Theorising Immigrant/Ethnic Entrepreneurship in the Context of Welfare States

SUMMARY

The authors discuss the dynamics of immigrant/ethnic entrepreneurship in different welfare state regimes through the prism of theoretical frameworks that were developed in the United States and Europe. It is argued that, contrary to the United States, in Europe this is largely a politically encouraged economic activity with the underlying aim of integration of immigrants into the majority society and maintaining public support for financial redistribution within a welfare state regime. These differences stem from conditions created by different types of welfare states and have a strong influence on the development of ethnic entrepreneurship theories on the two continents. Due to exploring ethnic entrepreneurship under different conditions: (neo)liberalism in the United States and (neo)corporativism in Europe, theories follow different lines of analytical reasoning.

KEY WORDS: immigrant/ethnic entrepreneurship, welfare state, integration

INTRODUCTION

The article will present differences in social and political dynamics in Europe and the United States with relevance to the processes of establishment of immigrant/ethnic entrepreneurship, and corresponding development of theories. Immigrants or members of ethnic minorities have been establishing businesses for centuries but theories about ethnic entrepreneurship are relatively new. The most notable development of immigrant/ethnic entrepreneurship was seen in the late nineteenth century in the United States, when the foreign-born became over-represented in...
small businesses (Barrett, Jones and McEvoy, 1996). Europe, which in contrast to the United States was the continent of emigration until after the Second World War, became familiar with the phenomenon relatively late. Accordingly, the development of a theoretical framework has roots in the United States in the 1970s (Light, 1972), whereas in Europe the first theories emerged as late as in the 1990s (Waldinger, Aldrich and Ward, 1990; Kloosterman, Van der Leun and Rath, 1999). Due to exploring ethnic entrepreneurship under different conditions: (neo)liberalism in the United States and (neo)corporativism in Europe, theories follow different lines of analytical reasoning.

Following Esping-Andersen’s categorisation (1990), three different types of welfare state regimes – corporative, social-democratic and liberal – will provide the background for defining different institutional and social environments in which ethnic entrepreneurship functions. How do different welfare state regimes influence the establishment and development of immigrant/ethnic entrepreneurship and corresponding theories? The article will focus on the review of the most important theories that were developed in the United States and Europe and provide a sociological insight into one of the very relevant issues for the future development of the European Union policies in the fields of labour migration and integration. Finally, it will be discussed how the differences on the levels of policy, economy and everyday life in the United States and Europe have created confusions in the theoretical discourse.

SETTING THE CONTEXT: DIVERSITY OF WELFARE REGIMES

Stemming from the fact that employment patterns are shaped by the diversity of welfare states (Kremer, 2007: 46), self-employment of immigrants is influenced by the level of institutional constraints in countries of immigration. In general terms, less constraints and regulations imposed by the welfare state regime and immigration policies tend to attract more immigrant entrepreneurs (Razin, 2007: 616). This is the case in the United States, which is an example of a liberal welfare state. The liberal welfare state is one of the three types of welfare regimes initially described by Esping-Andersen (1990). The ideological point is that the free market produces the best results in terms of both social emancipation and economic stability. The role of the state as a regulatory mechanism is thus very limited, with welfare state services lean and mainly aimed at the population with the lowest income. In Europe,
nation-state building mostly took a different route, resulting in the establishment of significantly different welfare regimes, where the role of the state in relation to the market is much more regulatory. Two basic types can be distinguished: social democratic (Scandinavian countries) and corporatist (central Europe), although the difference between the two regimes is diminishing (Kloosterman, in Razin, 2007). In the former, protection of employees against the vagaries of the market is strong and the state is ready to replace the market as a provider of welfare. In the latter, citizens’ independence from the market is moderate, with the state ensuring only that extremes in inequality are eliminated. Yet both European regimes differ significantly from the American one, which is regulated more by the market and less by the state.

