

**On the Earnings and Employment of Female Hispanic Entrepreneurs in the 2000s**

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### **Abstract**

Using microdata from the 2001-2009 American Community Surveys, the 2000 U.S. decennial census, and the 2001-2011 Current Population Surveys, this paper analyzes the earnings and employment patterns of Hispanic entrepreneurs in the first decade of the 2000s. In light of this population's heterogeneity, our analyses also consider gender- and immigrant-related outcomes. The findings indicate a rising presence of Hispanics in the entrepreneurial sector during the 2000s, especially for immigrants. This increase resulted from the overall growth in the Hispanic population in the U.S. as well as from rising self-employment rates within the Hispanic workforce. Analyses of earnings further indicate that the most recent recession offset some (but not all) of the progress Hispanic women had made with respect to reducing their self-employment "penalties" in the decade, but this was not the case for Hispanic men. Moreover, the recession led to higher rates of microentrepreneurship (defined as having fewer than ten employees) among the self-employed, particularly for foreign-born Hispanic women. These findings indicate Hispanic entrepreneurial growth appeared to have a positive impact on job creation in the 2000s, but mostly at the scale of smaller firms, especially near the end of the decade. The paper concludes with a set of policy implications.

## On the Earnings and Employment of Female Hispanic Entrepreneurs in the 2000s

### I. Introduction

Hispanics represented one out of every six people in the U.S. in 2010, up from one out of eight a decade earlier. Arguably, this Hispanic population growth has been the catalyst for the sharp increase in the number of Hispanic business owners in recent years. The most current Survey of Business Owners reports that the number of Hispanic-owned businesses increased by 43.7 percent, from 1.6 million to 2.3 million firms, between 2002 and 2007—more than twice the 18.0-percent national business-growth rate.

Figure 1 illustrates the rise in Hispanic entrepreneurship in the 2000s.<sup>1</sup> The representation of Hispanics among the self-employed who were between 25 and 64 years of age increased by 59.5 percent, from 7.9 percent to 12.6 percent, between 2000 and 2009. This increase outstripped the 36.5 percent growth in the accounting of Hispanics among workers in general (from 10.4 percent to 14.2 percent) during this time. The disproportionate growth of Hispanics in the entrepreneurial sector directly stems from their rising presence in the U.S. workforce, as well as strengthening entrepreneurial tendencies *within* the Hispanic population. Regarding the latter, our estimates reveal that Hispanic self-employment rates significantly increased from 7.8 percent in 2000 to 9.4 percent in 2009. The self-employment tendencies among non-Hispanic workers also rose during this time, but at a slower pace, indicating the growing presence of Hispanics in the entrepreneurial sector.

(FIGURE 1 ABOUT HERE)

Few studies, to our knowledge, have analyzed this growth in Hispanic entrepreneurship through the prism of gender and immigration status. Our motivating point for the importance of a more inclusive analysis of Hispanic entrepreneurial tendencies is simple: a better understanding of the heterogeneity of the Hispanic population can lead to more fruitful policy discussions. As will be noted later in the paper, the rapid growth in the number of Hispanic entrepreneurs in the first decade of the 2000s was driven by

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<sup>1</sup> The datasets used for the information presented in Figure 1 will be discussed in the following section.

immigrants, particularly women.

In what follows, we provide a preliminary exploration of the gender- and immigrant-related self-employment tendencies and outcomes among Hispanics during the first decade of the 2000s. Data from the 2000 decennial census, the 2000-2009 American Community Surveys, and the 2000-2011 Current Population Surveys (CPS) are used for this purpose. Special attention is paid to how these patterns changed during the most recent recession. This study concludes with a set of policy implications.

## **II. Hispanic Self-Employment and Economic Growth**

The first decade of the 2000s witnessed historically sharp variations in the business cycle as we will show below. This decade thus provided entrepreneurial opportunities, but it also brought with it significant challenges for the self-employed. We focus in this section on the self-employment tendencies of Hispanics *vis-à-vis* the large fluctuations in the economic output of the first ten years of the millennium. To explore this issue, annual economic growth rates (measured by the percentage change of real Gross Domestic Product) estimated by the U.S. Bureau of Economic Analysis (2011) are juxtaposed with Hispanic versus non-Hispanic self-employment rates.

The self-employment statistics come from nationally representative data from the one-percent 2000 Public Use Microdata Sample of the 2000 decennial census, as well as the 2001-2009 American Community Surveys, which contain between approximately 0.4 percent and one percent of the U.S. population. Both the PUMS and ACS are made available in the Integrated Public Microdata Series by Ruggles et al. (2010). Our sample includes workers between the ages of 25 and 64 who were not residing in group quarters at the time of the survey. We identify the self-employed as those individuals who reported working for their own enterprises.<sup>2</sup>

The major takeaway from this analysis is that the U.S. economy began to slow down in 2004 and eventually hit an economic recession in 2008 (which technically started in December 2007). In so doing,

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<sup>2</sup>For individuals with multiple employment sources, the worker classification refers to where the individual spent the most time during the reference day or week.

the self-employment rates of both male and female non-Hispanic whites declined. Interestingly, however, the self-employment rates of Hispanic men continued to rise after 2004, while those of Hispanic women for the most part remained steady.

Specifically, the upper chart of Figure 2 shows the annual growth rate of U.S. economic output during the 2000s. Between 2000 and 2004, this growth rate fell from 4.1 percent in 2000 to 1.1 percent in 2001, and gradually rose thereafter to 3.5 percent in 2004. From that year on, economic growth steadily declined until 2009 when it reached a negative 3.5 percent. The lower chart of Figure 2 contains the self-employment rates (the number of self-employed of a group divided by this group's total number of workers) of Hispanics and non-Hispanics by gender. Consistent with other studies based on earlier data, out of the four groups shown, non-Hispanic men had the highest average self-employment statistics during the 2000s, hovering between 13.6 to 15 percent. In turn, Hispanic women had the lowest self-employment rates (fluctuating between 7.0 and 8.7 percent), while their male counterparts had the second highest self-employment rates (ranging from 8.8 to 10.1 percent) during this period.

