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Immigrant Businesses

The Economic, Political and Social Environment

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7 The Economic Theory of Ethnic Conflict: A Critique and Reformation

Roger Waldinger¹

Introduction

The 1960s and early 1970s represent a period of fertile theorising on race and ethnicity. Conflict sociology bore fruit earlier in this field than in others, mainly for circumstantial reasons. The consensual assumptions of earlier theories, such as Park's concept of the race relations cycle, were too incompatible with the events sociologists saw around them; looked at in the same light, the micro focus of the social psychological literature, while not inherently objectionable, appeared fundamentally incomplete. But whatever the precise causes there can be little question about either the theoretical trend or its import. Theories such as Lieberman's (1961) 'societal theory of race and ethnic relations', van den Berghe's (1978) 'taxonomy of paternalistic and competitive race relations system' and Rex's (1970) 'Weberian class analysis of race relations', to take just the most prominent of examples, were bold departures that sought to address macrosociological dimensions with a particular emphasis on power and conflict.

However penetrating these insights may be, they are now mainly found in textbooks. There is little in this earlier body of theorising that clearly influences research on race and ethnicity today. Only one body of work appears to have escaped this fate: the 'split labour market' and 'middleman minority' theories developed contemporaneously by Edna Bonacich. Several factors appear to explain why Bonacich's work has stood up so well. In contrast to the grander objectives of Rex and van den Berghe, Bonacich's work was somewhat more narrowly focused. In the case of the split labour market theory, that focus converged with the topic that has since come to preoccupy research in this field – economic differences between white Americans and other ethnic groups.

In the case of the middleman minority theory, Bonacich turned out to be prescient in identifying a phenomenon that would soon turn from an object of historical interest to one of contemporary concern. Immigrant business is now an activity of significant quantitative dimensions throughout the industrial West; its determinants and consequences are subjects of considerable empirical as well as theoretical work.

Though Bonacich's work has been influential, it has not been fully recognised for what it is: an attempt at an integrated theory of ethnic conflict, deriving antagonism from underlying economic oppositions. In practice the two theories receive little consideration as a theoretical whole. Since each seeks to illuminate different empirical problems, they are invoked in isolation from one another. For example Stone's (1985) book on sociological thinking about racial conflict first applies split labour market theory to black-white relations in South Africa, and thirty pages later employs middleman minority theory to treat the problem of entrepreneurial minorities – without ever mentioning a conceptual affiliation between the two ideas. Yet as I shall show, the theories not only share a common intellectual approach, but are essentially similar in logic of argument, causal connections, underlying assumptions, objectives and conceptual tools.

An integrated reading of Bonacich's work has two objectives: to examine the scope of her intellectual agenda and the boldness of her effort, and to analyse her intellectual framework. As I shall show in the critique that follows, both split labour market and middleman minority theories are afflicted by two fallacies.

The first of these is the *competitive fallacy*. In both theories Bonacich argues that conflict is the result of economic group competition at the initial contact point. This assumes that competition characterises the underlying economic reality that migrant labour and middleman minority groups encounter at the time of their incorporation into capitalist societies. I will argue for an alternative, emphasising structural processes that place both migrant labour and middleman minority groups into non-competing economic segments.

The second is the *culturalist fallacy*. As economic explanations of ethnic conflict, split labour market and middleman minority theories should view behaviour as flexible adaptations that alter with varying economic situations. However Bonacich explains behaviour as a consequence of prior cultural differences that are resistant to economic changes.

The basic strategy of this chapter is to recapitulate these theories, underlining common elements and emphasising ideas that have been

insufficiently appreciated, and then to present a critique, discussing each of the problems identified above and offering alternative formulations.

