RESEARCH PRIMER: The Economic Benefits of Immigration

> **We aren't used to thinking of immigration as a business issue, but it's much more important for companies than you imagine."**
>
> - Exequiel (Zeke) Hernandez, Faculty Co-Director of the Political Risk and Identity Lab

THE CASE AGAINST VILLAINS AND VICTIMS

The traditional narrative of immigration is one of villains and victims. The villain story tells us that immigrants pose a threat—to our economy, because they steal our jobs; to our way of life, because they change our culture; and to our safety and the rule of law, because of their criminality. The victim argument tells us that we have a moral obligation to help the poor "huddled masses" of Emma Lazarus's poem, lifting them up at our own expense if that's what it takes.

What the research shows is a very different story—one in which immigrants who serve as workers, consumers, investors, innovators, and taxpayers are neither villains nor victims but rather key drivers for a healthy, growing economy. As Max and Bernice Garchik Family Presidential Associate Professor Exequiel (Zeke) Hernandez details in his recent book, "The Truth About Immigration: Why Successful Societies Welcome Newcomers" (St. Martin's Press, 2024), newcomers bring enduring economic benefits—immigration powers investment from foreign companies, revitalizes local economies through job creation, and creates more successful investments in regions where migrants came from.

Simply put, more immigration has an overwhelmingly positive impact on nearly everything that makes an economy successful.

IMMIGRATION BENEFITS THE ECONOMY

Hernandez's research shows that immigrants increase the magnitude and variety of the five key inputs that produce economic growth and jobs. These are consumption, investment, innovation, talent, and taxes.

1. Consumption Variety and Purchasing Power

Immigrants and their children hold nearly 20 percent of the purchasing power in the U.S. economy. An estimate from 2019 suggests that immigrants have approximately $1.3 trillion in spending power—that's disposable income after taxes,[1] and about 7.5 percent of total spending power in the country ($17.5 trillion).[2] That accounts only for first-generation immigrants, or people born outside the U.S. now living in the country. Further, immigrants and their children are the fastest-growing group of consumers in the U.S.

Not only do immigrants increase the amount of consumption. They also make the demand-side of the economy more vibrant and dynamic because they increase consumption variety. By virtue of different tastes and preferences, immigrants introduce all kinds of new categories of products and services into the economy. Whether it be food, music, technology, or leisure activities, so much of the richness of what we spend our time and money on comes from things introduced through distinct waves of newcomers.

Hernandez prompts: "Imagine your grocery store if you took away all of the foods brought to this country by immigrants: bagels, pasta, sushi, ramen, salsa, sriracha sauce, lager beer. Groups of immigrants from different populations bring products that benefit all of us."

2. Innovation and Entrepreneurship

Newcomers to the U.S. have a long history of invention and business formation. Immigrants or their children founded 44 percent of all Fortune 500 firms,[3] including familiar names such as Apple, Levis, and Google. That tradition holds true today. Immigrants are 80 percent more likely than natives to start businesses,[4] and, while representing only 14 percent of the U.S. population, immigrants start 25 percent of all new businesses.[5]

> **"Immigrants' innovation doesn't come at the expense of native innovation: it makes native innovation even higher."**
>
> - Exequiel (Zeke) Hernandez

That high rate of entrepreneurship is tightly linked to immigrants' exceptionally high innovativeness. Because immigrants are a minority, most of the people they work and interact with are natives. By working alongside immigrants, native-born people get exposed to different products, technologies, ideas, or ways of thinking about and solving technical problems. They also plug into networks of global innovators they wouldn't otherwise have had access to. These immigrant-native interactions result in countless innovations. One study shows that, despite being only 16 percent of inventors who patent, immigrants are responsible for 36 percent of all patented inventions in America. Of that total, immigrants are inventors in 23 percent of patents; the remaining 13 percent is the result of native-born inventors patenting more because of their collaborations with immigrants.[6]

3. Investment

Where immigrants go, investment follows. Immigrants are magnets of investment for firms from their home countries. Firms are more likely to expand into foreign locations with large co-national diasporas,[8] and they are more successful when they do so as measured by survival and profits.[9] Those investments from foreign firms often create jobs and revitalize economically declining parts of America — for example, a county with a large community of workers from Germany is more likely to see investment from a high-end German manufacturer [see sidebar on next page].

