

The Impact of Immigration on Native Entrepreneurship: Evidence from Spain

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Summary

This paper examines the impact of immigration on native entrepreneurship, by exploiting rich social security data and a unique immigration episode in Spain. I find immigration has a positive effect on native entrepreneurship, which is driven by the entry of new native entrepreneurs. I argue this effect is explained by immigration lowering labour costs, as immigrants were mostly absorbed in low-paying and low-skill occupations. Lower labour costs decrease the opportunity cost of becoming an entrepreneur and thus increase the entry of new entrepreneurs, who in the absence of the immigration episode would not have become entrepreneurs. I propose a simple model of occupational choice and immigration to rationalise the findings and to analyse the role of lower labour costs on fostering entrepreneurship amongst natives.

Research Question

- The impact of immigration on the labour market is a highly contentious topic. However, the impact on natives wages and employment is usually limited.
- Well-established evidence on worker's changes in occupational choice and changes in firm dynamics.



Does entrepreneurial activity by natives react to immigration inflows?

- I focus on **occupational choices** of workers and entrepreneurs, and their drivers.
- Entrepreneur is an important margin of adjustment to labour market shocks. It also is a key contributor to employment growth.

The Spanish setting

- One of the largest immigration flows across OECD countries in the postwar period.

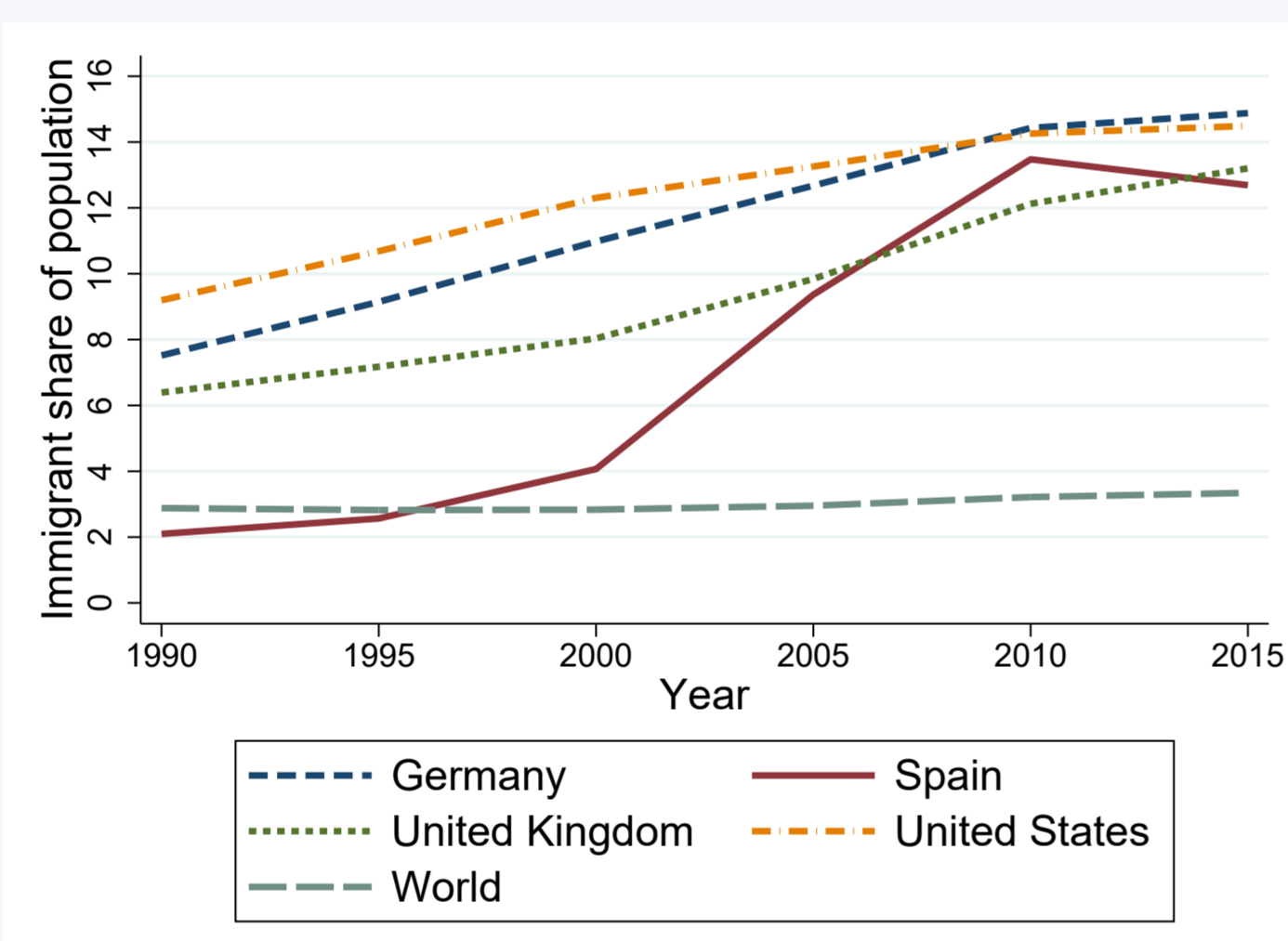


Figure 1. International comparison of immigrant shares, 1990-2015

- Rich admin data on population and worker histories **including both wage work and entrepreneurship**.
 - Entrepreneurs = Incorporated + Unincorporated self-employed
- **Immigrants in the labour market.** When compared to natives, the inflow of immigrants was characterised by:
 - Younger, less educated, overrepresented in manual occupations and temporary contracts, lower wages, and much lower share of entrepreneurs.
 - Higher rates of informality and undocumented status.
 - Substantial occupational downgrading

Empirical Strategy

I estimate the following long-difference model for the period 1999-2008:

$$\frac{Y_{ipt}^N - Y_{ip,1999}^N}{Employed_{p,1999}^N} = \beta \frac{N_{ipt,2008}^F - N_{ip,1999}^F}{WAP_{p,1999}} + \gamma X_{ip,1999} + \gamma_p + \gamma_i + \epsilon_{ip}$$

- Y_{ipt}^N = number of natives in a occupation in industry i and province p in year t
- $Employed_{p,1999}^N$ = number of employed natives in province p in 1999
- N_{ipt}^F = number of immigrants working in industry i and province p in year t
- $WAP_{p,1999}$ = working age population in province p in 1999
- $X_{ip,1999}$ = local industry controls at baseline
- γ_p and γ_i are province and industry FE, respectively
- ϵ_{ip} = error term

Identification Strategy - Immigrant Exposure IV

I estimate a predictor of the number of immigrants in industry i and province p at time t , Z_{ipt} :

$$Z_{ipt} = \sum_c \left(\frac{FB_{c,p,1991}}{FB_{c,1991}} \right) \times FB_{ct} \times \omega_{ir(c),1999}$$

- $FB_{c,p,1991}$ = foreign born people in province p from country c in 1991
- FB_{ct} = foreign born people from country c in year t across Spain
- $\omega_{ir(c),1999}$ = share of people from region $r(c)$ working in industry i in 1999

Identification assumption: local industries with higher exposure to shifts, as distributed by the shares, do not have systematically different potential outcomes than local industries with lower exposure to shifts, conditional on FE and controls.

Validity tests

- ✓ Effects are not driven by adjustment to previous inflows (Jaeger et al., 2019)
- ✓ The instrument is uncorrelated with preexisting trends in outcomes
- ✓ Results are robust to alternative specifications of the instrument (push-factors shifters or leave-one-out)