The theories recapitulated

Split labour market theory

'Ethnic antagonism' is the explanandum, as Bonacich indicates by the title of her first article on the subject.² The central hypothesis is that ethnic antagonism first germinates in a labor market split along ethnic lines' (Bonacich, 1972, p. 549). Thus the labour market is split *prior* to conflict between groups. But under what conditions does this occur? The split labour market must contain at least two groups of workers whose 'price of labour differs for the same work, or would differ if they did the same work' (ibid.). These 'price differences' have two sources: (1) disparate 'motivations', which include income goals and commitment to industrial work and 'are related to the worker's intention of *not remaining permanently in the labour force*' (ibid., p. 550, emphasis added); and (2) differences in 'resources', a concept which includes standards of living, extent of information and trade union experience among competing groups on the labour market. Not only do expectations play a crucial role in determining the 'price of labour', Bonacich argues that they are generated outside, not within the workplace or the broader labour market institutions to which they are attached.³ Thus Bonacich considers the white settler colonists who established themselves as independent farmers and artisans as 'high-priced' labour, even though, as she concedes, they were 'not strictly speaking "labor"' (Bonacich, 1981, p. 243). More important for the theory are the factors that affect the expectations of lower-price labour. Bonacich argues that 'the fate of (lower-priced) labor is determined by their lower *initial* price of labor, an attribute they bring with them into the capitalist economy' (ibid., p. 242). Indeed the examples that Bonacich uses to develop her theory - Africans recruited to work in mines in South Africa; Asians recruited for work in California; attempts to recruit Indians, Chinese, and Japanese for work in Australia; the recruitment in the United States of black southern sharecroppers to northern factories; and so on - all involve migrant groups recruited into capitalist economies from less developed or even non-monetised economies.

The dynamics of the split labour market are propelled by the motives of capitalists and the two classes of labour. 'Capital will *naturally* gravitate toward the cheaper group' (Bonacich, 1979, p. 25) and cheaper labour can be used by the employer 'to undermine the position of

expensive labor, through strike breaking and undercutting'. This threat by competitors who are willing to take a lower wage generates antagonism among higher-paid workers, who seek to retain their advantaged wage position by excluding cheaper labour altogether, or restricting them to low-level, 'caste'-like positions (Bonacich, 1972, p. 554).

Three additional points are worth noting. Firstly, the concept of 'price of labour' is unusual, meaning neither labour cost nor wage. Rather it is the wage needed to attract a particular group of workers to a specific activity; the closest counterpart is the economist's notion of a 'reservation wage'.⁴ In effect, Bonacich contends that sociologically distinct groups of workers will differ in their reservation wages, which are in turn determined by premarket factors. Secondly, the theory presumes no prior contact between groups, since it is precisely conflict resulting from a contact situation characterised by 'price differences', and not simply cultural differences, that the theory seeks to explain. Furthermore the concept of 'price differences' itself presumes no contact. For low-priced labour to entertain distinct expectations it must be both independent and external to the labour market. Were there contact, *interdependent* wage expectations would quickly take root.

Thirdly, the 'split labour market' is not only different from but also the opposite of the similarly sounding concept developed by segmented or dual labour market theory (see Bonacich, 1979, pp. 35-7). Since 'price differences' exist prior to contact, labour markets 'are split by the entrance of a new group' (Bonacich, 1972, p. 549). One consequence of the split is 'caste', the consignment of low-priced labour to subordinate, dead-end jobs. That women and racial minorities are confined to secondary firms and industries is explained by these efforts of primary workers to protect themselves' (Bonacich, 1979, p. 36). By contrast, in segmented labour market theory, segmentation comes first, caused by technological and societal factors, followed by the recruitment of subordinate ethnic groups to low-level segments from which upward mobility is difficult or impossible. This difference is most apparent in Bonacich's article 'Advanced capitalism and black/white race relations in the United States' (1976), where she argues that the principal cause of unemployment among blacks is their displacement from 'high-priced labour' jobs. By contrast segmented labour market theory explains black unemployment as a consequence of dependency on secondary sector jobs; blacks' confinement to the secondary sector creates a high level of frictional unemployment (Piore, 1979a).

To reiterate, 'split labour market' theory is an attempt to explain ethnic antagonism. The split in the labour market refers to price differences

between two groups with no prior history of contact with one another; price differences are principally determined by non-labour-market factors; institutional barriers result from the conflict between capital and differently priced groups in the labour force.

Middleman minority theory

In this case, ethnic antagonism is *not* the explanandum. Rather the theory seeks to explain the development and persistence of a particular configuration or form: ethnic minorities concentrating in intermediate positions where they engage in trade, commerce or other activities with outgroup members. By persistence, Bonacich means the survival of the middleman form, from the precapitalist situations with which it has been historically identified, to modern capitalist societies. Persistence is a particular problem for contextual theories that 'predict that middleman minorities arise only in certain kinds of societies', namely those characterised by a status gap or a derogation of trade. But middleman minorities are 'found in environments that do not conform to the specified type' (Bonacich and Modell, 1980, p. 26); hence one must look to other factors for an explanation of middleman minority persistence.

