

# Chicago Fed Letter



## Self-employed immigrants: An analysis of recent data

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This article identifies the factors that influence the self-employment decision for U.S. immigrants, including human capital, years in the U.S., geographic concentration, and labor market characteristics.

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**Self-employment** has traditionally represented and continues to be an important route for immigrants to enter the American economic mainstream and improve their socioeconomic standing. In many metropolitan areas, immigrant-owned small businesses have fueled the growth in the minority small business sector, and have become an integral aspect of urban revitalization and community development. This *Chicago Fed Letter* discusses the factors that influence the self-employment decision and presents an analysis of immigrant self-employment, based on the most recent Census data for 2000.

### Factors influencing self-employment

Previous research has identified a number of factors to explain variations in the propensity of different immigrant groups to be self-employed. Human capital and personal characteristics, including education, knowledge of the host country's language, and the length of time in the country influence the decision by immigrants to become self-employed. Self-employed immigrants also tend to be married, to have greater financial resources, and to be in professional and managerial occupations. Other factors that affect the decision include disposition toward risk-taking and intergenerational resources. In addition, immigrants from countries with higher self-employment rates are more likely to enter self-employment in the U.S. Self-employed immigrants also tend to have greater access to social or ethnic networks.<sup>1</sup>

The business owner's human capital has been shown to influence the viability and longevity of the business.<sup>2</sup> The educational attainment of entrepreneurs potentially helps facilitate financing opportunities, because it forms part of a lender's evaluation.<sup>3</sup> However, empirical evidence suggests that immigrants with a college degree are less likely to be self-employed than those with a high school diploma.<sup>4</sup> This may be because those with higher degrees have better opportunities in the job market and, therefore, face higher opportunity costs in becoming self-employed.

English language proficiency allows the immigrant to organize and operate his/her business, communicate with customers and suppliers who may not belong to the same ethnic group, and adhere to legally mandated practices. A lack of proficiency in English may limit immigrants' access to formal financial markets and to information important in setting up a business, such as small business lending programs. Related to the ability to speak the language is the length of time an immigrant has resided in the U.S. The longer an immigrant resides in the U.S., the more likely he/she is to be financially assimilated into the new society, which might coincide with a greater willingness or ability to be self-employed. For example, Borjas (1986) finds that the greatest propensity for self-employment among immigrants, relative to natives, occurs five years to ten years after immigration.<sup>5</sup>

## 1. Self-employment rates in the United States

### A. U.S.-born and immigrants by country/region of origin

Year	U.S.-born	All immigrant	Cuba	Mexico	Puerto Rico	Latin America	Caribbean	Africa	Europe	N.E. Asia	S.E. Asia	Middle East	India & Pakistan
2000	8.2	9.3	12.5	6.8	4.7	9.2	6.2	8.4	12.5	10.7	7.0	16.0	10.2
1990	7.8	9.5	12.6	5.6	4.4	7.7	5.7	9.9	12.3	14.6	6.0	18.3	10.1
1980	6.8	7.9	9.5	3.5	3.2	5.4	3.1	7.5	10.4	11.1	4.1	15.7	7.9

### B. Immigrants in primary and non-primary metropolitan areas (MSAs) in 2000

	All immigrant	Cuba	Mexico	Puerto Rico	Latin America	Caribbean	Africa	Europe	N.E. Asia	S.E. Asia	Middle East	India & Pakistan
Primary MSAs	10.2	12.9	8.4	4.6	10.4	6.2	7.7	12.8	11.1	6.4	21.3	8.7
Non-primary MSAs	8.9	10.8	5.6	4.9	8.3	6.1	8.8	12.4	10.3	7.3	16.7	10.8

NOTE: The population is defined as 18–64 year olds, living in metropolitan areas, in the labor force, not in the military, and having positive earnings.  
SOURCES: Public Use Micro Statistics (PUMS) (1980, 1990, 2000).

Borjas also finds evidence of an *enclave effect*, where members of the same ethnic group live in proximity, for promoting self-employment opportunities for immigrants. Here, the common language and culture play an important role in the creation of enclave businesses. *Ethnic economies* and/or ethnic enclaves potentially provide an opportunity for greater business networks, offer a *protected market* for ethnic goods production, and provide experience and apprenticeship from a co-ethnic employer.<sup>6</sup> Within these ethnic economies, ethnic institutions would promote personal contacts, informal arrangements to build financial resources and, potentially, play a role in mobilizing information and monetary resources for small ethnic businesses. These (often informal) financial resources can be critical for an immigrant business, especially during the formation stage of the business.

