Ethnic Enterprise Governance

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The ideas presented in this research are the author’s and do not represent official positions of the Mercatus Center at George Mason University.
1.1 Introduction

“Dictatorship can reign at the centre but so can freedom. There can be local tyrannies or, alternatively, local liberties.”

Lipson 1960 p.295

This essay intends to make a preliminary, speculative link between the concept of ethnic entrepreneurship, and the methodology of Public Choice. In the summer of 2004 I conducted fieldwork in Chinatown, Liverpool on behalf of the Global Prosperity Initiative, a programme funded by the Mercatus Centre, at George Mason University. One of the principle insights I gained, was the importance of voluntary governance structures and community associations. I will focus on the emergence and function of the Liverpool Chinatown Business Association (LCBA). I will look at how the LCBA resembles a voluntary club, and how this in turn might become an interest group. Critically, the Chairman of the LCBA is a businessman, and might be seen as a “city manager” whose encompassing interest in the health of Chinatown gives him an incentive to provide positive externalities for the entire community. Alternatively, the lobbying for central funds could be portrayed as rent seeking, where the Chinese community is merely an efficient special interest group.

Section 2 will lay a foundation upon which this investigation will stand. 2.1 will offer an overview of “ethnic entrepreneurship”, and previous studies to analyse ethnic strategies. 2.2 will be a history of Liverpool’s Chinatown, and chart the emergence of the LCBA.
Section 3 will provide theoretical insights that might be applied to entrepreneurial governance structures, analyzed through the lens of ethnic entrepreneurship. 3.1 is devoted to clubs 3.2 to special interest groups, 3.3 will look at Cameralism, and 3.4 will be a study of Birmingham in the c19th under Mayor Joseph Chamberlain.

Section 4 will tie things together: 4.1 concludes, and 4.2 will sketch out specific information that I am either awaiting, or intending to establish in summer 2005. Finally, 4.3 offers references.

2.1 Ethnic Entrepreneurship

As global migration has increased, much attention has been drawn into questioning the economic mobility of new migrants within their new home. The inquiry into how immigrants organize economic enterprise followed on from Edna Bonacich’s study of middleman minorities (Bonacich 1973). The term “ethnic economy” was coined to denote areas of high immigrant concentration, continuing flows of new migrants, and a noticeable small business sector. (see Raijman and Tienda 2000). Portes and Bach (1980, 1985) then narrowed the definition to testable levels by creating the term “ethnic enclave”, which implies spatial concentration of firms, and stems from literature about labour segmentation. An “ethnic enclave” is therefore a special type of “ethnic economy”. Further origins can be found in Bonacich & Model (1980), Wilson & Portes (1980), Reitz (1980), Kim (1981), Olzak & Nagel (1986), Light & Bonacich (1988), Light et al (1993), Zhou & Logan (1989).
A typical story is that immigrants face barriers to the host society in the following forms: recognition of human capital (Hum 2001); explicit racism; competition with other ethnic groups; migration tends to occur in depressed regions (Aldrich 1981); reputation effects; instability and uncertainty; regulations such as minimum wage legislation; legality issues, and distance from institutional mechanisms (Waldinger 2000 p.360).

They find solace in the cooperative efforts to overcome this, utilising advantages given by the enclave: network effects (Massey 1988); social capital and trust; a protected market (Waldinger 1986); pool of labor; access to capital through mutual fund agencies (Fisman); knowledge of intra-ethnic demand (e.g. culinary, religious, services) (Mars & Ward 1984); higher income (Reitz 1980:164); training and human capital development (Raijman & Tinda 2000); ethnicity as a signal, and a virtuous cycle of migration (Mrydal 1957).

Most studies at the empirical level utilise econometric techniques to determine the state of the market. The debate between Portes & Jensen (1989 &1992) and Sanders & Nee (1992) concerns the statistical significance of the extent to which immigrants can escape poverty.

“If our position on ethnic entrepreneurship is correct, there is an unorthodox, but important avenue for economic mobility of ethnic minorities…. If our critics are right – that the ethnic economy is really a mobility trap – then there is no alternative for minorities than seeking entry into the mainstream labor market on the basis of commonly scarce and devalued human capital”

Portes & Jensen 1992
Much of the analysis thus far has attempted to capture snapshots of the ethnic economy, and to digest the findings with the same methodological mindset. A natural extension of the immigrant as entrepreneurs is to see how they acquire political representation. When liberty and rights extend beyond the individual, and permit the right to assimilate with others, a theory of immigrant governance must be pursued. Indeed barriers to political representation might be significantly higher than barriers to employment, and the immigrant entrepreneurship literature would predict that this leads to an even lusher internal structure. However the literature’s focus on static states suffers when applied to the explanation of community associations, since such collective organizations are emergent, and require a theory of process. Any study of an ethnic economy, and specifically the organizations that are created within, therefore, requires a broader story of history and development.