Results

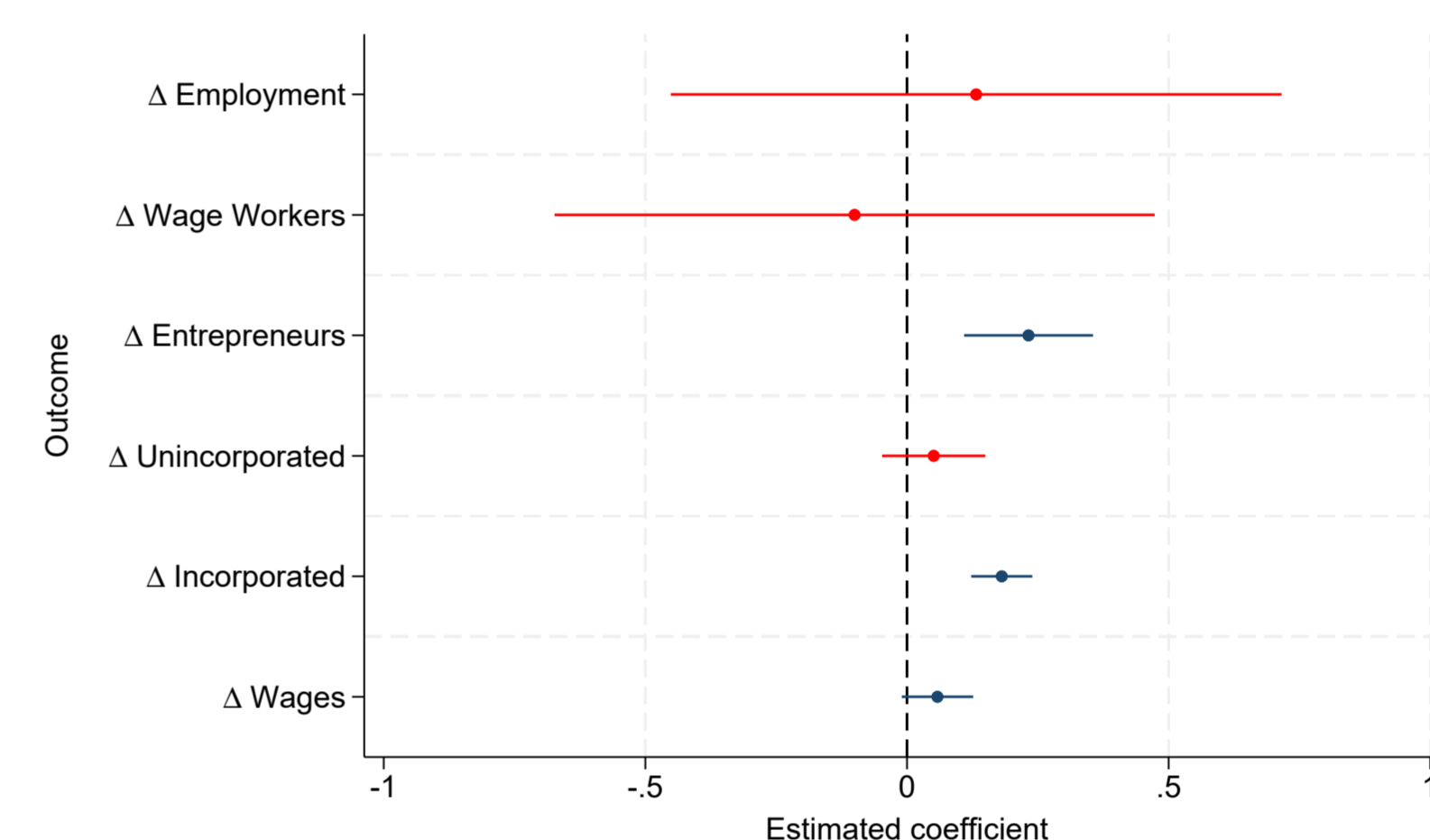


Figure 2. Main results

The 1999-2008 immigration episode increased the number of entrepreneurs by 3% with respect to baseline employment in the average local industry.

Additional results

- **Heterogeneity:** entrepreneurship effect disproportionately driven by males and highly-educated natives
- **Flows:** effect driven by inflows from wage work to entrepreneurship
- **Inflow composition:** new entrepreneurs were usually in high-skill occupations and in the top half of the income distribution.



