

## Self-Employment: Mobility Ladder or Economic Lifeboat?

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STAGGERING UNDER the quadruple blows of national recession, slumping housing values, reduced defense spending, and long-term exportation of jobs, Greater Los Angeles became an official ex-paradise in the 1990s.<sup>1</sup> An influential report found that Los Angeles suffers "urban, industrial, and social decay comparable to the worst of the Eastern metropolises."<sup>2</sup> In actuality, Greater Los Angeles' deterioration was underway long before the riot and arson of April, 1992 attracted media attention.<sup>3</sup> In the preceding decade many whites had left Greater Los Angeles, turning "California, Here I Come" into "California, Here I Go." Apparently, however, the revised lyrics did not reach Central America or Asia, from which an even more sizable number of immigrants seeking opportunity arrived in the Golden State. Ironically, Los Angeles became America's new Ellis Island, a first-stop for immigrants in search of the American dream, just as native whites began to abandon the region.<sup>4</sup>

If the region's economy had remained strong into the 1990s, Greater Los Angeles could more easily deliver the American dream today as New York City delivered it a century ago. With its vast immigrant populations, startling ethnic diversity, bankrupt local governments, and declining economy, however, Los Angeles is putting the American dream of material abundance to its severest historical test.<sup>5</sup>

In this situation, self-employment strongly influences the economic welfare of all the ethnoracial groups that make up Greater Los Angeles. One reason is the sheer prevalence of self-employment in the region. Los Angeles has long had more self-employed workers than other re-

gions, and in the last generation, the region's self-employment rate has increased faster than that of the United States. Greater Los Angeles simply has so many self-employed workers that one cannot ignore their welfare.<sup>6</sup>

A second reason is the continued centrality of self-employment to upward economic mobility. Abraham Lincoln called the progression from wage employment to self-employment the "natural course of labor" and proposed to guarantee this right to blacks as well as to whites. Although Lincoln's fairness to blacks was unusual, his view of self-employment was not. Long before Lincoln, Benjamin Franklin had already understood self-employment as the standard path from working class to middle class. After Lincoln, Horatio Alger's juvenile novels continued this positive view of self-employment as the obvious means by which industry and thrift were rewarded.<sup>7</sup> Currently, self-employment remains a key to middle-class status and welfare for native whites as well as immigrant and ethnic minorities.

Unfortunately, a third reason for the importance of self-employment is less reassuring. Now, as ever, self-employment provides a recourse of desperation for the underemployed or unemployed.<sup>8</sup> Just as the lifeboats come out when a ship goes down, so self-employment rates rise as job opportunities sink. Precisely this scenario affects Greater Los Angeles. Because of job expropriation, Greater Los Angeles experienced rising unemployment and declining real incomes between 1970 and 1990.<sup>9</sup> Some of the region's self-employment developed because households started a business when wages stopped or simply failed to keep pace with living costs. The remarkable growth of women-owned businesses owes much to this situation.<sup>10</sup>

Self-employment as regional mainstay, traditional route up the ladder, and lifeboat are three aspects of this complex subject, and they operate simultaneously. At any moment in time, successful people are latching onto self-employment as a means of economic ascent, while struggling people are undertaking self-employment to survive hard times. Presumably the proportion of ascent-oriented self-employment increases on the upward leg of the business cycle just as the proportion of survival-oriented self-employment increases on the downward leg. But whether the business cycle is at its trough or its peak, both types are always present in the self-employed population.

The business cycle is not, however, the only influence upon the balance of successful and struggling people in the self-employed population. Ethnicity affects this balance in three basic ways. First, entrepreneurial ethnic-racial and ethnoreligious groups can exploit opportunities more effectively than others.<sup>11</sup> This influence has always been a factor in Greater Los Angeles, where the movie industry rose to world preeminence on the entrepreneurial skills of Jews. These skills enable Jews and other entrepreneurial minorities to prosper in business. Therefore, when immigration increases the proportion of entrepreneurial minorities in a region, that region's average entrepreneurial competence increases, driving up the proportion of positive, ascent-oriented firms in the self-employed population and increas-

ing regional self-employment.<sup>12</sup> The immigration that brings about this new, ascent-oriented self-employment we call an *entrepreneur influx*.

