

PART ONE

INTRODUCTION

Immigrant Entrepreneurs in America

In the mid-1970s, the people of Los Angeles became aware that a large and rapidly growing Korean colony had formed along Olympic Boulevard about three miles west of the Civic Center. Anyone traveling this boulevard would notice many Hangul signs proclaiming the presence of Korean small businesses. The big Korean colony was the more striking because in 1970 hardly any Koreans had resided in Los Angeles. In recognition of the new Korean enclave, the City of Los Angeles proclaimed the Olympic Boulevard neighborhood "Koreatown" in 1980 and posted signs so stating on major streets and freeways. Representing by 1980 about eight-tenths of 1 percent of the total population of Los Angeles County, the 60,618 Koreans were still a small minority even after a decade of immigration. Nonetheless, Koreans were conspicuous among those "persevering Asians" whom the *Los Angeles Times* editorially identified the city's "new middle class" chiefly on the basis of their visibility in small business.¹

The extent of Korean entrepreneurship was remarkable. In 1982, the yellow pages of the Korean telephone directory enumerated 4266 Korean-owned business firms in Los Angeles County, approximately 2.6 percent of all firms (Oh, 1983: 10). In retail trade, Koreans operated nearly 5 percent of all firms in the County. Since Koreans numbered less than 1 percent of the County population, their overrepresentation in business was appreciable. Similarly, the 1980 U.S. Census disclosed that 22.5 percent of Koreans in Los Angeles were self-employed or unpaid family workers. Since only 8.5 percent of the Los Angeles County labor force found employment in these categories, Koreans were nearly three times more frequent in entrepreneurship than were non-Koreans. Additionally, as Yu (1982b: 51, 54) discovered, Korean entrepreneurs employed an additional 40 percent of coethnics in their firms so that about 62 percent of employed Koreans in Los Angeles County were either self-

employed or employees of Korean-owned firms, mostly service and retail proprietorships.

Korean entrepreneurship did not develop in what mainstream business corporations regarded as an attractive business climate.² Despite its glittering reputation, Los Angeles suffered many of the blighted conditions so common among big cities of the East and Midwest (Light, 1988; 1983: 421–429). Between 1972 and 1979, Los Angeles County's share of the region's manufacturing employment declined from 81.7 to 71.6 (Soja, Morales, and Wolff, 1983). Crime, unemployment, plant closings, residential crowding, time consumed in journey to work, and housing prices increased faster than national averages in the 1970s. Air quality improved, but remained poor relative to other big cities.

These changes accompanied demographic trends generally indicative of lower socioeconomic population in the urban core relative to the ring—and increased residential segregation of whites from blacks, Asians, and Hispanics. As a result of immigration from Mexico, the City of Los Angeles' Latino population increased 57.3 percent in the decade 1970–1980 compared to an increase of 5.5 percent in the City's total population (Oliver and Johnson, 1984: 74). Between 1960 and 1980 the aggregate population of the City and County of Los Angeles increased only half as fast as the aggregate population of the four surrounding counties. Additionally, the white population of the City of Los Angeles declined from 71.9 to 44.4 percent in this twenty-year period while Los Angeles County's white population declined from 79.0 to 49.4 percent of the total. Although the decrease in percentage of the white population began earlier, the pace of decline accelerated in the 1970s: the white population of the County of Los Angeles declined 13 percent in the 1960s and 26 percent in the 1970s (Light, 1988).

In the peak period of Korean influx, retail and service industries experienced least growth in central Los Angeles. Table 1 shows that in both retail and service industries, establishments and employees expanded most in the four adjacent counties that composed the outer ring of the metropolitan area; they expanded least in the City of Los Angeles, the region's core. However, small firms flourished in the core. In service industries, mean size of firms increased in the ring but decreased in the core. In retail industries, mean employees per firm increased less rapidly in the core than on the periphery.