Middleman minority theory has undergone two permutations. In the original elaboration the argument hinged on the importance of sojourning, which Bonacich (1973, pp. 585, 588) identifies as a necessary though not sufficient condition of the form. Middleman minorities, Bonacich argues, begin as sojourners, enduring short-term deprivations for the long-term goal of return and choosing specialisations that are easily portable to other societies or liquefiable for return home. Sojourning also breeds in-group solidarity and distance from the host society, thereby providing mechanisms for controlling intragroup tendencies for conflict or competition. These characteristics made middleman economic behaviour 'closely akin to preindustrial capitalism' (ibid., p. 588). The 'universalism' of the modern industrial capitalist, 'the isolation of each competitor is absent in middleman economic activities, where primordial ties of family, region, sect, and ethnicity unite people against the surrounding, often individualistic economy' (ibid., p. 589). The characteristics and behaviour of middleman minorities in turn induce hostility from host society groups, especially business and labour, who find themselves in competition with price-cutting middleman minorities. Bonacich emphasises the fundamentally interest-based aspect of this conflict, arguing that conflict occurs because 'elements in each group have incompatible goals' (ibid.). Contending

that 'each party to the conflict has a "reasonable" point of view' (ibid.), Bonacich argues that 'the difficulty of breaking entrenched middleman minorities, the difficulty of controlling the growth and extension of economic power, pushes host countries to ever more extreme measures...until, when all else fails, "final solutions" are enacted' (ibid., p. 592).

A somewhat different approach appears in Bonacich's book on Japanese-Americans, coauthored with John Modell in 1980. Here Bonacich and Modell skirt explanatory issues, taking an agnostic position on how best to account for the middleman form and backing pedalling on the earlier central focus on sojourning. Although they concede that contextual theories have some validity, they point to the many examples of middleman minorities in advanced capitalist societies and emphasise again that persistence is a problem that contextual theories cannot explain. This second permutation otherwise resembles the original version. Bonacich and Modell emphasise the interrelationship of three distinctive traits: group solidarity, economic position in non-productive business lines, and the characteristically hostile reaction of host society groups. They argue that 'the essence of middleman minorities lies in the way they organize their economic activities' (Bonacich and Modell, 1980, p. 23); in this respect a key factor is that 'middleman minorities are not modern capitalists in orientation' (ibid., p. 32). The 'social form' of middleman minorities 'dictates' concentration in small establishments, 'limits the size and nature of the firms they establish', and makes it 'imperative that people (in middleman firms) know each other well and in many contexts' (ibid.).

The common elements

The following summaries help us identify key elements that are common to both theories.

Outside, culturally distinctive groups

The driving force in both split labour market and middleman minority situations is the importation of outside groups with distinctive cultural norms. In the split labour market situation, 'motives' are obviously cultural in content. So too are such aspects of 'resources' as 'level of living', in which case the standard of living in the home society determines a group's labour price in the host society, and 'information', in which a key factor is how much 'people know about conditions pertaining to the labour market to which they are moving'

(Bonacich, 1972, p. 550). In both versions of middleman minority theory, the middlemen are immigrants whose imported attributes, particularly sojourning, solidarity and a 'petit bourgeois' form of economic organisation, set into motion the whole train of events described above. Given the centrality of these original cultural norms, the question of their malleability bears strongly on the theories' internal consistency.

Wage and price competition

Wage and price competition are pervasive in both theories, driving conflict and antagonism. Clearly if the employers of high- and low-priced labour were not competing on the basis of wages, or if low-priced labour did not present a competitive challenge to the wages of high-priced labour, 'price differences' could exist and still not engender conflict or antagonism. Similarly competition flows from Bonacich's rejection of contextual theories of middleman minorities, since if middlemen filled a gap or niche, the likelihood of competition between native and middleman groups would be much lower. Yet again competition is crucial in fanning host society hostility and thereby reinforcing the original middleman traits.

Undifferentiated categories

In both theories Bonacich regards opposing groups as essentially undifferentiated – a logical correlate of the emphasis on competition. Price differences are the only relevant aspect distinguishing one group of labour from the other; disparities in skill, social organisation in the workplace, orientation towards work and so on do not affect their role in the system of production. Similarly 'business is business', and there is no differentiation between the needs of resource-exploiting and manufacturing businesses, as in Greenberg's (1980) comparison of South Africa, Alabama and Northern Ireland, or as in the better known taxonomy of segmented labour market theory. Similarly consumer, business and labour groups are all pitted against the middleman minority.

Critique

The competitive fallacy

Without economic competition among groups at the time of contact there would be no antagonism, and hence none of the dynamics that drive Bonacich's theories. But Bonacich assumes economic competition and never provides any plausible reasoning to back up that assumption.

