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Self-employment as an Alternative to Labor Market Bifurcation: The Role of Human and Ethnic Social Capital

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Abstract

The article examines the role of self-employment in a post-industrial labor market bifurcated between high paying-jobs in the profession and low-paying jobs in the services and construction. In the context, self-employment emerges as an alternative to poor wages and unemployment among both native and immigrant workers. The analysis shows that self-employment is not homogenous between “survival” enterprises yielding minimal income and incorporated firms whose owners earn incomes significantly above their wage-earning counterparts. We examine these differences among whites, blacks, native born and major immigrant nationalities. We examine determinants of earnings and self-employment and find that both are significantly influenced by human capital factors but that, controlling for them, significant differences exist among ethnic groups. These are attributed to differences in social capital linked to ethnic networks. The paper illustrates these differences with examples from the immigrant economic literature and discusses the implications for individual and collective economic achievement.

Keywords

self-employment, labor markets, human capital, social capital, social networks, entrepreneurship

Introductory Vignette

In the movie “Chef”, master chef Carl Casper (Jon Favreau) is let go by his boss, the owner of a famous Los Angeles restaurant (Dustin Hoffman) for refusing to keep cooking the same menu again and again (and getting terrible reviews from the local newspaper food critic). Unemployed and penniless, Carl accepts the offer of his former wife (Sofia Vergara) with whom he is still in friendly terms to travel with her to Miami. There she introduces Carl to another former spouse of hers who is a successful entrepreneur and who agrees to donate to Carl an old, battered food truck.

With the help of his young son and a former workmate who left the L.A. restaurant to join his new venture, Carl repairs the truck and starts selling a Cuban menu, centered on the famous *sandwich cubano* in the streets of Miami Beach. The new business is a great success, and, in no time, Carl decides to drive the truck back to Los Angeles along with his son and new partner. Upon arrival, he parks his truck in a busy intersection and starts selling his *cubanos*. Again, the venture is a spectacular success, so much so that his former nemesis—the L.A. food critic—decides to back Carl financially to set up his own restaurant. The movie ends with an inauguration party attended by everyone involved. The name of the new restaurant is *El Jefe* (The Chief).¹

This happy tale of small business success provides a suitable introduction to our analysis of entrepreneurship, self-employment, and their role in the labor market of advanced economies. Translated into the terms of modern economic sociology, Carl’s tale can be read as follows: He transits from regular salaried employment to find himself jobless and without any financial resources. He could have easily joined the long lines of the unemployed on government assistance or private charity. However, he had two other sources of capital. First, his own expertise as a skilled chef represented his own “human capital”. Second, his connections, first to his estranged wife and, through her, to a key financial backer. He also connected with his young, but able son and a former loyal workmate who flew from Los Angeles to join him. The combination of these four people represented Carl’s “social capital” and he made good use of it to get his own enterprise moving and turning it into a success. In different places and with different ethnic and business overtones, the story could be repeated thousands of times.

The Evolution of the American Labor Market

There used to be a time in America where a high school degree and a healthy body assured you of reasonable paid employment as a factory worker or, if you were female, in the secretarial pool. No longer. The evolution of the country’s economy since the 1980s did away with industry as its core to be anchored, almost exclusively in the service sector. This is what Bluestone and Harrison (1982) termed the *Great American U-turn*. Confronted with stiff competition in automobiles and other consumer durables, American corporations resorted to the “spatial fix” of moving industrial production facilities to more hospitable and cheaper locations in the less developed world (Harvey 1989; Portes 2010; Portes and Armony 2022).

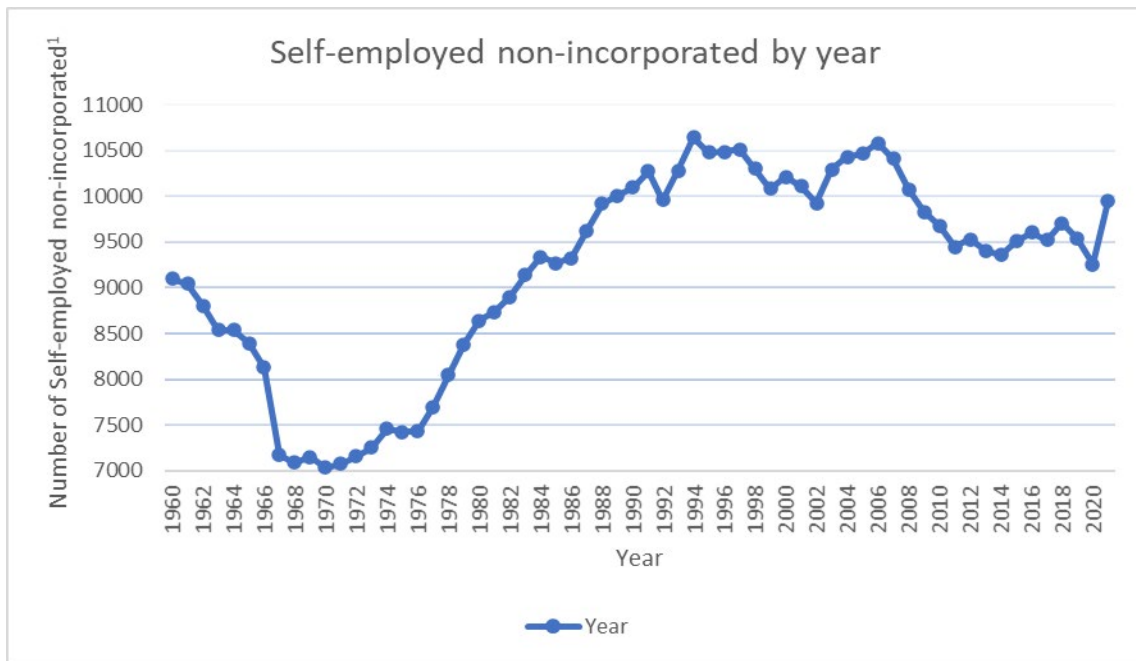
In the process, the American industrial belt gave way to the “rust belt” and the labor market ceased to look like a pyramid, with jobs and incomes moving up gradually based on skills and experience, to resemble an “hourglass” bifurcated between professional and technical service jobs requiring advanced skills and manual service jobs paid at or near the minimum wage in a variety of sectors (Sassen 1991; Massey 2007; Portes and Rumbaut 2014). Industrial employment that used to represent the core of the

