



# IMMIGRANT ENTREPRENEURSHIP: AN AMERICAN SUCCESS STORY

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## EXECUTIVE SUMMARY

A growing body of rigorous academic literature empirically demonstrates that high-skilled immigrants provide a range of long-lasting and material benefits to the U.S. economy through entrepreneurship and innovation. Recent research has quantified the impact of foreign-born founders on key economic indicators such as firm creation, job creation and overall business innovation. Likewise, a growing body of literature documents how skilled immigrants have more broadly facilitated technological innovation.

Despite the empirical evidence that high-skilled immigrants contribute significant value to the U.S. economy, major hurdles exist for them to obtain visas that allow for starting new ventures.

In the current era of global talent competition, we suggest that there are specific policies that the United States can implement to lower barriers for immigrant entrepreneurs, benefit from high-skilled immigrants and foster associated entrepreneurial economic growth.

## HIGH-SKILLED IMMIGRANTS ARE ENTREPRENEURIAL

Startups and young firms are critical to job creation in the United States. Between 1980 and 2010, about 2.9 million new jobs per year were traced to firms less than one year old. Although startups experience high rates of failure, surviving firms grow at higher rates than mature firms, expanding their employment by 25 percent per year.<sup>1</sup>

<sup>1</sup> Haltiwanger, J., Jarmin, R. S., Kulick, R., & Miranda, J. (2016). High growth young firms: Contribution to job, output, and productivity growth. In J. Haltiwanger, E. Hurst, J. Miranda, & A. Schoar (Eds.), *NBER Book Series Studies in Income and Wealth: Measuring entrepreneurial businesses: Current knowledge and challenges* (p. 11 - 62). Chicago, IL: The University of Chicago Press. Retrieved from <https://www.nber.org/chapters/c13492>

Recent research using data from the 2007 and 2012 Survey of Small Business Owners (SBO) found that first-generation immigrants create about 25 percent of the new firms in the United States.<sup>2</sup> In states with higher immigrant populations, such as New York, New Jersey and California, that number climbs to more than 40 percent.<sup>3</sup>

Immigrants also have had a growing impact on venture-backed firms that have led to IPOs. Between 2006 and 2012, immigrants started 33 percent of venture-backed public firms, with a combined market capitalization exceeding \$167 billion and the creation of more than 600,000 jobs worldwide.<sup>4</sup>

## HIGH-SKILLED IMMIGRANTS SUPPORT THE INNOVATION ECONOMY

Using the Annual Survey of Entrepreneurs data, researchers compared immigrant-owned firms to native-owned firms across 26 different innovation measures ranging from innovation activities, like developing new goods and services, and R&D activities, such as developing prototypes, to owning intellectual property, including patents. They found that immigrant-owned firms have higher rates of activity in 24 of 26 of the different measures.<sup>5</sup>

<sup>2</sup> Kerr, S. P. & Kerr, W. R. (2018). *Immigrant entrepreneurship in America: Evidence from the Survey of Business Owners 2007 & 2012* (Harvard Business School Working Paper No. 18-098). Retrieved from [https://www.hbs.edu/faculty/Publication%20Files/18098\\_9b1e3790-0e0f-45e4-90da-9d516983b304.pdf](https://www.hbs.edu/faculty/Publication%20Files/18098_9b1e3790-0e0f-45e4-90da-9d516983b304.pdf)

<sup>3</sup> Kerr, S. P. & Kerr, W. R. (2018). *Immigrant entrepreneurship in America: Evidence from the Survey of Business Owners 2007 & 2012* (Harvard Business School Working Paper No. 18-098). Retrieved from [https://www.hbs.edu/faculty/Publication%20Files/18098\\_9b1e3790-0e0f-45e4-90da-9d516983b304.pdf](https://www.hbs.edu/faculty/Publication%20Files/18098_9b1e3790-0e0f-45e4-90da-9d516983b304.pdf)

<sup>4</sup> Anderson, S. (2013). *American made 2.0: How immigrant entrepreneurs continue to contribute to the U.S. economy*. (NVCA Policy Brief). Retrieved from <https://nvca.org/wp-content/uploads/delightful-downloads/American-Made-2.0.pdf>