By contrast I will argue that for both migrant labour and middleman minority groups the contact point is more likely to be characterised by *non-competition*.

Competition and the split labour market

For Bonacich, the wages of low-priced labour are almost entirely determined by external factors. But this view implies conflict between 'high-' and 'low-priced' labour only if one adheres to a view of labour market reality in which these groups compete against each other. Rather than assume competition, as does Bonacich, one can instead argue in favour of non-competing labour market segments, with roots in technological or political factors, as does Michael Piore (1979b). In this model labour mobility across segments is impeded and wage determination processes are similarly disconnected, therefore 'low-priced' labour can be recruited into one segment without threatening the interests of the 'high-priced' workers in the other segment. Indeed Piore goes further, arguing that migrant workers do not pose a competitive threat as long as they possess those same characteristics – a sojourning orientation, wage norms deriving from a different wage hierarchy, and so on – that Bonacich views as the source of 'low-priced' labour's competitive threat. As long as migrants retain this distinct set of work orientations their recruitment may actually be in the interest of 'high-priced' labour, who would otherwise be forced to bear the costs of instability that instead are absorbed by the migrants.

There are two ways of adjudicating between these two interpretations – one theoretical, the other empirical. The logic for Bonacich's competitive view of the labour market rests on her assumption that the relevant actors are essentially undifferentiated, as noted before. But that assumption seems entirely grounded in the types of empirical material that Bonacich used to generate her theory. As a close reading of her 1972 article shows, *all* of the clearly specified examples involve two types of extractive industry with undifferentiated labour requirements: capitalist agriculture (Australia, Guyana, southern US, West Indies, California) and mining (South Africa, Pennsylvania). Clearly the mobilisation of labour is a generic problem of these extractive industries that emerge at early or geographically peripheral stages of capitalist development; hence the incessant recourse to heavily coerced labour from non-capitalist areas. Not only that, they are also particularly sensitive to wage pressures, since as Greenberg (1980, p. 135) points out, 'profitability depends on their ability to hold down costs at the most vulnerable point – the mass of unskilled workers'.

Whether a theory of split labour markets in extractive industries can be further generalised is another matter. Outside the extractive industries there are other concerns besides labour costs. One need not subscribe to a technological explanation of internal labour markets (Althausser, 1989; Doeringer and Piore, 1971) to agree that employers are concerned with securing and maintaining their trained labour force and have striven hard to increase stability (Jacoby, 1985). These considerations have implications for the labour demands that specific types of employer or industry generate. The 'secondary' industries of advanced capitalist societies can and do make use of unskilled, temporary migrant workers precisely because they are like extractive industries in the sense that their labour is interchangeable and replaceable (Böhning and Maillat, 1974). But where there has been substantial investment in training, where the labour force is skilled or where long-established interdependencies among workers play a crucial role in the production process, unskilled migrant workers cannot readily serve as substitutes for skilled labour.

These issues bring us to the empirical question, in which resolving the dispute hinges on the question of timing. Did contact between competing groups lead to the creation of a structure that produced 'caste' and thereby diminished the competitive threat posed by low-priced labour? Or did the structure come first, and then the recruitment of culturally distinct, low-priced groups? Consider the circumstances under which African-American workers were recruited into US industry, a decisive case for the theory and one on which Bonacich's own analysis pivots. The sequence of events strongly suggests that structure preceded contact, not the other way around as Bonacich insists. Firstly, blacks did not make substantial headway into manufacturing industries until the outbreak of the First World War cut off the flow of migrants from South and Central Europe.

Secondly, the jobs to which immigrants from Southern and Central Europe (SCE) were recruited were circumscribed in well-defined ways that limited competition with native-born or North European immigrant workers. In part, such circumscription has roots in very early attempts by skilled workers to achieve employment security and advancement. As Elbaum (1984) shows, the development of internal promotion practices in the steel industry goes back to the 1860s, with protection from competitive market conditions yielding wide occupational wage differentials. The steel industry is a key case: it was an important employer, first of SCE immigrants and later of blacks; moreover circumscription resulted from management strategy. Management objective, as Brody

(1960) shows, was to maintain a stable cadre of skilled, albeit non-union workers alongside a floating supply of unskilled immigrant workers. While some immigrants could gradually enter skilled ranks over time, many 'moved out at the first depression or with a satisfactory accumulation of capital' (*ibid.*, p. 108). Thus the transience of the SCE immigrants fits in with the industry's need to accommodate economic fluctuations. That same characteristic excluded them from competition for skilled jobs.