labor market, paying middle-level wages has largely evaporated, representing today less than 20 percent of the labor force (Statista 2022).

In its place, bifurcated service jobs, at both ends of the hourglass, have raced to the top. As of 2020, 108 million people representing 71 percent of the non-farm labor force worked in the service sector. With a workforce of 1.3 million people in the United States, Walmart is the largest American employer; its workers are overwhelmingly, in low-paid jobs. (U.S. Bureau of Labor Statistics 2021). Hence, if you have some skills, but they are not enough to land you a job as a professional or a manager, what can you do? Before accepting a job at \$20/ hour or less or join the ranks of the permanently unemployed, is there any alternative?

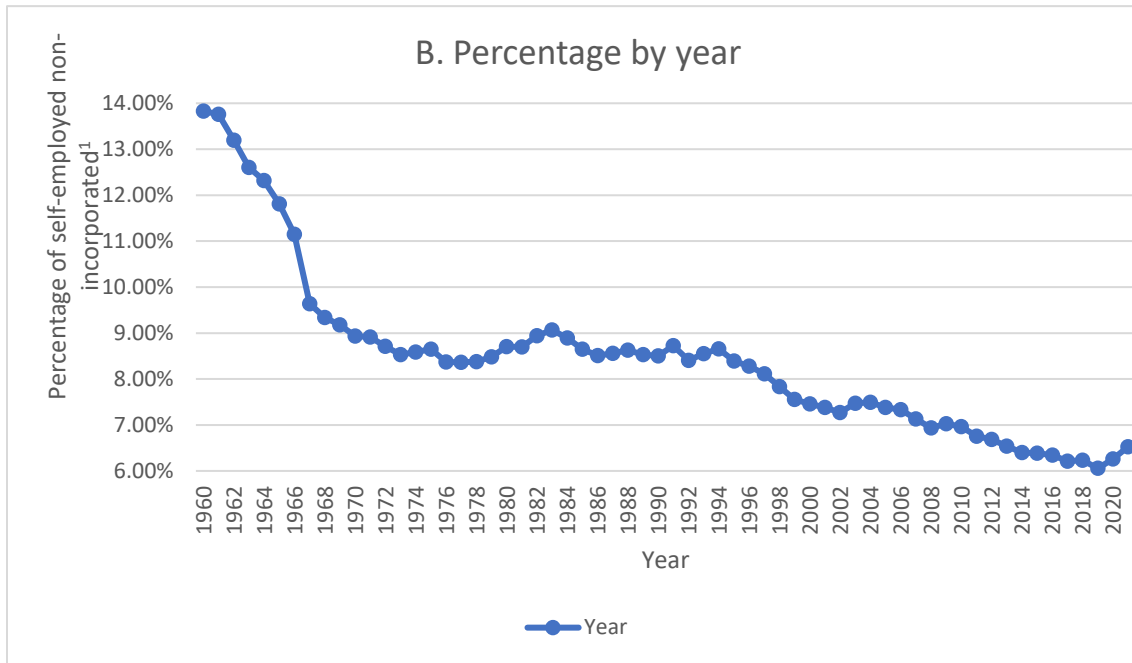
There is and it is called self-employment. If you have some skills or items for sale for which there is a demand, this may prove a feasible option. As shown in Chart 1, the number of self-employed (non-incorporated) workers in the American labor force reached about 10.5 million in the early 1990s and remained at about that number subsequently. As a percentage of the civilian labor force, however, the self-employed declined steadily—from 14 percent in 1960 to about seven percent today.