Second, when immigrants outstrip the job supply in a migration-reception region and saturation looms, migration networks seeking to find employment for new immigrants begin to produce more self-employed workers and fewer wage and salary workers.<sup>13</sup> We call this *network-driven self-employment*, because the momentum of immigration forces up the self-employed population. Some of this network-driven self-employment is ascent-oriented, but most is survivalist. In an extreme but theoretical case, when a job supply in the destination economy is exhausted, a migration continues only when all new immigrants employ themselves. As such a situation develops, the network-driven self-employment of immigrant groups can drive up regional self-employment even in deteriorating business climates.

Third, even when economic conditions are generally improving or generally deteriorating, ethnic occupational and industrial niches need not rise and fall in unison. Because immigrant and ethnic minorities, including native-born whites, cluster in identifiable niches and do not spread evenly over the industrial landscape,<sup>14</sup> changing economic conditions usually affect ethnoracial groups unequally. Sometimes even drastic economic change impacts some ethnic niches a lot, others a little, and still others not at all. Declining ethnic occupational and industrial niches mean deteriorated job markets for their inhabitants, whose reaction to the disintegration of a formerly secure niche takes the form of survival-oriented self-employment. Normally the growth of this defensive self-employment increases the affected group's self-employment rate.

Naturally, these three causes need not coincide in a single region; there can be regions of immigrant reception in which one or two of these causes operate without the others. Wherever all three causes converge, however, one can expect self-employment rates to rise the most. This convergence happened in Los Angeles between 1970 and 1990. In that twenty-year period, Greater Los Angeles experienced a hyperentrepreneurial influx, largely but not exclusively consisting of Asian, Russian, and Middle Eastern immigrants. It also experienced network-driven Latino and Asian self-employment arising from migration-induced pressure on the job supply; and it experienced survival-oriented self-employment arising from decay of the longstanding industrial niches of native workers, especially native whites to be discussed in chapter 14. All three contributed to the region's increased dependence upon self-employment.

### CHANGING PATTERNS OF SELF-EMPLOYMENT

To document this claim, we turn first to Greater Los Angeles' self-employment between 1970 and 1990. The region witnessed job expropriation increasing unemployment rates, and stagnant living standards throughout this

twenty-year period, as chapter 8 will detail. Nonetheless, rates of aggregate self-employment increased markedly. Combining all four major ethnoraacial categories, we found that total self-employment in Los Angeles increased from 10.4 percent of the labor force in 1970 to 12.2 percent in 1990, a 17 percent increase. As a result of this rate increase, Greater Los Angeles had 142,464 more self-employed workers in 1990 than it would have had if the 1970s self-employment rate had remained unchanged until 1990.

