

Culture and entrepreneurship? African American and immigrant self-employment in the United States

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Abstract

This paper analyzes the evolution of African American entrepreneurship by comparing the patterns of development of African American entrepreneurship and immigrant entrepreneurship. Whereas most literature focuses on African American culture as the reason for limited entrepreneurial success compared to certain immigrant groups, this paper examines how social, economic, and political forces have adversely influenced the development of Black entrepreneurship compared to various immigrant groups. Using 90 years of census data, we also find empirical support consistent with our assertion that many immigrants have resources (not available to native non-Whites) that facilitate entrepreneurship.

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1. Introduction

Self-employment is a vital facet of the United States economy. Notably, entrepreneurship has been a means for the economic advancement of numerous ethnic groups. Policy makers and scholars alike consider self-employment as an alternative to unemployment and a route out of poverty. Also, small business owners have significant political influence in the United States. Accordingly, the under-representation of some racial groups in business ownership (see Table 1) implies that these groups may possess less political power than is warranted given their population share (Fairlie and Meyer, 2000).

The relatively low historical rate of African American entrepreneurship is a well-known fact (see Table 2).² Fairlie and Meyer (2000) studied patterns in self-employment among White and Black men from 1910 to 1990. With almost a century of data, they uncovered some unexpected findings (Fairlie and Meyer, 2000):

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² Fairlie and Meyer (2000). Note that Fairlie and Meyer use data from eight decennial censuses of the population. Their statistics are based upon random samples of the population for each year to obtain approximately 40,000 individuals of each race, provided more than 40,000 are available.

Table 1
1997 U.S. firm ownership by race

U.S. firms ^a with paid employees	Percent
White non-Hispanic owned	82.6
Asian and Pacific islander owned	5.4
Hispanic owned	4.0
Black owned	1.8
American Indian and Alaska native owned	0.6
Other	5.6

Source: U.S. Census Bureau, 2003 Statistical Abstract of the U.S.

^a The data used by the U.S. Census Bureau defines a firm as a “business consisting of one domestic establishment or more that the reporting firm specified under its ownership or control at the end of 1997.”

Table 2
United States self-employment rates (%)

	1910	1920	1940	1950	1960	1970	1980	1990
Self-employment rates for								
Blacks	5.3	5.8	6.1	4.1	3.6	3.9	3.3	4.1
Whites	16.0	14.7	13.8	13.1	11.1	10.0	10.7	11.4

Source: Fairlie and Meyer (2000).

- In the period from 1910 to 1990, the Black self-employment rate generally followed the same direction of change as the White self-employment rate.
- For 80 years, the self-employment rate for Black men was consistently at a level of approximately 1/3 of the White rate.
- Based on evidence from simulations using a simple intergenerational model of self-employment, Fairlie and Meyer concluded that if not for “continuing factors” reducing Black self-employment (e.g., discrimination or capital that is passed intergenerationally), racial convergence in self-employment rates could occur within two generations.

Numerous researchers have tried to develop explanations for this huge, 100 year old, discrepancy between Black and White entrepreneurship levels that, according to Fairlie and Meyer, feasibly could be eradicated within a few generations (for examples, see Borjas and Bronars, 1989 and Kawaguchi, 2005). Using regression analysis and the same decomposition methodology used by Smith and Welch (1989), Fairlie and Meyer (2000) concluded that racial convergence in education levels and trends in demographic factors (including the Great Black Migration: 1915–1920) did not have large effects on the trend in the racial gap in the self-employment rate. They found that the large racial gap in self-employment throughout the 20th century was primarily due to the low Black self-employment rates within all industries and not simply the result of Blacks being over-represented in sectors characterized by low self-employment. Also, their empirical findings indicated that neither lower relative wages nor the initial lack of business experience could help to explain the current low levels of Black self-employment.

While low levels of education, low asset levels, smaller probabilities of having self-employed parents, demographic trends, and discrimination all have been cited as reasons for the limited level of entrepreneurship in the African American community, much of the “social capital” literature addressing African American entrepreneurship concentrates on African American culture as the primary reason for the paucity of Black entrepreneurs. For example, Light (1980) once argued that Black communities are too individualistic and do not have the networking and solidarity that support business in other communities (Feagin and Imani, 1994). General comparisons between African American and immigrant entrepreneurs are common. “Asian Americans are seen as the classic small-business success story while scholars and journalists often address Black entrepreneurship by asking *What’s wrong with Blacks?*” (Bates, 1997). Conflicting and disparate interpretations of the entrepreneurial performance of various ethnic groups typify the conclusions made by Light (1980) and others. Thus, in order to better understand the patterns and sources of entrepreneurial success,

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