Figure 1: Self-employment non-incorporated by year



¹Numbers in thousands, includes those 16 years and older in the civilian labor force, excluding unemployed. *Source* U.S. Bureau of Labor Statistics

Figure 2 Percentage of Self-employment non-incorporated by year



¹Percentage based on 16 years and older in the civilian labor force, excluding the unemployed. Source U.S. Bureau of Labor Statistics

These figures appear to give the lie to the notion of self-employment as an alternative to wage work or unemployment. However, when we consider the proportion of the self-employed who have managed to incorporate their enterprises, the picture changes. These figures, available since year 2000, show a small but steady increase over time. Incorporated small businesses represent a sizable sector of the self-employed and, as we shall see, they make a substantial difference in terms of economic return. When we combine non-and incorporated self-employment, the resulting picture shows that it has represented about 10 percent of the civilian labor force in the last two decades. These figures are presented in Table 1, below.

Self-employment: An Alternative to Destitution?

The economic and sociological literatures in the years past coincided in asserting that self-employment among immigrant and ethnic minorities represented an alternative to poverty and unemployment. Light and Bonacich (1988), for example attributed the overrepresentation of immigrants among the self-employed to their inability to secure regular waged jobs because of difficulties with English and lack of familiarity with the American labor market. In a similar vein, Bates (1989) declared that self-employment was a “trap” confining immigrant and ethnic groups to a subordinate economic position. In his view, as well as that of Borjas (1986), there was no alternative to the regular labor market for upward economic mobility among minorities.

Table 1
Percentage of Self-employment by year

	2021	2020	2010	2000	1990	1980	1970	1960
Self-employed, non-incorporated	6.5	6.3	7	7.5	8.5	8.7	8.9	13.8
Self-employed, incorporated ²	4	4.3	4	3.3				
Self-employed Total	10.5	10.5	10.7	10.7				
Civilian Labor Force in thousands	152,581	147,795	139,064	136,891	118,793	99,303	78,678	65,778

¹Civilian workforce, 16 years and older excluding the unemployed.² Incorporated data available after 2000.

Source U.S. Bureau of Labor Statistics various years.

These arguments have been contradicted by consistent evidence indicating an income advantage for the self-employed relative to wage-salaried workers. This advantage exists both for natives and for many immigrant groups; for others, average incomes are at par between employees and the self-employed. For illustration, Table 2, below, presents the most up-to-date data on proportion of the self-employed, annual incomes, and hourly incomes among non-Hispanic whites, black, and Asian workers in the American labor force plus data for ten immigrant groups including the largest—Mexicans, Indians, Chinese, Cuban, and Dominicans (U.S. Office of Immigration Statistics 2020).

As seen in Table 2, the 12 percent self-employed among native white workers earn average annual incomes over \$10,000 above their salaried counterparts. The advantage is also observable among black workers and, especially, among those classified as “Asian”. Among individual immigrant groups, the picture as less clear with two of them—Chinese and Israelis—displaying a significant advantage in favor of salaried earners and two—Cubans and Iranians—showing the opposite. Such differences suggest that different “types” of entrepreneurs exist that may range from simple survival ventures to more stable and viable enterprises (Portes and Martinez 2019).

As an illustration of that pattern, Table 3 reproduces the annual incomes among the wage-salaried, this time comparing them with the self-employed who have incorporated their enterprises. The observed differences become much clear, with self-employed entrepreneurs receiving significantly higher incomes—up to \$18,000 per year for Indians and Iranians and more than \$38,000 for native whites relative to waged and salaried workers. Only among the Chinese and Israelis are the wage-salaried still advantaged, but the differences become much smaller. For all ethnic categories the self-employed incorporated earn annual incomes that exceed those of their wage-salaried counterparts by over \$16,000 per year.

Table 2
Annual Incomes of Wage-Salaried
and Self-employed Workers in the American
Labor Force, ca 2020¹

Characteristics	<u>Natives</u>			<u>Immigrants</u>									<u>Total</u>	
	White	Blacks	Asians	China	India	Israel	Korea	Vietnam	Mexico	Cuba	Dominican Republic	Jamaica		Iran
<u>Type of Employment:</u>														
Wage-salary workers, %	88.20	93.40	91.40	88.30	91.90	73.20	79.00	85.30	87.00	83.50	89.10	90.10	79.70	86.20
Self-employed, %	11.80	6.60	8.60	11.70	8.10	26.80	21.00	14.70	13.00	16.50	10.90	9.90	20.30	13.80
Annual Income, Average, \$	79,920	48,571	87,364	86,786	120,484	120,668	87,681	61,720	42,278	49,573	47,978	49,985	111,895	76,737
Wage-salary worker, \$	76,480	48,359	86,015	90,407	120,665	129,056	89,388	62,930	42,288	48,688	48,070	50,043	110,117	77,114
Self-employed, \$	89,018	52,055	102,944	60,598	119,699	98,209	81,392	55,513	42,481	54,571	47,922	48,169	118,861	74,844
N ²	460,073	38,588	9,210	5,111	8,620	436	2,458	3,598	27,230	2,815	1,819	1,324	1,115	562,387

1. Sample restricted to males, between ages 25 and 65 in the civilian labor force.
 2. Unweighted sample. Figures in the table are adjusted with personal level weights.
- Source: American Community Survey, 2019.