Table 1. Retail and Service Establishments in Los Angeles and Four Adjacent Counties, 1967-1977

	Retail Trade		Index*	Selected Services		Index*
	1967	1977		1967	1977	
City of Los Angeles						
Establishments	24,587	25,033	102	25,692	40,829	159
Employees	157,025	183,668	117	134,210	173,582	129
Mean Employees/Establishment	6.4	7.3	114	5.2	4.3	83
County of Los Angeles						
Establishments	57,287	58,995	103	52,985	83,757	158
Employees	367,638	452,246	123	234,168	357,748	153
Mean Employees/Establishment	6.4	7.7	120	4.4	4.3	98
Four Adjacent Counties**						
Establishments	23,138	29,608	123	16,272	35,466	218
Employees	125,511	232,373	185	47,228	114,855	243
Mean Employees/Establishment	5.2	7.8	150	2.9	3.2	110

* (1977/1967) × 100

** Orange, Riverside, San Bernardino, Ventura

Sources: U.S. Bureau of the Census, *County and City Data Book, 1983* (Washington, D.C.: USGPO, 1983); Idem., *County and City Data Book, 1977* (Washington, D.C.: USGPO, 1978); Idem., *County and City Data Book, 1971* (Washington, D.C.: USGPO, 1973).

These reductions in firm size confirm the general tendency for small business of flourish in slow-growth areas (Greene, 1982: 6). Since three-quarters of Korean-owned businesses concentrated in retail and service industries, the influx of small Korean firms owed something to the favorable conditions for small business that came into existence in central Los Angeles in the 1970s. Paradoxically, these favorable conditions for small business arose in generally unfavorable business environment.

ECONOMIC AND SOCIAL BENEFITS OF KOREAN IMMIGRATION

The influx of Korean-owned firms conferred obvious economic benefits on Los Angeles. Korean firms tended to service low income, nonwhite neighborhoods generally ignored and underserved by big corporations (Bernstein, 1977; Scott, 1981, 1983; Holley, 1985). As a result of Korean entrepreneurship, wheels of commerce turned where they would otherwise have been still, and the City of Los Angeles took a percentage in sales tax. Additionally, Koreans injected money and skill into the Los Angeles economy, thus stimulating employment and earnings. Since about 62 percent of Koreans found employment in the Korean ethnic economy, Koreans actually generated most of their jobs and wealth.

Korean entrepreneurship conferred social as well as economic benefits upon Los Angeles. First, the Korean influx restored the neighborhoods in which Koreans settled. Koreatown itself developed in a deteriorating, underutilized area on the northern boundary of the City's black ghetto. As Koreans moved in, this neighborhood's appearance and prosperity revived. Property values increased (Sherman, 1979: 1). In addition to Koreatown, residential home of about one-third of County Koreans, Koreans clustered in a handful of widely scattered locations, often associating with other Asians.

Second, their residential and commercial interests compelled Koreans to combat street crime, Los Angeles' most feared problem (Endicott, 1981). Admittedly, many acculturated Koreans moved to the suburbs (Yu, 1983: 32-33). This local migration encouraged the relocation of some Korean business firms, which followed their owners to the suburbs. However, Korean firms were generally less mobile than Korean households. Insofar as their economic niche tethered them to Los

Angeles—since suburban locations offered scant openings for mom and pop firms—Koreans had to face a crime problem that other populations had fled. Hard as it was for Koreatown residents to tolerate street crime, it was impossible for Koreatown merchants who required safe streets and parking lots in order to guarantee customer access to their business premises.

Third, Koreans valued public education and improved it. Indeed, many Korean families had emigrated to the United States because of this country's superior educational opportunities. As a result, Korean students won more than their share of honors, prizes, and college scholarships. In 1978, Koreans were 26 percent of the 675 honor students at five central Los Angeles secondary schools.³ In 1982, Koreans represented 3.0 percent of the undergraduate student body at the University of California at Los Angeles even though Koreans numbered less than one percent of Los Angeles County's population from which two-thirds of UCLA's undergraduate students were recruited (University of California, 1984: 68).