(FIGURE 2 ABOUT HERE)

Relative to the business cycle, changes in these entrepreneurial tendencies are consistent with expectations for non-Hispanics: both male and female non-Hispanic self-employment rates paralleled changes in the economic growth rate during the 2000s. The self-employment tendencies of this group reached their highest level in 2004 among men (at 15 percent) and women (at 8.7 percent, which continued into 2005), corresponding with the peak of the economic business cycle. Likewise, these self-employment numbers reached their trough in 2009, when economic growth had also fallen to its lowest rate in the first decade of the 2000s. Comparing 2000 with 2009, non-Hispanic self-employment rates differed little.

In contrast, the self-employment statistics were higher in 2009 than in 2000 among Hispanic men (10.1 versus 8.9 percent) and women (8.6 versus 7.0 percent); however, the path these rates took over the 2000s differed. In the case of Hispanic men, self-employment tendencies increased steadily during the

decade, with the growth accelerating after 2003. The self-employment rates of Hispanic women grew rapidly between 2000 to 2004, declined in 2005, and rose more slowly thereafter. In both cases, moreover, the self-employment patterns of these two groups did not decline during the economic downturn.

What then explains the resilience of self-employment rates of Hispanics in the face of a slowing economy since 2004? Consider first the impact that the foregoing economic slowdown had on the labor markets of these demographic groups. The top half of Figure 3 shows the unemployment shares of the Hispanic and non-Hispanic populations by gender. We obtained these data from the U.S. Bureau of Labor Statistics (2011). The unemployment rates of these populations rose steadily in the early years of the decade and then through the mid-years of this time period. After 2006 for Hispanics (and 2007 for non-Hispanics) these unemployment figures increased rapidly, particularly among Hispanics, until the end of the decade. This result indicates that the most recent economic recession had a disproportionately negative impact on the employment opportunities of Hispanics.

(FIGURE 3 ABOUT HERE)

The bottom chart of Figure 3 contains the labor force participation rates (LFPRs) of these groups. These LFPR clearly show that out of the four groups, Hispanic men had the strongest attachment to the labor force (with an average LFPR of 80.1 percent), while Hispanic women had the weakest (with an average LFPR of 56.5 percent). The LFPRs among Hispanic and non-Hispanic men generally fell over the first decade of the 2000s. Those of Hispanic women declined after 2002, but then regained most of these LFPR losses in the second part of the decade—a time when their unemployment rate sharply increased. The LFPR of non-Hispanic women hovered around 60 percent through the decade, falling after the most recent recession was underway.

The information from both sections of Figure 3 reveals several points of interest, highlighting differences along gender lines. Over the 2000-2002 period, and particularly in the post-2006 time frame, the unemployment rates of the four populations increased. In the case of the male populations, their

LFPRs also fell during these times, indicating the relative weakness of the labor market for these groups. The female LFPRs remained relatively flat in the earlier time period, but in the later period, they declined among non-Hispanics and increased among Hispanics. It would appear that some of the increase in the Hispanic female unemployment rate near the end of the decade could have been caused by an added worker effect not present among the other populations shown.

We highlight the point that while the self-employment rates of non-Hispanics appear in lock-step with the macroeconomic fundamentals and labor-market tendencies of this population, this does not seem to systematically be the case for Hispanics. Relatively low LFPRs for Hispanic women, as well as somewhat erratic unemployment rates, over this decade are not consistent with the steady rise in the self-employment statistics of both Hispanic men and women during this period.

### **III. Hispanic Self-Employment Earnings Penalties during the 2000s**

As an alternative means to explain this self-employment phenomenon, we next analyze changes in the annual earnings of Hispanic entrepreneurs relative to their counterparts in the paid-employment sector while adjusting for observable skills and other characteristics. For this analysis, we use the PUMS and ACS data from the IPUMS described above. To capture a sample of workers with stronger ties to labor market activities, we further restrict the sample to include individuals who worked at least 20 hours per week for 27 weeks or more 12 months prior to the ACS survey (or in 1999 for the 2000 PUMS).

In 2009, self-employed Hispanic men earned 11.1 percent less than their counterparts in the wage and salary sector on average; this self-employment earnings “penalty” or “gap” was larger in magnitude than the 7.4 percent penalty that existed in 2000. Among female Hispanic entrepreneurs, their average earnings gap also intensified between 2000 and 2009 (from 40.7 percent in 2000 to 42.2 percent in 2009), but by a smaller margin. Despite Hispanic women facing a significantly larger self-employment penalty than men, the gender-related gap narrowed during the decade.

The fact that Hispanic entrepreneurs have lower average earnings than their fellow ethnics in the paid-employment sector is consistent with the literature on entrepreneurs in general. What remains

unclear is whether the increase in this penalty between 2000 and 2009 simply stemmed from changes in their average human capital levels (such as education) and other characteristics (such as industry) in the self-employment versus salaried sector. More meaningful estimates of the relative earnings of the self-employed should therefore focus on “unexplained” (or skill-adjusted) earnings differentials between entrepreneurs and their peers outside of the self-employment sector.

Consider the following:

$$(1) \ln(Earnings)_{Self} - \ln(Earnings)_{Employed} = Explained\ SE\ Penalty + Unexplained\ SE\ Penalty,$$

where  $\ln(Earnings)$  denotes the natural logarithm of annual wages, salaries, and business income. The *Explained SE Penalty* consists of the portion of the self-employment earnings penalty that owes to differences in observable characteristics between entrepreneurs and other workers, and the *Unexplained SE Penalty* represents the portion of the total penalty that remains when accounting for skills and other features.

