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THE TWO SIDES OF ETHNIC ENTREPRENEURSHIP:  
A REPLY TO BONACICH

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DRAFT: April 1993

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LOS ANGELES

**The Two Sides of Ethnic Entrepreneurship: A Reply to Bonacich**

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February 1993

When faced with the question of replying to critical reviews, my thinking is shaped by my experience with journalists: if the newspaper gets your name and academic affiliation right, don't complain. In the case of Edna Bonacich's review of Ethnic Entrepreneurs, there's even less cause for protest. A distinguished sociologist and founder of this sub-field urges that our book "be broadly read" -- what more could any author want? But the editors of IMR have asked that I respond to Professor Bonacich's critique. At the risk of appearing churlish, and in the hope that my co-authors will endorse this defense, let me enter the debate that Professor Bonacich has begun.

Through a glass, darkly: Bad habits die slowly and my first reaction upon seeing myself accused of being a capitalist-roader was to stand up and show that I could sing the Internationale as loud and clear as anyone else. Fortunately, I checked the date in the newspaper before belting out in song, and realized that no, it's not 1968 (let alone 1917!). We know now -- we should have known then too -- that one can do worse than be called the establishment's apologist. But it's not worth griping over Professor Bonacich's effort to fit me and my co-authors into a convenient ideological pigeonhole. Without further ado, I'd like to clarify what it is that we said.

We wrote Ethnic Entrepreneurs against the backdrop of an economic and political conjuncture which put the new ethnic populations in Europe and the United States at risk. The prospects for successful adaptation to the new economy seemed doubtful -- thanks to immigrants' over-representation in declining industries subject to intensified world competition, their lack of the skills needed in today's world of high-tech and information services, and the current climate of weak political support for public programs that might equalize immigrants' chances. In this context, small business seemed to represent "one way immigrants and minorities can respond to the current restructuring of Western industrial economies (EE, 15; emphasis added)."

But the case for immigrant business did not begin from wishful thinking. The historical precedents showed that numerous groups, often the targets of earlier prejudice and discrimination, successfully used small business as route of upward mobility: the case of Japanese, Chinese, and Jews in the United States come readily to mind. Moreover, the same transformations that imperiled the prospects for immigrant employment in the primary sector were creating a better opportunity for small firms of the kind that immigrants could establish on their own. As we noted in our book, the long-term decline of small business halted and then turned around during the 1970s. It was also clear that immigrants were going into business in large numbers -- with or without the endorsement of salaried academics like ourselves. At the time, the immigrant enterprise phenomenon seemed more advanced in the United

States than in Europe, but it is now clear that the trends we observed in the United States have taken off in Europe as well.

Thus, the question was how to explain the growth of immigrant business -- and also to account for the striking inter-ethnic variations in entrepreneurial success. To this end, we developed a framework developed on three interactive components: opportunity structures, group characteristics, and strategies (see Chapters 1, 5 and also Aldrich and Waldinger, 1990). Opportunity structures consist of market conditions which may favor products or services oriented to co-ethnics, and situations in which a wider, non-ethnic market is served. Opportunity structures also include the ease with which access to business opportunities is obtained, a factor highly dependent on the level of inter-ethnic competition and state policies. Group characteristics include premigration circumstances, a group's reaction to conditions in the host society, and resource mobilization through various features of the ethnic communities. Ethnic strategies emerge from the interaction of all these factors, as ethnic entrepreneurs adapt to the resources made available in opportunity structures and attempt to carve out their own niches.

If Professor Bonacich's objection to this argument concerns "the level of analysis," then I'm willing to concede the point. In effect, we took the macro-structural forces that create the conditions for ethnic entrepreneurship for granted. Like Professor Bonacich, I would trace the origins of labor migration to market penetration of developing areas and the effects of labor market

segmentation on the recruitment practices of advanced, capitalist societies. The question we posed in Ethnic Entrepreneurs is what happens once an immigrant population is in place?

Our framework directs attention to the interactions among opportunity structures, which we again took as given, community structures, and individual behavior. Professor Bonacich is quite right to detect a resemblance to market mechanisms in this framework. But one only needs to see how neo-classical economists approach the question of ethnic business to realize that we are not quite guilty as charged. In the standard economic treatment, ethnicity gets reduced to a matter of tastes or preferences that originate prior to economic life. As long as preferences don't become an impediment to the pursuit of rational self-interest, ethnicity has only a transitional impact on economic behavior. Thus, "there is nothing particularly unique about the Asian strategy for business success," declare economists Bates and Dunham (1992: 240) in their attack on sociological approaches such as the one we developed in Ethnic Entrepreneurs. In this view, ethnic entrepreneurs are just a collection of individualistic entrepreneurs seeking the best return on their human capital investments.