2.2 A History of Liverpool, Chinatown and the LCBA

The history of Liverpool is a story of the docks: it was created as a sheltered harbour by King John (circa 1207) and the city’s economic fate has been governed by the fluctuating prosperity of the shipping trade. In the 18th and 19th centuries Liverpool was the principle port of the British Empire, providing a link in the tri-nexus of global trade: sending manufactured goods and slaves to the colonies, and bringing cotton and raw materials into Europe from America. In it’s Victorian heyday ship owners and merchants lived in opulent Georgian terraces, dwelling amidst grand parks and
blossoming public buildings. Unskilled workers flocked toward the expanding jobs, setting home in the slums of the city. For many others it served merely as a gateway to the new world, where the Statue of Liberty’s flame burned almost visible on the cusp of the horizon. A city of haulage: in people and in goods.

The Blue Funnel Shipping line created a trading link with China, and in 1866 the first Chinese seaman began to inhabit an inner-city region of Liverpool. As trade further bloomed, Liverpool’s transient communities began to settle and Chinatown as we now it started to develop. The East India charter permitted private enterprise, and boarding houses and cafés began to emerge.

With the abolition of the prosperous slave trade, downturn in the world economy following the Great Depression, and then the Second World War, Liverpool was hit hard. As a target for German bombing, and heavily reliant on the port, civil unrest began to arise and labour unions exercised their power via protest and strike. During the first war the ships had been commandeered for the Allied army, and gambling dens facilitated paid but leisure-bound workers. It was common for Chinese immigrants to marry local women, and in the 40s concerted efforts to draw the Chinese community back into the city centre anticipated modern city planning. During this time many associations were formed, and private enterprises began to resemble an ethnic enclave.

In the 1950s and 60s there was a sense of hope. Literal rebuilding, Commonwealth trade and the experimentation of social policy lifted spirit to the sound of
the Mersey Beat. The Beatles filled the Cavern Club, and Liverpool breathed again. Chinatown was now stronger than in the neighbouring city of Manchester, and expanded around the decaying and neglected city centre. Suburbs like Kirkby, and satellite towns such as Skelmersdale, Warrington and Runcorn were given funds to subsidise business, sucking enterprise and investment from the actual City Centre. When the Oil Shocks created a deep recession in the 70s such firms moved on creating a “doughnut effect”. A reputation for labour volatility, and the general state of decay cost Liverpool in its battle with rival ports. As the structure of UK trade began to favour Europe, and the Common Market, Portsmouth and Southampton found their proximity to the continent to be a competitive edge. Combined with Thatcher’s crusade against organised labour unions, Liverpool became a hotbed of militant activism, personified by the Socialist Council Leader, Derek Hatton. Riots and strikes further alienated the local government from central control (and the UK at large), and prevented an adjustment to new industry. Negative media stereotypes played an important role in perpetuating the spiral of decline. The advent of air travel reduced the flow of immigration, and Chinatown began to loose it’s momentum. Conditions in China had now radically altered, and all trade had become nationalized under Mao’s expanse of socialism. Imports were arranged via agents in China, and lucrative supplies were organised politically.

Believing that large scale funding was needed to combat such mass structural unemployment, the Merseyside Development Corporation (MDC) was the vehicle to rejuvenate the city. The International Garden Festival was a critical and popular success, paving the way for a £100 million project to restore the Grade I listed Albert Dock to
workable splendour. The Tate opened a gallery to great praise, in a bold dispersal of British art from the dominant London scene.

China was continuing its “second revolution” and the 80s reforms were opening up exports to competition. The variety of foods, and number of mainland agents increased dramatically, enabling a greater availability of produce in the UK. Such expansion would have been more to the benefit of Liverpool, if it weren’t for the Dockers strike in the mid 90s that diverted even more trade to other ports. The continued industrial decline was creaking under the weight of change, and battling against itself. The strike sealed the fate of the industry.