This has relevant and logical consequences for business activity, especially among immigrants or members of ethnic minorities. The less regulated American model is more receptive to entrepreneurship than the European, as the latter implies higher barriers to the entry of entrepreneurs into small-business activity. Razin (2007: 617) argues that “such barriers are intended to protect the survival and welfare of existing businesses and their owners, and to assure professional standards of businesses in particular sectors, as well as to safeguard adherence of small businesses to laws and regulations that concern social benefits of employees, minimum wage (Ram et al., 2003) and tax payment”. Bureaucratic constraints, taxation and the rigidness of the labour market in Europe tend to attract only less qualified immigrant/ethnic entrepreneurs, who are driven to self-employment due to unemployment and lack of other options. In comparison, the American model attracts immigrants with greater entrepreneurial aspirations (Razin, 2007: 617).

In recent years, however, it became obvious that European states need a strong economy to maintain the desired levels of social security and welfare and that, due to the ageing population, an immigrant workforce is needed as well. As a result,

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3 For differences between civic/territorial, ethnic, immigrant and colonial nation-state building see Smith (1989).

4 Esping-Andersen later added a Mediterranean type to his original three welfare state regimes and acknowledged the role played by the family as one of its more characteristic traits (Esping-Andersen, 1996).

5 Esping-Andersen himself argues that there is no single pure case. “The Scandinavian countries may be predominantly social democratic, but they are not free of crucial liberal elements. Neither are the liberal regimes pure types. The American social-security system is redistributive, compulsory and far from actuarial” (Esping-Andersen, 2006: 169).

6 Since Esping-Andersen’s work on comparative social policy analysis, several authors have developed alternative typologies that relate to three important criticisms of his work: the mis-specification of the Mediterranean welfare states, labelling the Antipodean welfare states as belonging to the liberal welfare state regime, and neglect of the gender-dimension in social policy. For an overview of alternative typologies of welfare states see Arts and Gelissen (2006).
support mechanisms have been developed in many European states with the intention of encouraging immigrant/ethnic self-employment and at the same time integrating foreign workers into the wider society. The institutional environment in Europe, however, still remains significantly different from the American, which subsequently influences the dynamics of immigrant/ethnic entrepreneurship in both environments. The differences are best presented with the analysis of theories of immigrant/ethnic entrepreneurship in the United States and Europe, through which the political-economic milieu is reflected and theorised.

THEORIZING IMMIGRANT/ETHNIC ENTREPRENEURSHIP IN THE CONTEXT OF DIFFERENT WELFARE REGIMES

The initial theories on ethnic entrepreneurship stem from sociology, although anthropology and labour economics literature have also contributed to the development of the theoretical framework. The themes of entrepreneurship in connection with ethnicity were discussed as early as in the classic works of Max Weber and Georg Simmel and have significantly influenced further development of theoretical framework. But it was Light (1972) who first started research on why the number of self-employed in the USA is higher for the foreign-born population as opposed to the native born. Light’s research on high rates of self-employment of Chinese and Japanese on one hand, and low rates of self-employment of “Black Americans” on the other, led him to acknowledging the significance of social networks, trust and solidarity (which was later understood as social capital), evident mostly in the Asian group. His research has encouraged the academic debates ever since on why some groups are more successful in establishing businesses than others.

The main questions, especially in the early decades of research, were what and why. What is the definition of immigrant/ethnic entrepreneurship, why do individual migrants decide to set up a business and why are some groups more successful in their entrepreneurship than others? While the basic definition of immigrant/ethnic entrepreneurship became widely accepted, there was more disagreement about reasons behind the decision to establish a business and the reasons behind success. The concept of immigrant/ethnic entrepreneurship refers to the self-employed individuals from any immigrant and/or ethnic minority, their co-ethnic employees and unpaid family members. The concept brings into the analysis cultural resources and social networks, needed to set up and manage a business. The answers to other questions are more complex. As is common in the discipline of sociology, two main approaches have been developed that offer diametrically opposite explanations:

7 The term Black American was used in the 1970s and has been replaced today by the more politically correct term African American.
the culturalist and the structuralist. The culturalist approach suggests that (certain groups of) immigrants have culturally distinct features that drive them towards self-employment.\(^8\) The structuralist approach, on the other hand, suggests that external factors play a decisive role – namely, discrimination or entry barriers on the labour market, such as education or language. Within those two main theoretical currents, several theories found their explanatory elements. Two of the primary explanatory frameworks in the United States are middleman theory (Bonacich, 1973), which is concerned with the question of why do immigrants or members of ethnic minorities establish businesses, and enclave theory (Wilson and Portes, 1980; Portes and Bach, 1985), using the dual labour market theory for its point of departure.\(^9\)

Middleman minorities are those ethnic entrepreneurs who have few social ties with the local community in which they conduct economic activities. They most commonly establish businesses in poor minority neighbourhoods, neglected by business owners of the society’s dominant group, but recently they have been noted to create business niches in affluent urban neighbourhoods as well. Historically, they were sojourners, who aimed at summing a profit from their businesses and reinvesting the money elsewhere, often saving up to return back home (Zhou, 2007: 220).\(^10\)

The enclave theory was introduced in the 1980s. The main idea behind the theory is that ethnic businesses typically develop to fulfil needs of members of the ethnic community, and are bounded by co-ethnicity and location. Economic activities of the enclave economy are governed by solidarity and trust, but “the enclave is more than just a shelter for the disadvantaged who are forced to take on either self-employment or marginal wage work in small business” (Zhou, 2007: 224). It has the potential to develop economic opportunities, which can enable social mobility (Zhou, 2007: 224). At the same time, however, they can remain strongly segregated from the host society due to their economic independence and geographical boundedness and separation (Hettlage, 2008: 7).\(^11\)

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\(^8\) The approach is often linked to Weber’s protestant ethic thesis, in which certain value systems and religions breed entrepreneurial spirit.

\(^9\) For the theory of dual labour markets or labour market segregation see Reich, Gordon and Edwards (1973).

\(^10\) If ethnic minorities evolve into multiethnic neighbourhoods, or if new ones develop in middle-class suburbs, entrepreneurs may simultaneously play double roles. Zhou gives an example: “...a Chinese immigrant who runs a fast food takeout restaurant in a Latino-dominant neighbourhood is a middleman-minority entrepreneur, but he would become an enclave entrepreneur when he comes back to his other fast food take-out in Chinatown. Similarly, a Korean immigrant who opens up his business in Los Angeles’ Koreatown may be an enclave entrepreneur to his Korean coethnics who live there. Yet, simultaneously, to his Latino residents who make up the majority of that neighbourhood, he is perceived as just one of many middleman-minority entrepreneurs” (Zhou, 2007: 221).

\(^11\) Hettlage notes that today, very few businesses can survive by relying exclusively on ethnic custom-
Another theory that focused on ethnic/cultural resources when explaining why ethnic businesses are established, is the cultural theory. It suggests that ethnic and immigrant groups have culturally determined features, such as “dedication to hard work, membership of a strong ethnic community, economical living, acceptance of risk, compliance with social value patterns, solidarity and loyalty, and orientation towards being self-employed” (Fregetto, in Volery, 2007: 33). These theories have been criticised for overemphasising the ethnic factors, especially social organisation of the immigrant community, and neglecting other factors, such as the opportunity structures with the emphasis on the market conditions (Waldinger, 1986) or lack of employment alternatives (Light, 1979). The former was the basis for development of the disadvantage theory, drawing from Weber’s work,12 in which Light (1979) argues that disadvantages in the labour market (e.g. lack of education and experience, language skills) push minority members and immigrants to turn to self-employment. The theory sees entrepreneurship not as a sign of success but as an alternative to unemployment (Volery, 2007: 33).