Finally, when large-scale black recruitment into industry began, it involved replacement not displacement. The advent of labour shortages led to recruitment from the south by agents, starting around 1916 during a period of relative labour stability and before the 1919 strike upsurge in which black-white competition played an important part (Marks, 1989). Moreover the role of labour agents and direct recruitment by northern business appears to have been greatly overplayed. Recent historical studies find little evidence that black settlement or colonisation in an industry resulted from direct employer efforts (Bodnar *et al.*, 1982). Rather information flows through informal networks and community institutions such as newspapers, galvanised a northward movement (Gottlieb, 1987; Grossman, 1989) that had begun as early as the 1870s. Thus it appears to have been opportunities that precipitated migration, not recruitment that created opportunities. There is also little evidence that industry suddenly rearranged its job structures when it shifted from an SCE immigrant to a black labour supply. Rather, as Nelson (1975, p. 146) notes, the 'experiences of southern black emigrants... demonstrate the persistence of the informal system' by which SCE immigrants had earlier been recruited.

Competition and middleman minorities

Contending that middleman minorities 'persist beyond the status gap', Bonacich (1973, p. 584) concludes that the explanation for middleman persistence *must* lie in the characteristics of the groups, and not in the characteristics of the societies in which they arise. But Bonacich never considers alternative contextual explanations that do not emphasise status considerations. This is particularly damaging to her theory, since the same structural factors that create opportunities for middleman minority-type groups also limit competition with native groups.

An alternative contextual explanation, which is outlined here, emphasises those processes that create entrepreneurial niches into which minorities can move without competing with or displacing native workers or businesses. In rapidly developing capitalist societies the key

factor is the growth of new industries; under these conditions, business opportunities for immigrants or minorities arise through *niche creation*. In fully developed capitalist societies, by contrast, a more important factor involves the limits to economies of scale, leading to *niche maintenance*. In these persisting niches, replacement processes, akin to the ways in which immigrant workers succeed native-born labour, produce vacancies for immigrant or minority business owners; thus the emergence of opportunities can best be characterised by *niche succession*. In both cases systemic conditions lead to the emergence of *non-competing segments*, placing immigrant or minority business owners into lines of business where competition with natives is minimised.

The process of niche creation characterises the transformation of European Jews under the impact of industrialisation. In this case industrialisation pulled Jews away from their traditional middleman activities, while creating new activities in which they remained distinct from the broader Jewish population. Thus the early nineteenth century saw Jews in Western Europe move away from their traditional concentration in money lending and peddling into new business lines in commerce and industry (Sorkin, 1987). While trade and commerce continued to exercise a disproportional influence on the Jewish employment profile, in the late nineteenth and early twentieth century, the Jewish share of commerce and trade declined. Simultaneously, expanding opportunities for professional self-employment provided new avenues for niche expansion in cities such as Berlin, Vienna, Budapest and Prague (Cohen, 1983; Goldscheider and Zuckerman, 1984; Rozenblit, 1983). Indeed, the rapidity with which Eastern Jewish migrants to the Central European cities moved up, at a pace that compares favourably with the much celebrated experience of Jews in the United States, testifies to the extraordinary opportunities they found (Rozenblit, 1983; Wertheimer, 1987). In the West European and US cities to which Jewish immigrants from the Pale moved in the late nineteenth and early twentieth century, the clothing industry provided a particularly supportive environment. In these cases the influx of Jewish immigrants coincided with a burgeoning demand for factory-made clothes from the 1880s onwards; Jews provided the industry with its petty entrepreneurs, and for a while its labour (Green, 1985; Rischin, 1962; Schmichen, 1984). In these large cities Jews subsequently entered new niches as they arose, reducing their role in wage and salaried employment, all the while maintaining a disproportionate presence in clothing and related industries. Thus entry into new and growing industries, such as construction, real estate, entertainment

and high technology, led to niche diversification (Aris, 1970; Glazer and Moynihan, 1962).

By the late twentieth century, American Jews had entirely transformed their niche, while retaining a distinctive economic role. Though still highly concentrated in a relatively narrow set of industries and occupations, American Jews in such cities as New York and Los Angeles had largely shed their traditional economic base, retaining only a handful of small clusters in trade. In all respects but one, namely the persistently high rate of self-employment, the Jewish niches of the late twentieth century have an utterly post-industrial cast, with education, legal services, publishing, advertising, public relations and theatres topping the list (Waldinger, 1996a; Waldinger and Lichter, 1996).