Table 3
Annual and Hourly Incomes
of Wage-salaried and Self-employed
incorporated Workers in the American
Labor Force, ca. 2020¹

Characteristics:	Natives			Immigrants										Total
	Whites	Blacks	Asians	China	India	Israel	Korea	Vietnam	Mexico	Cuba	Dominican Republic	Jamaica	Iran	Total
Annual Incomes, mean:														
Wage Salary workers, \$	76,481	48,359	86,015	90,407	120,655	129,056	89,388	62,390	42,288	48,668	48,070	50,043	110,117	77,114
Self-employed, incorporated, \$	115,127	66,556	131,669	79,091	137,928	125,724	101,617	79,148	54,116	68,592	57,920	61,238	138,477	93,323
Average Hourly Income, mean:														
Wage-salary workers, \$	34.20	22.60	39.40	42.40	55.20	57.70	40.90	29.50	19.40	22.30	22.00	23.50	50.40	35.40
Self-employed, incorporated, \$	47.10	24.60	55.10	37.10	56.40	47.80	44.41	33.80	23.70	30.70	25.30	26.20	56.70	39.00
Hours worked per week, mean:														
Wage-salary workers	43	41	42	41	42	43	42	41	42	42	42	41	42	42
Self-employed, incorporated	47	45	46	41	47	49	44	45	44	43	44	45	47	45
Percent of the labor force, self-employed, incorporated	5.2	2.3	4.1	4.9	5.1	15.2	11.0	5.6	2.8	7.2	3.7	4.6	10.7	6.30

1. Sample restricted to males between ages 24-65 in the civilian labor force. Unweighted sample. Figures in the table are adjusted with personal level weights.
Source: American Community Survey, 2019.

Economists bat away these differences by arguing that the income advantage of entrepreneurs is due to their working harder, that is self-exploiting rather than from any intrinsic gain from independent employment (i.e., Bates 1987) This argument is contradicted by figures in the next panel of Table 3 that show that differences in hourly earnings still favor entrepreneurs, with the exceptions already noted. Nor are average hours per week worked that different. As seen at the bottom of Table 3, although it is true that the self-employed tend to work longer., the difference is only three or four hours per week on average. Those few extra hours can hardly explain the large differences in yearly and hourly incomes observed among native whites, Asians, Indians, and Iranians.

Self-employment and the Hourglass

Given the increasing bifurcation of the American labor market into high-skilled and low-skilled occupations and the scarcity of mid-paying occupations, self-employment appears to offer an attractive alternative. Yet, despite a marginal rise in the percentage of incorporated self-employed workers in recent years, the proportion is still quite small. Only 12 percent of the native white labor force was self-employed in 2020, and only half that figure was recorded for native black-workers. (Table 2). Only among a few foreign groups—Cubans, Koreans, Iranians, and Israelis—does the figure exceed 15 percent. For Mexicans, the largest foreign nationality, the figure was only slightly above native whites.

Absence of a consistent income advantage in favor of the self-employed in Table 2 indicates that this category is internally heterogenous. It includes “survival” enterprises such as street vending or home cleaning of the kind regularly portrayed in the economic literature as an alternative to destitution and, at the other end, the type of incorporated enterprises that lead to the average incomes portrayed in Table 3. As a further illustration of this divergence, Table 4 presents a breakdown of annual incomes for the American male civilian labor force. As shown in this table, the self-employed are over represented in the bottom income category equivalent to the federal poverty line in 2020 *and* in the top income category, earning over \$200,000 per year. Indeed, the representation of the self-employed in that top category doubles the corresponding figure among wage earners.

Table 4
Annual Income by Type of Employment in the American Labor Force ca. 2020^{1,2}

Annual Income:	Wage Earner ²		Self-employed ²	
1 and 25999	20.5%	13,198,684	30.7%	2,544,307
26000 and 50999	31.4%	20,154,851	28%	2,312,355
51000 and 50999	22.9%	14,716,285	16.2%	1,339,434
81000 and 110999	11.4%	7,313,207	8.2%	675,335
111000 and 150999	7.1%	4,536,878	6.1%	500,983
151000 and 199999	2.5%	1,688,592	2.2%	178,986
200000 and above	4.2%	2,673,812	8.7%	716,706

Total	100%	64,282,309	100%	8,268,106
¹ Sample restricted to males, between ages 25 to 65. ² PUMS personal weight sample. <i>Source.</i> American-Community Survey micro data.				

To better understand what is taking place, we conducted a series of logistic regressions of determinants of self-employment, both general and incorporated, on a series of relevant predictors including indicators of human capital and immigrant/ ethnic background. Results show a very different set of predictors for self-employment in general and for the self-employed incorporated. The first column on table 5 presents logistic regressions of self-employment on the entire American labor force ca. 2019. Since the sample is so large, practically every coefficient is statistically significant. We focus, instead, on the direction of effects and their relative magnitude, as indicated by the exponentiated coefficients. Those above 1.0 indicate a positive effect, while those below 1.0 indicate the opposite.