To sum up, the early literature has either focused on cultural/ethnic characteristics of immigrants and their cultural/ethnic capital, on opportunity structures, or cultural or structural networks within their community. The interactive model, introduced by Waldinger and colleagues in the 1990s, was the first attempt to provide a more integrated approach, which could explain the phenomenon in its entirety. It argues that the success of an ethnic business depends on a complex interaction between opportunity structures (market conditions, access to ownership, job market conditions, and legal frameworks) and group resources (cultural traditions, ethnic social networks). The main drawback of the theory is that it does not take into consideration the fact that ethnic businesses are not exclusively ethnic in their nature, but spread over a variety of different sectors. Also, since the 1990s, theories on the ethnic/immigrant economy have included a new perspective into their debate: transnationalism. Portes, Guarnizo and Haller (2002: 278) introduced the term transnational entrepreneurs and defined them as ethnic entrepreneurs whose business success depends on contacts and associates in their home countries.

Although immigrant/ethnic business ownership is an international trend, research initially focused only on the situation in the United States. The main explanatory theses in the US context have been cultural factors, opportunity structures and social networks. These approaches have considered government policies as merely a background variable (Min and Bozorgmehr, 2003: 33). In the 1990s, the...
cept of immigrant/ethnic entrepreneurship became relevant in Europe as well, but needed to be partly redefined due to different political and migration dynamics than in the United States. When taking into consideration specifics of the European nation states and their neocorporative characteristics, the US-based approaches have a limited applicability. As noted earlier, they do not take into account the institutional framework and government policies, but tend to focus on either cultural advantages or the economic environment.

In Europe, the new theoretical inputs were provided by Kloosterman and colleagues, with an attempt to fill the gap in the existing theoretical framework (Hettlage, 2008: 16). According to the authors, it is crucial to recognise that neither cultural advantage nor economic environment operate in an institutional vacuum but in concrete time-and place specific contexts. The regulatory regime, especially specific welfare state arrangements and the associated set of specific rules and regulations need to be taken into account (Kloosterman and Rath, 2003). This is the basic idea of the mixed embeddedness approach that they developed in the late 1990s (Kloosterman, Van der Leun and Rath, 1999). According to the approach “the structures of a local economy and legal-institutional factors exert a strong influence on the creation and existence of the small business economy in general” (Volery, 2007: 35). In other words, political and legal factors can significantly change the number, types and significance of immigrant businesses in any economy.

Another important feature of European theories is their focus on the impact and meaning of immigrant entrepreneurship for the society and state. More particularly: what are the social implications of immigrant businesses for welfare states? Concepts of integration and social inclusion, as processes striving towards ensuring equal opportunities and rights for all human beings, were thus introduced to the research. As welfare states build upon the principle of solidarity, it is essential for European states to focus on the economic and social integration of immigrants to ensure further support for social redistribution. Finding employment and contributing to the economy of the receiving state is an important element of inclusion into the labour market and society as a whole. Banting and Kymlicka note that “the economic exclusion implicit in unemployment is often compounded by social separate-ness, reflecting parallel societies with few links bridging across cultural divides” (Banting and Kymlicka, 2006: 42). The unemployed immigrants and/or minority group members who depend on social assistance and other welfare programmes are also “creating dry tinder for political firestorms” (Banting and Kymlicka, 2006: 42). The question is, however, whether self-employment can indeed be seen as a measure of social integration or is immigrant entrepreneurship by definition a segregated field of economic and social activities due to its (frequent) self-sufficiency.
in economic and social terms. The implementation of the concept of immigrant/ethnic entrepreneurship is, in its social dimension, therefore focused on finding answers on whether setting up a business leads to integration or whether it is only another mechanism for marginalisation. Currently, the debate on self-employment as a means of integration into the host society’s labour market, social integration and, also, social mobility is still ongoing.

For the purposes of this specific debate, as well as in general when considering immigrant/ethnic entrepreneurship, social mobility needs to be taken into account. Indeed, the question of class has been overlooked by a variety of the above presented theories, although we believe that it is a crucial element in explaining the complexity of the phenomenon of ethnic economy. It was only in the mid 1990s that Light and Rosenstein (1995) proposed a resources theory of entrepreneurship, but apart from some feminist theories that strongly considered class in their theories on gender within the ethnic economy (and which we cannot present in detail in this article), it was overlooked by others. The significance of class resources when deciding to establish a business and for further success of that particular business is immense and deserves a more central role in the literature.