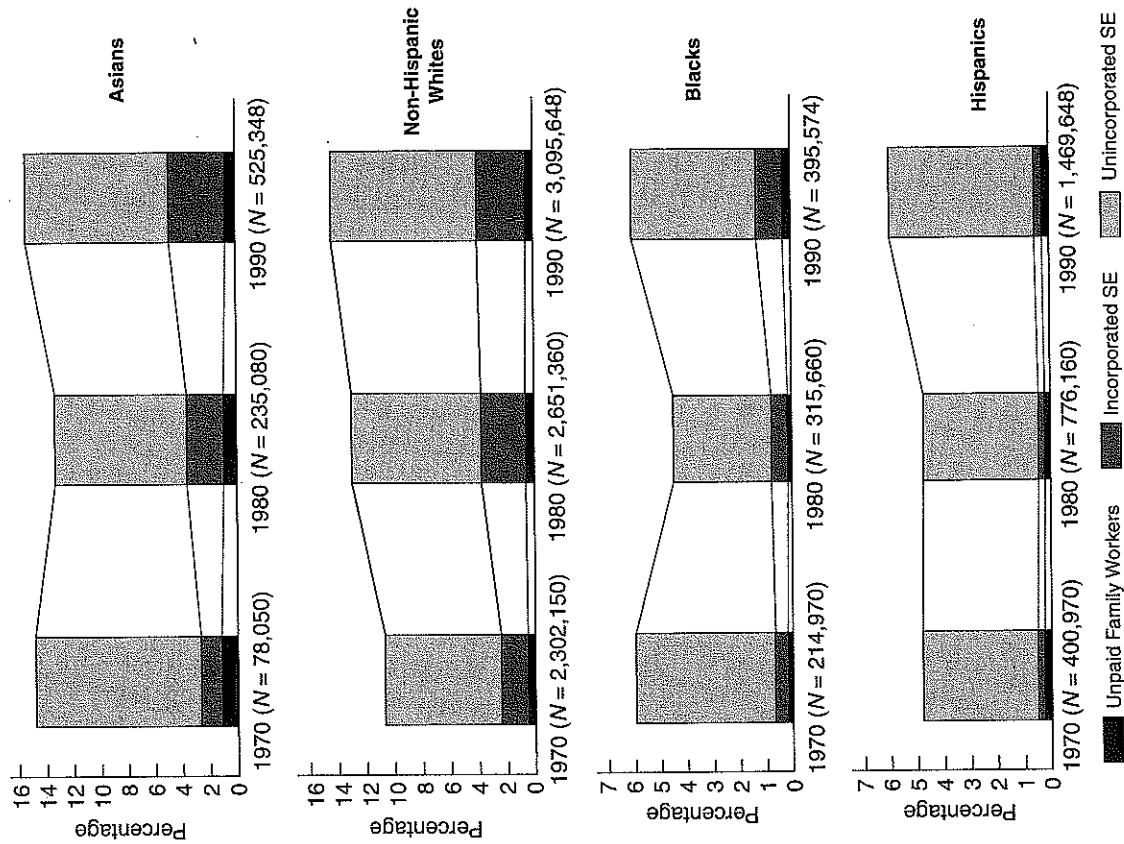
These increases in self-employment were not, however, uniform among all the ethnoraacial groups and categories in this diverse region. Figure 7.1 shows that the four major ethnoraacial categories experienced unequal self-employment growth. The largest proportional change occurred among non-Hispanic whites; Hispanics also registered a substantial gain. Asian rates changed little, though that modest increase began from a very high base, indicating that Asians have maintained a high self-employment rate even as the Asian economic presence has massively expanded. Black self-employment rates remained virtually unchanged.

Distinguishing the proportions of incorporated versus unincorporated self-employment enables us to ascertain how advantageous increased self-employment was for each of the four major ethnoraacial groups. Incorporated self-employment means an incorporated business; unincorporated self-employment means a proprietorship, possibly a very small firm. Incorporated business firms are bigger and more lucrative on average than unincorporated businesses, and are more likely to propel their owners into the ranks of the affluent. Incorporated self-employment epitomizes sheer economic success, the American dream, whereas unincorporated self-employment may represent only a tiny Mom-and-Pop store that keeps a struggling family off welfare.

Incorporated self-employment increased among all four ethnoraacial groups (Asians, whites, blacks, and Hispanics) in the twenty-year period. Indeed, incorporated self-employment experienced the highest growth of any industrial class in the twenty-year period. These were boom years for access to big money. Among whites and Hispanics, the incorporated self-employed more than doubled their percentage share of the labor force. Incorporated self-employment rose among blacks as well, though only by half a percentage point and from a minuscule base; among Asians, the incorporated self-employed more than tripled their share.

Changes in unincorporated self-employment were mixed. Among blacks and Asians, unincorporated self-employment declined, but the shift toward incorporated self-employment boosted the already high self-employed rate for Asians. By 1990, 3 out of every 100 Asians were in incorporated self-employment, the most remunerative type. This shift was economically advantageous; it meant that prosperous proprietors became a bigger segment of the Asian self-employed, Mom and Pop a smaller share. On balance, therefore, this shift improved the business mix of the Asian self-employed,

**FIGURE 7.1 | Self-Employment Among Selected Groups, Los Angeles Region, 1970-1990**



NOTE: Charts show self-employment as a percentage of total employment for that group.

even as overall self-employment rates moved upward and numbers—reflecting the immigrant influx—went through the roof.

