

Give Me Your Rested, Your Wealthy, Your Educated Few? A Critical Discussion of the Current Literature on Immigrant Self-employment

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Give Me Your Rested, Your Wealthy, Your Educated Few? A Critical Discussion of the Current Literature on Immigrant Self-Employment

Abstract

Purpose

The finding that immigrants are more likely to self-employ than natives has been consistently shown by different researchers. At the same time, many call for a prioritization of high-skilled immigration, because many low-skilled entrepreneurs are not particularly innovative or high-growth oriented. The purpose of this study is to critically review and synthesize the current literature on immigrant self-employment, paying particular attention to low-skilled immigrant entrepreneurship and the popular policy recommendation that high-skilled immigrants should be prioritized.

Design/methodology/approach

We survey existing literature on immigrant self-employment and discuss recurring data issues, how those issues have and have not been addressed, as well as how these data issues impact the validity of policy recommendations that favor high-skilled immigrants and disfavor low-skilled immigrants. In particular, we examine how length of stay in the host country and host country institutions impact immigrant self-employment, particularly low-skilled immigrant self-employment, and we point out unintended consequences of low-skilled immigration.

Findings

We find data issues significantly impact the potential justifications behind calls to favor high-skilled immigrants. In particular, by not accounting for institutions and length of stay in the host country, many researchers underestimate the positive impacts of low-skilled immigrant self-employment. Further, there are a number of positive unintended consequences of low-skilled

immigration. The authors conclude policy recommendations calling for a prioritization of high-skilled immigration should be reexamined in light of recurring omitted variable biases within previous studies and evidence of a number of positive unintended consequences associated with low-skilled migration.

Originality

We review current literature and discuss how important confounding variables, like the number of years an immigrant entrepreneur has lived in a host country and the institutions of a host country, make common policy recommendations suggesting a prioritization of high-skilled immigration problematic. We also discuss potential solutions to these data issues, ways these issues have been solved already, and possible ways forward. Finally, we offer our own set of policy recommendations after considering the literature.

Keywords: Immigration, Entrepreneurship, Self-employment, Institutions, Policy

I. Introduction

This paper critically analyzes and reviews the literature on immigrant entrepreneurship, particularly in the form of low-skilled immigrant-owned businesses, and common policy recommendations from that literature that call for a prioritization of high-skilled immigrants.

The stakes associated with these policy implications are high: since Joseph Schumpeter's seminal work on the topic (Schumpeter, 2017), entrepreneurial innovation has been identified as a driver of economic growth¹. The policy implications associated with the literature on immigrant entrepreneurship also become higher as time passes and the share of the World's population composed of immigrants increases, growing from 2.8% of the global population in 2000 to 3.5% in 2019 (United Nations, 2019). This rise in immigrant populations has not gone unnoticed by the general public either. Anxiety over increased levels and rates of immigration has been identified as a dividing issue in the Brexit vote (Henderson *et al.*, 2017), the election of former U.S. president Donald Trump (Winders, 2016), and the 2017 French presidential elections (Edo *et al.*, 2019).

Fittingly, this topic has piqued the interests of academics, who have consistently found a positive and significant relationship between immigration and business ownership in a number of different country contexts including the United States, Canada, Australia, and the United Kingdom (Borjas, 1986; Lofstrom, 2002; Clark and Drinkwater, 2000; Clark and Drinkwater, 2010; Schuetze and Antecol, 2006; Fairlie *et al.*, 2010). In fact, immigrant entrepreneurship has become ubiquitous enough to be satirized in popular media, with Apu of *The Simpsons* being perhaps the most famous and contentious example (Gottschlich, 2011; Gitter and Gitter, 2014).

¹ While Baumol (1996) rightly pointed out the differences between productive entrepreneurship, or activity that creates wealth, and unproductive entrepreneurship, or activity that simply redistributes wealth, we concentrate on how immigration impacts productive entrepreneurship to provide this paper a more concrete focus.

However, not all entrepreneurship is created equally, and many self-employed individuals, particularly low-skilled and uneducated individuals, do not appear to be especially innovative nor do businesses owned by these people appear to grow at significantly quick rates (Hurst and Pugsley, 2011). This can be especially true for the businesses of the foreign born. For example, Peroni *et al.* (2016) use evidence from the Global Entrepreneurship Monitor [GEM] to study entrepreneurship in Luxembourg and find business ownership is more pronounced among immigrants than natives, and interests in starting a business are greatest among those immigrants with high human capital. At the same time, the authors also find this relationship only holds for newly established businesses, vanishing when the analysis turns to more established ventures that have lasted more than three years. Lofstrom and Wang (2019) discover similar evidence: these authors find while business ownership is high among the foreign-born compared to natives and high-skilled immigration contributes to innovation, many immigrant business owners are poor, low-skilled, and show little propensity to grow their businesses and innovate.