The explained and unexplained components can be estimated using the familiar Oaxaca-type wage decomposition method (e.g., Oaxaca 1972). Specifically, we first estimate the following earnings function solely for paid employees to obtain the structure of wages that existed outside of the entrepreneurial sector:

$$(2) \ln(Earnings)_{Employed} = (Human\ Capital) \beta_1 + Immigrant \beta_2 + Industry \beta_3 + Region \beta_4 + \\ Work-time \beta_5 + e.$$

The vector *Human Capital* includes education, experience (estimated using the convention of age-education-5), experience-squared, and limited-English proficiency (LEP)—a binary variable equal to one for individuals who do not speak English language well (and equals zero otherwise). The *Immigrant* vector includes a binary variable equal to one for individuals born outside of the U.S. or its territories (equals zero otherwise), as well as a continuous variable for the number of years the immigrants have resided in the U.S. The *Industry* and *Region* vectors include a set of binary variables for 11 different groups of industries [construction (base), agriculture, manufacturing, trade, transportation, mining,

communications, real estate and financial services, arts and entertainment, professional and educational services, and other services], and seven geographic regions [New England, North Central, South Central, Middle Atlantic, South Atlantic, Mountain, and Pacific (base)]. Because annual earnings also clearly relate to the amount of time people work, the vector *Work-time* includes the usual number of weekly work hours as well a binary variable equal to one for individuals who worked between 27-39 weeks in the previous year (and equals zero otherwise).<sup>3</sup> The  $\beta_i$  terms represent vectors of coefficients to be estimated, while  $e$  denotes the normally distributed error term.

Using the estimated coefficients from the  $\beta_i$  vectors (which can be obtained from the authors), the wages of the self-employed can be imputed to estimate how much they should have earned in the paid-employment sector, given their characteristics. The difference between their predicted earnings [ $Predicted \ln(Earnings)_{Self}$ ] and the earnings of paid-employment workers (in natural logarithms) measures how much of the self-employment earnings penalty stems from differences in human capital and other measurable facets. That is:

$$(3) \textit{Explained SE Penalty} = Predicted \ln(Earnings)_{Self} - \ln(Earnings)_{Employed} .$$

Moreover, the gap between the actual earnings and predicted earnings in natural logarithms of entrepreneurs indicates how self-employment affects average wages unexplainable by differences in observable characteristics:

$$(4) \textit{Unexplained SE Penalty} = \ln(Earnings)_{Self} - Predicted \ln(Earnings)_{Self} .$$

That is, the *Unexplained SE Penalty* reflects the self-employment earnings penalty that is not accounted for skill differentials and other characteristics.

We estimate Equations (1) through (4) separately for Hispanic men and women for each year between 2000 and 2009. The results from Equation (4)—the unexplained, or “skill-adjusted” self-employment penalties are shown in Figure 4. For comparison purposes, we also present these numbers

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<sup>3</sup> Ideally, we would prefer to estimate Equation (1) for hourly earnings; unfortunately, the U.S. Census Bureau stopped reporting annual weeks worked as a continuous variable starting with the 2008 ACS.

for non-Hispanic white men and women.<sup>4</sup> This figure shows the comparative advantage that Hispanic men had in the 2000s in self-employment, as this group had the lowest average skill-adjusted penalty in this sector of the four groups shown. In the case of Hispanic women, they held a relatively large comparative advantage over non-Hispanic women earlier in the decade, but this advantage virtually disappeared starting in 2006. Arguably, the comparative advantages in self-employment pay might have had the effect of driving relatively more Hispanics into self-employment.

(FIGURE 4 ABOUT HERE)

This figure further shows that the self-employment earnings gaps increased in magnitude during the recession among the four groups. For Hispanic men, the recession wiped out the gains they had made after 2003 with respect to reducing this penalty; in fact, their skill-adjusted self-employment earnings gap was higher in 2009 (at 17.3 percent) than it was in 2000 (at 15.9 percent). This penalty also worsened among Hispanic women during the recession, but not enough to erase their progress from earlier in the decade. As such, their unexplained self-employment earnings penalty was smaller in magnitude in 2009 than in 2000 (36.6 versus 40.8 percent). These numbers suggest a relative improvement in the earnings of female Hispanic entrepreneurs over the decade that occurred in conjunction with a rising self-employment rate among Hispanic women.

#### **IV. Self-Employment and Earnings of Hispanic Immigrants versus U.S.-Born Hispanics**

Did the self-employment tendencies and earnings of Hispanic immigrants follow similar patterns as those of their U.S.-born counterparts in the 2000s? The academic and policy issues relating to

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<sup>4</sup> We focus on non-Hispanic whites here instead of non-Hispanic workers in general because we do not want to confound the estimated earnings of non-Hispanics with changes in race-related earnings differentials or self-employment tendencies over time. For recent examples of the latter, see Bogan and Darity (2008), Blanchflower (2008), and Fairlie (2004). How self-employed non-Hispanic Blacks and Asians fared relative to non-Hispanic whites (and Hispanics) throughout the course of the most recent business cycle goes beyond the scope of this study, but it remains an important topic worthy of future research.

behavioral and labor market differences between natives and immigrant are, of course, well developed in the social science literatures. For our analysis, the immigrant-native dichotomy becomes particularly relevant in light of the growing number of Hispanic immigrants in the entrepreneurial sector during the first decade of the 2000s. Indeed, we estimate that the number of self-employed foreign-born Hispanics ages 26-64 rose by 89 percent (from 635,000 to 1.2 million), compared to a 59 percent increase in the number of self-employed U.S.-born Hispanics (from 330,000 to 525,000) between 2000 and 2009.

To provide insight into this issue, we present in the top half of Figure 5 the self-employment rates of Hispanics by immigration status and gender. This figure indicates that male and female Hispanic immigrants have, at an absolute level, higher self-employment rates than their native counterparts. Two points are particularly noteworthy when analyzing these trends. First, the immigrant/native difference in self-employment rates among Hispanic women considerably exceeded those of men, particularly at the end of the decade. For example, in 2009 the self-employment rate of foreign-born Hispanic women twice exceeded that of U.S.-born Hispanic women (11.5 percent compared to 5.3 percent). For self-employment rate of Hispanic immigrant men was about one-third higher than for their native counterparts (11.1 percent versus 8.5 percent). Second, while the self-employment rates of U.S.-born Hispanics were relatively flat during the first decade of the 2000s, entrepreneurial tendencies among foreign-born Hispanics increased throughout this decade, especially among women. In fact, after 2003 the self-employment rates of Hispanic immigrant women surpassed those of their male counterparts, indicating that they represented a significant portion of the growth in the Hispanic entrepreneurial population in the first decade of the 2000s.

