

# TEXAS

## —BUSINESS—◆—REVIEW—

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## Emergent Entrepreneurs

## Latina-Owned Businesses in the Borderlands

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**E**thnic enterprises and minority small businesses grew at an unprecedented rate in recent years. Much of this growth spurt was fueled by the growing numbers of women-owned businesses. These businesses increased by 103 percent during the period 1987-1999,<sup>1</sup> and Latina-owned business accounted for a large share of this increase.

Latinas, in fact, are entering the entrepreneurial market in record numbers. During the 1990s, the number of Latina small businesses grew by an extraordinary 209 percent, compared to the overall growth of Latino businesses in the United States.<sup>2</sup> Estimates from 2002 show more than 470,000 Latina-owned businesses in the United States. These privately-held, majority-owned businesses accounted for \$29.4 billion in receipts and employed nearly 198,000 workers. Contradicting the stereotype of the submissive, silent Latina who plays an invisible and service-oriented role in mainstream society, these data instead suggest that Latina businesswomen are a growing economic force in the United States in general and in the borderlands in particular.

Research shows that growth rates for Latina entrepreneurs and microentrepreneurs are related to factors unique to the Latino community. What are these factors? And how can this economic growth be facilitated along the U.S.-Mexico border?

### **Profile of a Latina Entrepreneur**

The Latina business and microbusiness owner profile differs from that of other

women business owners in the United States. Compared to white and African American women business owners, Latina entrepreneurs are older, less educated, with more dependent children.<sup>3</sup> In addition, the growth rates for Latina entrepreneurs and microentrepreneurs are related to factors unique to the Latino community in the United States and do not appear as significant factors in surveys of other female ethnic entrepreneurs. For example, Latina entrepreneurs cite family involvement in business activities as an important feature of business ownership, and, in fact, Latina-owned businesses are more likely than any other women-owned businesses to involve family members.

In 2000, the National Foundation for Women Business Owners (NFWBO) conducted a survey of 404 women randomly drawn from several listings of Latina business owners and reported some intriguing demographic and cultural factors influencing Latina entrepreneurs.<sup>4</sup> The most compelling features of Latina-owned businesses were the emphasis on "cultural capital"<sup>5</sup> (bilingualism and biculturalism), and the role of family in owning and running a business. The survey reported that 75 percent of Latinas indicate that family members help run their businesses, compared to Native American women (66 percent), white women (71 percent), African American women (55 percent), and Asian American women (64 percent). For Latina entrepreneurs, family forms the basis of a support system that includes

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financial/banking advice, managerial counsel, expansion planning, and overall entrepreneurial decision making.

Forty-four percent of Latina small and microbusiness owners rely on personal, family, and pseudo-kin (“comadres and compadres”) resources to start up their enterprises, and 55 percent did not borrow capital or financial resources at all. The national survey and evidence from ethnographic surveys conducted in San Antonio indicate that Latinas rely more on previous experiences by male relatives, spouses, and extended family as resources for starting up and expanding their businesses than do their African American, white, Asian, and Native American counterparts. Further, many of the Latina entrepreneurial activities are culturally dictated and seasonal. These often home-based activities play a significant role in passing on entrepreneurial skills, as well as social and cultural capital, to younger family members and in keeping supplemental entrepreneurial earnings within the community. These data suggest a more firmly entrenched continuum of the Latino family cohesiveness in terms of economic survival and collective economic action of the family unit regardless of gender roles.

### Business in the Borderlands

Certainly the remarkable growth in the number of Latina entrepreneurs has had an economic impact in Texas, as well as in other states along the U.S.-Mexico border. The increase in numbers of Latina-owned businesses between 1997 and 2002 was accompanied by increases in non-employer businesses along the border and therefore, overall growth in the numbers of Hispanic-owned businesses.<sup>6</sup> The states where Latina businesses comprise the greatest share of all women-owned firms are New Mexico (20 percent), Texas (18 percent), California (17 percent), Florida (16 percent), New York (14 percent), and Arizona (13 percent).<sup>7</sup> In Texas, New Mexico, Arizona, and California, Latina-owned businesses saw a rapid rise in 2002, both in numbers of new establishments (266,872) and in receipts, which totaled \$16.8 billion (more than half of the total \$29.4 billion for

all Latina-owned businesses in the United States.) The following table charts this growth in the border states.