But the argument in Ethnic Entrepreneurs is that market mechanisms are embedded in social structures and processes that "affect tastes, resources, and thus behavior in an ongoing way (England and Farkas, 1988:339)." From this point of view, it is not simply differences in underlying human capital characteristics

that explain why some immigrant or minority groups may be more likely than others to strike out and succeed on their own. Rather, the spur toward entrepreneurial activity, and the ability to mobilize the needed resources come from the social structure of the immigrant communities, the networks of associations of which these communities are constituted, and the predispositions that the networks breed.

Our discussion of "ethnic strategies" (chapter 5) illustrates the distinctive nature of our approach. While individual businessowners put business strategies into action, the strategies are also collective. On the one hand, ethnic entrepreneurs are more than just mainstream entrepreneurs who happen to belong to an ethnically distinct population. They are social outsiders, who must compensate for the typical background deficits of their groups and the discrimination they encounter through the use of their distinctive socio-cultural resources. On the other hand, because those resources are the property of the entire group, individual entrepreneurs independently adopt similar strategies, specializing in economic activities that put ethnic resources to maximal advantage. Making parallel decisions, ethnic entrepreneurs thus move into a common niche, increasing the potential for the receipt and transmittal of business information and support with other co-ethnics. Thus, our interactive framework exemplifies the affinity of our approach with the "new economic sociology", and its emphasis on the role of social structure as a facilitator and condition of economic action.

From Pareto Optimality to Marxist Functionalism Having set the record straight, let's take a look at Professor Bonacich's alternative account. Her story -- the real story of ethnic enterprise one presumes -- reads like a paean to the capitalist class in all its evil ingenuity. What a clever scheme it is to sponsor those immigrant businesses and how very useful they are! You buy the loyalty of the immigrants, drive down the cost of labor, and get a new set of scapegoats, all for the same, bargain-basement price.

But Professor Bonacich's version of Marxist functionalism runs up against the nasty problem of demonstrating functional necessity. Encouraging the growth of small business might be functional for capitalism -- but perhaps not for the big capitalists who are supposedly pulling the levers. Helping immigrant contractors drive down the price of sewing might do some good for retailers -- but producers with investments in plant and equipment might begin to howl. Conflict between black customers and Korean retailers in Los Angeles certainly keeps these two groups at one another's throats - - but the specter of continued ethnic conflict only dampens the already depressed investment climate in southern California and pushes real estate values sliding along their downward spiral.

If the case for the worst of all possible worlds fails on theoretical grounds, consideration of the facts provides no succor at all. One might expect the capitalist class to implement programs that foster ethnic entrepreneurship, as Professor Bonacich contends. But the evidence needed to support that assertion is

sorely lacking, alas, as even a casual reading of Ethnic Entrepreneurs clearly shows. In the Netherlands, ethnic entrepreneurs "face a highly structured set of barriers to operations, including professional associations, semi-governmental inspections services...and a conservative national government (EE, p. 186)." A somewhat better environment is found in the U.K., but "small business policy (there) has had no impact on either the formation or the growth rates of ethnic minority businesses (EE, p. 183)." The otherwise enlightened Germans resemble the Dutch: "Boards, agencies, or organizations exclusively responsible for [the minority business] sector have not been established, and assistance or development programs to boost the economic growth of ethnic minority businesses have not been implemented (EE, p. 187)."

And what about that capitalist paradise, the United States? Yes, the U.S. government established the Small Business Administration in 1954, but the allocations made to SBA amounted to less than was previously available when small business efforts were scattered among various government agencies. Minority business development programs began in the late 1960s, but these were pitifully modest efforts, soon seen for the "star-spangled hustle" (Blaustein and Faux, 1972) that they were. If government's support for minority business development was tepid at best in the mid- to late-70s, it turned hostile with the advent of the Reagan Administration, which actively campaigned to abolish the entire SBA. Our review of specific minority business programs (EE, pp. 190-192) shows that none approached even a modicum of success.

