

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members, House Small Business Committee
FROM: Nydia Velazquez, Chairwoman
DATE: April 28, 2021
RE: Hearing: “Harnessing the Power of Immigrant Owned Businesses to Build Back Better”

The Committee on Small Businesses will hold a remote hearing entitled “Harnessing the Power of Immigrant Owned Businesses to Build Back Better.” **This hearing is scheduled for Wednesday, April 28, 2021, at 12:15 P.M. via the Zoom platform (information to be provided).**

Immigrant entrepreneurship is an important aspect of growth in the American economy. Not only do immigrants start businesses at higher rates than native-born Americans, but they do so in sectors that are more likely to be Main Street businesses, in turn, promoting economic investment and development in their communities. Many of these businesses have been particularly hard hit by the COVID-19 pandemic and given their ability to generate jobs and promote economic growth, it will be important to harness their power to fuel our recovery. This hearing will focus on the role of immigrant-owned businesses in their communities as well as their ability to foster a more equitable recovery.

Panel

- Mr. David Dyssegaard Kallick, Deputy Director & Director of Immigration Research, Fiscal Policy Institute, New York City, NY.
- Mr. Daniel Fitzgerald, Associate Regional Director, San Diego & Imperial SBDC Network, San Diego, CA.
- Ms. Jaja Chen, Co-Owner and Chief of Strategic Initiatives and Business Partnerships, Waco Cha, Waco TX.
- Mr. Jose Ponce, President, RE/MAX Gold, Fenton, MO.

Background

The March Jobs report estimates an unemployment rate of 6 percent with a total of 9.7 million people still unemployed.¹ And while the addition of 916,000 jobs shows significant gains toward recovery from the COVID-19 pandemic, the economy is a long way from the strength of pre-

¹ U.S BLS, *Employment Situation Summary*, April 2, 2021. <https://www.bls.gov/news.release/empsit.nr0.htm>

pandemic levels. Small firms that were particularly harmed by the pandemic show the greatest potential for generating jobs and fueling growth. However, building back better is not just returning the economy to full employment, it is building a more equitable recovery that revitalizes towns and communities across the country.

Immigrant-owned businesses play a pivotal role in the U.S. economy and will be a necessary component of the build back better plan. They make up all kinds of businesses, from your local corner gas station or grocery store, to high-growth tech start-ups and billion-dollar companies. Immigrants are almost twice as entrepreneurial as native-born Americans. For instance, in 2016, the entrepreneurship rate for immigrants was .52 percent, compared to .26 percent for U.S.-born individuals and .31 percent for the general population.² Representing only 13.2 percent of the U.S. population, they accounted for 30 percent of new entrepreneurs in 2014.³ In 2017, 3.2 million immigrants ran their own businesses, making up roughly one in every five entrepreneurs in the country.⁴ These businesses employed almost 8 million American workers and generated \$1.3 trillion in total sales.⁵

Moreover, the number of immigrant entrepreneurs has been growing over the past two decades. The general entrepreneurship rate, on the other hand, has been steadily declining for over two decades.⁶ Between 2000 and 2014, the number of self-employed people in the U.S. grew by 1.4 million, but due to the great recession, the number of self-employed native-born people fell by 1.2 million while self-employed immigrants continued to rise, eventually accounting for 1.3 million over the course of those 14 years.⁷ In other words, more than 90 percent of the total growth in self-employment during that period can be attributed to immigrants.⁸ This is illustrated in Figure 1 below:

² Dan Kosten, *Immigrants as Economic Contributors: Immigrant Entrepreneurs*, NATL. IMMIGRATION FORUM, July 11, 2018. <https://immigrationforum.org/article/immigrants-as-economic-contributors-immigrant-entrepreneurs/>

³ *Id.*

⁴ NEW AM. ECON., *New Data Show Immigrants Owned Businesses Employed 8 Million Americans; Immigrants Wield \$1.1 Trillion in Spending Power*. March 12, 2019. <https://www.newamericaneconomy.org/press-release/new-data-shows-immigrant-owned-businesses-employed-8-million-americans-immigrants-wield-1-1-trillion-in-spending-power/>

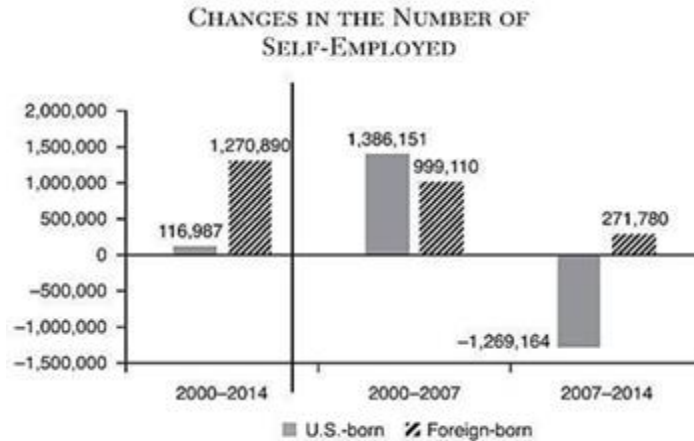
⁵ *Id.*

⁶ Robert Fairlie, *Open for Business: How Immigrants are Driving Small Business Creation in the United States*, NEW AM. ECON. August 2012.