For whites and Hispanics, two decades of change were less advantageous. Both groups experienced an increase in incorporated and unincorporated rates. Thus some of the increase in overall self-employment rates represented a real growth in the numbers of newly rich people, as incorporated self-employment permitted new white and Hispanic entrepreneurs to move up into a high income level. On the other hand, however, the increase of unincorporated self-employment resulted from overcrowded Hispanic employment niches and the crumbling of longstanding white employment niches.<sup>15</sup> These mixed results signal economic conditions that permitted some whites and Hispanics to achieve entrepreneurial success while compelling others to scrounge for alternatives to vanishing jobs.

Immigration from Mexico and Central America produced network-driven self-employment during the 1980s. The rapid influx of low-skilled immigrants presented the Greater Los Angeles labor market with more unskilled workers than employers could hire. One predictable result was the growth of informal employment, with street-corner labor markets providing this service. Another result was deflection of underemployed Hispanic immigrants into marginal self-employment.<sup>16</sup> Between 1980 and 1990 the number of unincorporated foreign-born Hispanic self-employed grew from 18,480 to 54,768, tripling their number even though the number of jobs in Greater Los Angeles did not even double in this decade. At the same time, the mean years of education of these self-employed Hispanics declined, even though the general level of education in the labor market increased 10 percent in the same period. The predictable result was a decline in the real earnings of these immigrant entrepreneurs.

In incorporated self-employment, the saturation effect hit even harder. While the number of incorporated foreign-born Hispanic self-employed tripled, their average educational attainment dropped, and their real money earnings declined 30 percent. In sum, by 1990, Los Angeles had three times more immigrant Hispanic business owners than a decade earlier, but these foreign entrepreneurs were less educated than their predecessors, and they made far less money. At the low end of the self-employment spectrum, among the poorest and least educated Hispanic entrepreneurs, a big informal economy had emerged, prompting the quip that Los Angeles had become "the Capital of the Third World."<sup>17</sup>

Of course, figure 7.1 shows nothing about the national-origin communities that made up the four ethnorracial categories of white, Hispanic, Asian, and black. Table 7.1 compares the self-employment rates of fourteen selected ethnorracial groups in 1970, 1980, and 1990, including native-born Russians (largely Jews)—a white ethnic group with a continuing entrepreneurial propensity—and other native whites. Self-employment rates increased among all the foreign-born groups. Growth in self-employment was

**TABLE 7.1 | Self-Employment Rates in the Los Angeles Region, 1970–1990 (Selected Immigrant and Ethnic Groups, Ages 25–64, Employed)**

	1970 <sup>a</sup> (%)	1980 (%)	1990 (%)
Salvadoran FB	3.9	3.8	7.0
Guatemalan FB	N/A	3.3	7.8
Mexican NB	4.7	5.3	6.3
Mexican FB	4.8	4.0	6.7
Japanese NB	18.6	15.1	10.9
Chinese NB	20.5	10.7	11.2
Chinese FB	11.5	16.5	16.6
Filipino FB	3.4	3.5	5.2
Korean FB	3.6	24.8	34.6
Blacks NB	6.3	4.4	5.8
Armenian FB	N/A	24.3	27.2
Iranian FB	N/A	20.9	27.8
Russian NB	N/A	22.9	23.4
Other white NB	10.1	12.0	13.3

<sup>a</sup>The 1970 data should be interpreted with caution, since for most groups the sample sizes are less than 50.

not universal in Greater Los Angeles, however; the native-born pattern was quite mixed. Among native-born Chinese and Japanese, self-employment rates declined hugely in the twenty years, presumably because, as a result of declining racism, these native-born Asians found more opportunity in the general labor market than they once had. Among native blacks and native whites of Russian descent, self-employment rates were stable. The only native-born groups among whom self-employment rates actually increased were non-Russian-origin native whites and Mexicans, whose rates each increased about one-third.