If readers react skeptically to this account, they can allay their doubts by reading Edna Bonacich's own Immigrant Entrepreneurs: Koreans in Los Angeles, 1965-1982, co-authored with Ivan Light (Light and Bonacich, 1988; henceforth L&B). There we learn that Asian entrepreneurs were "beneficiaries of preferential treatment by state and federal agencies (L&B 262)," though the authors go to great pains to show how little aid Korean entrepreneurs actually received. The Korean benefit from public loan programs directed to nonwhites "was modest" (L&B 263). In fact, the number of Korean recipients of Economic Opportunity Loans "amounted to 4 percent of the 2,212 Korean-owned firms enumerated in Los Angeles County by the U.S. Bureau of the Census (L&B, 264)." Nor were other government programs of greater help, according to a source cited by Light and Bonacich, which concluded that "Asians were shortchanged, receiving less than their expected share of assistance specifically targeted for minority entrepreneurs (L&B, 263)." To sum up, "the government's trend throughout the decade of the 1970s was toward ever less favorable treatment of Korean loan applications (L&B, 272; emphasis added).

The little that government gave Korean entrepreneurs with one hand, it more than took back with the other, as Light and Bonacich quite clearly show. Much to the dismay of Korean entrepreneurs, the California Supreme State Court repealed fair trade laws which had deterred competition in the liquor industry, putting the small Korean liquor stores at risk of head-to-head competition with much larger chains (L&B, 302). In 1979, California established a

Concentrated Enforcement Program, targeting labor standards violators in the garment and restaurant industries, both Korean strongholds (L&B, 306; 311), though the program was scaled back under later Republican administrations. The Police Commissioner's office conducted an investigation of 60 Korean-owned massage parlors in 1979 (L&B, 312). "In 1976, the Immigration and Naturalization Service abruptly raised the ante for the investor's exemption from \$10,000 to \$40,000", a shift, which Koreans, "as an entrepreneurial minority...felt more than most immigrant nationalities (L&B, 314)." In 1978, the Office of Minority Business Enterprise, which had announced a policy to create a "one-stop" service center for all minorities, awarded its contract to "a black-operated business organization; Asian, Inc. lost its existing contract in the interdepartmental shuffling (L&B, 315)."

If we can't blame the capitalist class or the members of its "executive committee" in government for the growth of ethnic enterprise, where do its origins lie? The argument we developed in Ethnic Entrepreneurs contends that immigrant business development is a natural outcome of the migration process itself:

...ethnic businesses emerge as a consequence of the formation of ethnic communities, with their sheltered markets and networks of mutual support. These conditions not only allow business owners to start out small -- sometimes very small -- they also foster informal arrangements of raising capital and business organization. Furthermore, the skills-acquisition process is so deeply embedded in networks that it does not correspond to the conventional human capital or occupational choice model. Employment in a co-ethnic's firm provides opportunities for costless and almost incidentally acquired business skills and information, the value of which the potential entrepreneur may not recognize until years later (194).

This argument implies that immigrant businesses come along with immigration, whether we like it or not. I don't know why Professor Bonacich rejects this conclusion, but I suspect that her discomfort is connected to its policy implications. Because if we like immigration at the scale that we, in the United States, have been receiving over the past decade, we have to accept immigrant business, in both its pleasing and grim faces. Alternatively, if we decide that the underside of immigrant business is out of control, then it is probably time to cut back on immigration. And that is a choice that Professor Bonacich, like many others in the immigration community, probably doesn't want to confront.

The Other Side of Ethnic Entrepreneurship Though I disagree with Professor Bonacich on most counts, there are at least two points on which we are on accord: there is another, much more unpleasant side to immigrant business; and that side is one that didn't get enough attention in Ethnic Entrepreneurs. We neglected the "other side" of ethnic business for two reasons. First, the "other side" of ethnic business is related to the employment consequences of ethnic entrepreneurship, a matter of considerable debate, and one to which some of us have contributed (see Bailey and Waldinger, 1991), but one whose significance should not be overdrawn. Most immigrant firms either have no employees or only hire family members (Light, forthcoming). Ethnic enterprise, as we argued in our book, is "a family mode of production (144)."

Second, the "other side" of ethnic enterprise was an aspect with which we were less familiar. Ethnic Entrepreneurs grew out of

the many case studies in which the authors had been involved. For the most part, we were familiar with business situations in which immigrant entrepreneurs employed their co-ethnics. In these contexts, we noted, "common ethnicity and paternalism can mask conflicts that would otherwise arise in a worker-employer relationships (171)." Moreover, "ethnic owners have privileged access to the cheapest and most easily exploited members of the ethnic community (173)." But the thrust of the argument emphasized the role of the community structures that facilitated informal resource mobilization and their mitigating effect on tendencies toward exploitation:

...the expectations bound up in the ethnic employment exchange impinge on the owner's latitude as well. Immigrant workers anticipate that the standards of conduct prevailing in the broader ethnic community will extend to the workplace itself (39)."

