

The Decision to become an entrepreneur and entrepreneurial success among ethnic minorities and immigrants: The case of Israel

by

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Abstract

Entrepreneurship is often considered as a route towards greater economic equality for population groups that are disadvantaged in the formal labor market, such as minorities and immigrants. However, these same population groups often face obstacles as entrepreneurs that prevent them from taking full advantage of their entrepreneurial activities. Israel is a perfect case study in this regard because it has a large Arab minority and a large group of recent immigrants. This paper examines the choice of becoming self-employed and the income gaps between Arab, immigrant and native entrepreneurs, using a version of the Oaxaca-Blinder decomposition technique corrected for selectivity into self-employment. We found that both Arab and immigrant entrepreneurs earn less than the native entrepreneurs, despite the fact that selectivity into self-employment is more severe among Arabs and immigrants. Several observable differences explain these income gaps, in particular age and gender differentials as well as the regional population distributions. However, most of the income advantage of the native self-employed is due to the superior returns on their attributes. Customer discrimination against Arab and immigrant entrepreneurs could explain these results, but at least part of the different returns could reflect our inability to capture all observable differences among the populations.

Key words: Entrepreneurship, minorities, immigrants, earnings, decomposition

JEL codes: C34, J31, J70

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