Similarly, U.S.-based companies in communities with more immigrants make more (and more successful) investments in the regions where those immigrants came from. In a 2019 study by Konrad Burchardi, Thomas Chaney, and Tarek Hassan analyzing all 3,141 counties in the U.S., they show that the more people with ancestors from a foreign country who live in a given county, the more investment the U.S. county receives from companies from the ancestral country and the more companies from the U.S. county invest in the ancestral country. [7]

Besides attracting investment from their homelands, immigrants increase the amount of investment via the entrepreneurship mechanism mentioned earlier. Recall that they are 80% more likely to start businesses than native-born people. The investment brought by those businesses creates more jobs—regardless of company size–than companies founded by native born individuals.

HOMETOWN, PENNSYLVANIA:

In early 2023, EMD Electronics announced a $300 million expansion of a facility in Hometown, Pennsylvania, that develops specialty materials essential to the manufacture of microchips. The expansion would create an estimated two hundred high-skill jobs.[10] With about 3,500 residents, and located far from any major urban center, Hometown seems like an unusual place for a high-tech facility. But, its history provides a clue. Rush Township, where Hometown is located, was settled by German pioneers in 1811. They spoke only German in the town for decades.[11] What does Rush Township's German heritage have to do with the investment by EMD Electronics? It turns out that the company is a subsidiary of Merck KgaA—a German corporation. Based on what research tells us, It's no coincidence a German company is thriving there generations later. [12]

4. Talent: Filling Gaps and Creating Jobs

Despite the prevailing narrative of immigrants stealing native jobs, research shows that immigrants are net job creators and do not, on average, take away jobs or lower the wages of native workers (there are some rare cases in which they do, but this is the exception and not the rule).[12]

There are two reasons for this: When immigrants arrive, demand for products and services goes up, which requires hiring more people; and, immigrants don't compete with natives for the same jobs or the same positions—they're different.[12]

A recent study by the National Association of Manufacturers and Deloitte estimated that more than two million manufacturing jobs were likely to be unfilled by 2030.[13] Firms have turned to migrant populations to solve these workforce problems with success. Many workers from outside the U.S. are happy to take hard-to-fill positions (overnight shifts, temporary positions, jobs with low starting salaries) that many American-born workers balk at. The jobs they do in sectors such as meatpacking, household care, construction, or farming allow more native-born workers to move into positions as supervisors, salespeople, and accountants.[14]

STEM TALENT:

Foreign-born talent powers just about every technology-intensive sector of the economy, and our dependence on that talent is only growing. In 1993, 16 percent of science and engineering (S&E) workers with bachelor's degrees or higher were immigrants. By 2017, that share had risen to 29 percent. If we focus on those with graduate degrees, the current share is even higher. Immigrants represent 39 percent of S&E workers with master's degrees and 45 percent of those with doctorates. They're pivotal in fields like computer science, biotechnology, physics, social science, and engineering.[15]

5. Taxes

Another broadly held misconception is that immigrants are draining public coffers by taking advantage of schools, healthcare, and other taxpayer-funded services without contributing their fair share.