**Growth in Latina-Owned Businesses  
Border States, 1997-2002**  
(percentage)

State	Change in # of firms	Change in sales	Change in employment
Arizona	58.3	10.6	13.0
California	24.3	-7.9	-13.8
New Mexico	12.3	12.7	-18.5
Texas	38.0	150.3	-7.8

**Source:** Center for Women's Business Research, 2003, using U.S. Bureau of Census data.

Even as the rate of change in generating new jobs has declined for Latina business owners, the rate of change for the self-employed along the U.S.-Mexico border has increased significantly. With substantial increases in self-employment in McAllen and Laredo metro areas, Texas leads the border states in this rate of change.<sup>8</sup>

Although represented in many economic sectors, Latina firms remain concentrated in the service sector. (See figure on page 6). However, their greatest gains have recently been in industries where they previously were not represented, such as construction and communications.<sup>9</sup> This is especially so in the border region.

### Central Issues

Of the approximately 6.5 million residents living in the twenty-nine counties contiguously situated along the U.S.-Mexico border, 3.1 million self-identify as Latino and a large portion of this population is Mexican origin. The historical and cultural ties with Mexico that are evident in borderlands language, culture, and daily economic activity, create a unique transnational environment for these Latino families. The diversity of family arrangements along the border, in metro areas and also in rural ethnic enclaves like colonias

The key to harnessing informal economic transactions is to create a network of supportive microbusiness services housed in community-based organizations that recognize the importance of culture in the delivery of services.

(unincorporated townships), tells an interesting story of economic mobility that depends upon extended family resources and on learned economic survival strategies that similarly depend upon family and community resources.

The pattern of low educational attainment rates resulting in low earnings and low median household and family income is stark for Latino families living along the U.S.-Mexico border, especially those in Texas. The number of Latino families with incomes between zero and \$15,000 is substantial in Texas (24.5 percent), and more than 58.7 percent of families report incomes in the zero to \$35,000 range.<sup>10</sup> The rate of poverty incidence is higher in Texas but also pressing in New Mexico and Arizona. Since the passage of the Welfare Reform Act of 1996, public cash assistance has declined and the percentage of families receiving public aid is considerably lower than the incidence of families experiencing economic hardship.

These stressful economic conditions generally encourage informal economic activity and observably, this occurs with a high degree of frequency along the U.S.-Mexico border. The key to harnessing informal economic transactions is to create a network of supportive microbusiness services housed in community-based organizations (CBOs) that recognize the importance of culture in the delivery of services. These organizations, such as community development corporations, community development financial institutions, and community development housing organizations, are critical in the transitioning of informal business activities into microenterprises. In order to facilitate these transitions, CBOs must demonstrate an understanding of the manner in which many informal economic activities driven by cultural factors occur in Latino communities and engage with these communities as full partners in program design, implementation, and service outreach.

As government support for social services continues to be reduced or dismantled, microbusinesses will increasingly substitute for the scarcity of public assistance, supplement family income, and

create additional earnings opportunities for struggling families.<sup>11</sup> As noted, Latina entrepreneurship is tightly intertwined with cultural roles and enhances family economic resources within the context of the unique transnational economic environment of the border region. Latina entrepreneurs, in combination with culturally competent CBOs, can build on the remarkable growth of Latina businesses of the last ten years and become a key component in reducing the incidence of poverty in the borderlands and in retaining earnings within the Latino border community.

## Notes

1. National Foundation for Women Business Owners (now the Center for Women's Business Research), "Women-Owned Businesses Top 9 Million in 1999."

2. National Foundation for Women Business Owners, 2002; U.S. Census, 1997. This does not include microentrepreneurial activities.

3. Child care issues are often cited as a motivating factor in undertaking microentrepreneurial activities.

4. National Foundation for Women Business Owners, *The Spirit of Enterprise: Latina Entrepreneurs in the United States*, Washington, DC, September 2000.

5. *Cultural capital* is defined as an intangible asset that occurs within ethnic enclaves where rewarding cultural norms and behaviors can be crucial to the success of an enterprise (for example, language switching from Spanish to English). Kathryn Edin, "More than Money: The Role of Assets in the Survival Strategies and Material Well-being of the Poor," in *Assets for the Poor: The Benefits of Spreading Asset Ownership*, T. Shapiro and E. Wolff, eds. New York: Russell Sage Foundation, 2001.