In advanced capitalist economies where growth proceeds more slowly there are two crucial factors: processes that maintain a favourable environment for small business, or *niche maintenance*; and processes that create vacancies in those niches, characterised here as *niche succession*.

Niche maintenance. The structure of industry, namely the number of businesses, capital and technological requirements, is a powerful constraint on the creation of new businesses. New firms are unlikely to arise in industries that we characterised by extensive scale economies and high entry costs. However most Western economies contain niches where techniques of mass production or mass distribution do not prevail. Five such niches can be identified:

- *Underserved markets*. These are markets that are underserved by the large, mass-marketing organisation. In the United States and Western Europe, immigrants mainly reside in core areas of urban centres that are both ill-suited to the conditions of large firms and favourable to small enterprises (Simon and Ma Mung, 1987; Waldinger, 1986; Ward, 1987b).
- *Markets with low economies of scale*. Since returns to scale in these markets are limited there are few or no capital-intensive, high-volume competitors. Hence small immigrant business owners, especially those in urban cores, can successfully pursue a strategy of self-exploitation (Ma Mung and Guillon, 1986; Orlick, 1987).
- *Segmented product markets*. When demand falls into stable and unstable portions, and the two components can be separated from one another, industries may be segmented into non-competing branches (Piore, 1980). One branch is dominated by large firms handling

staple products; a second, composed of small-scale firms, caters to the unpredictable and/or fluctuating portion of demand. The small-scale sector, with its low entry barriers and high capital-to-labour ratios, offers ethnic entrepreneurs an accessible route to the general market.

- *Ethnic consumer markets.* These are 'protected' markets that arise when ethnic communities have a special set of needs and preferences that are best served by those who share those needs and know them intimately. Under these conditions ethnic entrepreneurs have an advantage, since servicing these needs involves a direct connection with the homeland and specialised knowledge of tastes and buying preferences – qualities that are unlikely to be shared by larger, native-owned competitors (Aldrich *et al.*, 1985; Light, 1972).
- *Markets for exotic goods.* Native interest in exotic goods allows immigrants to convert both the contents and symbols of ethnicity into profit-making commodities. Immigrant entrepreneurs are likely to be the only business owners who either possess the special product or can supply or present it in conditions that are seemingly authentic (Palmer, 1984).

Niche succession. This involves the relationship between the supply of native entrepreneurs and ownership opportunities. Should the supply of native owners for a small business industry dwindle, immigrants may take over as replacement owners. Niche succession occurs under a variety of conditions. At the neighbourhood level, replacement opportunities for immigrant owners selling to their coethnic neighbours arise as a result of ecological factors (Aldrich *et al.*, 1989).

In the general economy the crucial factor is that the petite bourgeoisie does not often reproduce itself, but survives through the recruitment of owners from lower social classes (Bechhofer and Elliott, 1981). To some extent, it is the very marginality of the small business position that discourages heirs from taking up their parents' modest enterprises (Berteaux and Berteaux-Wiame, 1981). In the central cities of the United States, where small business has been concentrated among European immigrants and their descendants, the rising social class position of Italian, Jewish and other European ancestry groups has weakened recruitment into small enterprise; similar processes have been observed among the long-established Jewish population in Britain (Pollins, 1982). When native groups weaken in their recruitment to small business their share of the small business sector inevitably declines, if for no other reason than the high failure rate to which all

small businesses are prone. Birch's (1987) studies, for example, have shown that 8 per cent of all firms in US metropolitan areas close down each year, which means that almost half of all firms in any area must be replaced every five years for the area simply to break even.

The burgeoning of immigrant business in New York's clothing industry shows how the diverging appeal of small business for immigrants and natives creates a favourable environment for immigrant entrepreneurs by reducing the competition for business positions. Immigrant clothing factories fail at a higher rate than their native-owned counterparts, but the crucial difference is that immigrants establish new businesses at a very high rate. By contrast there are virtually no natives replacing other natives whose factories fail. However, higher-profit and higher barrier-to-entry lines in the industry retain white ethnic entrepreneurs. Immigrant factories have burgeoned, but they function as contractors, producing to the specifications set by manufacturers, which are invariably Italian- or Jewish-owned concerns. This relationship makes new and old small business groups complementary rather than competitive (Waldinger, 1986).