Thus, while there exists evidence on the positive impacts of immigration on more innovative forms of entrepreneurship like patents (Hunt and Gauthier-Loiselle, 2010; Berstein *et al.*, 2018) and the introduction of new goods and services (Maré *et al.*, 2011), the welfare implications of low-skilled immigrant self-employment are less clear. It seems obvious immigrant workers in Silicon Valley (Saxenian, 2005) contribute to entrepreneurship and innovation; much less obvious are potential positive impacts from less educated immigrants opening nail salons, gas stations, or ethnic restaurants (Deakin, 1992). Indeed, many have taken evidence on immigrant self-employment to indicate a prioritization of high-skilled immigration to be a desirable policy (Peroni *et al.*, 2016; Lofstrom and Wang, 2019). The contribution of this paper is to examine the theoretical arguments and empirical evidence surrounding calls to

prioritize high-skilled immigration. More generally, we put to question the policy implications of immigrant self-employment, particularly low-skilled immigrant self-employment. In doing so, we point out important data issues and gaps in theory surrounding prior work on immigrant self-employment that should be addressed before policy advice to limit immigration is given as well as how these empirical problems have and have not been addressed throughout the literature on immigrant self-employment. The second part of this paper will briefly outline existing research done on immigrant self-employment, providing theoretical arguments and empirical evidence in favour of and against using immigrant tendencies to self-employ as a justification for allowing increased levels of immigration. The third section of this research paper critically evaluates that evidence, paying special attention to data issues and gaps in theory that make calls to prioritize high-skilled immigration problematic. We also analyse the impacts of future generations of immigrants on entrepreneurship in the form of self-employment in this section, and we outline unintended consequences of low-skilled immigration generally. Finally, we provide our own policy implications and recommendations in the fourth section, and we conclude and outline future potential avenues of research with the fifth section.

II. Immigrant Self-Employment: Theories and Evidence

There are a variety of reasons to suspect immigrants to be more entrepreneurial and to open more businesses than natives. Some have cited the immigration policy of wealthy countries as the origin of this entrepreneurial discrepancy. Borjas (1987) and Mahroum (2001) both document tendencies of the immigration policies of wealthy countries to favour immigrants with characteristics that positively correlate with being an entrepreneur, like business experience and education. Lawson and Lemke (2012) provide similar, albeit more indirect, evidence by showing citizens from wealthy countries, who are more likely to be educated (Hanushek and Woessman,

2008), are met with fewer visa restrictions when traveling abroad. Thus, there could be an “entrepreneurial selection bias” among immigrants simply because the immigration policies of wealthy countries, who receive the bulk of immigration because of higher relative wages (Hanson and Spilimbergo, 1999), encourage entrepreneurial individuals to self-select into migration.

Davidsson (2006) offers another theoretical possibility by noting the potential for individuals with entrepreneurial propensities to self-select into migration, because immigration is characterized by a risky and radical break from old ways of doing things and a willingness to start anew in a different area. Vandor (2009) provides similar theoretical insights by pointing out the inherent risks and potentially high rewards characterizing both migration and entrepreneurial self-employment. Indeed, the high risks and potentially high rewards that mark both entrepreneurial ventures and immigration is reminiscent of the Austrian economists’ concept of entrepreneurship as an attempt to better one’s situation in the face of uncertainty (Mises, 1949), especially considering the evidence higher relative wages, a form of entrepreneurial “high returns”, are a fundamental predictor of in-migration (Hanson and Spilimbergo, 1999).

Finally, Vandor and Franke (2016) make use of a longitudinal quasi-experiment to identify another mechanism by which entrepreneurial individuals may self-select into immigration: cross-cultural experiences. In other words, individuals who immigrate are exposed to more diverse ways of doing things, and these cross-cultural experiences aid in the ability to recognize profit opportunities. This concept can also be appreciated through an understanding of the role of localized knowledge (Hayek, 1945). Immigrants, aside from bringing themselves into a host country, import a local knowledge not known by many natives in the host country. As such, immigrants who see new opportunities elsewhere may be motivated to try, in the host

country, business ventures and ideas that have been successful elsewhere by taking advantage of this unique, location-specific knowledge. Ozgen *et al.* (2012), who find some measures of diversity to be positively correlated with patents per capita, also provide partial empirical vindication for this theory of “entrepreneurial selection bias” among immigrants.

However, there are also several scholars who have pointed out reasons to suspect immigrant self-employment to not lead to particularly high levels of innovation or growth, and many of these scholars have taken such evidence to suggest policies favouring high-skilled immigrants would be desirable. For example, the immigrant self-employed often have lower skills and lower income compared to their native counterparts (Lofstrom and Wang, 2019) and their second-generation counterparts (Abramitzky *et al.*, 2020). Because a major impediment to starting or expanding a business is capital (Bedi *et al.*, Forthcoming), immigrants may enjoy an “entrepreneurial selection bias”, but this selection bias may not amount to much growth if most of those immigrants are low-skilled with low incomes. The low-skill and low income that characterizes many migrants also encourages entrepreneurship through another channel by causing these immigrants to often be overqualified or unable to find more traditional full-time jobs compared to natives (OECD/European Union, 2015), making self-employment a relatively appealing prospect.

Similarly, Peroni *et al.* (2016) use GEM data in Luxembourg, where migration inflows largely mimic migration patterns across the World in terms of demographic makeup, to study entrepreneurship. The authors find self-employment among migrants is only more pronounced compared to natives when analysing early-stage self-employment, or businesses that have been open for less than three and a half years. For more established business that have lasted more than three and a half years, the positive relationship between immigration and self-employment

disappears. The authors take this finding as evidence immigrants are less adept at growing and maturing their businesses, particularly low-skilled immigrants.