6. *Non-employer business* essentially refers to the self-employed.

7. National Foundation for Women Business Owners, 2002.

8. It is important to note that unemployment rates along the border are higher than those posted for the nation. For example, the unemployment rate reported for November 2003 in McAllen was 12.8 percent; in Brownsville, 10.6 percent. Bureau of Labor Statistics, 2003.

9. Center for Women's Business Research, 2003.

10. County Census Data, 2000, Bureau of the Census.

11. Peggy Clark and Amy Kays, *Microenterprise and the Poor: Finding from the Self-Employment Learning Project Five Year Survey of Microenterprise*, Washington, DC: Aspen Institute, 1999. ♦

# Is It Time for Texas to Tax Pollution?

by Jay Zarnikau

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During the fourth special session of 2004, Texas legislators focused on finding new sources of revenue to enable school finance reform. Among the many ideas suggested was the establishment of a tax on pollution. Rep. Lon Burnham sponsored House Bill (HB) 35, which proposes taxing electricity generators at a rate of 60 cents for each pound of nitrogen oxide (NOx) released into the air.

This was not the first time such a proposal crossed legislators' desks. In the 75<sup>th</sup> session (1997), Rep. John Hirschi advanced a much broader proposal. His HB 2479 advocated taxing all regulated emissions from all major industrial facilities. In light of the need for new sources of revenue to reduce property taxes, is now the time to give serious consideration to taxing pollution?

## The Theory Behind the Tax

Pollution imposes costs upon society, and some form of environmental regulation is necessary to ensure that pollution-related costs are limited to socially optimal levels. Since the 1920s,<sup>1</sup> economists have endorsed pollution emissions taxes as one efficient means of constraining pollution to acceptable levels and better reflecting environmental costs in market transactions. Unlike "command and control" approaches to regulation, pollution tax systems provide firms with considerable flexibility in meeting pollution targets. Regulatory approaches involving tradable permits also provide firms with the latitude to devise a least-cost response to pollution objectives. However, these approaches tend to bestow a "right to pollute" upon existing polluters, which can pose a barrier to entry on new industrial facilities. Further, pollution taxes have an attractive "polluters should pay" property of fairness that may be absent from other regulatory strategies.

Taxes on income, revenue, sales, and labor tend to hinder productivity and growth and impose "deadweight losses" on the economy. Many economists see merit in replacing existing taxes on "goods" (the creation of wealth through labor and investment) with taxes on "bads" (e.g., pollution) or "sins" (e.g., alcohol, tobacco, or topless night-

clubs). In 1997, more than 2,500 economists, including eight Nobel laureates signed a petition suggesting to policymakers that "carbon taxes or the auction of emissions" be used to curb emissions thought to be responsible for global climate change.<sup>2</sup>

## Possible Impacts in Texas

The tax burden associated with any pollution taxes on industrial sources would vary depending upon whether the tax covered all regulated emissions or simply NOx. Either approach would produce a considerable impact on electricity generators (accounting for about 45 percent of NOx emissions and 48 percent of total regulated emissions from major industrial sources in Texas).

In model simulations conducted in the early 1990s, the Center for Energy Studies, University of Texas at Austin, found that if emissions taxes were set to the "social cost of pollution" values that had been adopted by environmental and utility regulators in other states, there would be significant impacts on electric power plant operations in Texas. Increased electricity generation from natural gas-fired power plants would displace that using Rocky Mountain coal. Conservation and renewable energy projects would be encouraged. The use of Texas lignite would not be affected, unless very high emissions tax rates were imposed. Emissions taxes, at the levels studied, would succeed in reducing air emissions. Tax revenues from power generators alone might approach \$600 million per year if the social cost of pollution values approved by the New York Public Service Commission were used as the basis for pollution taxes in Texas. Although the electricity market in Texas has changed greatly over the past decade, many of these results remain plausible.

Imposition of emissions taxes could place some industries in Texas at an economic disadvantage relative to their out-of-state competitors, unless other taxes on industry in Texas are reduced or other states and nations follow our lead. This may be of greatest concern to the state's petroleum refineries and chemical production plants, which compete in international markets, but

of lesser concern to the electricity generators, given the state's limited interstate transmission capability.