There are certainly short-term costs of integrating newcomers, like public education, housing, infrastructure, and food assistance. Those costs are borne disproportionately by local governments (states and cities) and unevenly distributed across the country. However, the costs are outweighed by the long-term taxes paid by immigrants and their descendants. On average, individuals in the first generation are more costly to governments, mainly at the state and local levels, than are the native-born generations; however, immigrants' children—the second generation—are among the strongest economic and fiscal contributors in the population. [16]

Research shows that each immigrant makes a net positive contribution of $259,000 to public coffers (taxes paid minus public services used) over a period of 75 years, in NPV terms.[16] Even unauthorized immigrants reliably pay taxes (using an ITIN) paying more than a quarter, — about 26 percent—of their income in taxes, in line with the median taxpayer. Those payments totaled nearly $100 billion in federal, state, and local taxes in 2022.[17]

Without immigration, popular entitlement programs like Social Security, Medicaid, and Medicare would quickly become defunded.

WHAT THIS MEANS FOR FIRMS

The positive impact immigrants have on economies is clear. But how can firms harness this strength to increase growth and productivity?

1. Hiring from Top to Bottom of Your Organization

Firms can capture the benefits of talent and innovation by recruiting and hiring immigrants throughout their organization. This diverse workforce increases innovation in two ways. First, immigrants bring novel ideas and skills that directly affect the firm's ability to produce new technologies in the form of patents,[7] products, or processes. Second, immigrants make native workers more innovative by introducing them[19] to new ideas and social networks. In fact, native-born workers become less innovative when they unexpectedly lose foreign-born colleagues.[20]

This is important throughout all levels of an organization, as skill is not just a matter of education. Many foreigners without college degrees have essential skills without which an economy could not function. And, as noted above, immigrants often fill critical shortages in locations and companies that are desperate for them, like rural areas or places with declining populations. Regardless of level, hiring foreign talent exists to fill gaps in an organization, especially for team-based operations that need to fill seats to operate. Hernandez brings up examples such as audit teams or construction crews who, when understaffed, may lose work or not meet deadlines which could be disastrous to organizations.

2. Broadening firm's strategic repertoires

In addition to filling labor shortages, immigrant workers can expand the strategic offerings of a firm. As native and foreign-born employees mix skills, experiences, and ideas, they innovate and create new approaches to doing business. Firms who can compete in new ways or on new frontiers perform better against their peers and allow them to serve markets that other firms might not understand as well. Glennon and co-authors explored this relationship in the context of professional sports teams, finding that acquiring specific and unique foreign talent improved team success and performance.[21]

3. Expansion into New Markets

Hernandez and his co-authors Dany Bahar and Natalie Carlson find that "Hiring immigrants born in a certain country enables teams responsible for global product categories—usually located at the firm's headquarters—to launch more new products in a target country, to update those products more frequently, and to better localize the features of those products." [22]

One of the biggest challenges faced by multinational firms is creating relevant products for foreign markets. Consumer tastes and preferences are notoriously nuanced and hard to understand. The solution? Hiring employees at a firm's headquarters from a variety of national backgrounds can make the task easier.

Research shows that after firms hire workers from a certain country, their products in that country become more locally adapted; firms make more frequent updates to products they previously launched allowing for novelty in product offerings; and firms launch more new products in geographically distant countries after immigrant workers are hired. [19] Immigrant workers know what products are popular, they know the flavor palette of the local foods, the packaging that will resonate in their native shops, and the best way to market products to their native audience.

For firms this is more than just higher revenues from global markets, but also lowers the risk of expanding operations or adding new product lines.

4. How Many is Too Many?

While it may be possible that there is a limit to the number of immigrants a firm can hire or a country should admit before the system "breaks," current U.S. immigration laws are so restrictive that we are very far from whatever that level may be. Thus, we don't observe a breaking point in empirical evidence. For example, the Penn Wharton Budget Model has estimated that doubling the number of visas we currently give in the U.S. would still produce economic growth. And many studies document net economic gains during time periods when countries had little to no restrictions on immigration (e.g. during the age of mass migration (1870-1920) in the US).

Pressure points do exist, and those come from congestion in housing and other infrastructure in locations that see a large, fast influx of new workers. While this is not about immigration per se (the same stresses would exist if a large group of native workers arrived suddenly), it does reflect on our ability and willingness to build fast enough to accommodate a growing population. Put differently, the benefits firms and countries get from immigrants depend in part on sound policy and a location's infrastructure capacity to absorb the inflow.