III. Critical Evaluation of Evidence

Now that we have reviewed some of the major literature on immigration and self-employment, we turn to a critical discussion of that literature, focusing specifically on policy proposals that call for a prioritization of high-skilled immigrants. In doing so, we highlight recurring data issues in the literature, how those issues have and have not been addressed, as well as the roles of second-generation immigrants. We also discuss unintended indirect consequences of low-skilled migration in general to further demonstrate why calls to prioritize high-skilled immigration are unwarranted.

Context Matters

First, and perhaps most importantly, calls to limit migration and prioritize high-skilled immigrants based on single-country studies of the issue (Peroni *et al.*, 2016; Lofstrom and Wang, 2019) are problematic, as such studies suffer from omitted variable bias because of their inability to control for country-level institutions. Related, studies that can take into account variability in institutions should consider those differences in institutional environments. Institutions are “the rules of the game” or formal (legal codes) and informal (norms) codes that guide human behaviour (North, 1991). Since the importance of these rules and codes have been recognized in the literature, institutions have been identified as a fundamental determinant of entrepreneurial behaviour and economic growth (Hall, 2012; Candela, 2015; Boudreaux, 2017; Baumol, 1996).

Indeed, Baumol (1996) provided an important amendment to Schumpeter’s theory of the entrepreneur as the driver of economic growth by pointing out entrepreneurial propensities may also be used for wealth redistribution, represented by businesses lobbying governments for

special privileges, or wealth destruction, represented by crime or other activities that destroy resources or productive capacity. How these entrepreneurial propensities are utilized, and how well these entrepreneurial propensities can be utilized, depend on institutional contexts and rules. These rules provide the macro and meso background within which entrepreneurs act and impose constraints on entrepreneurial behaviour and success (Fuentelsaz *et al.*, 2018). When an area has rules and regulations, formal or informal, that encourage entrepreneurial investment and innovation with a healthy respect for property rights and a stable rule of law, productive entrepreneurial innovation and growth thrives; when a society fails to enforce property rights and discourages enterprise, productive entrepreneurial activity is muffled (Dempster and Isaacs, 2017; Czeglédi, 2017; Sahiti, 2021). While this paper refrains from analysing the impact of immigration on unproductive and destructive entrepreneurship for the sake of brevity and to provide this paper a more concrete focus, Baumol's insights are relevant still when focusing on the determinants of successful productive entrepreneurship specifically.

Recognizing Baumol's key insight and including institutional controls by undertaking more cross-country analyses is crucial for a fuller understanding of the relationship between self-employment and immigration, because poor institutional environments for immigrants in general, and low-skilled immigrants in particular, relative to natives could explain the findings of some that immigrant-owned businesses are less likely to survive to maturity (Peroni *et al.*, 2016; Lofstrom and Wang, 2019). Of course, this becomes an empirical undertaking, and while this paper refrains from an empirical exploration for the sake of brevity and to provide a more concrete focus, fortunately previous literature has measured institutional quality using constructed indexes (Gwartney *et al.* 2008; Stansel, 2019) and other proxies, and empirical research from several contexts has found interesting results when studying interactions between

immigrant self-employment and institutions. In general, entrepreneurial growth and innovation can be mitigated because of institutions, formal and informal, in the host country that negatively and specifically affect immigrant entrepreneurship (Ram *et al.*, 2013). Particularly poignant evidence of formal institutions curbing immigrant entrepreneurship is provided by Wang and Lofstrom (2020) in the form of a quasi-natural experiment. The authors study immigrant entrepreneurship in the United States in the aftermath of 9/11 and find regulations on immigration and immigrant labour generally have the unintended consequence of pushing migrants into necessity-motivated self-employment, or self-employment because of no better options in more traditional labour markets. In other words, when immigrants are unable to find a job because of migration restrictions, they are pushed into self-employment as a means of survival in an institutional context with no other desirable alternatives. To understand the implications of this push into necessity-motivated entrepreneurship, it is helpful to understand the course typology of self-employment that has arisen in the entrepreneurship literature: opportunity-motivated entrepreneurs start firms and expand because of perceived chances of abnormal profits while necessity-motivated entrepreneurs engage in self-employment due to a lack of other options, most often poor labour market conditions (Reynolds *et al.*, 2002). Since, others have recognized the importance of this distinction, as the opportunities exploited by opportunity-motivated entrepreneurs are generally more lucrative and lead to more innovative outcomes compared to opportunities pursued by necessity-motivated entrepreneurs (Block and Wagner, 2010).

Shami and Mickiewicz (2017) offer concurring evidence on the interaction between immigrant self-employment and formal institutions when they find the entrepreneurial tendencies

of immigrants to be stronger in the presence of greater degrees of political and economic freedom.

It is not just formal institutions that interact with immigrant self-employment; informal institutions may also mitigate or strengthen the tendencies of migrants to self-employ and engage in entrepreneurship. Li *et al.* (2015), in a cross-country study, find immigrant share to be positively related to entrepreneurial activity and that this relationship is stifled by negative native attitudes towards migrants.