Our optimistic gloss on the employment experience of workers in immigrant-owned shops stemmed from our assumption that immigrant owners would usually be employing their co-ethnics. That condition, it turns out, is hardly a universal characteristic of the burgeoning ethnic economies that we have in the United States. To be sure, Cubans in Miami mainly employ other Cubans, though increasingly they hire Central Americans as well. When I studied Chinatown's garment factories, the workforce was almost 100 percent Chinese -- and I believe that this pattern remains in place today (Waldinger, 1986). But many of the immigrant entrepreneurs active in Los Angeles -- Koreans, Iranians, Israelis -- hardly employ co-ethnics at all. Recourse to outsiders appears to be one of the

fruits of entrepreneurial success. If more than 50 percent of the group is working for themselves, labor must be found somewhere; and in Los Angeles, the continual flow of migrants from Mexico and Central America provides a ready supply.

Falling back on outsiders seems to bring the ethnic economy back to the sweatshop, not to the type of informal apprenticeship that Alejandro Portes and other researchers have associated with the "ethnic enclave" (Portes and Bach, 1985). Ironically, the turn to exploitation stems, in part, from the same factors that promote the "collective ethnic strategies" that ethnic entrepreneurs pursue to resolve problems related to their enterprise (EE, Chapter 5). "The more deeply embedded entrepreneurs are within their network of kin or coethnics," we argued, "the more salient ethnic group boundaries will be (EE, p. 36)." Yet these are precisely the conditions, as Professor Bonacich has herself shown, that encourage ethnic entrepreneurs to take a completely instrumental stance toward outsider customers or employees (Bonacich and Modell, 1980) Whereas ethnicity induces trust when owner and worker are co-ethnics, it often has the opposite effect when ethnic outsiders are brought into the immigrant firm.

But employment dynamics within the immigrant firm also reflect the external environment: the salience of ethnic business's "other side" must certainly be related to the institutional features of the economies in which the immigrants find themselves. The contrast between New York and Los Angeles, one to which I am particularly sensitive, is especially illuminating in this respect.

Though tattered and torn, welfare capitalism survives in the Big Apple. Consequently, immigrants in New York's garment industry move into an environment where the influence of a union is still strongly felt. Most of the 20,000 or so Chinese garment workers are members of the International Ladies' Garment Workers' Union. Their wages, though deplorably low, remain the highest in the country among apparel workers. Moreover, New York State, prodded by the needle trades unions, has become newly vigilant about labor standards laws, vigorously enforcing minimum wages, child labor and homework prohibitions, and putting out of business those employers who chronically break the law.

Though they certainly didn't know it when they arrived, the newcomers to Los Angeles entered an open-shop town, home to the type of savage capitalism that flourished in the 1980s. Wage disparities help tell that story. In an industry where a nickel a collar makes the difference between profit and loss, the average New York garment worker makes a dollar more an hour than her counterpart in L.A. The regulatory apparatus that has been revived in New York has fallen on hard times in California, thanks to more than a decade of Republican rule in Sacramento. And consequently, labor standards violators, as Professor Bonacich has detailed, thrive in impunity.

### Conclusion

Professor Bonacich is quite right to wax indignant over the conditions experienced by immigrants in other immigrants' firms. Living, as we both do, in Los Angeles, one can't help but feel

shamed by the obscene displays of extreme wealth co-existing with immigrants' bitter struggles to survive. But if the suffering of today's immigrants sometimes reminds one of Engels writing on the condition of the English working-class, one can't pretend, at the end of this terrible century, that we are still living in 1845. Outrage at the "other side" of ethnic enterprise is certainly called for; ideologically innocent railing against capitalism is a good deal less warranted, given the disastrous experience of alternative models. In place of the political philosophy endorsed by Professor Bonacich, I call the reader's attention to the modest suggestion with which Ethnic Entrepreneurs concludes:

We have shown that ethnicity is often a powerful resource for minority group members, and we have argued that there is little governments can do to intervene in the social structures supporting ethnic businesses....Legal and political strictures against discrimination are needed: at the very least, ethnic and minority groups should be able to play the game on an equal footing with dominant group members. Under the most optimistic scenario, these policies will significantly increase the level of business activity for some ethnic groups. As our model emphasizes, opportunity structures are only half of the equation, and the transitional nature of the immigrant experience means that many groups will not have the characteristics needed to take advantage of favorable market conditions. Hence, serious attempts to improve opportunities for all ethnic and minority groups will include business development policies, but only as part of a much larger effort to create jobs and provide relevant skills for the whole population (EE, 197).

**Acknowledgement:** Thanks to Jeffrey Prager and Mehdi Bozorgmehr for their careful reading of this paper.

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