Table 5
Determinants of Self-employment, General and Incorporated, U.S. Labor Force, 2020

Predictors	I Self-employed, All		II Self-employed Males		III Self-employed incorporated, All		IV Self-employed incorporated, Males	
	B ¹	ExpB	B ¹	ExpB	B ¹	ExpB	B ¹	ExpB
Education:								
(less than high school reference)								
High School Graduate	-.27*	.76	-.30*	.74	.07*	1.07	.06(n.s.)	---
Associate Degree	-.46*	.63	-.47*	.61	.02(n.s.)	---	.01(n.s.)	---
College Degree	-.42*	.65	-.51*	.60	.23*	1.26	.24*	1.27
Post-Graduates	-.51*	.60	-.59*	.55	.29*	1.34	.29*	1.33
Work Experience	.03*	1.03	.04*	1.03	.03*	1.03	.03*	1.03
(Age-18)								
Gender: Male	.23*	1.26	---	---	.57*	1.77	---	---
Marital Status:								
Married	.06*	1.07	-.02(n.s.)	---	.38*	1.47	.40*	1.49
Ethnic/Race:								
(Native reference)								
Chinese	.08(n.s.)	--	.01*	1.01	.22*	1.25	.01 (n.s.)	--
Indian	-.45*	.64	-.52	.60	.15*	1.16	.06 (n.s.)	--
Israeli	.48*	1.62	.44 (n.s.)	--	.92*	2.52	.96*	2.61
Iranian	.35*	1.43	.36*	1.43	.64*	1.89	.64*	1.89
Vietnamese	.27*	1.31	.27 (n.s.)	--	.25*	1.29	.04 (n.s.)	--
Korean	.49*	1.63	.50*	1.64	.79*	2.21	.70*	2.01
Mexican	.24*	1.26	.17*	1.19	-.43*	.65	-.50*	.61
Cuban	.13(n.s.)	--	.14 (n.s.)	--	.42	1.52	.40*	1.49
Dominican	-.09(n.s.)	---	-.05(n.s.)	--	-.18(n.s.)	--	-.26(n.s.)	--
Jamaican	-0.2(n.s.)	---	-.03(n.s.)	--	-.23(n.s.)	--	.37 (n.s.)	--
Black (White Reference)	-.53	.59	-.43*	.65	-.58*	.56	-.60*	.55
Constant	-4.000		-3.889		-5.458		-5.011	
Nagelkerke R ²	.045		.052		.059		.060	
N	190,164809				190,164,109			

¹. Bivariate logistic coefficients

* Coefficient significant at the .001 level

n.s. Not significant at the .001 level

Source: American Community Survey micro data sample of adults in the civilian labor force. Figures adjusted with PUMS personal weights.

Relative to individuals with less than a high school education, the first finding of note is that everyone else tends to shun self-employment. From high school graduates to individuals with a post-graduate degree, they all are significantly less likely to be self-employed. This result is consonant with the concentration of the self-employed in the bottom income category in Table 4 and is supportive of economists' notion of self-employment as an alternative to poverty and destitution. A second important finding is that males and married individuals are significantly more likely to follow the entrepreneurial path. This result is in line with past findings in the literature that report that married males are significantly more likely to claim independent businesses as "theirs", even while spouses can make a significant contribution to the viability of the enterprises (Portes and Jensen 1989; Zhou 1992).

Relative to native born, the effects of immigrant national origins are inconsistent. Israelis, Iranians, Vietnamese, and most notably, South Koreans are significantly more likely to embark into their own businesses, (The exponentiated logistic coefficient for South Koreans exceeds 1.6). On the contrary, Indians are significantly less likely to be found among the self-employed and coefficients for all Caribbean groups included in the model (Cubans, Dominicans, and Jamaicans) are insignificant. Finally, relative to whites native, black workers are significantly less likely to be self-employed.

Essentially, the same results emerge when we restrict the analysis to adult males. The relevant coefficients are presented in the second column of Table 5. More significant is the pattern of determinants of incorporated self-employment. Results for the entire civilian labor force are presented in the third column of the table and for males only in the fourth. Contrary to findings just discussed, education now turns to have positive effects: those associated with a high school or junior college degree are statistically weak, but coefficient associated with a college or post-graduate degree are strongly positive.

Equally important is the pattern of ethnicity coefficients. Relative to all native workers, Chinese, Indians, Israelis, Iranians, Vietnamese, Koreans, and Cubans are significantly more inclined to adopt this career path. On the contrary, Mexicans are less likely to do so and the coefficient for the two remaining Caribbean nationalities are insignificant. This pattern of effects is entirely congruent with results presented in Table 3 indicating higher annual and hourly earnings for the self-employed incorporated, especially among certain immigrant nationalities. These are largely the same groups now found to be strongly inclined toward incorporated entrepreneurship.

As in the preceding models, work experience—indexed by age minus 18—is positively associated with self-employment. So are gender (male) and marital status (married) again supporting past findings in the relevant research literature. Overall, and in conjunction with tabular results presented previously, findings can be summarized as follows:

--Self-employment is not homogenous but bifurcated between precarious enterprises and those yielding significant positive economic results. The latter are properly indexed by incorporated firms.

--Accessing advantaged forms of self-employment is not accessible to everyone. Individuals with higher levels of human capital—indicated by their education and work experience—are significantly more likely to be found in this category. So are males and married individuals, signaling once again, previously observed disparities by gender and marital status.