Using a single-country analysis, Kremel (2016) seconds this notion in a slightly different context and provides a more specific mechanism by which informal institutions mitigate the success of immigrant self-employment – the author shows the needs for business advisory services remains unfulfilled for migrants compared to natives in Sweden.

Indeed, the difficulty of succeeding as a foreign individual or as a foreign firm in the face of unforgiving host country institutions is so well recognized in the literature, the term “liability of foreignness” has been coined to describe the phenomenon. As an example, Mata and Alves (2018) find the survival rate of firms founded by immigrants decreases for immigrants with less work experience in the host country and for immigrants with less access to broader national communities from their home countries. Further vindicating the importance of interactions between institutions and immigrant self-employment, the authors also find these negative impacts are exacerbated for immigrants from countries with different institutional environments than the host countries in which they found their businesses. In other words, the “liability of foreignness” for immigrants increases if those immigrants are from institutionally distant places, and this liability decreases the longer the immigrants are in the host country.

Finally, Nkongolo-Bakenda and Chrysostome (2012) find the success of diasporas in international activities is positively impacted by social recognition from the home country, the receptivity of the home country's government, the friendliness of the home country's socioeconomic environment, integration of immigrants into host country life, and diaspora support programs in host countries.

In short, it is inappropriate to offer broad immigration policy recommendations based on single-country evidence, because one is unable to control for institutions and how those institutions either mitigate or aid the prospects of self-employed immigrants. We turn to this theme in more detail when we discuss our own policy recommendations based on the evidence surrounding immigrant self-employment.

Give Me Just a Little More Time

Institutions are not the only important variable omitted when studying immigrant entrepreneurship. More often omitted is the length of time immigrants stay in the host country, especially when scholars study immigrant self-employment across different stages of entrepreneurship.

For example, Peroni *et al.* (2016), who study immigrant self-employment in Luxembourg, find the positive relationship between tendencies to self-employ and being an immigrant disappears when analysing businesses that have lasted more than three and a half years. The authors take this finding to indicate immigrants are simply less successful than natives at maturing businesses into later stages of development, and they take this evidence to suggest immigration policy should prioritize high-skilled immigrants if the end goal is to promote entrepreneurial ventures. However, this relationship, or rather the lack of a relationship when studying established enterprises, may simply be an artifact of the data instead of the causal

relationship implied by other researchers. Immigrants reside, by definition, in the host country less time on average than natives of similar age. Therefore, without being able to account for length of residence in the host country, if we assume immigrants and natives to have similar entrepreneurial propensities, we should *simultaneously* record immigrant early-stage entrepreneurial rates to be higher than native rates and immigrant established-stage entrepreneurial rates to be lower than native rates. Peroni *et al.* (2016), in contrast, record immigrant early-stage entrepreneurial rates to be higher than natives and immigrant established-stage entrepreneurial rates to be *no lower* than native rates.

Thus, the results of Peroni *et al.* (2016) indicate immigrants are more entrepreneurial than natives at the early stage *and* at the established stage. Julian Simon once wrote, “Not only does a correlation not ‘prove’ causation, as the popular slogan has it, but no other scientific procedure - not even a lengthy series of experiments - can ‘prove’ causation, either. Rather, the best one can do is to build a stronger and stronger case for the influence of one variable upon another, using data and theory together. On the other hand, even a simple correlation can under some circumstances strongly suggest causation in a fashion contrary to the slogan” (Simon, 1989 pp. 327). The correlation Peroni *et al.* (2016) demonstrates between being an immigrant and engaging in established entrepreneurship seems to be a perfect example of a circumstance in which “a simple correlation can...strongly suggest causation in a fashion contrary to the slogan,” especially when we use “data and theory together” to recognize the omitted variable representing duration of stay in the host country likely biases estimates of first-generation immigrants’ entrepreneurial propensities at the established stage compared to non-immigrants’ downwards.

While this data issue is more subtle than an inability, or failure, to control for institutions, it is arguably more urgent, as it can be easy for both single- and cross-country studies to fall prey

to. More fundamentally, it is important to recognize a failure to control for length of stay in the host country is a categorically different data issue to deal with compared to a failure to control for institutions, though both are a form of omitted variable bias. Even in areas with good institutional environments, comparisons of entrepreneurial ability and success between natives and immigrants are inaccurate without taking into consideration length of stay in the host country, because immigrants systematically reside in the host country less time on average than natives and have less time to nurture businesses into maturity. Therefore, without controlling for length of stay in the host country, comparisons of entrepreneurial success between natives and immigrants are almost sure to underestimate the entrepreneurial ability of immigrants relative to natives in all types of institutional contexts, whether they are favourable or discriminatory towards immigrants.

