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Immigrants: Key U.S. Business Founders

A new study shows that if skilled immigrants aren't permitted to remain in the U.S., startup creation in key industries could diminish

by [John Tozzi](#)

Entrepreneurs born overseas play a key role in creating new companies in the crucial fields of science, technology, and engineering, but most of these immigrants do not move to America expecting to start businesses. The majority come for better education and jobs, and found their companies years later. That's according to a new study set to be released on June 11, the second of a series on skilled immigrant entrepreneurs.

But if immigrants educated in the U.S. don't have a chance to stay once they get their diplomas, would-be entrepreneurs take their skills back to their home countries—where they compete with U.S. companies instead of founding them, says Vivek Wadhwa, lead author of the study and an executive-in-residence at Duke University.

"We can continue to depend on foreigners to come and study here, but if we do, we've got to figure out how to keep them here, because these are the people who are driving the economy. If they come here, study, and go back, it's lose-lose," says Wadhwa, who is also a regular contributor to [BusinessWeek.com](#).

Currently the U.S. is grappling with how to revamp its immigration policy. A White House-backed bill stalled in the Senate last week. Top U.S. Chamber of Commerce lobbyist R. Bruce Josten told the Associated Press last week that the immigration issue is "divisive in the Republican base, it's divisive in the Democratic base, it's divisive in the business community. It splits organized labor, it splits the immigration community."

Immigrant Founders

[Research](#) Wadhwa released in January showed that one out of every four science, tech, and engineering businesses founded between 1995 and 2005 had at least one immigrant as a key founder—many from India, China, Taiwan, Britain, and Japan. Together those companies had \$52 billion in sales and employed 450,000 people in 2005. The latest study, sponsored by the Kauffman Foundation, revisited 144 of those immigrant entrepreneurs to learn who they are and why they came to America.

The research team found a highly educated, science- and tech-oriented group. Three-quarters of them had graduate degrees, and the same proportion studied science, technology, engineering, or math. More than half of the foreign-born founders completed their highest degrees at American universities.

That correlates with the reasons the entrepreneurs left their home countries in the first place: 52% cited education, and 40% work. Only 1.6% said they emigrated because they wanted to start companies in America. On average, the founders interviewed in the study formed their businesses 13.25 years after they first arrived in the U.S.

"Crowding-Out Effect?"

But is the flow of skilled immigrants to the U.S. as important to economic growth as Wadhwa asserts? David Hart, a professor at George Mason University's School of Public Policy, warned against drawing policy conclusions from the study.

"We don't have a good model to see what happens if we stop the flow. Would Americans step into those opportunities?" he says. Hart suggests the flood of foreign students in science and engineering fields may lead more American students to pursue other professions like medicine or law. "Is there a kind of crowding-out effect in some very broad sense?"

Wadhwa agrees that the U.S. should encourage more native-born students to go into technology and research (see [BusinessWeek.com](#), 3/19/07, "[A Looming Economic Threat](#)"). He also sees the potential for growth if policymakers give ambitious foreign students more chances to stay and create American companies.

H-1Bs vs. Permanent Residency

But he says the current caps on the number of permanent resident or green cards given to foreigners here on student- and skilled-worker visas could stall growth in the science and tech sector—and send smart, would-be entrepreneurs overseas. The current law allows companies to sponsor 65,000 skilled workers each year on temporary work visas called H-1Bs—although exceptions bring more in.

Just 9,800 H-1B workers from any given country can get green cards, meaning immigrants from India, China, and other countries that dominate the H-1B program are pitted against one another and can face backlogs a decade or more long (see [BusinessWeek.com](#), 5/25/07, "[Going to Great Lengths for Math](#)").

"Indians and Chinese are increasingly going back home after they graduate," Wadhwa says, because of growing opportunities in those countries. "H-1Bs are not the solution. We want to give people permanent residency so they can build companies."

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