Restorations of dilapidated buildings began, and grand prizes were sighted as means to prompt culture and investment. Liverpool will be the 2008 European Capital of Culture, and was recently designated a UNESCO World Heritage site for the landmark waterfront. Like Ireland before, much of the funding for such a transformation came from European bodies such as the European Social Fund (ESF) and the European Regional Development Fund (ERDF) on account of Liverpool’s status as Category 1.

Awash with EU money designated for the poorest districts, the Liverpool Chinatown Business Association (LCBA) emerged as a consolidation of existing community groups to secure some of that investment into Chinatown. Occupying Nelson, Berry and Upper Duke street, and spreading into Kensington and Toxteth it included many of the 87 most deprived residential wards that were earmarked for investment.
Undoubtedly the Chinese Archway is the most notable achievement of the LCBA, and it fits into a three-part strategy.

Stage 1 was to construct the Archway as a symbol of confidence and as a focal point. It commanded huge media attention, and improved the visual setting of Chinatown. The second stage is the creation of a SME centre for small businesses. This is somewhat behind schedule, but all the while the LCBA acts as a means for Chinese people to open a business or navigate regulations and bureaucracy, and have created the first Chinese catering NVQ. Stage 3 is to regenerate Great George Square, by moving the pavilion and pagoda from the old Garden festival site onto the foot of Chinatown, to complement the arch.

3.1 Clubs: Providing Private Benefits

Upon the works of Buchanan (1965), Pauly (1970), McGuire (1972)(1974), and Frey & Eichenberger (1995)(1999), Dennis Mueller offers the following criteria for voluntary clubs: full mobility; full knowledge of the characteristics of all clubs; availability of a wide range of clubs spanning a range of desired possibilities; absence of scale economics; absence of spill-over between clubs; and an absence of geographical constraints on individual with respect to earnings (Mueller 2003). The chief constraint on the behaviour of clubs is the threat of exit, and although movement is free, each club must be bounded tightly, to prevent externalities from leaking. Ethnic groups are bounded by cultural identity, and can therefore be confident that provisions are kept within the group. For example, arranging for Chinese speaking medical staff in the local clinic will
not be of use to non-Chinese speakers. Whilst the Pagoda Centre’s Language Classes are available to all, realistically only members of the Chinese community will use them. Not only will Liverpool’s Chinatown act as a club to its habiting community, but can attempt to entice residents of other areas. This is best demonstrated in the popularity of Manchester Chinese restaurants, and the many members of Liverpool’s Chinatown who told me that they’d rather travel to Manchester for dinner. Manchester has a credit association, which provides banking services for Chinese people living in Liverpool. To this extent, the member of the ethnic economy will have a degree of choice over his preferred bundle of services.

3.2 Interest Groups: toward Political Representation

The subject of interest groups provides a “well-defined and well-established field of study” (Munger 19XX) for the Public Choice economist. Mancur Olson’s research (Olson 1965) implies that optimal interest groups will be small, homogenous, and distribute private benefits – an apt description of an ethnic economy. The private benefits will often be services such as language classes and access to qualifications; the very commodities that the “club” of Chinatown provides.

See also the infusion of “emotions and feelings” to the formation of social ties that tie policy makers to interest groups (van Dijk and van Winden 1997.) On the surface the characteristics that define a “club” overlap with those that enable an efficient “interest group”. An ethnic economy fits into both categories. My claim is that an ethnic economy is a type of “club” and in being so it has fertile potential to become an interest group
should rents exist. In the case of Liverpool, the LCBA was specifically formed in light of the inflow of EU funding: the injection of funding saw the transformation from “club” to “interest group”, and as section 3.4 will show, from “political entrepreneur” to “rent-seeker”.

In an age of social welfare, ethnic economies do not generate their own welfare functions, preferring informal inter-personal measures such as credit associations and lending. According to Cornwell (1964) though, when federal bureaucracy replaced local government in redistributing income “the more imaginative recouped part of their loss by helping to steer constituents through the bureaucratic maze, claiming credit for the benefits thus obtained.” This neatly describes a main function of the LCBA and other Chinatown community projects in terms of translation services and indeed general advice. The primary function of the LCBA is to assist new entrepreneurs in dealing with the legal issues required to form a new business.