In the end, opportunities are a necessary though not sufficient condition of the persistent business activity of immigrant or minority groups. A full explanation of middleman persistence need only consider immigration, since some immigrants in virtually all modern capitalist societies respond to the disadvantages of their situation by seeking out business opportunities. Of course in order to explain which immigrant groups concentrate on business we would have to emphasise the interaction between opportunities and those group characteristics that provide a predisposition for entrepreneurial activity. For the purposes of the issues at hand, however, the crucial argument is that the secular trends creating opportunities for ethnic entrepreneurs systematically *reduce* competition with natives, thus short-circuiting the conflictual cycle prescribed by middleman minority theory.

The culturalist fallacy

Both middleman minorities and 'lower-priced' groups of labourers come from very different backgrounds when entering host societies. The fundamental factor producing conflict is the new groups' distinctive attitude towards work and income generation – in other words their cultural attributes. But if this attitude is economically conditioned it should also be malleable, altering rapidly as economic circumstances change. But in Bonacich's treatment economic orientation, as

well as the antagonisms it supposedly produces, is highly resistant to change. Indeed both theories rest on attitudinal and cultural stability, since otherwise the interaction chains linking interest, economic pre-disposition and conflict would be decoupled.

In the case of middleman minority theory, Bonacich is particularly emphatic on the invariant nature of their economic orientations. As noted in the summary, she contends that middleman minorities will not take advantage of economic opportunities in the same way as members of host society groups. In particular middleman minorities will not hire out-group members nor will they seize chances to expand their firms. Clearly this general line of argument is entirely consistent with Bonacich's views of middleman-host society interactions, as pointed out in the summary above.

But is it true that middleman minorities will *not* be 'modern capitalists' – regardless of the opportunities they confront? There is little evidence to support this proposition. American Jews have been active in numerous large-scale enterprises in which gentiles comprised the majority of employees; even in the garment industry Jews ceased to be the dominant workforce group as early as the 1920s (Kessner, 1981). In Germany 79 per cent of all department store trade took place in Jewish-owned stores, with the not surprising result that anti-Semitic propaganda made much of the fact that non-Jewish women were employed in these Jewish-owned stores (Gross, 1975). In Poland, Jewish-owned textile mills employed an exclusively gentile workforce (Mendelsohn, 1970). The behaviour of Jews in this respect is not exceptional. When immigrant streams dry up, ethnic entrepreneurs have repeatedly shown their willingness to tap into other labour pools when in-group members are no longer available. Thus the typical Greek restaurant in US cities sells to American customers, employs Greek waiters but hires non-Greek immigrants to work in the 'back of the house' (Bailey, 1987). Nor are Korean merchants in US cities, perhaps the classic case of the contemporary middleman minority, averse to hiring non-Koreans (Min, 1989).

In split labour market theory, invariant views of the distinctive cultural traits apply to both 'low-' and 'high-priced' groups. Bonacich's characterisation of the distinctive occupational and wage orientations of 'low-priced' labour is plausible; what is questionable is how long those distinctive traits last. To begin with, the social structures that keep the target earner's wage aspirations low do not last for long (Piore, 1979b). As a migration stream continues over time, the later arrivals are increasingly influenced by the experiences and expectations of

those who preceded them; consequently the presence of settlers brings the later arrivals more closely into line with the norms of the host society. Even this assumption of fundamental discontinuity in work orientations between early temporary or circular migrants and their hosts is unlikely to hold true. Long-distance migration from Europe or countries south of the United States was often the culmination of earlier, shorter moves during which migrants from rural areas were likely to have obtained some exposure to industrial work and small city life (Bodnar *et al.*, 1982; Gottlieb, 1987). In many cases the birds of passage were the veterans of several earlier long-distance sojourns (Thistlethwaite, 1960). Moreover the relationship between stayers and migrants leads to a secular increase in earnings expectations: remittances produce gains in consumption, which in turn lead to greater consumption demands and therefore spiralling expectations of the remittances that migrants will send home (Massey *et al.*, 1987). Thus the wage expectations of migrants and host groups undergo strong pressures towards convergence right from the very start.

Of course these arguments flow from a rather different conceptualisation of labour migration from the one Bonacich adopts. For Bonacich, migration is the consequence of employer recruitment, occurring when 'employers turn to cheaper sources' (Bonacich, 1972, p. 553). But direct employer recruitment, though not insignificant, is far less important than the social networks in which labour migrations have been rooted (Bodnar, 1985; Portes and Rumbaut, 1990). Because networks provide for efficient flows of information (Massey *et al.*, 1987), labour migrants are neither as unfamiliar with prevailing wages and conditions nor as distant from the living and consuming norms of their host society as Bonacich asserts.

