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- **Ignorant UKIP fails to understand the long run benefits of EU immigration**
- **British debate has disregarded the role of EU immigrant entrepreneurship**
- **Net effect of European immigration on UK prosperity is clearly positive.**

Effect of Immigrant Entrepreneurship is Positive for the UK Economy

In 2014, an interesting debate on EU immigration has begun in the UK, with UKIP suggesting that immigration from EU countries would be a major burden on the country. The British prime minister has also argued during the Summer and Autumn of 2014 that cuts on generous immigration benefits are needed and that without such discriminating measures against EU immigration – enjoying free movement of labor, capital and goods in the context of the EU single market – nothing could be excluded with respect to the upcoming EU referendum in 2017. There is, however, one strange element in that debate, namely, that the facts on immigration in the UK and other countries show that immigration has clear net benefits for the country involved. It is quite surprising that leading members of the British political system obviously does not know the relevant facts and that thereby the British people and the British Parliament are deprived of a sound informational basis for rational decision-making.

Some people arguing against free EU migration argue that the special British trait of a free health care system represents a particular burden but this argument is not well founded, as the faster gainfully employed immigrants who fall ill see a physician and restore their health, the faster they will return to the workplace and contribute to a higher GDP – the large majority of immigrants from other EU countries are working; or indeed have founded their own business, an important aspect which so far has been totally neglected in the discussion. There is a second negative aspect that is well known from immigration debates, namely, that immigrants – often rather unskilled – contribute to a reduction of the wages of unskilled workers; but even this negative aspect is not really relevant if one takes a long term view and considers the role of immigrant entrepreneurship. There are studies on immigrants in Germany (see e.g. the references in Welfens, 2013) that show that the net benefits for immigrants are negative so that such immigrants actually make a net contribution to the social security system. As regards the UK there is a study by Dustmann/Frattini/Halls (2012) which show that immigration from eight eastern European accession countries again results in a net fiscal gain for the British government – immigrants obtain less net payments than natives.

All these well-known facts are very much reinforced by looking at some US figures and keeping in mind that the US is not very different in terms of immigration from the UK from which most US settlers actually came. In 2014, the American Immigration Council/Council of Immigration Policy stated on its website (accessed November 29, 2014) that in 2010, 40% of the Fortune 500 companies had been created by immigrants or their children; the website also states:

“According to economist Robert Fairlie at the University of California, Santa Cruz, immigrants start businesses at a higher rate than the native-born: the business formation rate per month among immigrants in 2010 is 0.62 percent (or 620 out of 100,000), compared to 0.28 percent for non-immigrants (or 280 out of 100,000)...In 2012, the Kauffman Foundation's Kauffman Index of Entrepreneurial Activity shows that immigrants were nearly twice as likely as the native-born to start businesses each month. Additionally, from 1996 to 2012, the share of entrepreneurs who are immigrants grew from 13.7 percent to 27.1 percent.”

The fact for the US is that 15% of net business income accrues to immigrant entrepreneurs – including the first child generation of immigrants active as entrepreneurs. If one assumes that in the UK the percentage is only half of that in the US the implication then is (assuming that EU immigrants in the long run make up half of all immigrants in the UK) that in the long run 3.75% of all jobs will be provided by EU immigrant entrepreneurs in the UK; this would be the implication of a constant ratio capital stock to labor. As EU immigrant entrepreneurs have a higher level of human capital and a higher per capita wealth than non-EU immigrants, the share of EU immigrant entrepreneurs in all immigrant entrepreneurs in the UK could be even higher than half in the long run; if the EU immigrant's share would be 2/3rds, the share of all jobs created in the UK would be 4.95%. Taking into account that young firms – surviving – in the economy are relatively small and less capital-intensive in production than big firms, the share of jobs represented by EU immigrant entrepreneurship should be higher than their respective share in entrepreneurship income, so possibly 1-2 percentage points higher. So if the EU immigration entrepreneurship in the long run – say until 2050 – represents 6-7% of the overall employment, one could not argue that the short-term immigration impact of lowering unskilled workers' wages is relevant in the medium term and in the long run.

The continental EU immigrant entrepreneurship which comes with the first, and relatively more often in the second, generation of immigrants implies that the overall number of jobs will increase in the UK, namely, net of immigration itself. Whether or not this also holds for all immigrants to the UK and other countries is an interesting research issue and more research on these questions should be conducted. In a study prepared by the Centre for Entrepreneurs and DueDil (2014), *Migrant Entrepreneurs: Building Our Businesses, Creating Our Jobs*, it was found that 14% of start-ups in the UK were founded by immigrant entrepreneurs who represent about 0.45 million people and almost as many companies – and they employ 8.3 million people. This is clearly more employment than the number of immigrants to the UK in recent times and many British entrepreneurs (recorded as British in the statistical coverage) were themselves either foreign born or the children of immigrants.

Mr. Farage, the head of UKIP, argues as if he has no solid understanding of the well-known facts from immigration research – and certainly no idea of the relevance of immigrant entrepreneurship in the UK. Those British voters who have a time horizon of one to five years might believe that EU immigration is a disadvantage for the country, however, as more than 90% of British voters certainly think long term and are rational people, one should not worry too much about the anti-EU immigration campaign launched by Mr. Farage, whose competence and knowledge is not exactly what an adult voter would expect from a responsible, sober party leader.

Immigrant small business entrepreneurship in the US is a crucial element of overall entrepreneurship and self-employed immigrants stand for a considerable share of income, jobs and tax payments (Kallick, 2012). The natural research framework to shed

more light on immigrant entrepreneurship is the OECD, where broad and deep knowledge on immigration and growth dynamics is available. It would be desirable that the OECD's standard strength to shed light on contested economic issues is reinforced in the field of immigrant entrepreneurship. The UK and Europe, respectively, need some enlightenment on this key aspect of immigration which is often overlooked. As regards the US, it is noteworthy that according to Robert W. Fairlie and Christopher Woodruff – in the IZA paper No. 3488 (2008) on Mexican-American Entrepreneurship – the entrepreneurship of Mexican immigrants was relatively low compared to natives and in the second and third generation there still were some gaps related to education and per capita wealth; the accepted legal status of immigrants also played a positive role. However, in the long run Mexican immigrant entrepreneurship in the US was almost as high as that of natives in the United States. As regards immigrants from EU partner countries, the education gap and the per capita wealth gap will be smaller in the UK than a Mexican-US comparison would show, so that “catching-up” EU immigrant entrepreneurship in the UK will be fairly large. It is deplorable that research in Economics has played an insufficient role in the analysis of several economic crises (Welfens, 2014) and obviously on the back of the confusing banking crisis and the euro crisis much economic nonsense has become a plague in the political system in many countries.

The British public has the right to know all the relevant facts about the costs and benefits of immigration in the EU and the effects of the EU single market. There is not the faintest doubt about the fact that all four freedoms of the EU single market in the long run generate positive prosperity effects in every single EU country. It would be a bad joke of history if the country which gave the world Adam Smith, David Ricardo und thousands of successful domestic and foreign-born entrepreneurs should continue to disregard the most obvious facts of the EU immigration debate. For many years UKIP has exploited a lack of information and deceived the British public, as Mr. Farage has been an unsophisticated and ardent supporter of the most simplistic, populist prejudices and misjudgments on immigration. Would anyone seriously want to trust a politician who has not shown any sign of looking for even the most basic figures relevant for a serious debate on a key issue and whose ill economic recipes will undermine prosperity in his own country?

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