<sup>5</sup> Brown, J. D., Earle, J. S., Kim, M. J., & Lee, K. M. (2018). Immigrant entrepreneurs and innovation in the U.S. high-tech sector. In I. Ganguli, S. Kahn, & M. MacGarvie (Eds.), *The Role of Immigrants and Foreign Students in Science, Innovation, and Entrepreneurship* Chicago, IL: University of Chicago Press. Retrieved from <https://www.nber.org/chapters/c14103>

Additionally, research shows that immigrants are responsible for 23 percent of patent production, despite comprising just 16 percent of inventors. They also found that immigrants have generated 25 percent of the aggregated economic value created by patents produced by publicly traded firms.<sup>6</sup>

## RECOMMENDATIONS

Entrepreneurship, including immigrant entrepreneurship, is declining dramatically in the United States. More alarming, research shows a decrease in both high-growth firm formation and job creation by existing high-growth firms.<sup>7</sup>

High-skilled immigrants face substantial obstacles to entrepreneurship in the U.S., owing in large part to the current structure of the H-1B visa program. The program, which permits companies to temporarily employ foreign workers in occupations requiring a bachelor's degree (or its equivalent) and highly specialized knowledge in a specific field, has a cap of 65,000 H-1B visas awarded per year, plus an additional 20,000 for those who have earned at least a master's degree in the United States.

New immigration policies are affecting visa approvals. According to a study by the National Foundation for American Policy, H-1B petition denials for foreign-born workers increased 41 percent between the third and fourth quarters of FY17. Requests for evidence for H-1B petitions doubled during the same time period.<sup>8</sup>

Additional effects are being felt from the Trump administration's failure to grant status under the International Entrepreneur Rule (IER) to foreign entrepreneurs seeking temporary parole to build and scale their businesses in the U.S. The rule, which was created during the Obama administration, remains on the books though it continues to meet with opposition.

<sup>6</sup> Bernstein, S., Diamond, R., McQuade, T., & Pousada, B. (2018). *The contribution of high-skilled immigrants to innovation in the United States*. Retrieved from <https://www.gsb.stanford.edu/faculty-research/working-papers/contribution-high-skilled-immigrantsinnovation-united-states>

<sup>7</sup> Decker, R. A., Haltiwanger, J., Jarmin, R. S., & Miranda, J. (2016). Where has all the skewness gone? The decline in high-growth (young) firms in the U.S. *European Economic Review*, 86, 4-23. Retrieved from doi:10.1016/j.euroecorev.2015.12.013

<sup>8</sup> Anderson, S. (2018). *H-1B denials and requests for evidence increase under the Trump administration* (NFAP Policy Brief). Retrieved from <https://nfap.com/wp-content/uploads/2018/07/H-1B-Denial-and-RFE-Increase.NFAP-Policy-Brief.July-2018.pdf>

We suggest three policies that will generate additional economic growth in the U.S. by facilitating more high-growth business activity and innovative startups founded by immigrant entrepreneurs:

- 1. Institute startup visas.** A simple and powerful program to make the U.S. the most attractive location for global entrepreneurs, such as the one recommended in the bipartisan Startup Act, would provide a visa for immigrant entrepreneurs who can demonstrate a sufficient level of external and carefully documented funding for their ventures. In addition, the administration should put the International Entrepreneur Rule on firm footing to enable immigrant entrepreneurs to launch high-growth companies in the U.S.
- 2. Reform the H-1B program.** To address cyclical and secular trends in the labor market of emerging and rapidly evolving industries, we suggest a rolling program which would set an appropriate annual fee for employers to obtain H-1B visas (e.g., \$5,000-10,000) and then let them determine the needed quantity based on market demand. An appropriate cost would lower the chances that foreign workers would undercut wages of domestic workers while guaranteeing a supply of skilled workers for growing businesses. Fee revenues from the program could provide tuition support for U.S. students and workers to study fields with high visa demand, so that the labor market equilibrates over the intermediate term.
- 3. Establish a STEM visa program.** The U.S. could provide an easy path to visas for high-value workers with training in STEM fields by allowing STEM graduates from accredited U.S. universities to stay in the United States as long as they are employed in a STEM-related job. Workers could become eligible for a green card once a certain level of cumulative W-2 income is amassed (e.g., \$250,000). This type of program, coupled with a modest program fee for employers (e.g., \$2,000 per year), would assist in retaining top global talent in the U.S., while also lowering the odds of these workers undercutting wages of similarly qualified domestic STEM graduates.

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