(FIGURE 5 ABOUT HERE)

The bottom part of Table 5 is suggestive of a potential reason for these findings. Throughout the entire decade (save for 2004 for immigrant women and 2009 for men), the self-employment earnings penalties among Hispanic immigrants were smaller in magnitude than those of their native counterparts of the same gender. Perhaps these smaller penalties served to attract a greater share of immigrants into the

entrepreneurial sector. Admittedly, one possible problem with this explanation is that this association did not hold for Hispanic immigrant women in 2004: the self-employment penalty rose (from 22 to 31 percent) for this population at a time when their self-employment rate increased as well (from 9.5 to 11 percent). Also, this association is not evident for Hispanic men in 2009, as the self-employment rates of immigrants rose relative to natives, despite a narrowing in the self-employment penalties between these groups. Notice, however, that the relative advantage of Hispanic immigrant women became more pronounced again after 2005. In all, this figure suggests that, on average, foreign-born Hispanics maintained their comparative advantage over U.S. natives in the self-employment sector over the decade.

## **V. The Representation of Microentrepreneurs among Hispanic Business Owners**

The results discussed thus far indicate there was an increase in self-employment rates among Hispanic men and women that do not seem to coincide with the economic slowdown starting in 2004. A potential explanation for this seemingly counterintuitive finding can be found in the growing entrepreneurial tendencies of Hispanic immigrants, particularly females. These rising numbers indicate the employment creation of foreign-born Hispanics (at least for themselves) during weak economic conditions. An unanswered question pertains to how these groups fared in terms of creating jobs for other workers.

One way to investigate this point is to consider the share of microentrepreneurs for the populations we have covered so far. We define “microentrepreneurs” as those business owners who have fewer than ten employees. To analyze the incidence of microentrepreneurship, we turn to nationally representative data from the March samples of the 2001-2011 Current Population Surveys (CPS), provided by King et al. (2011) in the IPUMS CPS. As with our PUMS and ACS samples discussed above, we focus on workers between the ages of 25 and 64. While the CPS is considerably smaller than the PUMS and ACS, the latter do not provide information on the size of the firm. Because the CPS contains the number of

employees who worked for respondents' employers in the previous calendar year,<sup>5</sup> we identify the self-employed through the previous year's worker classification.

Consider some of the findings contained in Figure 6, which present the share of microentrepreneurs among Hispanic and non-Hispanic self-employed workers. The upper and lower charts of this figure suggest that female Hispanic entrepreneurs have, relative to the other three groups shown, the largest shares of microentrepreneurs, particularly since the recession ended. Regardless of Hispanic ethnicity, male and female rates of microentrepreneurship increased between 2007 and 2009, but among Hispanic women, it was not until after the recession ended that this number peaked (at 96.4 percent) in 2010.

(FIGURE 6 ABOUT HERE)

The lower part of this figure further partitions the Hispanic sample according to birthplace. Female Hispanic immigrant entrepreneurs tended to outpace their native counterparts in this statistic for most of the decade, especially after the recession ended. In 2010, almost all of the self-employed foreign-born Hispanic women were microentrepreneurs, compared to 91.6 percent of native-born Hispanic entrepreneurs. Self-employed Hispanic immigrant men also fell below the share of Hispanic immigrant women in this regard (except in 2001 and 2008). In all, the findings above indicated that the rapidly growing population of Hispanic immigrant entrepreneurs (notably among the women of this group) impacted microenterprises the most in the first decade of the 2000s. Relating this information to Figure 6, Hispanic entrepreneurial growth appeared to have a positive impact on job creation, but mostly at the scale of smaller firms, especially near the end of the decade.

Given that Figure 6 provides evidence of gender- and immigrant-related variations in the shares of microentrepreneurs among self-employed Hispanics, a related issue is whether differences in other characteristics affect the odds of microentrepreneurship. A full exploration of this topic goes beyond the

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<sup>5</sup>The CPS provides the number of employees as a categorical variable instead of as a continuous metric, with the smallest category being "less than ten employees".

scope of this paper, but we provide some ancillary insight here by estimating the following probit model for self-employed Hispanics in our CPS samples, separately for men and women:

$$(5) \text{ Microentrepreneur} = f(\text{Human Capital}, \text{Family}, \text{Immigrant}, \text{Industry}, \text{Region}, \text{Work-time}, \text{Year}),$$

where *Microentrepreneur* represents a binary variable equal to one if the entrepreneur has fewer than ten employees, and equals zero otherwise. The vector *Human Capital* includes education, experience, and experience-squared.<sup>6</sup> *Family Structure* includes the number of the entrepreneur's own children under the age of 18 residing at home, the number of family members (not counting their children under the age of 18) in the household, and indicator variables for marital status [married (base); married with an absent spouse; never married; and divorced, separated, or widowed]. The *Immigrant* vector identifies the foreign-born as well as those who recently migrated to the U.S., defined as migrating within the past 5-6 years. *Industry*, *Region*, and *Year* include sets of binary variables indicating the industry of the business, its geographic location, and the year of the survey,<sup>7</sup> while *Time-worked* measures the total number of hours the entrepreneur worked in the previous year.

Comparing the estimation results from Equation (5) between self-employed Hispanic men and women indicates that gender-related differences exist in the likelihood of being a microentrepreneur with respect to certain characteristics (the full set of regression results can be obtained from the authors). In particular, among Hispanic female entrepreneurs, the foreign-born had a significantly higher probability of being a microentrepreneur than their U.S.-born counterparts when controlling for other covariates. This was not the case among Hispanic men, as immigrants and natives had statistically similar odds of being microentrepreneurs, *ceteris paribus*. As such, the relatively high microentrepreneurship rates of foreign-born Hispanic women observed in Figure 6 do not appear to be driven by immigrant/native

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<sup>6</sup> In our earnings analysis above, we also included English-language proficiency as a human capital variable. Unfortunately, the CPS does not provide information on English fluency.