KOREANS IN OTHER CITIES

The 1980 census reported that 13.5 percent of employed Koreans in the United States were self-employed or unpaid family workers (table 2). In contrast, only 7.3 percent of all employed persons were so occupied. The percentage of Koreans self-employed or unpaid family workers exceeded that of every other nationality origin group. Although uncorrected for rural or urban residence, a bias that minimizes Korean stature, these census results indicate that Korean entrepreneurship was a national phenomenon and not just a Los Angeles phenomenon. But Korean entrepreneurship was most in evidence in the seven metropolitan areas wherein resided 47 percent of the nation's 355,000 Korean immigrants. Of these seven, two were in Southern California. Outside Southern California, Koreans concentrated in New York, Honolulu, Chicago, Washington, D.C., and San Francisco. Wherever Koreans settled, their entrepreneurship attracted attention. Illsoo Kim (1981a: ch. 4; 1981b) has provided a descriptive account of Korean entrepreneurship in New York City where Koreans clustered in the fruit and vegetable business, wig stores, and garment factories. Koreans in Chicago attracted attention because of the many small retail and service proprietorships

Table 2. Self-Employed Workers as a Percentage of
Employed Persons by Detailed Nationality Origin:
For the United States, 1980 (in percentages)

	<i>Employees of Own Corporation</i>	<i>Self-Employed Workers</i>	<i>Unpaid Family Workers</i>
All persons	2.1	6.8	0.5
Japanese	NA	7.9	0.6
Chinese	NA	7.2	1.0
Korean	NA	11.9	1.6
Vietnamese	NA	2.2	0.5
Mexican	NA	3.5	0.3
Cuban	NA	5.8	0.4
Irish	2.0	6.6	0.5
Italian	3.5	6.9	0.4
Polish	2.5	5.9	0.4

Source: U.S. Bureau of the Census. *Census of Population*. vol. 1. *Characteristics of the Population*. Ch. C. *General Social and Economic Characteristics*. Pt. 1. *United States Summary*. PC80-1-C1 (Washington, D.C.: USGPO, 1983), pp. 159, 165, 173.

they operated in black neighborhoods (K. C. Kim and Hurh, 1984). Myers (1983: 83) found that three-quarters of Korean men in Philadelphia "succeeded in becoming small business entrepreneurs." Since Koreans were overrepresented in entrepreneurship nationally, the presumption is strong that Korean immigration had an entrepreneurial impact in other cities just as it had in Los Angeles.

OTHER ENTREPRENEURIAL IMMIGRANTS

In the 1980s the United States discovered that immigrant entrepreneurship, a phenomenon of immense historical importance, was still a potent economic force in big cities (Doerner, 1985; Greenwald, 1985). As it had been in every decennial census since 1980 (Higgs, 1977: 162-163; Conk, 1981: 711-712), the rate of self-employment among immigrants was higher than the rate among the native born in 1980. Case studies identified several new immigrant groups who heavily utilized entrepreneurship in identifiable industries and localities.⁴

North America was not distinctive in resurgent entrepreneurship.

According to Boissevain (1984: 20), Common Market countries registered an increase in self-employment in 1978, the first since 1945. This reversal of the trend occurred where unemployment was heaviest, and "increasing self-employment among migrants" was part of the cause. Research in Britain (Ward and Jenkins, 1984) called attention to the extensive self-employment among foreign-born Greeks, Italians, Gujerati Hindus, Sikhs, and Pakistanis. As in the United States, the entrepreneurship of immigrants in Britain mostly occurred in depressed cities (Aldrich et al., 1981).

Although many entrepreneurially inclined immigrant minorities came to attention during the 1970s, only the Cubans in Miami developed an ethnic economy that rivaled the Korean achievement in Los Angeles (Wilson and Martin, 1982; Portes and Bach, 1985: chs. 8–9). Cuban-owned enterprises in Miami increased from 919 in 1967 to 8000 in 1976 (Wilson and Portes, 1980: 303). Like Koreans, Cubans concentrated in identifiable industries rather than fanning out over the industrial spectrum. Textiles, leather, cigarmaking, construction, finance, and furniture became Cuban specialties. Cubans controlled 40 percent of the construction industry in Miami and 20 percent of the banks in 1980. Portes, Clark, and Lopez (1981–1982: 18) found that 20 percent of Cubans in Miami were self-employed in 1979, and 49 percent found employment in Spanish-speaking firms owned by coethnics. Employment in the ethnic economy increased to 49 percent in 1979 from 39 percent in 1976. Moreover, workers in the Cuban economy received returns on their human capital (education, knowledge, experience) equivalent to those paid in the "mainstream center economy" and far superior to those paid in the secondary labor market, a junkpile of deadend jobs (Wilson and Portes, 1980: 314). Enclave employment did not disadvantage immigrant workers and probably made better opportunities available than they would have found on the general labor market (Portes, 1981: 291).