Thus the 'low-priced' group is likely to become *more* like the 'high-priced' group, with substantial changes in its wage and working orientations occurring over a short span of time. Yet if the 'labour prices' of the two groups converge, what happens to the antagonism of the 'high-priced' group? Bonacich never says; indeed in her 1976 article she discusses the contemporary economic problems of African-Americans without ever mentioning the issue of white antagonism. Nonetheless her theory clearly implies that white antagonism should have undergone drastic decline, since the rational roots of the antagonism no longer apply. Whether or not African-Americans were originally resented because they were 'low-priced' labour, this no longer applies today. Compared with current immigrants, African-Americans belong to the class of 'high-priced' labour, having 'rejected the sweatshop as had

white workers before them' (Bonacich, 1976, p. 48). Consequently one rarely hears the complaint that African-Americans are potential strike-breakers who are pushing down wages; the view more commonly expressed is that blacks, like whites before them, 'are unwilling to work under rough conditions for low wages' (ibid.). The advent of immigrants has had two consequences: the displacement 'of black industrial workers who had made important gains under the New Deal', and 'the persistence of peripheral or marginal firms operating on cheap labor [which] means that the split labour market is not dead' (ibid.). But the arrival of immigrants should also diminish white antagonism towards blacks, since from the perspective of realistic group conflict it is immigrants, not blacks, who provide the greater potential for wage undercutting. Thus, either split labour market theory implies that white workers' antagonism towards blacks has drastically diminished – a contention belied by the unions' extraordinary resistance to integration and affirmative action (Gould, 1977), or else we can conclude that white antagonism atavistically persists long after its original causes have disappeared, which would violate the interest-based assumptions of the theory.

A reformulation

If outsider groups enter as complements to dominant, native-born groups, how then do we account for the types of ethnic conflict that Bonacich has sought to explain? Though space constraints prohibit more than a brief exposition, the following alternative formulation is suggested.

The instability of capitalist economies persistently generates opportunities at the bottom of the ladder. Growth pulls the topmost group up the ladder and lower-ranking groups seize the chance to take their place; in their wake they leave behind vacancies at the bottom, which are filled by persons from outside the economy – namely migrants.

Outsider groups thus enter the economy in response to shortages at the bottom and then gravitate towards the next tier of scarce positions, remaining in that ambit as long as their (low) economic orientations match the (low) requirements and prerequisites of the jobs. What happens next tends to follow one of several scenarios. In the succession scenario, the *shape* of the labour queue can change if later economic expansion further tightens the supply of established groups, pulling the low-ranked group up the ladder. In the leapfrogging scenario, the characteristics of the low-rank group, in particular its education levels,

substantially improve, making them more desirable to employers, which thereby *reorders* the labour queue. In the persistence scenario, the *preferences* of the low rank group remain unchanged, in which case their tolerance for low-level work stays more or less the same.

But one can also imagine a sequence of events resulting in conflict, in which the preferences of low-rank groups change faster and more extensively than either the order or the shape of the labour queue. In this case the ambitions of outsiders extend to higher-level positions, to which established groups remain firmly attached. Under these circumstances competition becomes overt and leads to ethnic conflict, as newcomers seek to enter the occupations and industries controlled by dominant groups, and incumbents try to maintain the structures that have protected their group's economic advantages. Consequently ethnic conflict is activated not by differences in the aspirations and expectations of outsider and in-groups, but rather by growing similarities between insiders and outsiders, as well as the ability of outsiders to mobilise the resources needed to gain access to full membership.

Notes

- 1 This chapter has its origins in conversations with Thomas Bailey. I am grateful to him and to Greta Gilberston for their sceptical reactions to my ideas. Thanks is also due to Eric Leifer for his close reading of an earlier draft.
- 2 The following summary is based on Bonacich (1972, 1975, 1976, 1979, 1981a, 1981b). Though the 1979 article does not use the identical terminology developed in the initial piece, it essentially hews to the original argument, while placing greater emphasis on the factors creating a globally mobile labour force. The ability to mobilise a 'cheap' labour force is clearly a precondition of the dynamics of the split labour market; once that condition is satisfied the dynamics do not change.
- 3 Consequently 'the price of a group of workers can be roughly calculated in advance and comparisons made even though two groups are not engaged in the same activity at the same time' (Bonacich, 1972, p. 549).
- 4 Killingsworth defines the 'reservation wage' as 'the highest wage at which the individual will not work. Thus, when the wage is below the reservation level, changes in the wage will not change behaviour' (Killingsworth, 1983, p. 8).