--The pattern of racial/ethnic effects is heterogenous, with some groups found to be consistently advantaged in terms of higher incomes and a stronger presence among established entrepreneurs and others leaning in the opposite direction. Black and Mexican workers are most commonly found in the disadvantaged pole, while specific immigrant minorities—such as Chinese, Indians, Israelis, and Iranians—are found at the opposite end of the economic continuum.

While the association between human capital and successful entrepreneurship is strongly supported by these results, it remains to be explained why, controlling for education and experience, some ethnic groups are consistently more advantaged than others. Like Chef Carl in the opening vignette, his cooking expertise was not enough; in order to succeed he needed to tap into alternative forms of capital. What these can be are discussed next.

The Missing Ingredient: Social Capital

If self-employment is to be an alternative to poverty and destitution, it seems plausible that, in order to access it, individuals must possess certain key resources. These appear to transcend formal education and work experience, as indicated by the pattern of entrepreneurship effects seen above. The consistently positive effects on incorporated self-employment among certain immigrant minorities controlling for education, work experience, gender, and marital status suggests that would-be entrepreneurs have access to other advantages linked to the networks of their associates. The literature on immigrant economic adaptation indicates that, in a foreign land, individuals tend to associate and depend on their co-ethnics for guidance and support (Light 1972; Light and Bonacich 1988; Kasinitz et. al 2008; Gold 1988 ; Portes and Zhou 1999).

If this is the case, a logical corollary is that immigrants settling in areas with a larger population of co-ethnics would be more likely to tap into these social resources than those settling in more isolated areas. The existing literatures on places of concentration for particular immigrant groups such as Chinatowns in various American cities, Koreatown in Los Angeles, Little Saigon in Orange County, and Little Havana in Miami contain numerous examples of fledgling immigrant enterprises tapping on this form of social capital in order to survive and prosper (Zhou 1992; Light 1972; Kim 1981; Huynh and Yiu, 2015; Portes and Stepick, 1993). In search of supportive quantitative evidence, for this point, we examined levels of self-employment among specific immigrant groups in their best-known areas of concentration and elsewhere in the country. Results are presented in Table 6.

Table 6**Self-employment Rates among Selected Foreign Groups in their Principal Cities of Concentration and Elsewhere in the U.S. ca. 2020¹**

<u>Immigrant Group</u>	<u>Self-Employed, General</u>	<u>Self-Employed, Incorporated</u>
Cubans in Miami/Dade County, %	15.3	6.8
Cubans, elsewhere, %	12.1	4.8
Chinese in Los Angeles County, %	17.7	6.9
Chinese in San Francisco, %	14.2	5.8
Chinese, elsewhere, %	10.6	4.7
Iranians in Los Angeles County, %	19.6	10.1
Iranians, elsewhere, %	15.0	7.4
Israelis in Miami/Dade County, %	32.3	11.9
Israelis, elsewhere, %	22.0	12.0
Koreans in Los Angeles County, %	20.0	8.8
Koreans, elsewhere, %	17.6	9.1
Vietnamese in Orange County, %	11.8	5.2
Vietnamese, elsewhere, %	14.9	5.2

As seen in Table 6, Cubans living in metropolitan Miami exhibit higher levels of self-employment and incorporated self-employment than those settling elsewhere in the United States. The difference is not large, but it is statistically significant at the .001 level. The same is the case for the Chinese living in Los Angeles and San Francisco, home of the largest Chinese enclaves in the country, in comparison with Chinese settling elsewhere (Zhou et. al. 2008; Zhou and di Rago 2022). The pattern repeats itself for Iranians living in their principal area of concentration in Los Angeles versus elsewhere and for Israelis in Miami in contrast to those living in other areas of the country, including New York. Exceptions to this pattern are found among Koreans, whose level of self-employment is about the same in Los Angeles as in other parts of the country and among the Vietnamese for whom entrepreneurship is about the same in Orange County as in other areas and where general self-employment is actually higher in the latter. On balance, these results provide some evidence that ethnic concentration is positively associated with entrepreneurship, but the results are not fully consistent. Clearly, other factors are at play.

The positive effect of marriage on either form of self-employment points to the value of family networks in encouraging entrepreneurship. Nevertheless, the power of social networks outside of the family has been noted repeatedly in the specialized literature on the topic. Ivan Light, for example, emphasized the importance of rotating credit associations (RCAs) for the capitalization of Asian immigrant firms in the

United States (1972,1979). RCAs are informal groups of 20 to 50 persons or families that meet periodically for a ritual meal. At each meeting, every member contributes a set amount to a common capital pool. A designated member of the group then receives the pool that can amount to several thousand dollars, enough to launch a small enterprise. Social capital in this instance comes from the trust that each participant has in the continuation of contributions from others even after they receive the pooled funds. Since the arrangement is completely informal, it can be implemented and sustained over time only through mutual trust.

The role of social capital is equally important in the study of ethnic business enclaves. Enclaves are dense concentrations of immigrant or ethnic firms that employ a significant number of co-ethnics as their labor force and develop a visible physical presence in urban space. Studies of New York's Chinatown, Miami's Little Havana and Los Angeles' Koreatown consistently highlight the role of community networks as a source of vital resources for enclave firms (Zhou 1992; Portes and Stepick 1993; Perez 1992; Light and Bonacich 1988). The following story, drawn from one of these ethnographic studies, illustrates these patterns.