When it comes to firms, harnessing global talent requires a culture of openness to new ideas and processes to harness those ideas. Research suggests that this does not happen automatically. If firms fail to establish the right culture and processes, conflict from interpersonal animosity across groups from different backgrounds can overpower the benefits of diversity of thought. Still, the upside of harnessing global talent suggests that the effort is worthwhile.

5. A Heavier Lift but Greater Rewards for Startups and Small Businesses

Startups and small ventures in particular see benefits in hiring immigrant workers due to the small number of employees and increased opportunity for cross-pollination of ideas and productivity gains. Yet often small ventures don't look to visa sponsoring/candidates given the cost and complexity of the immigration system. For example, navigating the H-1B or H-2B programs for skilled and unskilled workers, respectively, is cumbersome and does not guarantee that a company will obtain the desired worker because there is only a limited number of visas available in any given year. However, there are several services now available that make it easier to navigate the system without needing an internal HR or legal expert (e.g. Deel).

Firms seeking skilled workers can also take advantage of the J1 visa carve-out for STEM workers. This visa has traditionally been used for temporary exchanges, but a special provision allows firms to hire STEM talent for up to five years on the J1. The main advantage is that there is no limit on J1 visas, a big advantage compared to the H-1B program. See the American Immigration Council's Federal STEM Initiatives: Overview Guides & FAQs for additional guidance.

Finally, similar to large firms, startups should develop a culture that welcomes global talent. Currently, founders tend to recruit among their social networks, which results in hiring people who are mostly like them. Unless the startup already has foreign born founders, it won't be plugged into networks of foreign born talent. Looking outside the immediate network to the strengths of immigrant workers — especially for STEM talent — can take startups to the next level.

CONCLUSION

Recruiting and retaining a global workforce benefits companies, the communities in which they operate, and the entire economy. As firms look to harness the strength of immigrant workers, they must have a culture that is welcoming to employees from a variety of backgrounds. From the C-suite through HR and into the broader employee base, firms must create a welcoming and inclusive environment.

Looking to the immediate future, it is increasingly important that firms stay abreast of political developments and their impact on firms' new or current foreign workers. Anticipating headwinds from the administration, firms should start clearly defining their business needs around recruiting and retaining the necessary talent.

When the benefits of immigrant talent are properly understood, it becomes clear that entire economies and specific firms can benefit from understanding that foreigners are neither villains or victims. Nor are they simply lumps of labor that fill job shortages. Instead, they are essential innovators, investors, consumers, and taxpayers that make the economic pie bigger and more diversified.

Once firms understand this, not only will they put in place the necessary recruiting strategies and cultures to attract and retain global talent. They will also see that immigration policy can be a source of material opportunity or risk, depending on whether a country's policy makers understand (or fail to understand) the issues covered in this primer.

THE SCHOLAR:
EXEQUIEL (ZEKE) HERNANDEZ

Exequiel (Zeke) Hernandez is the Max and Bernice Garchik Family Presidential Associate Professor. He publishes pioneering research in two broad areas. In the first, he explores how immigration affects the investment choices, growth, and performance of firms. In the second, he studies how firms design corporate strategies through alliances, acquisitions, and divestitures to enhance their innovation and performance. Zeke's papers have been published in leading academic journals such as Management Science, Administrative Science Quarterly, Organization Science, Strategic Management Journal, and Academy of Management Journal.

A renowned expert on the topic of immigration, Zeke is the author of The Truth About Immigration: Why Successful Societies Welcome Newcomers. Providing clarity on one of the most important but misunderstood topics of our time, the book has received glowing coverage in outlets such as The Economist, Freakonomics Radio, CBS, MSNBC, NPR, Kirkus Reviews, Forbes, Barron's, Bloomberg, and more.

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