In fact, we also see evidence from others that the prospects for the immigrant self-employed increase as they spend more time in the host country (Mata and Alves, 2018), and evidence from the U.S. suggests immigrants are more likely than natives to own businesses of all sizes in terms of employee numbers (Azoulay *et al.*, 2020) and immigrant owned businesses have greater sales per employee (Kerr and Kerr, 2020). These empirical examples demonstrate the sensitivity of results on immigrant entrepreneurship to omitted variable issues discussed in this paper so far, and we see more clearly why policy recommendations calling for a prioritization of high-skilled immigrants are not necessarily warranted because of two separate, but related, omitted variables. First, once we control for temporal variables, like the length of time an immigrant has resided in the host country, we find former measures of the positive impacts of immigrant self-employment are underestimated. Second, switching country contexts, which implies changes in institutional contexts, can lead to changes in results for reasons

explained above, which can explain why Peroni *et al.* (2016) arrive at different conclusions regarding the success of small immigrant-owned firms compared to Azoulay *et al.* (2020) and Kerr and Kerr (2020). However, this does not imply data issues revolving around omitted temporal variables simply boil down to the importance of institutions: according to the discussion outlined in this paper, studies that find immigrant-owned firms outperform native-owned firms without controlling for how long immigrant founders have resided in the host country (Azoulay *et al.*, 2020; Kerr and Kerr, 2020) most likely are underestimating the discrepancy in performance. In other words, even if immigrants did not have to overcome institutional barriers to entrepreneurial success, studies must still consider how long immigrant firm owners have resided in the host country to gain an accurate picture of the entrepreneurial differences between immigrants and natives.

What About the Children?

Finally, policy recommendations to prioritize high-skilled immigration based on a lack of growth from low-skilled immigrant entrepreneurs are problematic, because they are short-sighted and fail to consider the impacts of future generations of immigrants. Indeed, assimilation across generations of immigrants, including “entrepreneurial assimilation” or assimilation into the broader labour market, is also a common finding in the literature. A number of mechanisms explaining this assimilation have been identified in the literature. For example, insofar as differences in entrepreneurship between natives and immigrants are driven by labour market restrictions targeting immigrants (Wang & Lofstrom, 2020), second-generation immigrants should become more like other natives and less like their immigrant parent(s), because second-generation immigrants are less likely, by definition, to face the same restrictions based on immigration status their parents faced.

More generally, second-generation immigrants might become more like natives and less like first-generation immigrants regarding entrepreneurial tendencies for similar reasons researchers find assimilating tendencies among the descendants of immigrants in other domains. For example, researchers have found assimilating tendencies among the descendants of immigrants regarding host country language acquisition (Rumbaut *et al.*, 2006), criminal activity (Bersani, 2014), and IQ (Dalen *et al.*, 2008).

In fact, the quickest way to achieve assimilation in any area is through immersion, which is precisely what immigration provides second-generation immigrants; this is vindicated by the fact future generations of immigrants assimilate almost completely within one generation in terms of characteristics like criminal activity (second-generation immigrants assimilate to *higher* native crime rates relative to first-generation immigrants), trust, and host country language acquisition. Host country language acquisition and utilization may even be too absolute, with most immigrant descendants even forgetting the native country language within three generations; indeed, it is rare for immigrant parents to brag about their children's desire to learn the language of their parents' homelands (Caplan, 2019).

A different line of literature makes a case for cross-generational assimilating entrepreneurial tendencies among migrant families by viewing self-employment and participation in the labor market as a means to assimilate to the surrounding socioeconomic environment (Light *et al.*, 1994; Zhou, 2004; Portes and Shafer, 2007).

Several other scholars note future generations of immigrants may display lower rates of entrepreneurship more indicative of natives because most immigrant self-employment results from low human capital, low language proficiency, and labor market restrictions that intentionally impact immigrants disproportionately (Beaujot *et al.*, 1994; Light and Gold, 2000;

Valdez, 2006). Second-generation immigrants suffer much less from the characteristics that lead to greater degrees of self-employment among immigrants, particularly necessity-motivated or low growth self-employment.

However, the impacts of institutions do not end with immigrant self-employment, and there are also interesting interactions between host country institutions and cross-generational assimilation among generations of immigrants. Host country institutions that discriminate against immigrants and their descendants may also stifle processes of assimilation discussed above.

While prior literature has shown assimilating tendencies among future generations of immigrants, a theory that has been termed the “assimilation approach,” there is a variant to this theory in light of other empirical evidence known as the “segmented assimilation approach” (Chaudhary, 2014). According to this theory, there is a minority subset of immigrants who “downwardly assimilate,” a process that can be thought of as the opposite of assimilation. Instead of becoming more like natives and less like their ancestors, immigrants who downwardly assimilate lean into their ancestors’ home country institutions and culture more, sometimes alienating themselves from the broader native community and negatively impacting their chances of entrepreneurial success (Haller *et al.*, 2011). More indirect evidence of this phenomenon is outlined by Braymen and Neymotin (2014), who discover native firm profitability is negatively impacted when that firm is in an ethnic enclave. If the reverse is true, or if immigrant (or second-generation immigrant) firm profitability is limited by the extent of ethnic enclaves and is negatively impacted when an immigrant (or second-generation immigrant) firm is located outside of such enclaves, the growth potential of firms owned by second-generation immigrants who downwardly assimilate is severely limited.

