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The Economic Implications of Social Capital on Hispanic Entrepreneurship

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The Economic Implications of Social Capital on Hispanic Entrepreneurship

Motivation

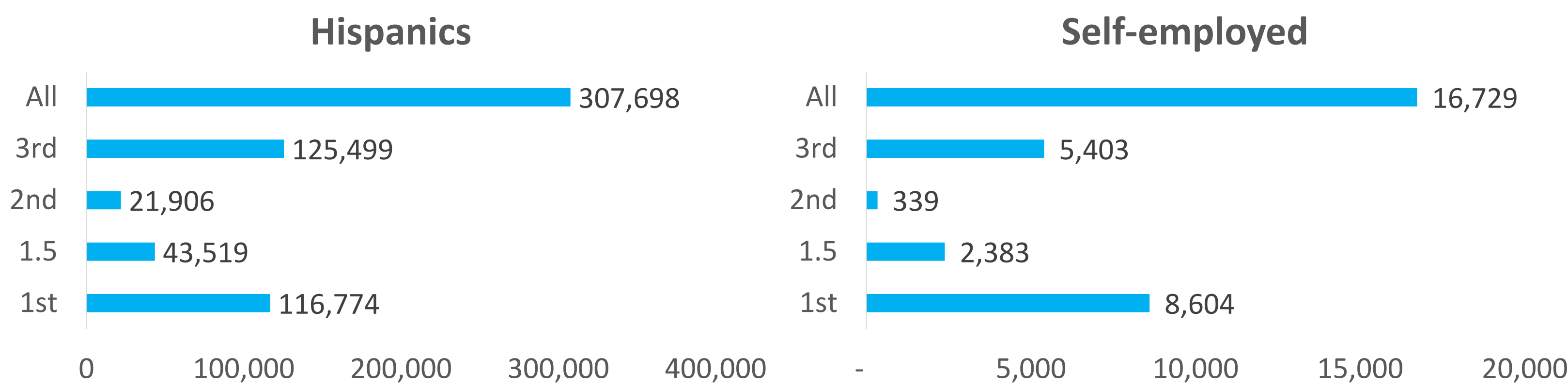
The US Census Bureau projects that one out of three Americans will be Hispanic in 2060. If Hispanics are twice as likely to start a businesses than non-Hispanic Americans (Wiens et al., 2015), it is fair to expect that Hispanics will help define the US entrepreneurial landscape in the next few years. Studies may define Hispanics as those that immigrated from Latin America, while others lump Hispanics as a homogeneous group. It is also unclear what attracts Hispanics to start a business. We address the gap in the literature by investigating the role of Hispanic clustering –social capital– on Hispanic entrepreneurship.

Objectives

- We investigate:
- How does the probability of self-employment of any Hispanic change as Hispanic clustering increases?
 - How does Hispanic heterogeneity influence Hispanic self-employment?

Data

We use a sample of Hispanics living in the US obtained from the 2010 census. The sample contains Hispanics between 18 and 70 years old living in 2,043 PUMAs.



Identification Strategy

We address the lack of identification in the social capital literature.

$$Pr(selfemp = 1) = \varphi(\beta_0 + \beta_1 platino + X_2 \beta_2)$$

1. Extensive list of covariates X_2

Demographics, geographic, and PUMA-level observables
Makes endogeneity unlikely (DeSimone, 2007)

2. Instrumental variable

Unobserved macroeconomic endogeneity
Card (2009) instrument for ethnic clustering

3. Generalized Propensity Score GPS

Unobserved individual and peer endogeneity
Remove the bias from non-random treatment