<sup>7</sup> Due to the relatively small sample size of self-employed Hispanics in the CPS IPUMS, we did not separately estimate Equation (5) for each survey year; instead, we controlled for annual fixed effects.

differences in skills and other observable features.

Moreover, the family structure variables (individually and as a group) were not significant predictors of microentrepreneurship among self-employed Hispanic women, but they mattered for Hispanic men. The number of non-children family members, for example, significantly enhanced the odds of male Hispanics being microentrepreneurs, perhaps because of their contributions to the family business without being on the payroll. Also of interest, higher levels of education reduced the likelihood of microentrepreneurship for both male and female Hispanic business owners, but potential labor market experience increased this likelihood (at a diminishing rate) only among women. Finally, the amount of time female Hispanic entrepreneurs spent working throughout the year did not significantly relate to the probability that they were microentrepreneurs, but it served to lower this probability among Hispanic men. Perhaps these gender-related differences in how characteristics affect microentrepreneurship rates reflect the suggestion by Fairlie and Robb (2009) and others, that female entrepreneurs have a different set of preferences than men regarding their business outcomes. Future studies should consider to explore this possibility.

## **VI. Policy Implications and Concluding Remarks**

Given that foreign-born Hispanic women represent one of the fastest growing entrepreneurial populations in the U.S., understanding factors related to their business outcomes, including their earnings and employment, has become an increasingly important issue for the nation as a whole. The policy implications are broad. These demographic changes suggest that state- and locally-based initiatives to promote minority and female entrepreneurship could have larger effects on employment and tax revenues than in previous time periods.<sup>8</sup> While estimates of tax revenue generated by Hispanic entrepreneurs are

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<sup>8</sup> Some of these initiatives include FAME Renaissance (which provides loans to minority-owned businesses in the Los Angeles area), Operation HOPE (which provides loans to minority-owned businesses in southern California), and New York Business Development Corporation (which has a Minority Women program to provide business financing for women and minorities in New York).

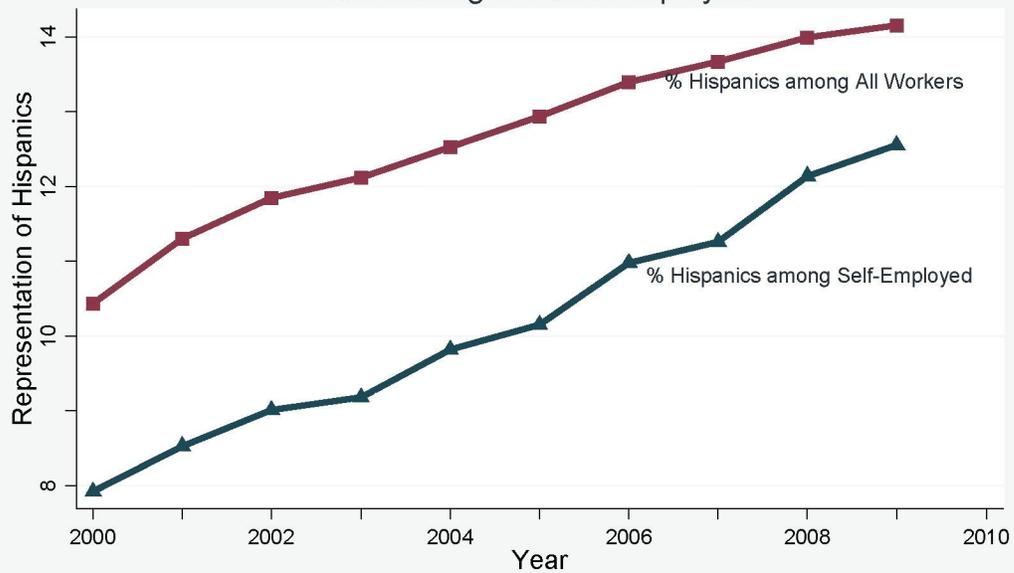
difficult to determine, the CPS IPUMS can be used to measure average taxes paid by the self-employed based on earnings. Focusing on our 2009 sample (the most recent year containing information on personal income taxes paid), Hispanic entrepreneurs between the ages of 25 and 64 paid an average of \$623 in state income taxes and another \$2,510 in federal income taxes (net of tax-credit deductions) in the previous year. Given that Hispanic entrepreneurs in this particular sample represented about 1.45 million workers, these figures suggest that they contribute over \$4.5 billion to federal and state tax coffers, not counting the amount they pay in payroll taxes nor the sales taxes generated from their goods and services.

Policies designed to improve educational outcomes and English-language proficiency of Hispanic immigrants might also affect the subsequent success of Hispanic entrepreneurs in terms of their earnings and job creation, given how these skills enhance strategic planning and access to credit. Another issue to be considered is whether existing policies and programs aimed at helping small businesses grow can be improved to assist newly formed Hispanic-owned micro-businesses. Finally, immigration policies should consider the importance of foreign-born Hispanic entrepreneurs in U.S. job creation (and the generation of income and tax revenue) nationally and also at the local level.