Unsurprisingly, downward assimilation is often described in the literature as a negative outcome, as second-generation immigrants who downwardly assimilate experience adverse labour market outcomes and low income levels, despite largely mimicking their parents' entrepreneurial tendencies. This is evidenced by some of the recorded predictors of downward assimilation, including low human capital, minority status, residing in an area with a particularly high concentration of immigrants, and a lack of opportunities for upward mobility because of the disadvantaged labour market status of parents (Portes and Zhou, 1993). In other words, much like institutions can suffocate the entrepreneurial capabilities of immigrants, so too can institutions suffocate the ability of future generations of immigrants to assimilate into host country culture and achieve upward economic mobility.

So, even if immigrants engage in less innovative forms of self-employment than natives, we see clear generational growth in the form of entrepreneurial and labor market assimilation. Even better, this growth happens quickly and starts as soon as the second generation. Additionally, even when we see evidence of downward assimilation, a major explanation of this lack of assimilation is host country institutions that are unfavorable toward immigrants and their descendants.

Thus, while generational assimilation is related to and impacted by institutional environments and temporal variables, it should still be considered when making policy recommendations surrounding immigration and the prioritization of high-skilled immigrants. In areas with institutions that promote generational assimilation, prioritization of high-skilled immigrants may be unwarranted, because significant long-term benefits from low-skilled immigrant descendants are not being considered. On the other hand, in areas with institutions that promote downward assimilation, prioritization of high-skilled immigrants may be

unwarranted, because low-skilled immigrant entrepreneurs are not prone to low growth per se, but institutions systematically make entrepreneurial success and generational growth and assimilation difficult for immigrants compared to natives. Further prioritizing high-skilled immigrants may further deteriorate the growth potential of low-skilled immigrant entrepreneurs.

Unintended and Indirect Benefits

Finally, calls to prioritize high-skilled immigration because of recorded low rates of growth from low-skilled immigrant entrepreneurs are inappropriate, because these calls fail to consider unintended and indirect benefits resulting from low-skilled immigrant entrepreneurship. Low-skilled entrepreneurs, and low-skilled immigrants in general, need not exhibit high growth in income or profit to contribute positively to more macro-level outcomes.

In addition to direct increases in productivity, low-skilled immigration frees up productive native resources to engage in productive activity. For example, evidence suggests the household services provided by low-skilled immigrants creates a smaller tradeoff between fertility and work for native college educated women, leading to more female labor force participation (Furtado and Hock, 2010; Cortés and Tessada, 2011) and a decrease in the gender wage gap (Cortés and Pan, 2019).

Along a related vein, low-skilled immigration also decreases the opportunity cost of attending college to pursue a high-skilled occupation by increasing competition in the labor market for unskilled labor and decreasing the wages of those unskilled workers. Thus, besides leading to an increase in highly skilled female labor force participation, low-skilled immigration can also induce an increase in the supply of highly skilled workers in general by leading to increases in native college attendance rates (Hunt, 2017).

While we refrain from a continued list of potential unintended benefits, or costs, associated with immigration, particularly low-skilled immigration, for the sake of brevity and to give our paper a more concrete focus, we would be remiss to neglect to mention indirect unintended impacts of low-skilled migration on productivity and entrepreneurship generally. The purpose of this final section outlining a critical analysis of the literature and detailing why calls to prioritize high-skilled immigration are based on an incomplete understanding of theory and evidence is to simply point out that low-skilled immigrants need not contribute directly to productive entrepreneurship – they may also contribute indirectly to productive entrepreneurship generally by affording natives the time and resources to pursue more productive and growth-oriented ends. A migrant need not own a construction company to contribute to productive entrepreneurship; he could simply work for a native (Bedi and Wiseman, Forthcoming).

The above discussion should prompt researchers to take pause before they advocate a limit to immigration in the form of a prioritization of high-skilled immigrants. In light of the prior literature review and theories, we now turn to offering our own set of policy recommendations.

IV. Policy Recommendations

Before outlining our own set of policy recommendations, it is important to note that any appropriate immigration policy recommendations based on research of immigrant self-employment is dependent on why immigrants are more likely to self-employ than natives. As an obvious example, if immigrants were more entrepreneurial than natives simply because wealthy countries favor immigrants with entrepreneurial traits, like high human capital (Borjas, 1987; Mahroum, 2001), calls to limit immigration and prioritize high-skilled immigrants (Peroni *et al.*, 2016; Lofstrom and Wang, 2019) would be warranted if the goal were to bring in a migrant

population with a high average entrepreneurial propensity, and at the very least we would not expect a priori that increased levels of migration would lead to more entrepreneurial and innovative activity.

However, there are many reasons other than the discriminatory immigration policies of wealthy countries to expect immigrants to be more entrepreneurial than natives, precisely because low-skilled immigrants are also more likely to engage in self-employment than natives (Kahn *et al.*, 2017). Immigrants simply appear to be inherently more entrepreneurial than natives. Recall other theoretical explanations in the literature that seek to explain higher rates of self-employment among immigrants. Davidsson (2006) and Vandor (2009) both highlight the inherent risks and potentially high rewards that characterize both entrepreneurial ventures and migration, and Vandor and Franke (2016) and Ozgen *et al.* (2012) describe how cross-cultural experiences aid in opportunity recognition and propensities to innovate. All these theories imply a willingness and ability to successfully migrate, in and of itself, is a good predictor of entrepreneurial capacity. For Davidsson (2006) and Vandor, entrepreneurial individuals self-select into migration; for Vandor and Franke (2016), immigration induces entrepreneurial talent through the mechanism of cross-cultural experiences. Either way, immigration can be seen as an avenue whereby entrepreneurial talent can be either discovered or fostered. Because immigrants seem to be inherently more entrepreneurial than natives on average and are not more entrepreneurial than natives only because wealthy nations favor high-skilled immigrants, we believe immigration restrictions in general, especially overtly restrictive quotas, are a poor way for policy makers to attempt to incentivize entrepreneurship and innovation.