Lower labour costs decrease the opportunity cost of becoming an entrepreneur and thus increase the entry of relatively more talented new entrepreneurs

Synthesizing Model

A simple general equilibrium model of immigration and occupational choice shows that an immigration-driven labour supply increases native entrepreneurship. The effect operates through an increase in potential entrepreneurial profit due to a decrease in labour costs thanks to lower migrant wages.

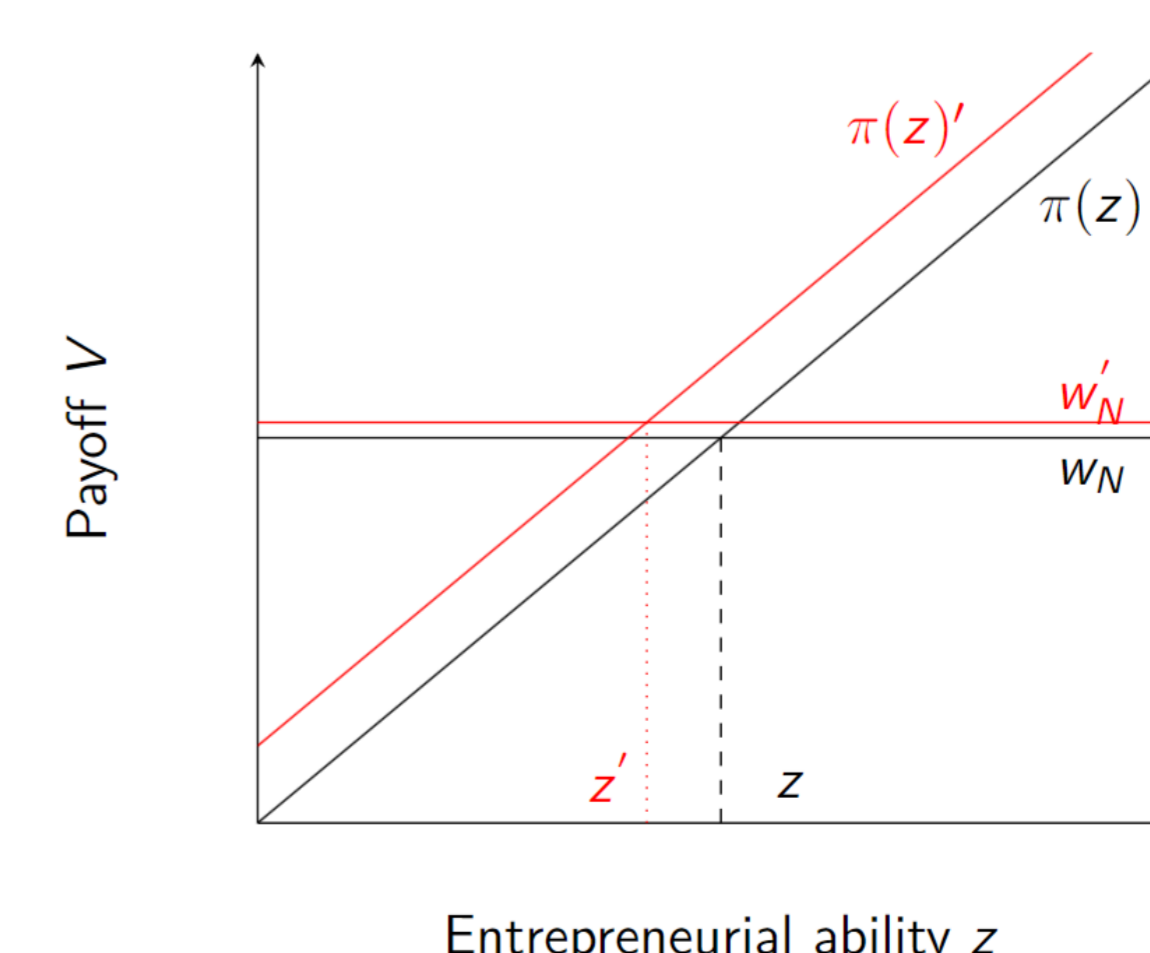


Figure 3. Effect of an immigration-induced labour supply shock