The ethnic economies political representation will manifest itself in an elected leader, usually from the business community. In Svara (1987) we see that 82.8% of town Mayors perform ceremonial tasks, where the role is “representing the city, and appearing at many and various meetings, dinners, and social occasions”. An extension of this is the task of promoter: selling the city to enterprise, and securing money and investment from central government. The Chairman of the LCBA, Mr Brian Wong told me that raising the profile of Chinatown is a major component of his remit, and much of the investment made by the LCBA centres on branding and image. The archway had a massive impact
on the local media, and is used as a header on official Liverpool City Council propaganda.

Much of the literature on city managers introduce concepts such as the “new municipal chief executive model”, where council leaders take a business approach to mayoral duties. What is less evident is an approach that utilises ethnic entrepreneurship literature to demonstrate the emergence of governing bodies. In these cases, the funds are not in place to acquire political animals and so the position will often be created. This is a fine selection criterion for a capable entrepreneur.

3.3 Cameralism and Competitive Federalism

Wagner presents the Cameralists as a potentially rich orientation in which to view Public Finance. Between the c16th and c19th much of Europe was typified by high political fragmentation: an expanse of principalities. Schumpeter described them as “consultant administrators” on account of the multiple attentions to public service, business interests and indeed academia. Mr Brian Wong, is a Board Trustee of the National Museum of Liverpool, Deputy Lieutenant of County of Merseyside, and a Justice of the Peace, Liverpool Magistrate Court. He advises many local and national bodies, and directs training and qualifications for members of the Chinese community. This interplay between political life and business is typical of an ethnic economy, specifically the regard for qualifications and higher education.

Experience of enterprise was utilised by Cameralists to maintain a population, since the overriding goal was “high regime perpetuation” (Wagner), with a competitive
labour market. Under such circumstances, a heavily taxed population would merely exit and so state lands and enterprises were run productively as a main source of revenue. Tax, had to be a last resort.

As means to survive, and insure an able population for the ruler’s heir Cameralist policy was toward military capacity, improving technology, investment in human capital, new enterprises and population growth. The governance structure was a participant in the economic order, but not an intervener: “civil society and the state are non-separable and co-emergent” (Wagner).

The threat of exit is a crucial component of the relevance of this issue, and migration in general. As Tiebout (1956) demonstrated optimal bundles of “public goods” can be consumed providing citizens are free to relocate. As a club, an ethnic economy might be seen as entrapping it’s members, but as prosperity increases so does mobility. In it’s present stage, the proximity of Manchester acts as competitive pressure upon the “club” of Liverpool.

3.4 Joseph Chamberlain, and c19th Birmingham

“The germs of death are close to the seeds of life”

Gras 1949

Birmingham was known as the “city of a thousand trades” and enjoyed unprecedented prosperity due to the efforts of individual business enterprise in a region without geographical or historical advantage. In contrast to the North of England, the
industrial landscape of Birmingham was characterised by lots of small factories, and relative social cohesion. It is not my intention to claim equivalence to an ethnic economy, but it is worth mentioning some more similarities. Firms relied on internal labour mobility, where

“the hope of artisans in a workshop was to become masters themselves someday”

Marsh (1994) p.27

This can be tied to the vacancy chain (Waldinger 1988) literature in ethnic entrepreneurship. A further study could continue to compare today’s ethnic economies with the industrial revolution passage of development, so we will concentrate more on an individual integral to Birmingham’s success:

“Birmingham was particularly full of enterprising immigrants, of whom Chamberlain was to become the most famous”

Marsh (1994) p.11

Born in London, Joseph Chamberlain moved to Birmingham and entered business in 1854 and soon established himself as the “screw king” reaching the pinnacle of financial success during the height of the industrial revolution. He was, first and foremost, an entrepreneur and his endeavours should be seen in this light. Altruism was not his motivation. His experiments at encouraging and facilitating the working class’s voluntary quest for improvement failed: the thirst was for beer, not improvement.
Chamberlain realised that compulsion was the key to his schemes, and that required politics. Even in politics his loyalty lay with enterprise: if a policy faced ruin he’d merely tout it to new partners. He wasn’t for party politics – action proceeded unity. This level of mugwumpory is shared by Liverpool’s Chinatown since a preferential policy is more important than the party that presented it.

He became Mayor of Birmingham in 1873 greatly elevating the function of the office. He pushed the boundaries of political action toward economic and social reform, as a result of his experience within industry. History treats him kindly, but his position in economic literature appears scant. An exception: “machine-like organisations that flourished in the otherwise inhospitable English soil – Joseph Chamberlains’ Birmingham caucus.” (Cornwell 1964). Indeed he spawned a host of local government attempts at revenue generating enterprise.