Portes' Miami results confirmed those of Reitz (1980) who had studied the economic performance of Slavs, Italians, and Chinese in Toronto. About one-third of South Europeans and Chinese in Toronto worked in settings in which their native tongue was spoken. These settings included ethnic businesses as well as work groups "within Anglo-Saxon controlled organizations" (Reitz, 1980: 154–155). Among Toronto's immigrants, those who worked in the ethnic

economy earned better returns on their human capital than did immigrants in the English-speaking economy. "For members of minority groups with low levels of education," Reitz (1980: 164) concluded, "work in settings controlled by their own group is quite attractive from the standpoint of income opportunity."

THE REVIVAL OF SMALL BUSINESS

The resurgence of immigrant entrepreneurship in Britain, Canada, and the United States undermined the position of social scientists who, following C. W. Mills (1951), widely believed that small business had provided an important avenue of social mobility in the past but, in an era of giant corporations, was no longer of economic or social consequence.⁵ Admittedly, this negative expectation had firm grounding in historical evidence. Three decades ago, C. W. Mills showed that the proportion of proprietors in the labor force had decreased in every decennial census between 1880 and 1940. This process occurred, Mills (1951: 24) maintained, because big firms eliminated or incorporated small firms in the process of capitalist concentration. Projecting this trend into the future, Mills predicated that concentration would continue until self-employment passed into historical oblivion. Mills' analysis received impressive support from ensuing trends in the business population (see Light, 1974, 1984). Between 1950 and 1972 the proportion of self-employed in the nonfarm economy continued to decline just as Mills had predicted. In 1973 a slim majority of American farmers continued to be self-employed, but less than seven percent of nonfarm workers were self-employed (Ray, 1975).

Given this uninterrupted trend, most social scientists agreed with Mills (see Bottomore, 1966: 50; O'Connor, 1973: 29–30; Horvat, 1982: 11–15). Only a dissenting few found evidence of small business decline unpersuasive (Boissevain, 1984: 24–25). Giddens (1973: 78) described the postwar decline of small business as "a slowly declining curve rather than progressive approach to zero." Gagliani (1981: 267) found some evidence that small business owners had experienced "income reduction relative to wage earners," but these declines amounted to "missed opportunities at most" rather than "economic disaster." Stein (1974: 1, 90) criticized the prevailing assumption that large economic firms were more efficient than small

ones, also noting presciently that recent changes in the American economy had *enhanced* "the benefits and opportunities for smaller enterprises when contrasted with those for larger ones."

By 1984, five empirical findings challenged the virtual consensus that had earlier developed around the concentration thesis. First, in 1972 nonagricultural self-employment in the United States ceased to decline as a percentage of the labor force (Fain, 1980). Indeed, in the period 1972–1984, nonagricultural self-employment actually increased 28 percent faster than the wage and salary labor force. Between 1972 and 1984, the self-employed increased from 6.8 to 8.3 percent of the nonfarm labor force. In 1978 the same surprising result appeared in Common Market countries where, for the first time since 1945, governments recorded "a net increase in the number of entrepreneurs and family workers" (Boissevain, 1984: 20).

A second surprise was how many jobs small business created during the 1970s and 1980s (Wells Fargo Bank, 1985: 4). Birch (1981) compared the number of jobs created in metropolitan areas by 5.6 million big and small business firms in the period 1969–1976. He found that metropolitan areas differed in respect to job creation rather than job loss. That is, cities that suffered net job loss in this period did so because their rates of job creation were too low to offset natural decrease rather than because departing firms eliminated jobs. Of all new jobs created, small firms with 20 or fewer employees created two-thirds, and firms with 100 or fewer employees created 80 percent (1981: 7). The biggest job producers were small firms in service industries. Confirming Birch's results, Teitz (1981) studied job creation in California between 1975 and 1979, the same period in which growth of self-employment outpaced growth of wage and salary employment. Teitz found that firms with fewer than 20 employees created 56 percent of jobs in this period. According to Greene (1982: 6), small business created 3 million jobs in the preceding decade whereas the 1000 largest firms in the U.S. economy "recorded virtually no net gains in employment."

