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Pushed out or pulled in? Self-employment among ethnic minorities in England and Wales

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Abstract

High rates of self-employment among ethnic minorities in England and Wales are investigated using a framework in which the self-employment decision is influenced by ethnic-specific attributes as well as sectoral earnings differentials. As expected, differences in an individual's predicted earnings in paid and self-employment are strongly correlated with self-employment decisions. Individuals with low English fluency, and recent immigrants, are less likely than other members of ethnic minorities to be self-employed. Perhaps surprisingly, this is also true of individuals living in “enclaves” — areas with a high percentage of their own ethnic group. The relatively deprived nature of such areas of England and Wales may explain this. © 2000 Elsevier Science B.V. All rights reserved.

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1. Introduction

In many developed countries ethnic minorities are disproportionately represented in self-employment. In Britain, the 1991 Census of Population reported that non-whites had a self-employment rate of 14.6% compared to 12.3% for whites. This disguises significant variation between different ethnic groups however. Self-employment rates ranged from 5.8% for Black Caribbeans to 26.6% for

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Chinese. Research on this issue in Britain (Metcalf et al., 1996; Clark and Drinkwater, 1998) has focused on two sets of causal factors.¹ First, it is argued that ethnic minority workers enter self-employment as a rational response to the labour market obstacles, often in the form of employer discrimination, facing their group. These obstacles (or push factors) reduce the opportunity cost of self-employment and hence, other things equal, should lead to an increased representation of discriminated-against groups in that sector. This, however, ignores the possibility that there may be group-specific influences which would lead minorities into self-employment even in the absence of discrimination. This second set of (pull) factors includes such things as the existence of ethnic enclaves which may provide a self-sustaining economic environment, the influence of religion and access to informal sources of finance and labour through familial ties or shared language.

In this paper a simple theoretical model is presented, which demonstrates that both push and pull factors can influence the rewards available to members of different ethnic groups and so alter the attractiveness of self-employment relative to paid-employment. An empirical model of self-employment propensity is then estimated using an econometric framework incorporating the determination of earnings and choice of sector. The data set used, *the Fourth National Survey of Ethnic Minorities*, was specially designed to investigate the economic and social circumstances of Britain's ethnic population. The results suggest a role for both group-specific and labour market factors.

2. Theoretical background

Self-employment is a diverse and multi-faceted form of economic activity. It is therefore unlikely that one all-encompassing theory will explain why ethnic minorities are over-represented in this sector. One explanation emphasises the disadvantages faced by ethnic minorities in the paid labour market as the primary cause for their higher rates of self-employment. However, it is difficult to reconcile this explanation with the observed variation in self-employment rates across ethnic groups. A number of alternative explanations, mainly concerned with group-specific or cultural factors and developed in the sociological literature, have been proposed. In this section a simple theoretical model is developed which shows that both push and pull factors may be important.

The model developed here shares two of the essential features of the classic contributions of Evans and Jovanovic (1989) and Lucas (1978). First, choice of sector depends on a comparison of relative rewards and, second, there is a

¹ For details on other countries, see Borjas (1986), Yuengert (1995) and Fairlie and Meyer (1996) on the United States, Maxim (1992) on Canada, Kidd (1993) on Australia and Marie (1996) on European Union member states.

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