Chamberlain’s first major political activity concerned education, and his motivation was a concern for competitiveness: he wanted an educated workforce, for economic reasons. The LCBA’s efforts to implement courses for members of Chinatown are similarly stirred. Rather than each singular firm compete with each other, the all-encompassing interest of a significant business leader spurs efforts to increase the size of the market, in competition with broader firms. The Chairman of the LCBA is well aware that his success in this capacity will benefit his competition within Chinatown, but by expanding the size of the market, both can gain. Wong and Chamberlain share wide views of their market, and their competition. Both began their respective political careers as a teacher, and see themselves as either militants or activists. More importantly, there’s
a specific reason why prominent business leaders are likely to possess the potential for a political career:

“His [Chamberlain] desperate concentration on business made him unusually knowledgeable about what was happening in the local economy”

Marsh (1994) p.25

In other words their enterprise forced an understanding of market conditions, alerting them to the political and/or economic opportunity of stimulating a depressed region.

Chamberlain was the tipping point toward state intervention in social affairs, but was close to a path of state enterprise. At the time, the UK was a centralized political entity and the regions have never been able to wrestle control from Westminster. If the Liberal Party had not imploded, and the concentration of power resisted, there is enough evidence to suggest that enterprise governance may have evolved. His first big achievement was the purchase of the city gas works, as an entrepreneurial venture on behalf of the city. Although previously in private hands, Chamberlain wanted to expand output to gain economies of scale and utilise his accounting ability. The profits that the city made were then used to buy the water works, and that had more of a social motivation. They began to serve the inner city, were financially self-sufficient, and paid dividends. Chamberlain’s view of a municipal government was as:
A joint-stock or co-operative enterprise in which every citizen is a shareholder, and of which the dividends are receivable in the improved health and the increase of comfort and happiness of the community. The members of the Council are the directors of this great business, and their fees consist in the confidence, the consideration, and the gratitude of those amongst whom they live. In no other undertaking, whether philanthropic or commercial, are the returns more speedy, more manifest, or more beneficial."

Chamberlain (1892) p.281

I think enough prior treatment will enable the reader to peel through the layer of political rhetoric, and uncover an entrepreneurial vision, and enterprise governance potential. In the case of Chinatown, the leaders of the LCBA combine political activity with business ownership and so the payment for improvements in infrastructure is expected to be pecuniary, rather than votes. Aside from buying utilities to improve the economic and physical health of Birmingham, Chamberlain engaged in a program of civic investment to make the general environment more conducive to business. At this point, he turned from “state as enabler” to “state as granter” and the path of Liberalism was diverted toward the modern American definition. Regarding Chinatown, the architecture, and confidence is key the role of the LCBA. The implementation of CCTV cameras is a major weapon on the war on crime, and as a high-risk area the Council have invested resources in preventing delinquency. Restructuring the thoroughfare has reduced joyriding, but to a detrimental affect of reducing the transportation links between Chinatown and the cities main thoroughfare.
4.1 Conclusions

The theoretical framework of an ethnic economy closely resembles the typical criteria for clubs and interest groups. If the crucial distinction between those two terms is the intentional acquisition of rents, we’d expect the prospect of grants will turn a “club” into an “interest group”, and for political representation to manifest itself in the emergence of a community leader, exhibiting “city manager” tendencies. It is important to note, however, that any ethnic economy is a function of its own space and time, and we cannot assume the similarities found within Liverpool will hold elsewhere. But this article intends to create the foundation upon which future empirical studies can seek to analyse the governance structure of an ethnic economy. If the story presented herein contains truth, there will not only be a significant increase in the understanding of how immigrants organize economic activity, but also the applicability of Public Choice methodology.

4.2 Supplementary Research to Finish (if possible to obtain)

- Acquire a copy of the constitutions of the LCBA
- How would the LCBA fund its activities without EU support?
- Does it receive donations from business?
- How much prosperity is due to the shipping route? Is this “bounty”?
- How much of an interest does Wong have? What % of Chinatown?
- Correlation of Press Articles to the Archway
- What is the extent of the Liverpool-Manchester flow?
• Extend the study to Chinatown, Manchester, UK

• Extend the analysis to other literature on community associations formed within ethnic economies
4.3 References:


Munger, M. “Interest Groups”. In Rowley (ed.)


Pauly (1970) “Cores and Clubs” *Public Choice* 9 (Fall) 53-65


Van Dijk and van Winden (1997)