Third, Granovetter (1984: 323) discovered that, contrary to the myth of bureaucratization, "size of the workplace" in the American economy hardly increased between 1920 and 1977. Even in manufacturing, bastion of large firms, Granovetter found no decrease in the proportion of workers in smaller establishments between 1923 and 1966. Between 1966 and 1977 that proportion actually in-

creased. At no point in the twentieth century did more than one-third of manufacturing workers actually find employment in establishments larger than 1000 workers.

Fourth, new information indicates that previous estimates of the self-employed population systematically underestimated its size. The 1980 U.S. Census enumerated 8,641,000 self-employed persons in the United States.⁶ Deriving its data from tax returns, the U.S. Internal Revenue Service published an enumeration of sole proprietors in 1980. The IRS reported 12,701,597 sole proprietorships in 1980.⁷ Since some self-employed were partners, the number of self-employed reported ought to have been larger than the number of sole proprietors. In fact, it was only two-thirds as large. The disparity is known to result from different methods of enumeration, a problem discussed in the President's report to Congress.⁸ U.S. government publications have acknowledged the undercounts of the self-employed and have pledged to develop a "small business data base" that tabulates the moonlighters, the no-employee firms, and the underground firms ignored by the census (U.S. Small Business Administration, 1980; Karsh, 1977).

Studies of the underground economy delivered a fifth blow to the assumption that small business had atrophied (Portes and Sassen-Koob, 1987). Narrowly defined, the underground economy consists of goods and services that change hands clandestinely, usually for purpose of tax evasion. More broadly defined, the underground economy includes illegal activities concealed for obvious reasons, and traditionally noncommodified work such as housework or child care (McDonald, 1984: 4–5). Utilizing a narrow definition, Guttman (1977: 27) estimated that the underground economy concealed 9.4 percent of the gross national product (GNP) from official enumeration and from taxation. Commissioner of the Internal Revenue Service, Jerome Kurtz (1980: 4, 15–17) declared Guttman's estimates compatible with IRS estimates. Since the units exchanging clandestine goods and services were mostly small firms, Guttman found, taking account of the underground economy magnified the economic importance of the small business sector.⁹ The IRS estimated that \$300 billion in income evaded taxation in the underground economy during 1981.¹⁰ Moreover, Guttman (1977: 27) indicated that the underground economy had increased its importance in the postwar welfare state. That is, as the welfare state laid tax burdens

on business, the underground economy took the form of tax evasion (Smith, 1981: 52).

IMMIGRATION AND BUSINESS POPULATION

The revival of small business and the resurgence of immigrant entrepreneurship were contemporaneous and compatible. Either might have caused the other. On the one hand, immigration began to increase in 1968 when the 1965 Amendment of the Immigration and Nationality Act took full effect. Small business turned upward in 1972. This sequence suggests that renewed immigration contributed to the resurgence of small business. On the other hand, a general growth of small business beginning in 1972 preceded the subsequent growth of immigrant entrepreneurship in the United States. Boissevain (1984: 20) has also treated the growth of ethnic entrepreneurship as "part of a wider growth" of small business in Europe generally. This order implies that reviving small business created opportunities for immigrant entrepreneurs.

Although these causal sequence might reinforce rather than exclude one another, with renewed self-employment spurring immigrant entrepreneurship and immigrants increasing self-employment, the magnitude of the two trends indicates the priority of small business growth, and, therefore, its claim to causal preeminence. After all, the nonfarm business population grew 2.5 million in the period 1972–1984. Assuming *twice* the Los Angeles 1977 rate of 4.0 non-farm self-employed per 100 urban population, 28 million immigrants would have been necessary to produce an increase in self-employment of this magnitude. Yet in the period 1961–1978 only 6.8 million immigrants entered the United States. Even these rough calculations suffice to demonstrate that immigration could not have produced *all* the increased self-employment observed. Because growth of self-employment exceeded the immigration needed to explain it, one concludes that resurging self-employment created a favorable context for immigrant entrepreneurship, and, in this sense, caused it.