What of the findings from some that many immigrants, especially low-skilled immigrants, are not able to nurture businesses into maturity (Peroni *et al.*, 2016) or are not

particularly innovative or prone to grow (Lofstrom and Wang, 2019)? Do these results imply, as the authors state, that high-skilled immigration should be prioritized at the expense of low-skilled immigration? We disagree for a few reasons. First, it is not at all clear a relationship between immigration and business failure is undesirable if the goal is to promote entrepreneurial innovation. In counterintuitive fashion, Murphy and Weber (2016) demonstrate immigration to be related to business failure and argue this relationship to be a good thing! To make this argument, the authors evoke Schumpeter's concept of "creative destruction." Truly innovative entrepreneurship is a process of trial, error, and replacement; a growing economy on the cutting-edge of technology is sure to experience a certain amount of business failure, and this failure is healthy for the economy as a whole. Immigrants add to the entrepreneurial nexus more competition and new ways of doing things that will potentially replace older, more outdated, and less efficient ways of doing things.

Second, immigrants need not be self-employed entrepreneurs themselves to help increase entrepreneurial capabilities and innovation in the host country. As Alex Tabarrok has written in his defense of open borders, "The immigrant who mows the lawn of the nuclear physicist indirectly helps to unlock the secrets of the universe" (2015). In other words, immigrants may indirectly contribute to entrepreneurial ventures by freeing up the time of natives to pursue more innovative pursuits, including self-employment. Thus, it is not necessarily that immigrant labor will replace native labor; another possibility is for immigrant labor to complement native entrepreneurial capabilities. Start-up construction companies owned by natives that utilize immigrant labor provide an illustrative example of this phenomenon.

We also disagree because of the interactions repeatedly found between institutions and immigrant self-employment. Indeed, the interaction between host country institutions and

immigrant self-employment is a recurring theme throughout the literature, with researchers consistently finding host countries mitigate the positive impacts of immigrant entrepreneurship with stern policies that directly target migrants (Shami and Mickiewicz, 2017; Wang and Lofstrom, 2020; Mata and Alves, 2018). Our most fundamental policy recommendation is to avoid policy like this, including post 9/11 immigration restrictions that pushed immigrants, including non-Muslim immigrants, into low growth forms of self-employment (Wang and Lofstrom, 2020).

However, institutions are difficult to change and can be sticky (Boettke *et al.*, 2015). Institutions represent deep-rooted ways of going about life, and fundamental changes in institutional structure, especially informal cultural institutions, can take generations. Further, informal institutions help to inform formal institutions and be thought of as upwind or upstream from formal rules and regulations, especially in democratic nations (Williamson and Kerekes, 2011). We also see evidence of informal institutions that negatively and disproportionately impact immigrant entrepreneurs (Li *et al.*, 2015; Kremel, 2016; Mata and Alves, 2018; Nkongolo-Bakenda and Chrysostome, 2012). How can the informal institutions of host countries be changed in a way that does not mitigate the positive impacts of immigrant entrepreneurship? The idea that immigrant entrepreneurs experience worse outcomes when they come from home countries with different institutions and that these worse outcomes get better the longer the immigrant resides in the host country (Mata and Alves, 2018) suggests integration programs can be helpful. By decreasing the costs of integration, these programs speed up and encourage assimilation into host country life through language classes, international groups that can help navigate the host country, and business support programs. Scandinavian countries have begun

taking this approach, though determinations of success so far are difficult to make without better data (Borevi *et al.*, 2017).

However, both formal and informal institutions can change given time. This leads us again to our policy recommendation of allowing more migration into wealthy host countries. While the topic is relatively new, there is now a plethora of literature on the impacts of immigration on institutions, both formal and informal, with Nowrasteh and Powell (2020) providing the most comprehensive examination of the topic. Using a combination of qualitative and quantitative evidence, cross-country and single-country studies, the authors provide a variety of instances in which immigration improves institutions in a direction toward greater productivity and a negligible amount of evidence showing an adverse impact of immigration on institutions. Regarding formal institutions, the authors find immigration to lead to increased degrees of economic and political freedom. The authors even go as far as to claim immigration led to transformative and defining institutions in the United States including the public education system and abolition, movements championed by German immigrants. Padilla and Cachanosky (2018) corroborate these findings when they demonstrate the lack of a negative correlation between the Economic Freedom of North America Index and immigration in the United States, though the authors do find mixed evidence of a positive impact of immigration on increases in minimum wages and union density, suggesting natives attempt to use government regulation to prevent immigrant competition in the labour market. Regarding informal institutions, the researchers found immigration to lead to decreases in corruption and crime, and they found general assimilating tendencies among generations of immigrants in terms of cultural norms and practices. In the Argentinian context, Cachanosky *et al.* (2021) find no evidence mass migration

resulted in a causal deterioration of institutions despite occurring in the decades before the rise of Peronism, or Argentinian populism.