In addition, location characteristics such as the size of the population in a metropolitan area and the ratio of self-employment earnings to wage earnings (a proxy for the relative success of the self-employed in the metropolitan area) are likely to increase the probability of self-employment among immigrants. Also, the higher the unemployment rate in a metropolitan area, the greater the likelihood of self-employment.<sup>7</sup>

#### The 2000 Census data

Figure 1, panel A shows self-employment rates from 1980 to 2000 for the U.S.-born, all immigrants, and different groups of immigrants.<sup>8</sup> On average,

immigrants have higher self-employment rates than natives.<sup>9</sup> Differences exist in the self-employment rates of different groups. The self-employment rates of Mexicans, Puerto Ricans, Caribbean immigrants, and South East Asian immigrants remain lower than the self-employment rate for immigrants overall. Between 1990 and 2000, the self-employment rate of immigrants decreased slightly. This reflects decreases in the employment rates of Northeast Asian and Middle Eastern immigrants, two groups with very high rates of self-employment over the period. In 2000, the self-employment rates of Mexican, Latin American, Caribbean, and Southeast Asian immigrants showed sizable increases over their 1990 levels. The increase in self-employment among Mexican and Latin American immigrants coincided with a general increase in the overall Hispanic immigrant population over the 1980s and 1990s.

Figure 1, panel B reports the self-employment rates of immigrants in primary and non-primary metropolitan statistical areas (MSAs).<sup>10</sup> In general, there is a tendency for immigrants to have higher self-employment rates in primary metropolitan areas. This is consistent for Cuban, Mexican, Latin American, Northeast Asian, and Middle Eastern immigrants. There is little difference in the self-employment rates by location for African, European, and Indian/Pakistani immigrants, suggesting that ethnic enclaves may be less important in the self-employment decision for these groups.

What types of businesses are self-employed immigrants engaged in? According to the Census data, the most common businesses for self-employed Mexican immigrants are construction, private household care, landscaping services, child day care services, and restaurants. Caribbean immigrants are engaged in construction businesses, child day care services, taxi and limousine services, private household cleaning, and automotive repair and maintenance. Cuban immigrants tend to be in construction, truck transportation, automotive repair and maintenance, real estate, and professional physician office services. North East Asians tend to be in restaurants and other food services, construction, real estate, wholesale trade, and dry cleaning and laundry services. Southeast Asians tend to be in restaurants, nail salons, beauty salons and other personal care, construction, professional physician services, and grocery stores. Self-employed Indian/Pakistani immigrants tend to be in physician services, grocery stores, hotels/motels, taxi and limousine services, restaurants and other food services, computer systems design, and gasoline stations.

Figure 2 shows the socioeconomic characteristics of the self-employed. On average, the U.S.-born have more education than immigrants. The aggregated educational distribution for all immigrants hides important variations by different country/region of origin. Close to 60% of self-employed Mexicans have less than a high school level of education. By contrast, over 60% of self-employed

## 2. Socioeconomic characteristics of the self-employed (percent, unless stated otherwise)

	U.S. -born	All immigrant	Cuba	Mexico	Puerto Rico	Latin America	Caribbean	Africa	Europe	N.E. Asia	S.E. Asia	Middle East	India & Pakistan
<i>Education</i>													
Less than HS	6.5	24.1	20.2	59.1	26.4	29.3	22.8	7.0	11.1	11.4	17.2	8.3	7.8
HS diploma	23.5	20.1	22.0	16.1	27.6	23.3	26.3	15.6	23.3	17.5	16.8	16.7	11.1
College or more	36.2	28.4	23.5	5.7	18.1	18.1	16.0	46.3	34.6	46.3	31.8	45.8	62.1
<i>English proficiency</i>													
Well/very well	99.6	76.8	70.0	55.8	84.7	69.5	81.5	95.7	94.6	73.6	80.3	95.1	94.2
Not well or not at all	0.4	23.2	30.0	44.2	15.3	30.5	18.5	4.3	5.4	26.4	19.7	4.9	5.8
<i>Year of entry</i>													
1995–2000		11.1	10.6	13.8	9.6	15.0	9.5	17.1	8.4	7.2	6.9	6.1	10.1
1990–94		14.5	9.9	15.1	12.1	15.7	17.1	16.1	10.2	12.9	15.2	10.8	15.8
1980–89		34.5	24.3	35.4	22.6	40.2	39.1	36.9	19.0	37.9	40.7	33.3	38.9
1970–79		23.6	14.1	24.2	18.9	16.9	22.5	21.5	17.6	24.8	28.0	34.5	27.1
Pre-1970		16.3	39.8	10.4	36.9	9.7	11.1	4.5	33.9	11.0	7.0	12.6	7.3
<i>Self-employment</i>													
income (\$)	26,324	21,162	18,631	16,348	17,273	16,533	16,212	20,941	24,831	22,786	21,761	29,934	31,077
Total													
income (\$)	58,843	44,409	49,032	26,640	36,560	31,876	31,525	48,420	60,038	52,134	43,444	71,106	77,922
Hours/week worked	42.7	43.3	43.8	40.6	41.2	40.3	41.8	45.6	43.9	45.0	43.9	47.3	47.8

NOTE: See figure 1.  
SOURCE: PUMS (2000).