Origins of the Cuban Enclave in Miami²

After spending eleven days in a Cuban jail for anti-government activities, Remedios Diaz-Oliver and her husband Fausto left the island in 1961. A graduate of two Havana business schools, Remedios went to work as a bookkeeper for Richford Industries, a container distributor. Within a year, Remedios had been moved to Richford's international division. With her husband, she travelled to Central America with a bag of Richford's samples. They returned with \$300,000 in orders from pharmaceutical companies in Costa Rica and Honduras. By 1965, Diaz-Oliver had been appointed Richford's vice-president for domestic sales, in addition to her duties as president of the Latin American division.

These were days in which Cuban exiles were looking for employment in Miami after giving up hope of overthrowing the communist regime in the island. From her Havana days, Remedios knew many people with the skills to make a business succeed. In 1966, she persuaded Richford to advance \$30,000 in credit to one such person with the promise that, if he defaulted, she would cover the debt with her own salary. The man paid, the account grew, and so did her commission. Following that experience and at her prodding, Richford agreed to advance credit to numerous exile clients. As these firms developed, the company's own business grew.

In 1976, however, Richford was acquired by Alcoa Corporation of Omaha, Nebraska. Remedios decided to set up on her own, founding American International Container. The construction trailer in which the company opened did not look like much, except that the owner had far more experience in the local business market than her outside competitors. By 1978, Diaz-Oliver became exclusive Florida distributor for some of the biggest firms in packaging, including Owen-Illinois and Standard Container. Her company had warehouses in Miami, Orlando, and Tampa and annual sales of \$60 million. Remedios was honored by being appointed president of Miami-Dade's Cancer Society and of the Hispanic Division of the Red Cross.

What Diaz-Oliver had been doing at Richford-- extending credit on the basis of personal reputation in Cuba--became institutionalized as Cuban managers gradually took over the loan portfolios of local banks.

For sure, these were not the dominant American banks for whom the exiles were just another downtrodden minority, but small banks founded with South American capital. Ecuadorean, Peruvian, and other South American owners deemed it wise to put management of their firms in the hands of experienced but then unemployed Cuban bankers. Once their own positions became secure, these officers initiated a program of lending \$10,000 to \$30,000 to other Cubans for business start-ups.

Access to this credit was not based on the applicant's balance sheet or collateral, but on his or her business reputation. The practice became known as "character loans", allowing numerous Cuban exiles who spoke little English and had no standing in the American banking system to gain a foothold in the local economy. A leading banker who took part in this operation described it as follows:

At the start, most Cuban enterprises were gas stations, then came grocery shops and restaurants. No American bank would lend to them. By the mid-sixties, we started a policy at our bank of making small loans to Cubans who wanted to start their own business but did not have any capital. These loans were made because the person was known to us by reputation and integrity. All of them paid back; there were zero losses...People who used to borrow fifteen thousand on a one-time basis now take out fifty thousand in a week (Botifoll, 1985).

Conclusion

About twelve percent of the American labor force have taken the decision to go into business by themselves. Depending on their resources, as seen previously, such enterprises can provide a precarious form of subsistence or they can be an efficient vehicle for economic success. The combination of human capital in the form of work skills and social networks connecting the person to strategic others is vital. Skills are not enough if one lacks money capital. Some groups have been collectively able to produce starting capital for small enterprises by putting their networks to work for that purpose. Whether in the form of rotating credit associations or "character" loans, groups blessed by these social initiatives have been able to forge ahead economically, leaving the low wages at the bottom of the labor market hourglass behind. For a final panoramic view of the prevalence of self-employment in America Table 7 presents rates of self-employment, both incorporated and non-incorporated in the fifteen largest metro areas *circa* 2020.

Table 7
Percentage of Self-employed not Incorporated and Incorporated
Workers in the Fifteen Largest Metropolitan Areas ca 2020.