### SELF-EMPLOYMENT INCOME

The desirability of self-employment depends upon the income it affords. Self-employment is unattractive when its money returns are skimpy in comparison with wages. If the self-employed earn more than wage and salary earners, then self-employment is financially attractive.<sup>18</sup> Where such a scenario prevails, market capitalism still delivers the American dream of upward economic mobility through ownership of one's own business. The dream seems to live on in Los Angeles, a surprise since the nation's self-

employed generally earn less than wage and salary workers.<sup>19</sup> Contrary to the national pattern but in conformity with the region's historically high entrepreneurship, Greater Los Angeles' self-employed earn more than employees in every decennial year from 1970 to 1990. Table 7.2 shows that, except for Hispanics in unincorporated self-employment in 1990, mean earnings of both the incorporated and the unincorporated self-employed

**TABLE 7.2 | Mean Earnings of Ethnoracial Groups, Los Angeles Region, 1970-1990 (Ages 25-64)**

	1970 (\$)	1980 (\$)	1990 (\$)	Index
<i>Whites</i>				
Employees				
Private	11,236	21,416	44,044	392
Government	11,438	20,913	40,980	358
Self-employed				
Incorporated	23,290	45,764	92,155	396
Unincorporated	20,871	24,768	48,151	231
<i>Blacks</i>				
Employees				
Private	7,031	15,207	31,534	448
Government	8,775	16,613	34,875	397
Self-employed				
Incorporated	12,066	40,894	54,808	454
Unincorporated	11,273	18,896	42,617	378
<i>Hispanics</i>				
Employees				
Private	8,164	13,588	23,186	284
Government	9,300	14,718	29,853	321
Self-employed				
Incorporated	21,678	32,382	44,981	207
Unincorporated	12,613	18,397	29,599	235
<i>Asians</i>				
Employees				
Private	9,186	17,200	34,336	374
Government	10,913	19,066	37,233	341
Self-employed				
Incorporated	18,951	32,754	66,007	348
Unincorporated	16,366	23,468	41,889	256

NOTE: Index = 1990/1970 × 100

exceeded the mean earnings of coethnic private sector or government employees in 1970, 1980, and 1990. For example, the mean earnings of incorporated black self-employed were \$54,808 in 1990 and the mean earnings of unincorporated black self-employed were \$42,617 in that year. Both means exceeded the mean earnings of black employees in the private sector and the government sector.<sup>20</sup>

A second issue is the growth of self-employment income relative to growth of wage income. Even if average self-employment incomes exceed average wage incomes, as they do in Greater Los Angeles, an eroding relative advantage of self-employment spells deteriorating advantage; unless interrupted, this deterioration ultimately leaves average self-employment incomes abreast of or even behind average wages. When this declining trend of relative self-employment income accompanies an increasing rate of self-employment, we conclude that poor job prospects have driven so many former employees into defensive self-employment that money returns declined in self-employment. When relative incomes are steady or increasing, we might attribute increases in self-employment to demand-side causes. But when people are flocking into declining self-employment, we infer that they are fleeing deteriorating conditions in the wage sector. Such a scenario is definitely not the American dream.

In general, Greater Los Angeles experienced precisely such a network-driven deterioration of unincorporated self-employment income between 1970 and 1990. The index numbers (see Table 7.2) show the increase in self-employment income between 1970 and 1990 for each ethnoracial category. By comparing the index numbers of the four categories, one can see where self-employment earnings kept pace and where they declined in twenty years. Happily, the situation was by no means all bad. Income declines did not affect the incorporated self-employed, the wealthiest sector of the entire labor force. The financial return of incorporated self-employment kept pace with the wages of private-sector workers among blacks and whites, but not among Asians and Hispanics. Among Hispanics, the income of the incorporated self-employed increased only 73 percent as much as did Hispanic wage income in the private sector.