⁷ Magnus Lofstrom, *Immigrant Entrepreneurship: Trends and Contributions*, CATO JOURNAL, Fall 2017. <https://www.cato.org/cato-journal/fall-2017/immigrant-entrepreneurship-trends-contributions>

⁸ *Id.*

Figure 1:



SOURCE: Author's calculations based on 2000 U.S. Census and 2005-14 American Community Survey (ACS) data.

Role in the Economy

Impact on the Labor Market

Concerns have been raised that immigrants put downward pressure on wages. By expanding the number of people in the labor market and offering their labor for lower wages, some contend they can outcompete American workers for the same jobs, and therefore lower wages or reduce employment. However, while this perspective is shared, it is not entirely true. Studies on mass migration into the U.S. and immigration shocks have found that immigrants do not have negative effects on local wages.⁹ In fact, they find persistent gains in per-capita income in regions that experience greater immigration.¹⁰ A new working paper from NBER says that this is largely because of the outsized role immigrants play in creating new, high-growth businesses, and finds that immigrants are more likely to be job creators than job takers.¹¹

Main Street Businesses

Immigrant-owned businesses have recently grown more recognizable as vital components of economic and community development because of their outsized role in creating “Main Street businesses.” These types of businesses are the primary drivers of industries such as retail, accommodation and food services, and neighborhood services. They are often small to medium sized and create the seed of economic development by not only making a direct contribution to the local economy, but also by playing a critical role in making neighborhoods an attractive place to live and work. According to a report from 2013, immigrants make up roughly 13 percent of the population, 16 percent of the labor force, 18 percent of business owners, and 28 percent of Main

⁹ David Card, *The Impact of the Mariel Boatlift on the Miami Labor Market*. ILR REVIEW. 1990;43(2):245-257.

¹⁰ Sequeira et al., *Immigrants and the Making of America*, REVIEW OF ECON. STUDIES. 2020;87,382-419.

¹¹ Azoulay et al., *Immigration and Entrepreneurship in the United States*, NBER, 2020.

Street business owners, including over 50 percent of businesses like gas stations (61%), dry cleaning and laundry (58%), and grocery stores (53%).¹²

The number of immigrant Main Street business owners increased even in metro areas that have seen population decline, such as Detroit, Cleveland, Pittsburgh, and Milwaukee.¹³ Places like Minneapolis-St. Paul, Philadelphia, and Nashville view this as a tool for community and economic development and are creating a welcoming environment and supporting the integration of immigrant businesses into commercial corridors.¹⁴ Whether through tax incentives, incubators, or small business financing, these cities are counting on immigrant businesses to help revitalize neglected communities.¹⁵

Big Business

Not only do they have a large role to play in small, Main Street businesses, they also founded 44 percent of 2020 Fortune 500 companies, employing more than 13.7 million people worldwide and generating \$6.3 trillion in revenue.¹⁶ Between 2006 and 2012, immigrants also founded nearly 44 percent of high-tech startups in Silicon Valley.¹⁷ Furthermore, immigrant entrepreneurs made up more than a quarter of businesses started in seven key sectors: Health care and social assistance (28.7%), Professional Business Services (25.4%), Construction (31.8%), Retail Trade (29.1%), Leisure and Hospitality (23.9%), Educational Services (28.7%), and Transportation and Utilities (29.4%).¹⁸

Impact of COVID-19 on Immigrant-Owned Businesses

Given the known impact of the COVID-19 pandemic on small- and medium-sized businesses and the large portion of those businesses owned by immigrants, it is no surprise that immigrant-owned small businesses faced particular challenges because of the public health measures implemented to slow the spread of the virus. Unfortunately, immigrant-owned businesses faced a much steeper decline as a percent of active business owners during the pandemic. This is shown by Figure 2 below. At its lowest point, in April 2020, the number of active immigrant business owners had declined by over a third, or approximately 36 percent. This was down over a million immigrant business owners, from 3,120,275 in February to 2,009,597 in April.

¹² David Dyssegaard Kallick, *Bringing Vitality to Main Street, How Immigrant Small Businesses Help Local Economies Grow*, FISCAL POLICY INST., Jan. 2015. <https://fiscalpolicy.org/wp-content/uploads/2015/01/Bringing-Vitality-to-Main-Street.pdf>

