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Research at a Glance / Recherche en un coup d'oeil (2019-06-14)

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RESEARCH at a Glance

RECHERCHE en un coup d'oeil



Immigrants and entrepreneurship

**Business ownership is higher among immigrants,
but promoting self-employment is unlikely to improve outcomes for the less skilled**

Magnus Lofstrom, Chunbei Wang

IZA World of Labor

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Elevator pitch

"Immigrants are widely perceived to be highly entrepreneurial, contributing to economic growth and innovation, and self-employment is often viewed as a means of enhancing labor market integration and success among immigrants. Accordingly, many countries have established special visas and entry requirements to attract immigrant entrepreneurs. Research supports some of these stances, but expectations may be too high. There is no strong evidence that self-employment is an effective tool of upward economic mobility among low-skilled immigrants. More broadly prioritizing high-skilled immigrants may prove to be more successful than focusing on entrepreneurship.

Key findings

Pros

- Business ownership is higher among foreign-born than native-born workers.
- Entrepreneurship positively affects labor market integration.
- High-skilled immigrants contribute to innovation.

Cons

- Many immigrant business owners are low-skilled, with low income.

- Business ownership is not an effective tool for significantly improving the economic outcomes of low-skilled immigrants.
- The effectiveness of immigrant entrepreneurship visa programs is unknown.

Authors' main message

Research finds that immigrants are entrepreneurial, as measured by business ownership. There is little credible research showing much of a downside to such entrepreneurship and much research pointing to significant positive contributions. However, promoting self-employment has not been shown to lead to widespread improvements in economic outcomes for less-skilled immigrants. Until strong evidence emerges that special visa programs lead to the greatest economic gains from immigration, policymakers may want to focus on education and skills as entry criteria, consistently strong predictors of immigrant success."

Summary and policy advice

"Immigrant entrepreneurs make a significant positive contribution to their host country economy. Immigrants are more likely to own businesses than their native counterparts, and this business ownership contributes to economic integration. High-skilled immigrants have contributed to the high-tech sector and to innovation, as measured by growth in patenting and in science and engineering. However, there is no strong evidence that self-employment is a very effective tool of upward economic mobility among those in greatest need of such assistance: low-skilled immigrants.

Until there is strong and reliable evidence of the success of visa programs designed to attract high-skilled entrepreneurs, and of the criteria that work best to achieve this goal, policymakers may want to pursue other strategies to realize the greatest economic gains from immigration. Since education is consistently found to be a strong predictor of immigrant success, among both business owners and wage earners, policies targeting high-skilled immigrants more broadly might prove more successful than policies with a narrow focus on entrepreneurship.

So what can policymakers do to attract high-skilled migrants? This is not an easy task as migration choices are partly determined by factors difficult to affect through immigration policy (factors such as income distribution, language, native sentiments toward immigrants, location characteristics, and choices of previous migrants, to name only a few). Nonetheless, policies that could increase the number and share of high-skilled immigrants include efforts to streamline pathways from non-immigrant status (such as student visas and employment-based temporary work visas, such as the H-1B program in the US) to permanent status.

Furthermore, since migration decisions often involve a family, making the move more attractive to spouses is another strategy that might entice high-skilled migrants. Since the spouses of many highly educated workers are also highly educated, extending the right to work to their spouses is also likely to encourage additional high-skilled migration.

More specifically, providing work permits with a pathway to citizenship to graduates with specific degrees and experience deemed particularly valuable to the host countries' economies is one possible policy strategy. In many developed countries, the opportunities to stay and work are quite limited for students who have just completed college degrees in the country. These graduates are not only, essentially by definition, high-skilled, but have also gained fluency in the local language and quite possibly generated valuable cultural and labor market insights. These are all factors associated with greater odds for successful integration and quite possibly for high-skilled business start-ups.

Successfully implementing such a strategy in the US, however, would necessitate addressing the numerical limits on employment-based green cards for each sending country, which currently prevents many immigrants from large source countries of students and H-1B workers such as China, India, Korea, and the Philippines from obtaining green cards. The uncertainty of obtaining permanent status may not only make the receiving country less attractive to some very productive would-be immigrants, it may also deter long-term investments, such as for business start-ups."

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