Characteristics	Natives ²				Immigrants ²															
	Whites		Black		China		India		Israel		Iran		Korea		Vietnam		Mexico		Cuba	
Top 15 SMAS ¹	NON	IN	NON	IN	NON	IN	NON	IN	NON	IN	NON	IN	NON	IN	NON	IN	NON	IN	NON	IN
New York-Newark-Jersey City	5.4	4.5	3.0	1.7	5.9	4.5	4.2	6	10	12	5.3	12	10.5	9.7	6.2	4.3	7.9	2.1	9.5	6.1
Los Angeles-Long Beach-Anaheim	8.9	4.6	6.2	1.9	10	8	6.3	6.8	14	15	11	10	12.6	9.7	8	5.4	12.3	2	15.9	3.9
Chicago-Naperville-Elgin	4.2	4.4	3.0	1.3	5.8	4.4	2.8	5.3	7	10	9.6	10.3	8.5	7	13.2	5.9	4.6	2.5	11	
Dallas-Fort Worth-Arlington	6.6	3.8	3.9	1.4	8	4.4	2.6	4.7		14*	5.5	8.1	8.9	13.1	13.4	5.5	9.7	2.1	9.7	
Houston-The Woodlands-Sugarland	6.0	3.3	4.1	2.6	10	3	4.3	5.3		20*	12	9.3	5.5	10.4	11.8	4.2	12.1	2.1	3.4	2.4
Washington-Arlington-Alexandria	5.4	3.5	3.4	1.7	5.7	4.7	3.8	5.4	12	7.6*	7.1	11	11.5	9	5.5	5	7.5	1.3	7.9	
Philadelphia-Camden-Wilmington	4.8	3.3	2.9	1.3	10	3.7	3.3	7.7	4.3*	21	9.2		12.9	14	6.5	3.1	7.6	3	5.7	
Miami-Fort Lauderdale-Pompano Beach	6.0	7.8	3.8	2.0	5.5	10	5.9	6.9	17	19	7.2*	12.5	11.3	5.3*	9.6	8.2	18	2.9	8	6.2
Atlanta-Sandy Spring-Alpharetta	5.7	4.9	3.9	2.6	4.6	3.8	3.1	3.8		20	15.5	7.4	9.7	10.8	4.2	6.6	9.2	3.2	7.3	5.7
Boston-Cambridge-Newton	5.8	2.8	2.5	1	2.8	2.9	1.7	4.8		6*	13.2		3.7		6.1	4.2	13.5			
Phoenix-Mesa-Chandler	5.9	4.1	3.1	1.1	NA	5.5*	2.8	5.8	13*		2.9		3.7*	5.3	16.6	13.6	10	2.7		3.5
San Francisco-Oakland-Berkeley	8.7	3.7	6.4	1.4	8.6	4.0	2.6	3.3	11		14	4.1	9.6	4.8	4.9	3.4	10.8	2.3		6.6*
Riverside-San Bernardino-Ontario	7.2	3.4	3.2	1.2	7.9	10.3	12	7.1			9	9.5	16.8	8	15.4	6.1	8.9	1.9		
Detroit-Warren-Deaborn	4.8	3.8	3.0	1.8	3.4	5.4	2.3	3.7				35*	17.9	2.8	10		5	5.6		
Seattle-Tacoma-Bellevue	5.7	3.5	2.5	1.7	4.5	2	3	2			3.4	7.1	9.4	10	6	3.7	9	4.5		

¹SMAS created using PUMAS from 2019 ACS. ²Sample includes all workers 16 and up. *Cells with less than 250 people in the estimate. Figures in the table are adjusted with personal level weights.

Source: American-Community Survey 2019 micro data

The table illustrates four key points: First, white self-employment consistently exceeds the rate among African Americans, reaching close to 10 percent in most metropolitan areas as opposed to 5 percent among black workers. Second, immigrant entrepreneurship is not circumscribed to major demographic concentrations but is spread across the country. In some cases, rates of self-employment among certain groups are higher in metropolitan areas where they do not have a significant demographic presence. Third, having said this, there is a clear association between places of demographic and occupational concentrations and immigrant entrepreneurship. The Chinese, for example, are most likely to be self-employed in Los Angeles (18%) and in new areas of hi-tech concentration around Riverside/San Bernadino (18%). The same area has also been a favorite site for technologically-oriented Indian immigrants (Agarwala 2015; Saxenian 2002).

Israeli enterprises, especially the incorporated, concentrate in Philadelphia, Atlanta, and Miami. While Cuban businesses are most common in the latter city, they are also common in New York, Atlanta and , surprisingly, San Francisco. Incorporated Korean firms approximating or exceeding ten percent of the respective adult working population are found in a number of cities including New York, Los Angeles, Dallas-Ft. Worth, Houston, Philadelphia, Atlanta, and Seattle.

Fourth, glancing across the table, it is evident that certain American cities are prone to the rise of both native and immigrant enterprises, especially better established ones. Among native whites, they are found in above-average numbers in New York, Los Angeles, Miami and Atlanta. Los Angeles, Miami, and New York appear consistently as metropolitan areas most conducive to immigrant incorporated enterprises. At the other extreme, there is a relative dearth of such firms in Boston, Phoenix, Detroit, and Seattle. Reasons for these wide differences reflect both the patterns of incorporation and settlement of different groups and the receptivity of local economies to their business enterprises. Unsurprisingly, Chef Casper started his successful food truck business in Miami, and he brought it then to Los Angeles.

In an American labor market increasingly devoid of mid-paying occupations and requiring ever greater educational and technical qualifications for reaching the top of the hourglass, native and foreign minorities are commonly described as toiling in repetitive, low-wage manual jobs with no chance for advancement (Piore 1979; Borjas 1990; Telles and Ortiz 2008). It is in this context where independent entrepreneurship offers a possible way out. But, as seen in this paper, such ventures have unequal levels of success. Determinants depend on what the person knows what to do and the opportunities for capitalization and growth opened up by her/his social networks.

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Endnotes

¹Jon Favreau, "Chef", distributed by Open Road Films, 2014.

²Published previously in Portes, Alejandro (2010). *Economic Sociology: A Systematic Inquiring*. (pp. 174-177). Princeton, N.J.: Princeton University Press.