On the other hand, in view of the fact that immigrants have always exhibited rates of self-employment higher than native-born persons, increased immigration might also have boosted the level of

Table 3. Self-employment and Foreign-born Population in 272 SMSAs, 1980: Regression Coefficients

<i>Independent Variables</i>	<i>Dependent Variable: SEP</i>	
	<i>B</i>	<i>Beta</i>
NBLF Native-born Labor Force	0.06	0.70*
FBLF Foreign-born Labor Force	0.13	0.34*
Constant	57.00	
R ²	0.97	

* $P < .01$

Source: U.S. Bureau of the Census, *Census of Population and Housing, 1980: Public-Use Microdata Sample A* (Washington, D.C.: Bureau of the Census, 1983).

self-employment by boosting the percentage of entrepreneurially inclined persons in the population. In 1970, 9.8 percent of foreign-born men age sixteen or older were self-employed in twenty-two large metropolitan areas for which the U.S. Census published data.¹¹ In the same year only 6.0 percent of native-born men of native parents were self-employed in the same metropolitan areas. Obviously, an increase in the foreign-born component of the labor force in the 1970s might have raised the general level of self-employment, possibly helping to reverse decades of decline.

Census data confirm this possibility. From the Public Use Sample of the 1980 U.S. Census, we developed a comprehensive file showing self-employment and nativity of the labor force in 272 Standard Metropolitan Statistical Areas (SMSAs). To establish the independent contribution of the foreign- and native-born components of the labor force to self-employment in these 272 SMSAs, we regressed self-employed persons (SEP) on native-born labor force (NBLF) and foreign-born labor force (FBLF). Table 3 displays the results. The unstandardized regression coefficients show that in these 272 SMSAs an increase of 100 native-born workers in the labor force of each SMSA caused an increase of 6 self-employed workers. However, an increase of 100 foreign-born workers caused an increase of 13 self-employed workers.¹²

Similar logic applies to Korean entrepreneurship in Los Angeles. In the period 1967–1977, the County of Los Angeles added 1,708 retail establishments and 30,772 service establishments (table 1). In 1977 the U.S. Census enumerated 1,089 Korean-owned retail stores

in Los Angeles County and 693 Korean-service firms. In principle, Korean firms alone might have produced 64 percent of the entire decade's growth in retail firms, but they could not have produced more than 2 percent of total growth in service firms. Summing the two industries, one finds that Koreans produced 5.5 percent of total growth. Obviously, Korean influx did not produce all these new firms. Rather, Koreans obtained a share of the County's business growth which created a context for their entrepreneurship. On the other hand, numbering less than 1 percent of the population of Los Angeles County, Koreans alone accounted for 5.5 percent of new firm growth in this decade. Had Koreans produced retail and service firms at the same rate as the rest of the County's population, they would only have opened 260 firms instead of the 1,782 they actually opened. In this sense, the Korean influx caused the population of retail and service firms to exceed by 1,522 the size expected from an equivalent influx of non-Koreans. Therefore, Korean entrepreneurs did not simply fill existing vacancies: Korean influx increased the business population of Los Angeles County.

SUPPLY-SIDE SOCIOLOGY

These considerations expose two shortcomings of the concentration theory, still the orthodox explanation of small business population in developed market economies. First, the concentration theory operates strictly on the demand side, predicting progressive, irreversible decline of small business by reference to declining returns on invested capital. Even if correct as far as it goes, this doctrine overlooks the supply of entrepreneurs. Yet, as both Smelser (1976: 126) and Kilby (1971: 2-6) have observed, the market for entrepreneurs has a supply side as well as a demand side. If the supply of entrepreneurs increased, the number of small firms could increase *even though* return on invested capital decreased. Since immigrants have always had a higher propensity for self-employment than the native born, an increase in the proportion of immigrants in the general population might increase the supply of entrepreneurs, thus exerting upward pressure upon the number of small business enterprises (Boissevain, 1984: 33-36).

Second, as Giddens (1973: 283-284) has emphasized, the concentration theory assumes that only market influences affect the size