Indian/Pakistani immigrants have some college level education. There are almost twice as many African, Northeast Asian, Southeast Asian, and Middle Eastern self-employed immigrants with a college education as there are Puerto Rican, Latin American, and Caribbean immigrants. Consistent with differences in educational attainment, a much larger proportion of Mexican and Latin American self-employed immigrants are not proficient in English. The differences in educational attainment and language proficiency are likely to influence the types of businesses (e.g., whether professional services or not) that these different groups enter. Interestingly, despite the higher educational levels of self-employed Asians, a sizable proportion still lack proficiency in English. This suggests that many Asians may operate their businesses in ethnic enclaves or ethnic economies, where English is less important. Figure 2 also shows that the self-employment income of the U.S.-born is higher, on average, than that of immigrants. The self-employment incomes of European, Asian, and Middle Eastern self-employed immigrants are higher than those of Latin American, Mexican, Cuban, and Caribbean self-employed immigrants. Again, these differences may be indicative of

the size or type of business held by the different groups.

The longer immigrants have been in the U.S., the greater the tendency to be self-employed. For example, 24% of Cubans who came in the U.S. in the 1980s are self-employed, compared with 11% of those who came between 1995 and 2000 (figure 2).

### Conclusion

This *Chicago Fed Letter* discusses the determinants of self-employment for immigrants. The results from this analysis show that, on average, the self-employment rate of immigrants is somewhat higher than that of native born. However, self-employment rates of immigrants differ widely by country or region of origin. Differences in personal and human capital characteristics and length of time residing in the country are potential sources of differences in self-employment rates among the different groups. For instance, on average, groups with the highest self-employment rates have completed more years of schooling and have resided in the U.S. for a longer period of time. This suggests that, in part, the ability to go into business may be the result of an assimilation or information accumulation

process. If so, policy initiatives that promote entrepreneurial training and provide assistance with business development plans, language training, and financial literacy are worth considering in addressing the business development needs of some immigrant groups.

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ISSN 0895-0164

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- <sup>2</sup> T. Bates, 1990, "Entrepreneur human capital inputs and small business longevity," *The Review of Economics and Statistics*, Vol. 72, No. 4, pp. 551–559.
- <sup>3</sup> R. Cressy, 1996, "Are business startups debt-rationed?," *The Economic Journal*, Vol. 106, No. 438, pp. 1253–1270.
- <sup>4</sup> M. Toussaint-Comeau, 2005, "How enclaves matter in immigrant self-employment decisions," Federal Reserve Bank of Chicago, manuscript.
- <sup>5</sup> G. Borjas, 1986, "The self-employment experience of immigrants," National Bureau of Economic Research, working paper, No. 1942.
- <sup>6</sup> Bonachich and Modell (1980) first introduced the term "ethnic economy" as a situation where an immigrant or ethnic minority group maintains an economic sector, produces distinct (often ethnic) goods in which they have market power, and members of the group have ownership stakes and hire co-ethnic employees. An "ethnic enclave," a term coined by Wilson and Portes (1980), is an ethnic economy that represents a geographic clustering of these activities. See E. Bonachich and J. Modell, 1980, *The Economic Basis of Ethnic Solidarity in the Japanese American Community*, Berkeley, CA: University of California Press; and K. Wilson and A. Portes, 1980, "Immigrant enclaves: An analysis of the labor market experiences of Cubans in Miami," *American Journal of Sociology*, Vol. 86, pp. 295–319.
- <sup>7</sup> M. Lofstrom, 2004, "Labor market assimilation and the self-employment decision of immigrant entrepreneurs," University of California at Irvine, working paper; and Toussaint-Comeau (2005).
- <sup>8</sup> The groupings follow Lofstrom (2004).
- <sup>9</sup> Regression analyses show that holding different socioeconomic characteristics and human capital constant, there are no statistically significant differences in the likelihood of immigrants to be self-employed relative to natives for the 2000 Census data, contrary to previous findings using earlier Census data.
- <sup>10</sup> *Primary locations* are MSAs at the 90th percentile of the ethnic concentration index for a group; *non-primary locations* are below the 90th percentile.