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The spirit of capitalism? Ethnicity, religion, and self-employment in early 20th century Canada[☆]

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Abstract

This paper examines self-employment in Canada at the beginning of the 20th century. Self-employment 100 years ago was associated with greater human capital and negatively related to earnings in employee occupations in the local district. We also find strong evidence of immigrant assimilation in self-employment and modest evidence of higher self-employment in enclaves with greater concentration of immigrants. An analysis of recent immigrants supports the hypothesis that liquidity constraints were an important determinant of self-employment. Christian affiliation had little impact on self-employment outcomes.

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1. Introduction

Who becomes an entrepreneur? This question has interested social scientists since (at least) the early 20th century. While entrepreneurship in North America has been

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of long-standing interest to economists and economic historians, and self-employment rates were higher 100 years ago than today, little is known about the determinants of self-employment in historical labour markets. In this paper, a new sample of the Canadian Census of 1901 is used to analyse self-employment in early 20th century North America.

Understanding who became self-employed 100 years ago is an important, and largely unanswered, research question. In the 1940s, Arthur Cole identified entrepreneurship as an area of vital interest for economic historians, with the determinants of entrepreneurial success holding an important place in his proposed research agenda (Cole, 1944, p. 59). While Cole and others were conscious of the importance of “small-scale” self-employment, most of the subsequent research on entrepreneurship in economic history has been qualitative, and focused on the experiences of a number of recognizable captains of industry (Hughes, 1986). Existing quantitative work has examined small samples of entrepreneurs for whom biographical information is available (Sarachek, 1978), or has highlighted the fortunes of particular ethnic groups (Godley, 2001). The Canadian data used in this paper are well suited to an exploration of the microeconomics of self-employment in historical labour markets.

An examination of the determinants of self-employment can yield important clues as to how labour markets functioned in the early 20th century. American evidence suggests that self-employment rates were higher in 1910 than during the present day (Fairlie and Meyer, 1996). One explanation for this pattern is that large-scale capital-intensive firms, who offer wages high enough to pull skilled self-employed individuals into paid employment, were less prevalent in early 20th century labour markets (Blau, 1987). An alternative view is that similar to present-day developing economies, high rates of self-employment 100 years ago are indicative of hidden unemployment, through a large informal sector occupied by less-skilled or otherwise disadvantaged workers unable to find stable wage employment. This perspective may be particularly relevant for the large numbers of immigrants arriving in North America in the late 19th and early 20th century, if discrimination and/or an absence of local-specific human capital inhibited employment in organized labour markets.

The recent revival of self-employment research among labour economists has explored numerous economic and sociological theories of self-employment. Despite the importance of self-employment in early 20th century labour markets, none of these theories have been properly examined in a historical setting. One area of emphasis has been “push” and “pull” factors, with conditions in local labour markets and human capital characteristics playing key roles in the self-employment decision. Liquidity constraints, which were proposed as a determinant of self-employment shortly after the period under study here (Knight, 1921), have been identified as a key determinant of contemporary self-employment (Evans and Jovanovic, 1989; Evans and Leighton, 1989). Others have stressed the role of ethnicity in determining who becomes an entrepreneur.¹ Like the United States, Can-

¹ See Borjas (1986), Fairlie and Meyer (1996), and the work of economic sociologists such as Light (1972, 1994).

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