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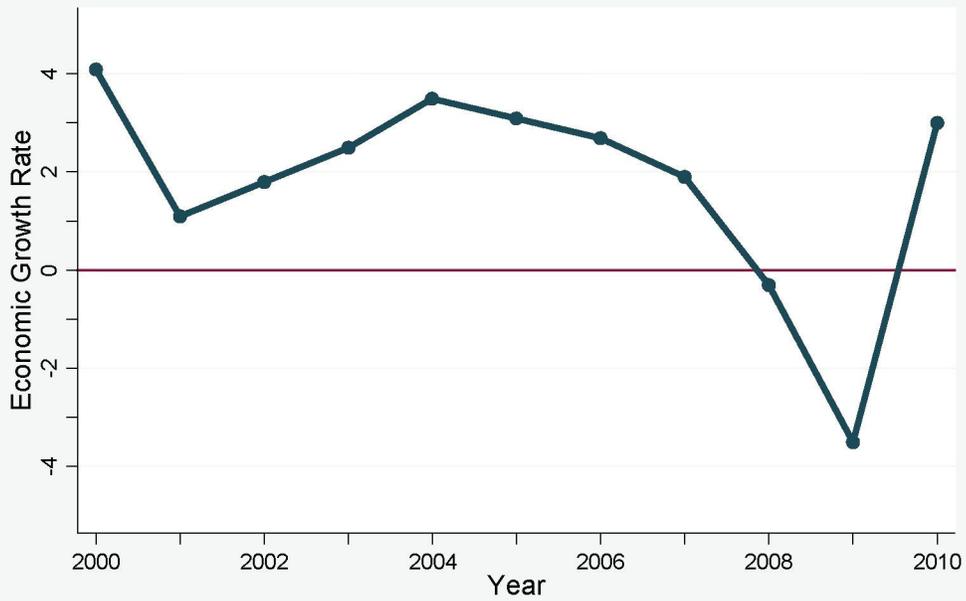
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Figure 1: Representation of Hispanics in the Workforce and among the Self-Employed

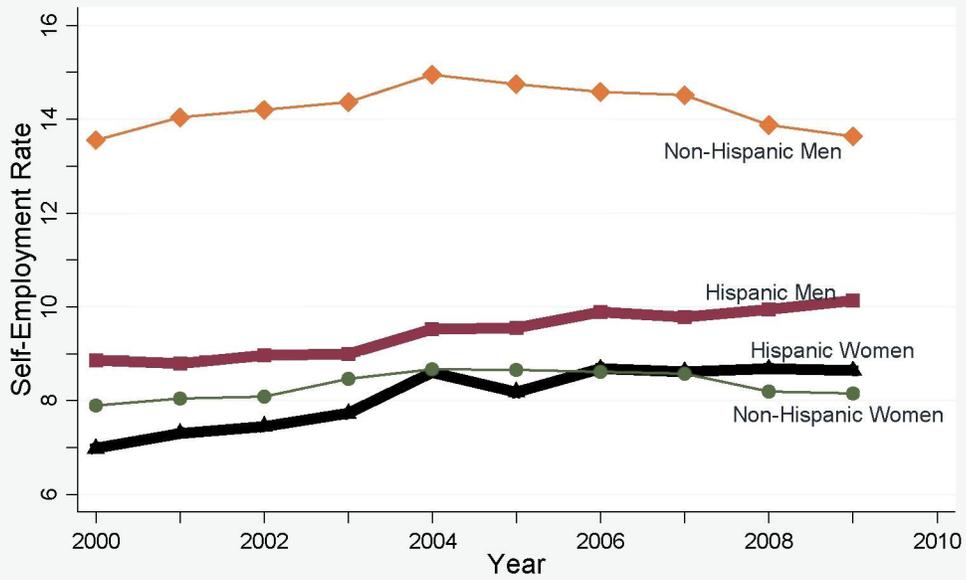


Source: Authors' estimates using PUMS and ACS data in the IPUMS.  
Note: The sample includes workers ages 25-64, not living in group quarters.

Figure 2: Economic Growth and Self-Employment by Gender and Hispanic Ethnicity

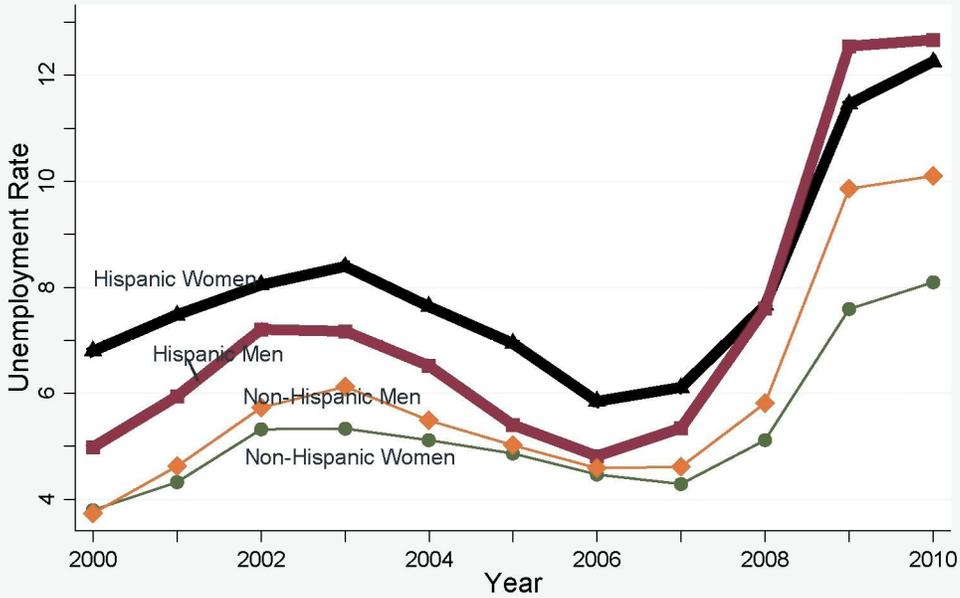


Source: BEA data on the annual % change of real GDP from previous year.