**TERMINOLOGICAL CONFUSION**

Before concluding, let us depict terminological confusions in ethnic entrepreneurship theories, be it of American or European origin. Confusion regarding terminology within different theoretical approaches exploring the phenomenon of ethnic entrepreneurship has been significant. Firstly, theories do not tend to distinguish between ethnic economy, ethnic business, and ethnic entrepreneurship, although the differences between these categories could prove to have a substantial explanatory potential. Entrepreneurship, according to the definition by Schumpeter (1989), is an innovative business practice. An entrepreneur is a person who focuses on new, innovative business ideas, whereas a businessman is involved in a profitable activity that does not necessarily turn innovations into business. ¹³ But literature is not concerned with this division and uses the term ethnic entrepreneur for all individuals who are self-employed and not working for wages, and who are not part of the majority population (Hettlage, 2008). Similarly, the widely accepted definition of ethnic economy as “any ethnic or immigrant’s self-employed group, its employers, their co-ethnic employees, and their unpaid family workers” (Light and Gold, 2000: 3), does not introduce the element of innovation. This is not to say that the elements of innovation, creativity, and importance of social or ethnic capital are disregarded.

¹³ Several other authors share Schumpeter’s definition (see Diversity and Ethnic Entrepreneurship, 2010: 4–9).
in literature on the ethnic economy. It is only the inconsistent use of the terms economy and entrepreneurship that can cause some confusion.

This brings us to the second major inconsistency in the existing theories. It is often unclear which groups are being observed: immigrant entrepreneurs or ethnic entrepreneurs. Although the two categories in many cases overlap, it is important to distinguish between the two groups. Immigrant entrepreneurs are individuals who have immigrated into a state and may or may not define themselves as members of an ethnic minority after obtaining citizenship or even prior to that. Furthermore, this definition excludes members of ethnic minorities who have been living in the country for several centuries (Volery, 2007). Another group are ethnic entrepreneurs, who may be the first generation immigrants who declare themselves as members of a specific ethnic group, or residents/citizens who consider themselves as belonging to an ethnic minority due to their common origin and culture. Volery prefers the use of “ethnic” as he claims that it does not exclude immigrant groups, whereas “immigrant” does (2007: 31), although this might not always be the case, especially if immigrants do not consider themselves as members of a minority after, or even prior to obtaining citizenship. There are also differences between the American and European studies. The latter rely less on the term ethnic entrepreneurs and prefer to use the term immigrant entrepreneurs (Kontos, 2003), which can be attributed to different historical and political dynamics in the context of development of specific nation state regimes and subsequently different emphasis in the theoretical discourse.

A common misconception of immigrant/ethnic entrepreneurship is that it offers and provides ethnic goods or services. Although in many cases immigrants or ethnic minority members use their cultural capital to find niches in the existing market and set up businesses that offer ethnic food, cuisine, clothes, or other specific products, this element is not included in definitions of the ethnic economy. Zhou also notes that “ethnic entrepreneurs often carry images of petty traders, merchants, dealers, shopkeepers ... who engage in such industries or businesses as restaurants, sweatshops, laundries, greengrocers, liquor stores, nail salons, newsstands, swap meets, taxicabs, and so on” (2007: 220). However, as she points out, there are many cases of successful incorporation of ethnic businesses into the mainstream economy. Examples are Computer Associates International, a large public firm specialising in computer technology based in New York, and Watson Pharmaceuticals, a large public firm based in Los Angeles, established by immigrants from China and Taiwan. This overthrows another prevailing idea in laic circles that ethnic businesses are only small-scale, private institutions. Freitas also notes that a shift from the stereotypical ethnic-run corner shops towards more diversified sectors can be observed,
including computers, global trade, leisure and recreation management, real-estate agencies and cultural enterprises (Freitas, in Volery, 2007: 32).