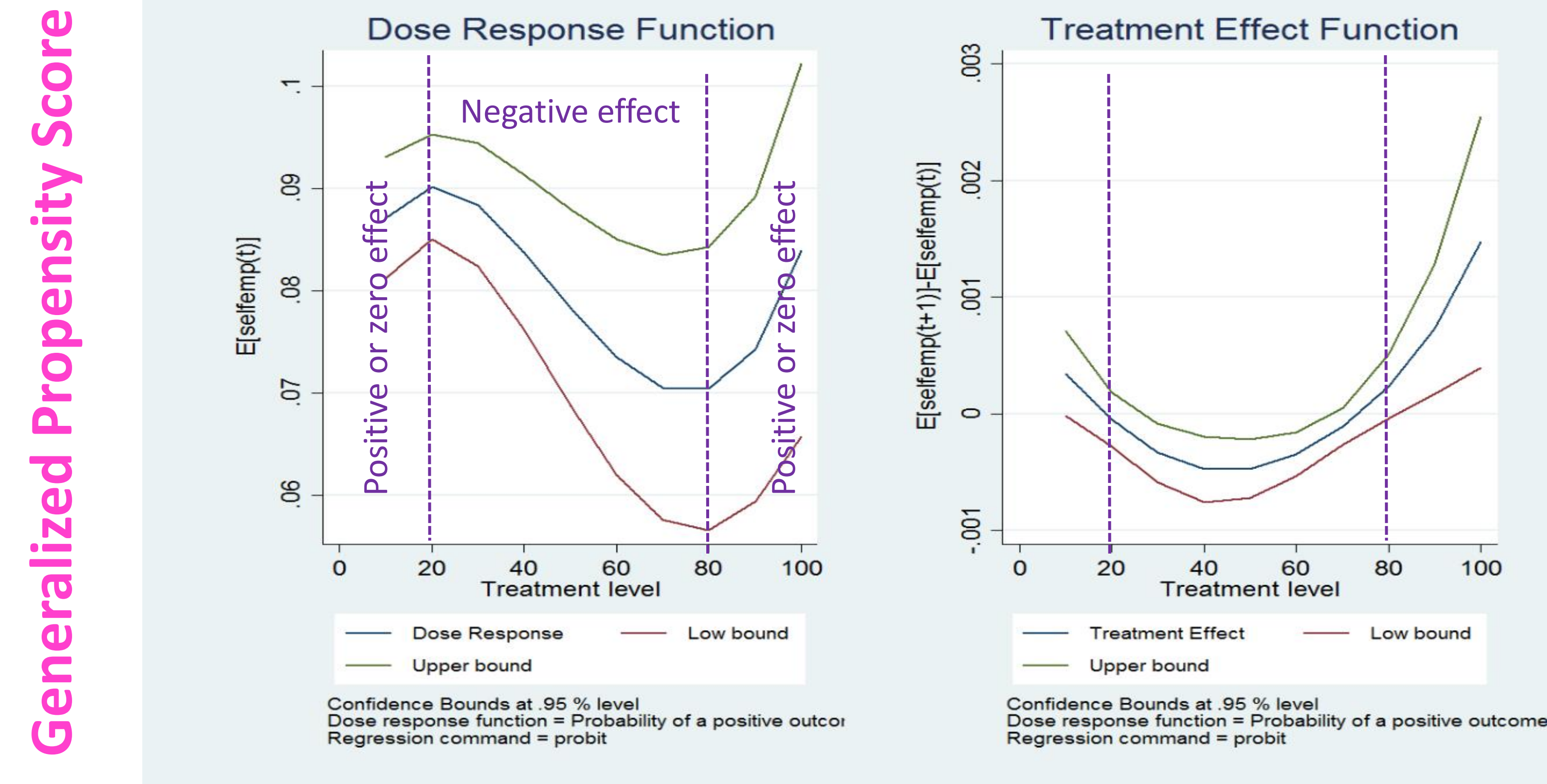
How does the probability of self-employment of any Hispanic change as the share of all Hispanics increase?

- platino* is unlikely to be endogenous
- In general, Hispanics are less likely to start a business as clustering increases. But the relationship is not linear
- Low- and high-dominated PUMAs may offer niche markets or community resources that encourage Hispanics to start a business
- Human capital, family resources, and low-waged industries increase the probability of self-employment
- Household income, gender, and English proficiency decrease the probability of self-employment

How does Hispanic heterogeneity influence Hispanic self-employment?

- First generation are the most entrepreneurial
- Second generation drives the decline of Hispanic entrepreneurship
- Diminished community resources in US-born Hispanic clusters

	Probit		IV probit	
	Coeff.	Marginal Eff. ^a	Coeff.	Marginal Eff.
platino	-0.006 **	-0.074 **	-0.014 **	-1.353 **
Prob>F		0.000		0.000
rho		-		0.022
N. Obs		111,132		111,132



	Probit	
	Coeff.	Marginal Eff. ^a
platino	-0.006 **	-0.073 **
first	0.075 ***	0.979 ***
second	-0.359 ***	-4.672 ***
third	-0.136 ***	-1.777 ***

	Probit	
	Coeff.	Marginal Eff. ^a
pfirst	0.001	0.011
ponehalf	-0.003	-0.036
psecond	-0.005 **	-0.071 **
pthird	-0.001	-0.012

Conclusions

The major contribution of this article is the empirical evidence of Hispanic heterogeneity. We derive some insight on the intergenerational differences of Hispanic labor choices. We propose that generational differences is not merely an ethnic control variable, but rather an important factor for the design of strategies and incentives. Effective policies should understand this heterogeneity to accurately promote success among Hispanic entrepreneurs.

The American Dream is the story of immigrants arriving to the US to find better opportunities. Many Hispanics are able to achieve economic mobility, and we find that different generations of Hispanic make different labor choices. While first generation Hispanics are the most entrepreneurial group, they have on average lower income, education, and English proficiency than US-born Hispanics.

Entrepreneurship is the way out of poverty for many Hispanics but also a source of employment for many low-wage workers, especially in construction and manufacturing. Promoting the success of Hispanic-owned businesses, which tend to be located in low-income inner-city communities, may be a way to reduce unemployment and poverty at the community level.