### Roadblocks to Taxing Pollution

So why have Texas policymakers been slow to embrace this idea? For one thing, experts disagree on the social cost of pollution and the "optimal level" for any emissions taxes. Further, firms already "internalize" many of these pollution-related costs through their compliance with existing environmental regulations and programs. The Texas Council for Environmental Quality (TCEQ) already assesses various permit and inspection fees on major industrial sources of pollution. At some point, emissions taxes can adversely affect industrial activity, so it is important that the fees are not increased to excessive levels. Thus, any additional layer of environmental regulation must be carefully crafted.

Replacing property taxes with pollution taxes will likely shift tax burdens away from cleaner industries (e.g., high-tech firms) toward those with higher emissions levels (e.g., electricity generators and chemical production facilities). Many such "smokestack industries" wield considerable political power.

Finally, electricity prices (and perhaps chemicals and petroleum prices) could increase, if other taxes on affected industries were not simultaneously lowered.

### Next Steps for Texas

The Joint Select Committee on Public School Finance examined "benefit taxes" on businesses, a broadening of sales

taxes, changes to existing taxes, expansion of the state lottery, personal income taxes, and many other proposals, but neglected to consider pollution emissions taxes seriously. The Texas Public Policy Foundation studied sales tax changes and various business taxes extensively.<sup>4</sup> Public Citizen and the Texas Center for Policy Studies note that the TCEQ's present emissions fees contain a "volume discount" feature (i.e., as the amount of pollution increases, the fee declines on a per-ton basis) and that simply removing or reducing this feature would raise significant revenues and send a more appropriate "price signal" to industrial facilities.<sup>5</sup> Indeed, such facilities are assessed fees based on only the first 4,000 tons of pollutants released.

As Texas policymakers continue to seek new revenue sources to enable property tax reform and effective strategies to improve air quality in the metropolitan areas of Texas, taxes upon pollution deserve consideration.

### Notes

1. Arthur Cecil Pigou (1920), *The Economics of Welfare*, London: MacMillan.

2. Redefining Progress (1997), *The Economists' Statement on Global Climate Change*.

3. Jay Zarnikau (1992), "Pollution Emissions Taxes: A Proposal for Implementation in Texas," in *The Role of Natural Gas in Environmental Policy*, Bureau of Business Research, University of Texas at Austin.

4. Milton Holloway (April 2004), "An Economic Analysis of Property Tax Relief Funded by a Sales Tax Increase," and (May 2004), "Weighing the Difference: The Evaluation of the Unequal Burden of State Taxes for Texas Business," Texas Public Policy Foundation.

5. Public Citizen and Texas Center for Policy Studies (February 2003), *Making Polluters Pay: Environmentally Responsible Ways the 78th Legislature Can Raise New State Funds*. ♦

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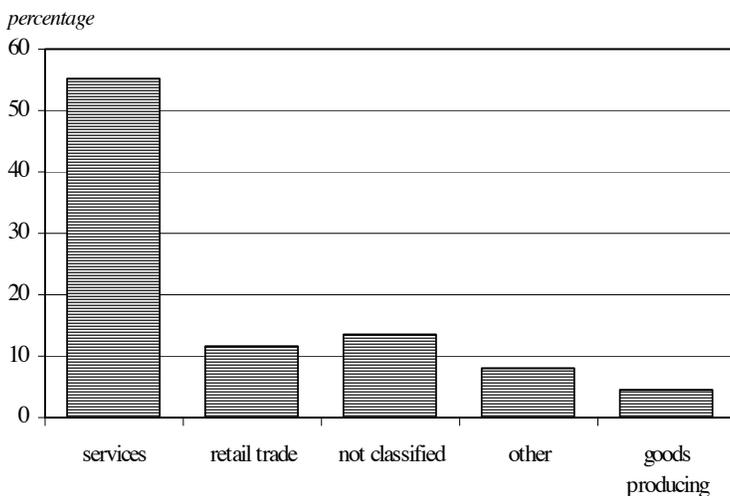
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### Latina-Owned Businesses by Economic Sector, 2002



Goods producing = agriculture, construction, manufacturing, mining.  
Other = financial/insurance/real estate, transportation/communication/public utilities, wholesale trade.  
**Source:** *Hispanic Women-Owned Businesses in the US, 2002: A Fact Sheet*, [www.nfwbo.org](http://www.nfwbo.org).

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