Related, a line of other research shows native attitudes towards immigrants improve with exposure to increased immigration (Ward and Masgoret, 2006; Escandell and Ceobanu, 2008; Schneider, 2008). According to this literature, citizens are often wary of immigrants from cultures and institutional environments that are very different from the host country. However, positive exposure mitigates these fears and eases the anxiety of natives towards newcomers.

All this implies something quite interesting: not only do poor institutions downplay and stifle the positive impacts of immigrant self-employment, but increased immigration can change institutions, in the long-run, in a direction that increases the positive impacts of immigrant self-employment and allows the immigrant self-employed to reach their full entrepreneurial potentials.

Finally, we find calls to prioritize high-skilled immigration and to curb low-skilled immigration problematic, because they largely ignore the positive impacts of immigration on the economic mobility of future generations of immigrants. Future generations of immigrants assimilate and adapt to host country environments while also contributing to entrepreneurship and innovation, and when we see evidence of a lack of assimilation or entrepreneurial growth across generations of immigrants, it can often be explained by institutions that disproportionately and negatively impact immigrants and their descendants. While these institutions serve as a factor that mitigates the possible positive impacts of second-generation immigration on economic and entrepreneurial activity, institutions can be improved with more immigration, as outlined above.

Considering the prior evidence, our overarching policy recommendation is to advocate for radically increased levels of immigration. However, absent better data, a second-best option would be to contemplate immigration restrictions more carefully. Even in carefully constructed multi-country studies that can account for the confounding influences of institutions on immigrant self-employment, variables that seriously affect interpretations of evidence are often ignored, most notably the length of time in which immigrants have resided in their host countries. These issues need to be corrected, or at least accounted for, before broad policy recommendations that attempt to fundamentally limit freedom of movement are given.

V. Conclusions

We have outlined and synthesized the current literature on immigrant self-employment and critically analysed the popular policy recommendation that high-skilled immigrants be prioritized. Because of important omitted variables, most notably institutions and length of stay in host countries, we find recommendations to limit migration and prioritize high-skilled immigration based on the evidence surrounding immigrant self-employment to be problematic and inappropriate. We also find calls to limit migration or to prioritize high-skilled immigration in the literature largely ignore the benefits of future generations of immigrants. In fact, we offer the opposite policy prescription: a radical increase in the number of skill and unskilled immigrant workers allowed into host countries.

We have also discussed what the literature on immigrant entrepreneurship has and has not accomplished regarding important data and empirical issues, and the discussion is hopeful in that these data issues are slowly being resolved. Researchers like Mata and Alves (2018) have begun controlling for length of stay in host countries and have found the longer immigrants reside in host countries, the more successful they are as entrepreneurs. Scholars have also begun

unpacking how institutions interact with immigrant entrepreneurship (Shami and Mickiewicz, 2017; Wang and Lofstrom, 2020; Mata and Alves, 2018; Li *et al.*, 2015; Kremel, 2016; Nkongolo-Bakenda and Chrysostome, 2012) as well as how immigration impacts institutions in the long run (Nowrasteh and Powell, 2020). We take this blooming evidence, collectively, to indicate radically increased levels of migration to be desirable. However, a second-best option would be more careful consideration of immigration restrictions before attempting to prioritize high-skilled immigration. Low-skilled immigrant entrepreneurs also contribute to economic activity and growth, especially in the long term through future generations.

In our analysis, we have also identified new avenues of research for the future. We have shown appropriate policy recommendations based on the research surrounding immigrant self-employment are highly dependent on the reasons why immigrants are more likely to self-employ than natives. While some theories suggest current immigration policy to be desirable, others suggest we should allow radically increased levels of immigration if we want to encourage entrepreneurial behaviour. Thus, fruitful avenues of research on this topic would do well to more carefully identify the specific mechanisms that most explain why immigrants are more likely to self-employ than natives. If immigrants are more likely to self-employ mostly because of an entrepreneurial selection bias resulting from the discriminatory immigration policies of rich countries, there may be reason to dial back our policy recommendation of radically increased levels of immigration. However, to the extent immigrants are more likely to self-employ because entrepreneurial individuals self-select into migration or to the extent immigration provides cross-cultural experiences that lends itself well to opportunity recognition, increased levels of immigration seem desirable. It at least seems careful consideration of removing some current immigration restrictions is in order.

Instead of advocating for a higher prioritization of high-skilled immigration, immigration could be seen as a tool for long-term economic mobility, especially if immigration restrictions are pushing immigrants into less efficient forms of entrepreneurship and self-employment (Wang & Lofstrom, 2020). Our analysis at least suggests such an orientation towards immigration would not only be great for immigrants and their descendants but could also be good for the non-immigrants with whom these immigrants and their descendants serve and hire. Besides, the Statue of Liberty does not read, “Give me your rested, your wealthy, your educated few;” it reads, “Give me your tired, your poor, your huddled masses yearning to breathe free.” It also seems these huddled masses are yearning to set up shop and start new businesses. That is a good thing too, even if those businesses fail.

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