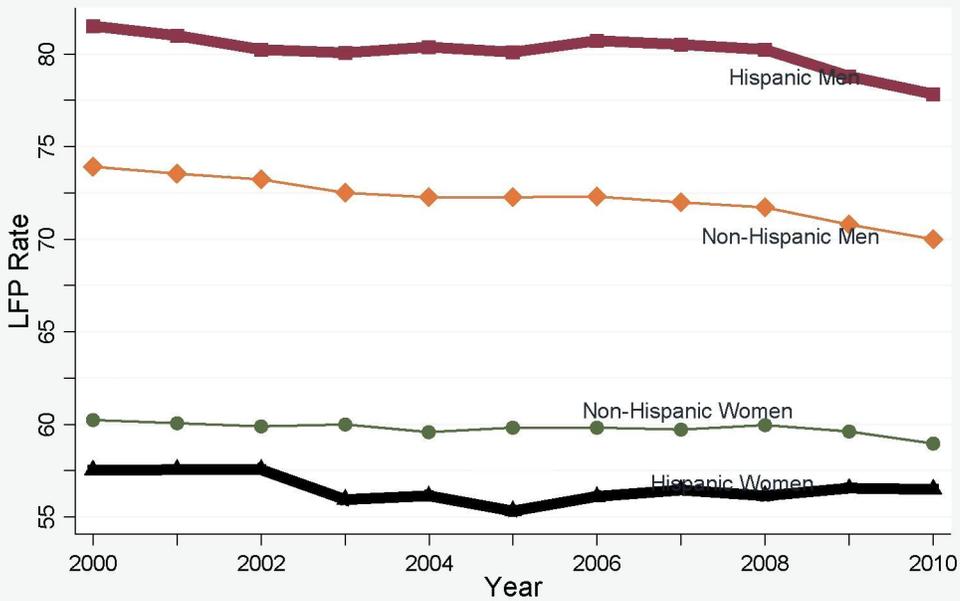


Source: Authors' estimates using PUMS and ACS data in the IPUMS.  
 Note: The sample includes workers ages 25-64, not living in group quarters.

Figure 3: Unemployment and LFP Rates by Hispanic Ethnicity and Gender

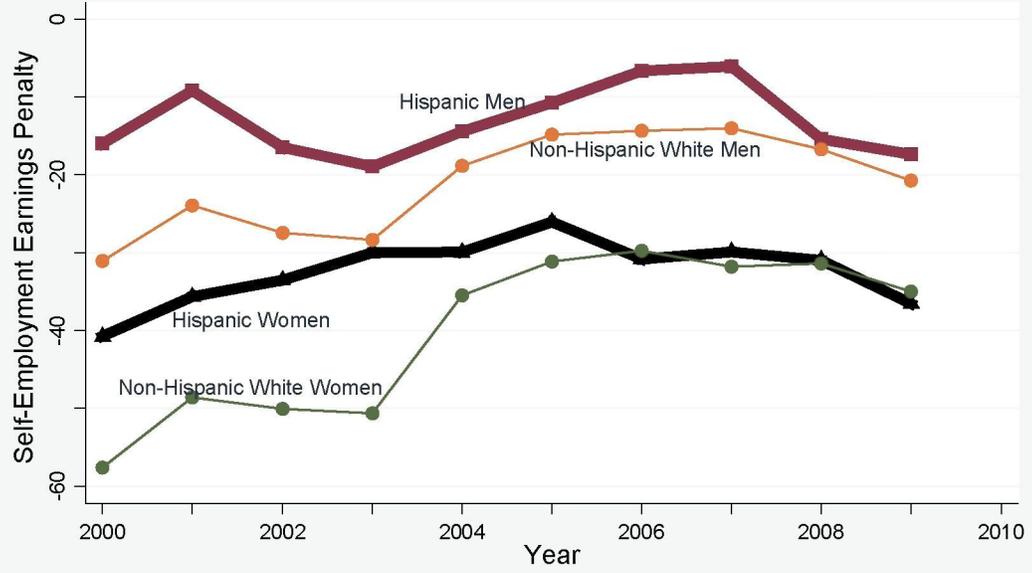


Source: Authors' estimates using BLS data.



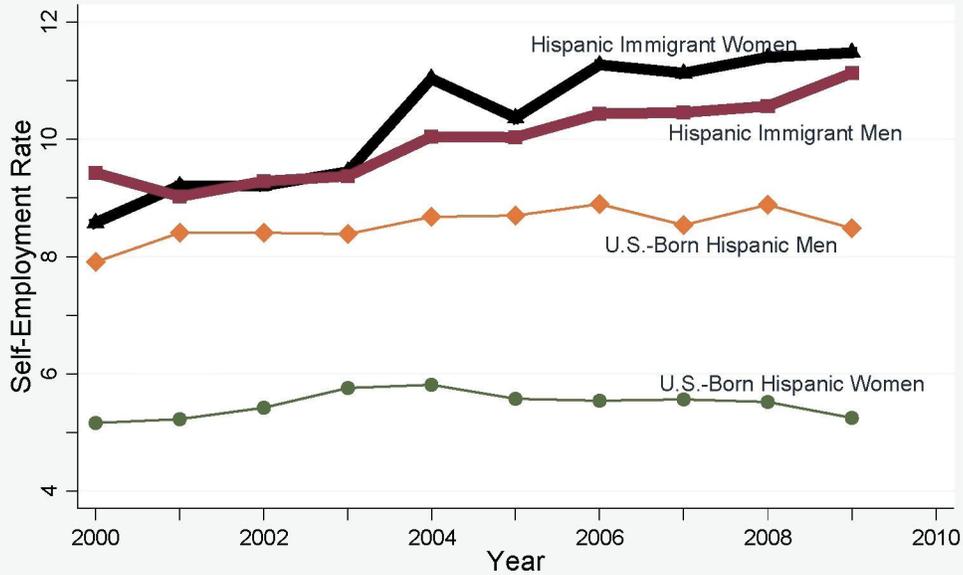
Source: Authors' estimates using BLS data.

