



Survivalist entrepreneurship in the Great Depression



Robert L. Boyd

Department of Sociology, Mississippi State University, 207 Bowen Hall, 456 Hardy Road, Mississippi State, MS 39762-5503, USA

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ABSTRACT

The disadvantage theory of business enterprise predicts that blocked opportunity encourages self-employment among disadvantaged minorities. The present study argues that appropriate empirical tests of this prediction must carefully define key variables' measurement and precisely specify the circumstances under which the theory is most applicable. The study analyses Census data from the Great Depression, comparing the regression estimates of different methodological approaches. The results identify the conditions under which, in accord with the theory's prediction, a disadvantaged minority (blacks) is more likely than the majority group (whites) to be self-employed in response to limited labor force options. The findings reveal previous studies' limitations and suggest new directions for survivalist entrepreneurship research.

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1. Introduction

The disadvantage theory of business enterprise proposes to explain the relatively high self-employment rates of ethnic minority groups facing restricted opportunities in the economic mainstream (Light, 1979). Confronted with a choice between joblessness or majority-group employers' mistreatment, the theory argues that minorities are highly motivated to find an independent means of livelihood, sometimes becoming self-employed "survivalist entrepreneurs" (Light & Rosenstein, 1995, p. 213). The *simple disadvantage hypothesis* derived from this original formulation of the theory is straightforward: the greater is a group's labor market disadvantage, then the higher will be the group's rate of self-employment. Yet, some research finds that labor market disadvantage is inversely related to ethnic groups' self-employment rates, most likely because such disadvantage inhibits accumulation of the human and financial resources needed for entrepreneurship (Bates, 1997; Fairlie & Meyer, 1996). Thus, the classic disadvan-

tage theory has been modified to take account of the crucial role of resources. The resulting *resource-constraint hypothesis* is based on the disadvantage plus resources formulation. It predicts that labor market disadvantage produces self-employment in the economic mainstream for groups that have the entrepreneurial resources necessary for the ownership and operation of small businesses (Light & Gold, 2000, pp. 197–209; Light & Rosenstein, 1995, pp. 153–161). Such resources are broadly defined in this restatement of the theory to include the "class resources" of human and financial capital and "ethnic resources" that support small-business enterprise, notably, in-group solidarity, cultural traditions, and community institutions (Light & Karageorgis, 1994, p. 659).

A group that enjoys advantages of class resources (e.g., the majority group) is, according to the resource-constraint hypothesis, better positioned to mount an entrepreneurial reaction to labor market disadvantage than is a group that suffers from a paucity of such resources. Yet groups facing class-resource-disadvantage (e.g., minorities) are generally compelled to draw on their ethnic resources to become self-employed in response to labor market disadvantage. Reliance on such resources is more likely to be associated

E-mail address: boyd@soc.msstate.edu

with enterprise in the informal economy – a peripheral sector of small, labor-intensive income-producing endeavors with low barriers to entry (Portes & Haller, 2005) – than with mainstream business ownership (Bates, 1997).

In sum, the resource-constraint hypothesis makes two predictions: (1) for class-resource-advantaged groups, labor market disadvantage is positively associated with self-employment in the mainstream economy; and (2) for class-resource-disadvantaged groups, labor market disadvantage is positively associated with self-employment in the informal economy due to such groups' reliance on ethnic resources. The present study contends that tests of these predictions must address two concerns: conceptualization and measurement of key variables and specification of disadvantage theory's scope conditions, that is, the circumstances under which the theory is most applicable.

2. Conceptualization and measurement of labor market disadvantage

Labor market disadvantage is, fundamentally, the extent to which members of the group in question face obstacles to wage/salary employment in the mainstream economy. It is most directly measured as the consequence of employers' adverse treatment of group members, that is, as the actual "penalty" (e.g., exclusion) rather than as the condition (e.g., minority status) that draws the penalty (Light & Rosenstein, 1995, pp. 156–158). Exclusion from employment is unquestionably the most profound consequence of mistreatment and can be measured in several ways, with different measures capturing the various degrees of exclusion. A group's *rate of unemployment*, usually defined as the percentage of group members in the labor force who are classified as unemployed and seeking work, is perhaps the best known measure and is often the main explanatory variable in empirical tests of disadvantage theory (e.g., Fairlie & Meyer, 1996).

Yet, exclusion from employment is also reflected in the *duration of unemployment*, that is, the length of time the unemployed are searching for work. Long-term unemployment is a more severe hardship than short-term unemployment because the class resources of the unemployed, notably, personal savings and basic necessities, are depleted as the duration of unemployment increases (Light & Rosenstein, 1995, p. 159). For this reason, the long-term unemployed are generally more desperate than their short-term counterparts to find an independent means of livelihood. Ironically, though, the long-term unemployed are also, on the average, less capable of starting an independent business enterprise, owing to the aforesaid problem of class resource depletion. Accordingly, the duration of unemployment, measured as the number of weeks or months that one has been unemployed and looking for work, has been the main explanatory variable in empirical tests of the disadvantage theory (Boyd, 2005). Those unemployed persons who have been searching for work 12 months or more are appropriately classified as long-term unemployed. The long-term unemployment of the group under examination can, therefore, be measured as the percentage of unemployed group members who have been looking for work one year or longer.

A group's labor market position is further indicated by its members' *rate of workforce non-participation*, a measure of being both unemployed and outside of the labor force, revealed by the group's employment-population ratio, that is, the number of employed group members divided by the group's working-age population. This ratio takes account of those group members who are not searching for work, many of whom are "discouraged workers" who have dropped out of the labor force and thus are not considered in the calculation of the unemployment rate (Boyd, 2000, p. 977). It also captures the material deprivation that the group suffers due to the burden of non-working members, who must be economically supported, including those who are voluntarily out of the labor force, such as full-time homemakers and students. Arguably, then, percent not in the workforce, measured as one minus the group's employment-population ratio (yielding the proportion of group members not working), is a superior indicator of labor market disadvantage because it reflects more than simple exclusion from employment.

The above three measures tap into severity levels of labor market disadvantage; that is, long-term unemployment is worse than simple unemployment, and workforce non-participation is worse than long-term unemployment. Hence, all three should be utilized to test the disadvantage theory. Such an analysis would capture the continuous nature of labor market disadvantage (Light & Gold, 2000, p. 205).

3. Conceptualization and measurement of self-employment

In analyses of secondary data, the operational definition of self-employment is necessarily based on workers' own self-classification as either "self-employed" or "wage/salary employee" (Light & Rosenstein, 1995, pp. 41–42). Relying on this classification, empirical tests often examine a group's *rate of self-employment* (that is, the number of self-employed group members per 100 employed group members) or a similar measure as the key dependent variable. Yet, the present study holds that the conceptualization and measurement of self-employment should also take account of the types of occupations in which the self-employed are engaged, distinguishing in particular between two kinds of pursuits: those that are capital- and knowledge-intensive and, hence, relatively difficult to enter; and those that require little capital or formal education (i.e., fewer class resources) and, therefore, are relatively easy to enter. In searching for sources of non-wage income, members of those groups facing class-resource-disadvantage, in addition to labor-market disadvantage, would obviously be more inclined to seek self-employment in the latter type of occupation than in the former type (Light & Rosenstein, 1995, pp. 160–161). It follows that empirical tests of disadvantage theory that analyze only the simple rate of self-employment are likely to be incomplete.

Applying this argument, one approach is to examine two occupational categories in which the self-employed tend to concentrate, analyzing the *rate of self-employment in retail trade* and the *rate of self-employment in personal*

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