Another question that comes to mind is the one of ownership and/or management of businesses. Is a business considered as ethnic or immigrant only if established by members of ethnic minorities or immigrants? Or can it also be considered as such when controlled or managed by ethnic employees, who are not the owners? Light and Gold (2000: 3) make a distinction between the ethnic ownership economy and the ethnic controlled economy. While the former consists of businesses, usually small and medium-size, owned by ethnic and/or immigrant entrepreneurs, the latter refers to industries, occupations, and organisation of the general labour market in which ethnic employees exert appreciable control and economic power. Whereas an ethnic ownership economy is based on property rights and ownership, an ethnic controlled economy is completely independent of the ethnic ownership economy. This distinction has not been used often in literature, and ownership has remained the precondition of declaring a business as ethnic or immigrant.

CONCLUSION

Through the prism of theoretical frameworks that were developed in the United States and Europe, this article has attempted to provide answers to the question on how different welfare state regimes influence the establishment and development of immigrant/ethnic entrepreneurship. The debate has been focused on explaining the differences between the liberal welfare state that developed in the United States, on the one hand, and the social democratic and corporatist state that has developed in most parts of Europe, on the other, and the effects these different developments have had on the development of theories. It is argued that, in contrast to the United States, this is largely a politically encouraged economic activity in Europe with the underlying aim of integration of immigrants into the majority society and the maintaining of public support for financial redistribution within a welfare state regime. These differences are understandable and stem from the differences between different types of welfare states, which are also reflected in development of different theories on ethnic entrepreneurship on the two continents.
REFERENCES


Mojca VAH JEVIŠNIK, Marina LUKŠIĆ HACIN

Teorijska razmišljanja o imigrantskom/etničkom poduzetništvu u kontekstu socijalne države

SAŽETAK

Autorice raspravljaju o dinamici imigrantskog/etničkog poduzetništva u različitim režimima socijalnih država kroz prizmu teorijskih okvira razvijenih u SAD-u i Europi. Dokazuje se da je to u Europi, obratno nego u SAD-u, uglavnom politički ohrabrivana ekonomska aktivnost sa skrivenim ciljem integracije imigranata u većinsko društvo i očuvanja podrške za financijsku redistribuciju unutar režima socijalne države. Te razlike potječu iz uvjeta koje su stvorile socijalne države i snažno utječu na razvoj teorija etničkog poduzetništva na dva kontinenta. Zbog istraživanja etničkog poduzetništva u različitim okolnostima – (neo)liberalizmu u SAD-u i (neo)korporativizmu u Europi – teorije slijede različite linije analitičkog zaključivanja.

KLJUČNE RIJEČI: imigrantsko/etničko poduzetništvo, socijalna država, integracija

Mojca VAH JEVIŠNIK, Marina LUKŠIĆ HACIN

Teoretska tematizacija priseljenskega/etničnega podjetništva v kontekstu države blaginje

POVZETEK

Prispevek se skozi teoretsko perspektivo, ki je bila najprej razvita v ZDA in se je potem selila v Evropo, osredotoča na priseljensko/etnično ekonomijo v kontekstih različnih modelov države blaginje. Za razliko od razmer v ZDA, kjer je priseljensko/etnično podjetništvo prepuščeno tržni dynamiki, v Evropi prihaja do intenzivnejšega političnega spodbujanja nje-govega razvoja, in to v povezavi s strategijami za učinkovitejšo integracijo priseljencev v t. i. večinsko družbo. Slednje je povezano tudi s konkretnimi prerezporejanji finančnih spodbud omenjeni ekonomski iniciativi. (Neo)liberalizem v ZDA in (neo)korporativizem v Evropi ustvarjata različne vrste držav blaginje, kar se kaže tudi v pogoji za razvoj in delovanje priseljenskega/etničnega podjetništva in ne nazadnje v teoretskih razhajanjih, ko teorije sledijo kontekstualnim razlikam in gradijo različne smeri analitične argumentacije.

KLJUČNE BESEDJE: priseljensko/etnično podjetništvo, država blaginje, integracija