Unfortunately, conditions were much worse among the unincorporated self-employed, for whom the growth in self-employment incomes of all four ethnoracial categories fell behind the growth in income of each group's private wage and salary workers. Whites sustained the severest deterioration of their income. Among whites, unincorporated self-employment incomes increased only 45 percent as much as did the income of wage and salary workers in the private sector. Other ethnoracial categories suffered smaller but still serious damage. The incomes of unincorporated Asian self-employed workers increased only 56 percent as much as did the wages and salaries of Asian employees in the private sector. Unincorporated blacks and Hispanics increased their incomes 80 percent and 73 percent as much

quite compatible with those in table 7.2. They show that the self-employed earned a bonus, and that Hispanic groups earned a smaller bonus than non-Hispanic groups, possibly as a result of network-driven self-employment.

The second column of table 7.3 adjusts the self-employment bonus for human capital and other variables that might spuriously inflate it.<sup>22</sup> This procedure enabled us to ascertain whether the self-employed really earned more because of self-employment or whether their higher earnings were due to superior personal productivity. When statistically evaluated, these census data showed that the self-employment bonus was real. Except for Armenians, whose bonus was enhanced, the statistical adjustment always reduced the size of the bonus, but it never eliminated it. Every group, including native whites, obtained an economic bonus for self-employment. Net of human capital, age, English proficiency and other factors, the self-employed simply earned more than did wage or salary earners. The differences were not small in any category, but they were largest for Armenians, Iranians, and Russians. Among the Hispanics, the adjusted self-employment bonuses were smallest but still appreciable. Apparently the migration-driven increase of Hispanic self-employment had reduced the self-employment bonus but did not eliminate it.

These results support the mixed conclusions drawn earlier in this chapter about self-employment in the twenty-year period. By 1990, the self-employment bonus had frayed, but Los Angeles was by no means a region in

as did coethnic employees in the private sector. As a result of this adverse trend, the incomes of self-employed workers were lower relative to private sector workers in 1990 than they had been in 1970, even though average self-employment incomes were still higher than average wages in the private sector. Only among whites and Hispanics did the growth of unincorporated self-employment also exceed the growth of private wage and salary employment, suggesting influx-driven deterioration of unincorporated self-employment.

### THE SELF-EMPLOYMENT BONUS

Human capital is an individual's investment in personal productivity, the value a worker adds. The usual measures of human capital are years of formal education and years of work experience. If the self-employed had more human capital than wage and salary workers, one might explain their superior earnings as returns on their educational investment.<sup>21</sup> Similarly, if the average human capital of the self-employed declined, then one would expect their relative earnings advantage to decline, too. Conceivably the self-employed earned more than coethnic wage and salary workers because they were better educated on average, even though their margin of educational superiority declined between 1970 and 1990. Additionally, one must consider the possibility that the self-employed were older than coethnic employees, spoke better English, were married, and so forth. Any of these conditions could explain away the income advantage of the self-employed. That is, if the self-employed earned more, possibly it was because they were older or spoke better English rather than just because they were self-employed.

A *self-employment bonus* is the income advantage of self-employment over wage or salary employment net of individual productivity. The usual measures of productivity are human capital, age, English proficiency, and other factors that affect wages. Where a self-employment bonus exists, a switch into self-employment occasions a real increase in income just because self-employment is more lucrative than wage or salary employment. Table 7.3 uses ordinary least squares regression to estimate the size of any self-employment bonus in 1990. The first column shows the absolute self-employment bonus, obtained by subtracting wage or salary earnings from self-employment earnings. It contrasts thirteen important ethnorracial groups. In each of these groups, the self-employed earned a bonus, but the size of the bonus varied. It was smallest among foreign-born Mexicans, Salvadorans, and Guatemalans, largely working-class groups. The bonus was largest among native-born persons of Russian extraction—mostly Jewish—but Iranians, Armenians, Chinese, Japanese, Koreans, and blacks also received self-employment bonuses of \$10,000 or more in 1990. These data are

TABLE 7.3 | Self-Employment Bonus Among Selected Groups, Los Angeles Region, 1990 (Employed Males Aged 25-64 Years Old)

	Self-employment Bonus (\$)	Adjusted Self-employment Bonus (\$)
Salvadoran FB	4,012	3,797
Guatemalan FB	6,768	5,120
Mexican NB	10,101	9,067
Mexican FB	6,452	4,737
Japanese NB	13,330	12,698
Chinese NB	19,713	14,232
Chinese FB	15,437	12,993
Filipino FB	9,326	7,624
Korean FB	14,474	9,941
Black NB	14,119	13,467
Armenian FB	14,989	15,158
Iranian FB	17,806	15,067
Russian NB	21,875	17,336

which the American dream had collapsed, although its payoffs declined. Despite all the area's economic problems and the heavy immigration to the region, even Hispanic immigrants—generally the poorest and least prepared of any immigrants—could still settle in Greater Los Angeles and obtain upward economic mobility if they started their own business.

