THE IMPACT OF LATINO-OWNED BUSINESS ON LOCAL ECONOMIC PERFORMANCE

Craig Carpenter, PhD

Outline

- Introduction
  - Current state of Latino immigration
  - Importance of self-employment for new immigrants
- My research
- Conclusions and implications

Introduction

Latino Immigrant vs. Non-Latino Non-Immigrant Ages

[Graph showing comparison of ages between Latino immigrants and non-immigrants]
Context of Research

- Growth in self-employment over the past 20 years
- Small businesses and microenterprises account for approximately 18% of employment
- Create 1 million jobs a year in the U.S. ([Ramirez de Miess 2009](#))
- The Hispanic population disproportionately contributes to the self-employed population ([Carpenter 2016](#))
Context of Research (cont.)

- 35-40% of new arrivals are undocumented immigrants from Mexico and Central America with low education and limited English skills (Passel 2005)
- Latino immigrants younger and less educated than natives on average
- Common to promote minority-owned businesses as a local development strategy
- Less known of contributions of such businesses (especially LOB) to economic performance

Context of Research (cont.)

- Latinos concentrate in vulnerable sectors
- Latino-owned business (LOB) associated with low-barrier industries because they lack financial capital for high-barrier industries require more education and capital
  - Low barrier industries include food services and construction

Limitations of Existing Research

- Lack of a sufficiently large dataset (Robles and Cordero-Guzmán 2007)
- Limited examination of geographic differences relative to the success of immigrant entrepreneurs (Bates and Lofstrom 2009)
## Data and the Census Research Data Center (RDC)

### Data
- **Restricted access microdata:**
  - Survey of Business Owners (SBO)
  - Longitudinal Business Database (LBD)
  - Integrated Longitudinal Business Database (ILBD)
- **Publicly available county-level data:**
  - The Bureau of the Census data
  - The Bureau of Economic Analysis data
  - The U.S. Department of Agriculture data

## Methods

I use the following regression equation at the county-level:

\[
\bar{g}_i(t-\tau, t) = a_i + \beta_i y_{i,t-\tau} + \gamma_i L_{i,t-\tau} + \delta_i X_{i,t-\tau} + \epsilon_i
\]

- \(\bar{g}_i(t-\tau, t)\) is the average dependent variable for county \(i\) from period \(t - \tau\) to \(t\)
- \(y_{i,t-\tau}\) is the convergence variable
- \(L_{i,t-\tau}\) is employment share by LOB
- \(X_{i,t-\tau}\) is a vector of other initial conditions
Results

<table>
<thead>
<tr>
<th>LOB Share in NAICS</th>
<th>Income Growth Rate</th>
<th>Employment Growth Rate</th>
<th>Poverty Growth Rate</th>
<th>Population Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>11: Agriculture, Forestry, Fishing, and Hunting</td>
<td>-0.04**</td>
<td>0.04*</td>
<td>0.01</td>
<td>0.03</td>
</tr>
<tr>
<td>23: Construction</td>
<td>0.08**</td>
<td>-0.01</td>
<td>-0.00</td>
<td>-0.02</td>
</tr>
<tr>
<td>51: Information</td>
<td>-0.05</td>
<td>-0.14**</td>
<td>-0.03**</td>
<td>-0.20***</td>
</tr>
<tr>
<td>54: Professional, Scientific, and Technical Services</td>
<td>0.08***</td>
<td>0.05</td>
<td>-0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>55: Management of Companies and Enterprises</td>
<td>0.11***</td>
<td>0.04</td>
<td>-0.01</td>
<td>0.03</td>
</tr>
<tr>
<td>81: Other Services</td>
<td>0.04***</td>
<td>0.02</td>
<td>-0.01</td>
<td>-0.04**</td>
</tr>
</tbody>
</table>

Summary

- LOB employment has no impact on local economic performance on average.
- LOB industries with negative effect on income:
  - Agriculture, forestry, fishing, and hunting
  - Real estate and rental and leasing
  - Other services industries
- LOB industries with positive effect on income:
  - Utilities
  - Construction
  - Professional, scientific, and technical services
  - Management of companies and enterprises

Conclusions and Implications

- Supports past result that owners with large personal capital able to open faster-growing businesses in a high-barrier industry.
- Exception of construction industry.
- Contradict results that immigrant inflows do not imply selective out migration by natives.
- Future Research:
  - Further disaggregate industries
  - Control for country of origin employment share.
Policy Implications and Moving Forward

- Need discussion to move beyond "high-barrier" and "low-barrier" industries
- Latino-owned business in the construction industry may deserve different support
- Need for further disaggregation to investigate

Thanks! Questions?

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Methods (cont.)

- Spatial Durbin Model (SDM)
  \[ g_i = \mu g_i + \delta g_i X_i + \rho W g_i + \epsilon_i \]
  \( g_i \) denotes an nx1 vector of the dependent variables
  \( X_i \) represents an nxk matrix containing the determinants of the dependent variable including the LOB and convergence variables
  \( W \) is an nxn inverse-distance spatial weighting matrix
  \( \rho \) and \( \delta \) are dependent variable and explanatory variables from neighboring counties, respectively
  \( \epsilon_i \) is the residual

- \( \mu \) and \( \delta \) estimate the extent to which the dependent and independent variables of nearby counties influence economic performance in the original county