How immigrants expand the U.S. economy

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In the United States, the economic impact of immigration is a lightning-rod topic that sparks strong feelings on both sides. Opponents have long held that immigrants take away jobs from American citizens and lower wage standards. Proponents dismiss that idea, saying immigrants expand the economy through their hard work and determination. The truth is

somewhere in the middle, according to new research from Wharton's J. Daniel Kim.

To be sure, immigrant workers ramp up competition for jobs, creating a surplus in labor supply for some sectors. But immigrant entrepreneurs have a more profound impact on overall labor demand by starting companies that hire new workers, creating a positive ripple-effect on the economy.

"The problem with the ongoing discussion is that it's largely one-sided," Kim said in a recent interview with the Wharton Business Daily radio show on SiriusXM. (Listen to the podcast at the top of this page.) "To be fair, both forces here simultaneously exist. In order for us to have a systematic understanding of the role of immigration on job creation, you need to take both accounts together. And this is what we do in the study."

Kim is co-author of "Immigration and Entrepreneurship in the United States," along with Pierre Azoulay, professor at MIT's Sloan School of Management and associate with National Bureau of Economic Research (NBER); Benjamin F. Jones, professor at the Kellogg School of Management at Northwestern University and an associate with NBER; and Javier Miranda, economist with the U.S. Census Bureau. In their research, the scholars use comprehensive administrative data from 2005 to 2010 on all new firms in the U.S., the U.S. Census Bureau's 2012 Survey of Business Owners, and data on firms listed in the 2017 edition of the Fortune 500 ranking to paint a more accurate picture of the economic impact of immigrants in America.

"The problem with the ongoing discussion is that it's largely one-sided. This paper works to fill in the picture through the lens of entrepreneurship," the authors wrote. "By looking in a more comprehensive manner at the U.S. economy, the analysis helps balance

the ledger in assessing immigrants' economic roles."

Dispelling Myths

Immigrants make up roughly 15% of workers in the U.S., yet they are 80% more likely than native workers to become entrepreneurs, according to the study. By those numbers, the assumption that immigrants leach jobs away from Americans isn't incorrect, but it is incomplete. First- and second-generation immigrants are launching businesses across the spectrum, from small sandwich shops with one or two employees to major tech firms with thousands of workers. For example, when South Africa native Elon Musk built his Telsa plant in California, he spawned more than 50,000 jobs and injected $4.1 billion into that state's economy in 2017.

"What we find, with overwhelming evidence, is that immigrants act more as job creators than they act as job takers in the United States," Kim said during his interview with Wharton Business Daily.

"Immigrants in the U.S. create a lot more jobs than they take, primarily because many are prone to starting businesses that go on to create a lot of jobs."

The study builds on previous research that dispels myths about immigrant workers and quantifies the facts, including that immigrant entrepreneurs account for close to 25% of patents and are more likely to hold STEM degrees. Using tax records, the researchers debunked another popular theory that immigration suppresses wages. They found wages were the same or slightly higher for immigrant-founded firms versus firms with native founders.

The authors encourage more research along the same dimensions, saying more information can help shape economic policy around immigration

and help remove politics from a debate that's often short on truths.

"That's the main takeaway here, that immigrants in the U.S. create a lot more jobs than they take, primarily because many are prone to starting businesses that go on to create a lot of jobs," Kim said. "While I will not comment on the policy implications of these results, I believe that the broader discussion on the role of entrepreneurship and immigration on economic growth needs to account for both sides—because leaning on one would provide an incomplete picture."

More information: Pierre Azoulay et al. Immigration and Entrepreneurship in the United States, (2020). DOI: 10.3386/w27778

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