#### ENTREPRENEURSHIP AMONG IMMIGRANTS

Thanks to relentless media coverage of immigrant entrepreneurship, the American public has come to view immigrants as entrepreneurial miracle-workers.<sup>23</sup> Playing on this popular impression in the late 1980s, at the height of the regional real estate boom in Greater Los Angeles, Vietnamese-born Tom Vu purchased long, haranguing television commercials that taunted white Americans with their failure to match his rags-to-riches career in real estate.<sup>24</sup> Vu had a point in that immigrants are normally more entrepreneurial than native-born persons of the same ethnoraacial origin. This reliable difference has persisted over one hundred years of census records. The usual explanation fastens upon the relative disadvantage of the immigrants in the labor force. Speaking English poorly, lacking recognized educational credentials, and not having access to existing referral networks, immigrants must also face hiring discrimination based on accent, national origin, or religion. For these reasons, it is argued, immigrants have more to gain in self-employment than do native workers.<sup>25</sup>

This classic situation certainly existed in Greater Los Angeles in 1990. Table 7.4 compares the self-employment of foreign- and native-born men and women of the four principal ethnoraacial categories. The self-employment rate of foreign-born white, Asian, and black men exceeds the rate of their native-born coethnics. Similarly, the self-employment of foreign-born white, Asian, and Hispanic women also exceeds the self-employment of their native-born coethnics.<sup>26</sup> Only the self-employment of foreign-born Hispanic men and foreign-born black women failed to exceed that of their native-born coethnics. In this sense, the census data show that as immigrants crowded into Los Angeles, they raised the region's aggregate self-employment rate over what would have been expected from a comparable influx of native-born coethnics.

Although the superior entrepreneurship of the immigrants buffered their impact on labor markets, relieving sources of potential competition with native workers, the buffering effect would have been even greater had all the immigrants demonstrated the self-employment rate of Koreans or Iranians (table 7.1). Indeed, the buffering impact would have been much greater if all the immigrants had matched even the self-employment level of native-born whites. Immigrants did not all do that, as tables 7.1 and 7.4 show, although they should have had consistently higher self-employment

TABLE 7.4 | Wage Employment and Self-Employment, Los Angeles Region, 1970-1990

	Index, 1970-1990 <sup>a</sup>	
	Self-employed (%)	Wage and Salaried
White NB		
Men	19.0	108
Women	10.7	151
White FB		
Men	34.0	124
Women	14.0	145
Black NB		
Men	7.6	153
Women	3.7	201
Black FB		
Men	8.8	N/A
Women	2.8	N/A
Asian NB		
Men	13.6	209
Women	6.5	264
Asian FB		
Men	21.8	984
Women	12.5	1,074
Hispanic NB		
Men	8.2	191
Women	4.5	271
Hispanic FB		
Men	8.0	659
Women	6.1	746

<sup>a</sup>Index = 1990/1970 × 100

rates than native whites if disadvantage in the labor market were the only determinant of self-employment.

Explaining the intergroup differences requires an examination of the resources of class and ethnicity that immigrants brought with them.<sup>27</sup> Arguably, as Timothy Bates maintains, intergroup differences like those in table 7.1 arose because native whites had more class resources than did others and outperformed them for this reason, just as some of the immigrants had more class resources than the native whites.<sup>28</sup> To unravel this issue, table 7.5 compares the adjusted and unadjusted odds ratio of self-employment among thirteen native- and foreign-born groups. Native-born white men are the omitted category against whom the other groups' odds of self-employment are compared. The raw odds ratio records the odds of male self-