¹³ *Id.*

¹⁴ *Id.*

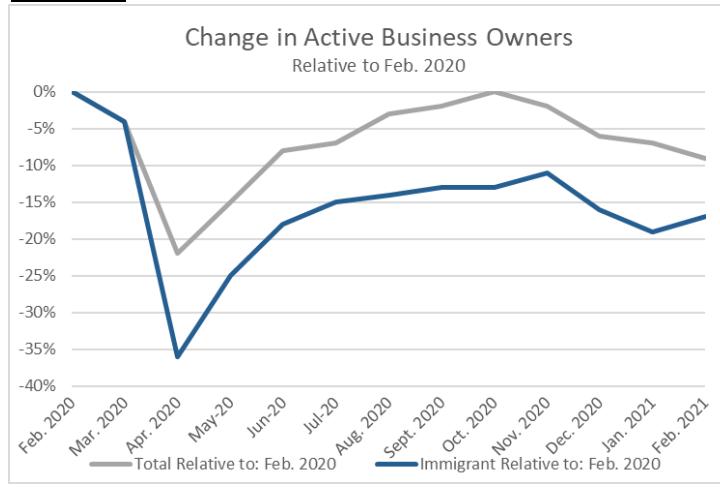
¹⁵ *Id.*

¹⁶ NEW AM. ECON. *Entrepreneurship*, 2020. <https://www.newamericaneconomy.org/issues/entrepreneurship/>

¹⁷ *Id.*

¹⁸ *Id.*

Figure 2



Source: Fairlie (2020)

Note: (1) Estimates are continuation from those reported in Fairlie, Robert. 2020. "The Impact of COVID-19 on Small Business Owners: The First Three Months after Social-Distancing Restrictions" *Journal of Economics and Management Strategy*. (2) Reg. Adjusted estimates are based on regression analysis accounting for trends and seasonality (monthly).

Role in the Recovery

A decade ago, immigrant owned businesses played a significant role in the recovery from the great recession. Between 2007 and 2011, immigrant entrepreneurs created nearly half of new businesses in New York and California, along with 36.7 percent in Florida, 35.2 percent in New Jersey, and 32.1 percent in Illinois.¹⁹ Similarly, in many New York City neighborhoods with the highest share of immigrant residents, business growth was stronger during the recession than the rest of the city, leading them to employ a larger number of workers by 2011 than before the recession. While the growth rate slowed for immigrant entrepreneurship between 2007 and 2014, adding only about 272,000 immigrant-owned businesses, it sharply contrasted with the drop of U.S.-born entrepreneurs of 1.3 million in the same period (see Figure 1).²⁰

Immigrant owned businesses are likely to fuel the recovery once again from the pandemic. As public health restrictions are lifted, more Americans get vaccinated, and funds from the American Rescue Plan get out into the economy, new businesses started by immigrants will be large contributors to local economic growth.

Challenges faced by Immigrant Entrepreneurs

While moving to a new country, for any reason, is an entrepreneurial act on its own, higher startup rates among the immigrant population is not necessarily due to superior entrepreneurial abilities. Many of the new businesses started by immigrants are due more to necessity resulting from language and cultural barriers and lack of a traditional pathway into the labor market. A 2017

¹⁹ *Id.*

²⁰ NEW AM. ECON., *Toolkit: Supporting Immigrant & Refugee Entrepreneurs*, August 2020.

Kauffman Foundation report distinguished between opportunity entrepreneurs, or those coming out of wage and salary work or school and those who are necessity entrepreneurs due to unemployment.²¹ It found the opportunity share is roughly the same for immigrants as for native-born Americans, indicating many start businesses out of necessity.²²

Many of the previously known challenges to immigrant entrepreneurs also played a role in the much steeper drop-off during the COVID-19 pandemic, as shown in Figure 2 above. Those main challenges are listed below, along with some of the strategies used to overcome those challenges.

Business Services and Counseling

Many immigrants and refugees, especially those that are recent arrivals, may lack professional networks used by many entrepreneurs for guidance and support. Luckily, SBA resource partners like SBDCs, WBCs, and SCORE provide counseling and advice alongside business classes that can help overcome barriers traditionally faced by immigrant entrepreneurs. Many offer multilingual services and counseling to help business owners understand local laws and regulation, as well as partnering with other community organizations to help them get started.

Access to Capital

Immigrants have much more trouble than native-born Americans accessing the capital necessary to start a business. This is often due to poor or limited credit history, lack of financial literacy, and lack of familiarity with or access to mainstream financial services. This is where organizations like Community Development Financial Institutions (CDFIs) may be able to offer lending or microlending services to low- to moderate-income borrowers from diverse backgrounds. Not only do they help provide services that overcome linguistic and cultural barriers, they help new immigrants and refugees establish credit and access capital to start their business.

Conclusion

Immigrants have been a beacon of entrepreneurship throughout the country over the past several decades. While overall rates of entrepreneurship have dropped, immigrants have largely filled in the gaps, creating new jobs and opportunity for Americans and contributing significantly to the American economy. Unfortunately, small firms, and particularly the Main Street businesses disproportionately owned by immigrants are the ones that were largely damaged by the COVID-19 pandemic. Therefore, it is important to focus on building those businesses up to harness the power of immigrant-owned businesses and fuel a more equitable recovery from pandemic.

²¹ R. Fairlie, S. Desai, and A. Herrmann, *2017 National Report on Early-Stage Entrepreneurship*, KAUFFMAN FOUNDATION, Feb. 2019. <https://indicators.kauffman.org/wp-content/uploads/sites/2/2019/02/2017-National-Report-on-Early-Stage-Entrepreneurship-February-20191.pdf>

²² *Id.*