunities probably do not work so evenly. First, ethno-racial groups are differentially endowed with class resources of education, work experience, and money to invest. If opportunities require substantial investment capital, people in poorly endowed ethno-religious groups will be unable to participate in their exploitation. Second, market opportunities never affect all industries equally. Even in a general boom condition, some industries expand more and more rapidly than do others. More commonly, some industries expand, other are unchanged, and a few contract. Here a general expansion means net expansion. For example, in the last 15 years, employment expansion has been the result of employment gains in the service sector which more than offset employment losses in manufacturing. If ethno-racial groups were evenly distributed among all industries, the uneven character of market opportunities would not damage the equal expansion hypothesis. Each group's participation in each industry would equal its share of the labor force as a whole. Therefore, a one percent increase of employment in industries 1 through 100 would equally affect groups A through Z, each of which would be equally exposed to the enhancement of opportunity in these industries. If as a result of a one percent increase in demand-side opportunities for entrepreneurs, service industry self-employment increased one percent, groups A through Z would share equally in this increase.

But, as is well known, ethno-racial groups cluster in particular industries. Urban economies always contain ethnic economic niches, "and that same niche is either not always available or not always appropriate to the same people" (Wallman 1979, p. i). Granted, clustering is imperfect, and one finds only rarely total correspondence between ethnic groups and industries such that each ethnic group wholly controls particular industries (see Cohen 1970). But, any tendency toward occupational and industrial clustering condemns the equal expansion hypothesis in proportion to the strength of the tendency. We can imagine for illustrative purposes,

an extreme case in which each of the 26 ethnic groups wholly controlled particular industries. In this case, it would be possible for net economic expansion in a locality to benefit only one or a few of all of the 26 groups. If industries 1 through 3 expanded, and group A wholly controlled these expanding industries, no non-As being permitted to engage in any, group A would be in a position to obtain all or, at least, most of the growth in these industries, leaving no growth for the other 25 ethno-religious groups to share. In this illustrative case, net expansion of a metropolitan region's entrepreneurial opportunities would benefit only the entrepreneurship of group A. Twenty-five other groups would obtain no benefit at all.

Third, ethno-racial groups do not share a unitary definition of what constitutes a market opportunity. Therefore, what represents a market opportunity for some, need not represent it for others. The causes of this discrepancy are most obviously the quite different financial frame of reference of individuals in different groups. Since groups do not earn the same money returns in wage and salary employment, the mean opportunity costs of entrepreneurship are likewise different. That is, if group A's mean wage and salary income is \$25,000 yearly whereas that of group B is only \$15,000, then the average members of these two groups will react differently to new opportunities in industry 1 that offer money returns of \$20,000 a year. The average member of group A will find this return too low; the average member of group B will see the same return as a 25% increase in financial compensation. By implication, the expansion of entrepreneurial opportunities in industry 1 would benefit mostly group B workers. Fourth, ethno-racial groups develop group-specific reference frameworks within which they evaluate market opportunities for entrepreneurship. It is not only that member individuals evaluate their own opportunity costs alike without consultation. This evaluation would occur when group A entrepreneurs, mostly sharing the same resources of human capital and wealth, separately decide to avoid or to exploit a perceived opportunity. This evaluation occurs, but it is only part of the process. In addition, group culture and its internal communication give rise to shared norms, values, beliefs, and information which systematically structure member access to and appreciation of entrepreneurial opportunities. Information is the simplest example. When new opportunities cluster in one or another industry, group members acquire information about entrepreneurial opportunities in this industry through existing social networks. Effective networks link entrepreneurs already cognizant of the new market opportunity with coethnics not already cognizant but disposed to benefit if possible. Yet, the same information chain that ropes coethnics into the new industry simultaneously locks others out of the opportunity to participate.

Comparable arguments apply to group-specific norms, values, beliefs, and institutions. Ethno-religious groups often serve as a reference group whose community standards determine member appraisal of the suitability and desirability of a recognized market opportunity. For example, some business ventures are ethically controversial. Simple but persuasive representatives are opportunities to profit from immoral or illegal business activities such as prostitution, nuclear weapons manufacture, air and water pollution, pornography, birth control devices, abortions, nuclear power plants, gambling, and narcotic drugs. One supposes that Roman Catholics would be reluctant to exploit entrepreneurial opportunities in abortion clinics or in condom manufacture. Similarly, for many years, foreign-born Sicilians in the United States resisted organization of prostitution, an admittedly lucrative illegal business, because they viewed this illegal industry as

immoral, an objection they did not raise against bootlegged liquor in the Prohibition years. For this reason, Sicilians were slow to enter organized prostitution. So long as all ethno-religious groups in society are not completely homogeneous with respect to norms, values, beliefs, and institutions, they will imbue members with differential proclivities to recognize desirable market opportunities. Therefore, groups will respond differentially to many entrepreneurial opportunities, a classic supply side effect.

THE GROUP MEDIATION HYPOTHESIS

These reflections suggest a new hypothesis according to which ethno-religious groups mediate between objective market opportunities and the entrepreneur population. On this hypothesis, the market indicates increased demand for entrepreneurs by means of the usual price signals. In this case, the price is the money return to investments of money and human capital in entrepreneurship. As this market price rises, more workers become entrepreneurs, thus depressing by the force of augmented competition the marginal price of additional entrepreneurs. As expected, a higher market price produces more entrepreneurs, but recruitment to any industrial opportunity selects persons from particular ethno-racial groups rather than a cross section of able-bodied persons with the necessary capital.

CONCLUSION

The group mediation hypothesis explains how supply-side and demand-side factors interact in response to changes in market opportunities. In fact, the social organization of the entrepreneur supply provides the means by which market demand affects the business population. Ethno-racial groups are an important component of supply's social organization. Basically, objective changes in market demand activate labor force response in population clumps called ethno-racial groups. Responding to favorable market changes, some ethno-racial clusters are activated. The activated clusters drop entrepreneurs into expanding industries until, as a result of saturation, the cluster runs out of volunteers.

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