Figure 4: Self-Employment Earnings Penalties by Hispanic Ethnicity and Gender

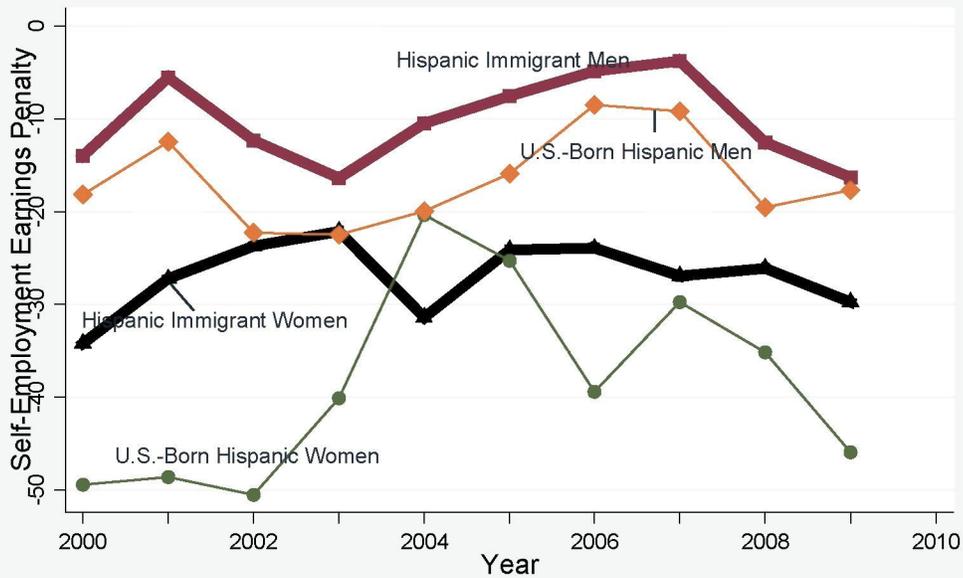


Source: Authors' estimates using PUMS and ACS data in the IPUMS.  
 Note: The sample includes workers ages 25-64, not living in group quarters. See text for penalty definition.

Figure 5: Self-Employment Rates and Penalties among Hispanics, by Gender and Birthplace

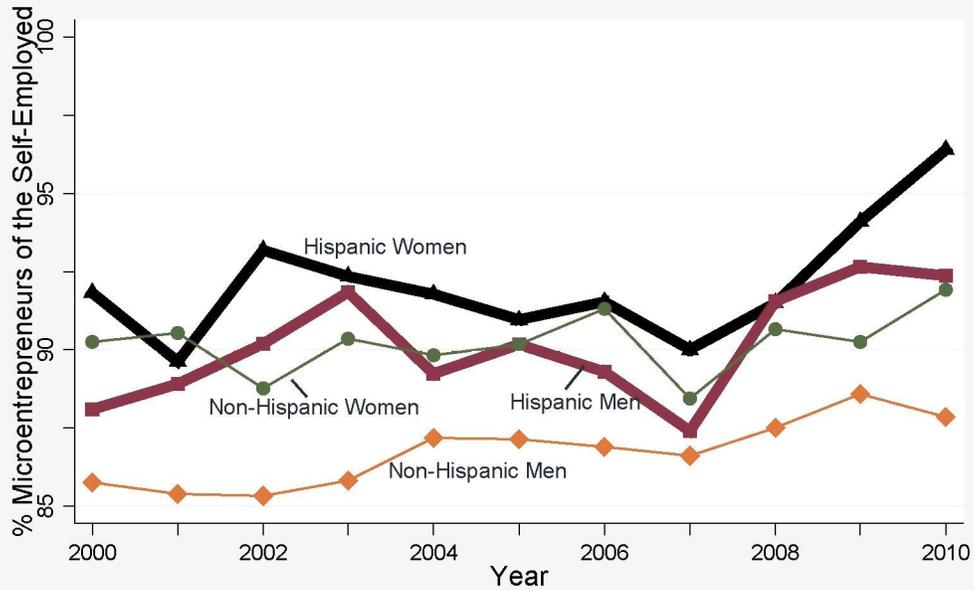


Source: Authors' estimates using PUMS and ACS data in the IPUMS.  
 Note: The sample includes workers ages 25-64, not living in group quarters.

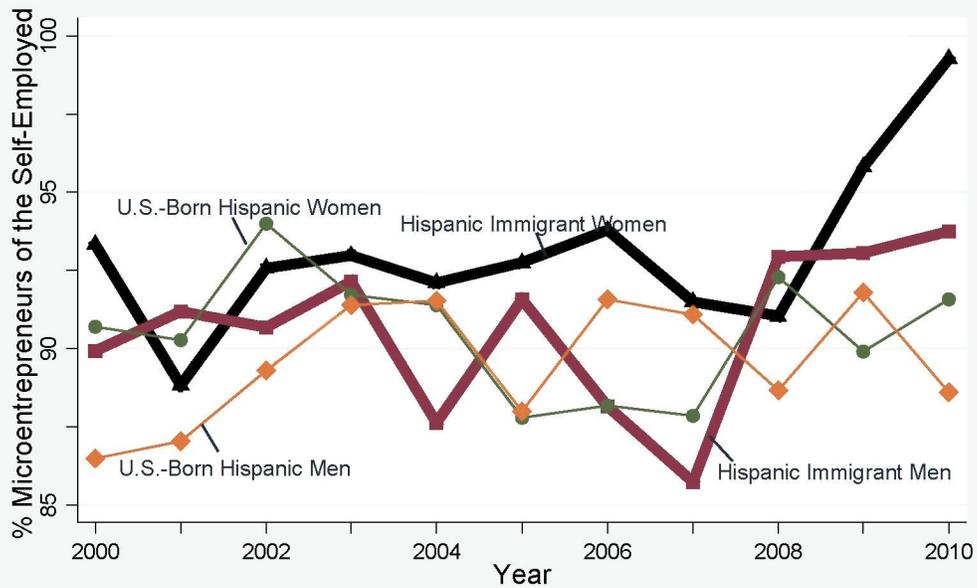


Source: Authors' estimates using PUMS and ACS data in the IPUMS.  
 Note: The sample includes workers ages 25-64, not living in group quarters. See text for penalty definition.

Figure 6: Representation of Microentrepreneurs among the Self-Employed



Source: Authors' estimates using CPS data in the IPUMS. Years shown are for the year prior to the CPS. Notes: Self-emp. workers ages 25-64 are included; microentrepreneurs have fewer than 10 employees.



Source: Authors' estimates using CPS data in the IPUMS. Years shown are for the year prior to the CPS. Notes: Self-emp. workers ages 25-64 are included; microentrepreneurs have fewer than 10 employees.