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Centre for Research in Ethnic
Minority Entrepreneurship

#CREME20

20TH ANNUAL ETHNIC MINORITY BUSINESS CONFERENCE

Enterprise, Diversity and Cities

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CREME 2016, Birmingham, 20 October

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Main messages

- Migration, diversity influence long term economic growth
- There are ‘production side’ and ‘consumption side’ effects
- In theory – these could go either way. In practice – we see net positive effects, especially on productivity, innovation, trade. These effects are not always large
- There are big evidence gaps, especially outside the US, both on impacts and on what policies work
- We need more experimental policy, better policy evaluation. Brexit forces policy reform, but what will we learn?
- NB. I’ll use some economics jargon. But no equations.





Diversity and sameness

- Diversity: **the variety of identity groups**, the **number and size** of these groups (Ottaviano et al 2007)
- **Diversity of what?** Birth country, religion, ethnicity, sexuality? (Akerlof and Kranton 2010)
- We also talk about **‘cultural sameness’**, e.g. co-ethnic groups, diasporas (Bonacich 1973; Aldrich and Waldinger 1990)
- **These are least-worst proxies.** Real-life identity is multifaceted, and identity isn't (all) a given

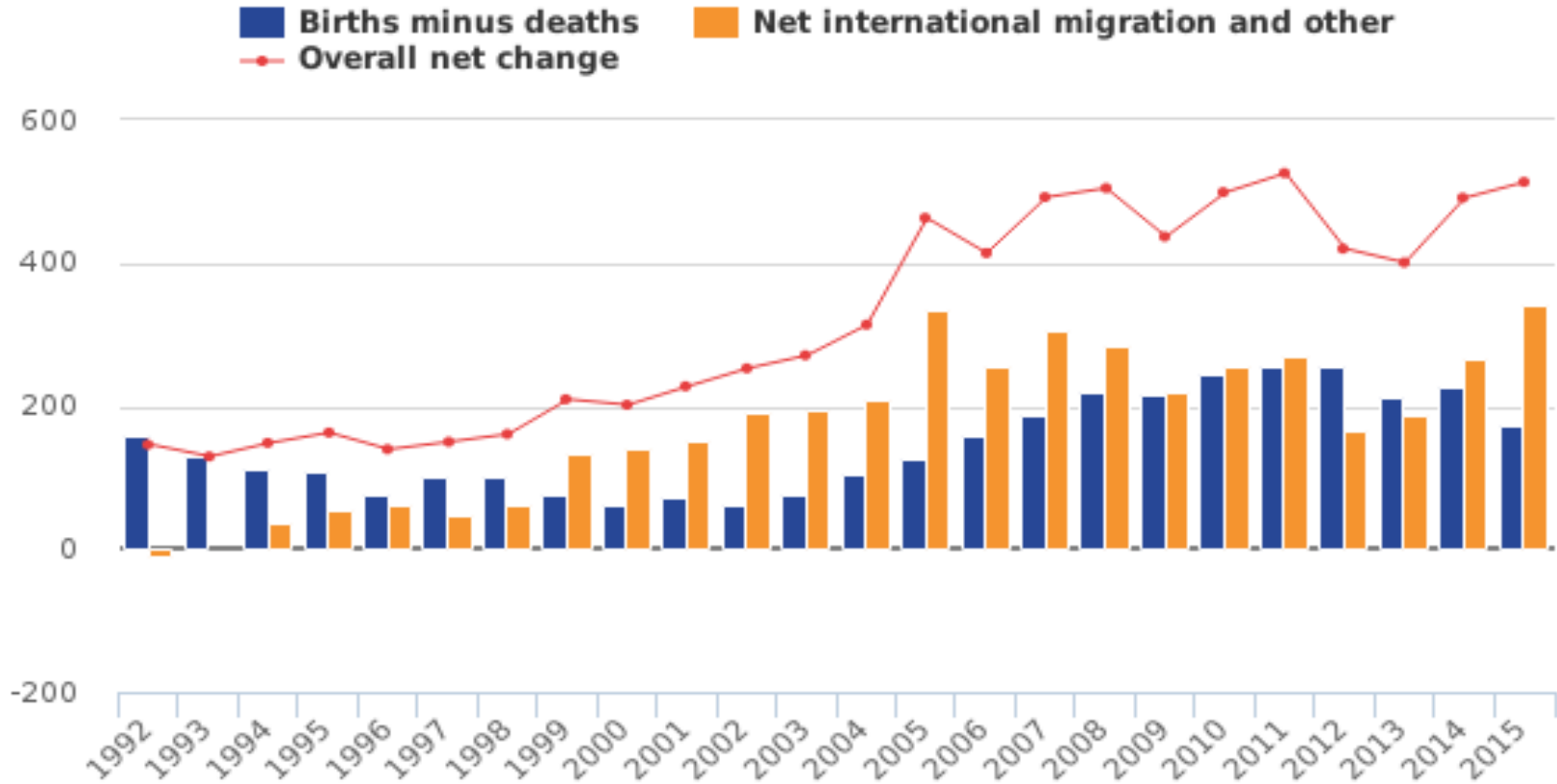




Diversity drivers

- **Immigration**, especially skilled migrants: 70% growth in skilled migration in OECD countries 2000/1 to 2010/11; now 29% of all OECD migrants (UN-DESA & OECD 2013)
- **Natural change** – births minus deaths (Putnam 2007)
- **Settlement** – especially in urban areas
- Migrants historically drawn to cities: ports, economic centres. Recent urban economic revival has reinforced this
- **Superdiversity** in some UK neighbourhoods (Vertovec 2007, Hall 2011)
London is now **majority minority** (ONS 2011)





Source: ONS (2016). <http://bit.ly/280Oik5>

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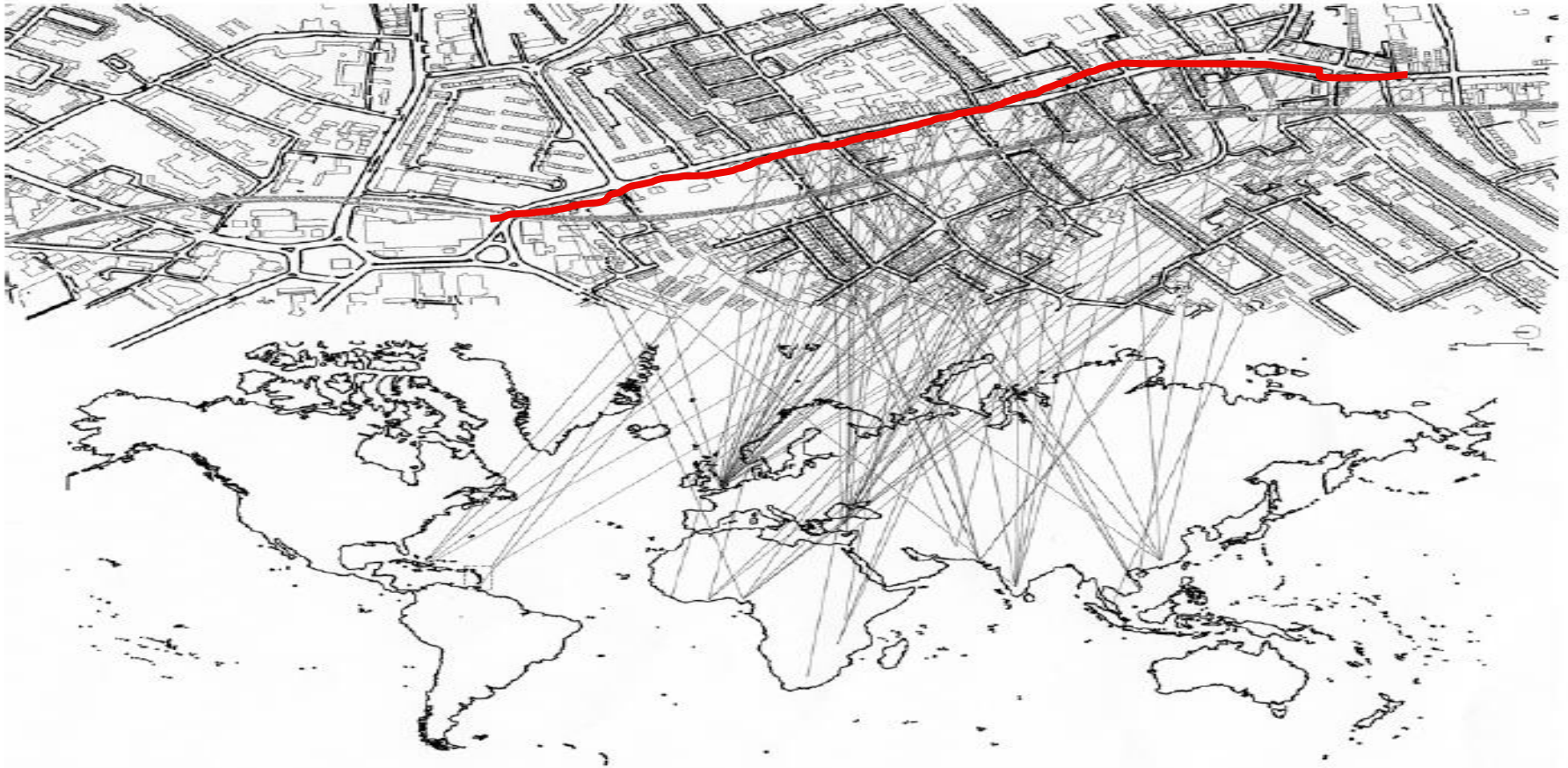


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Source: Hall (2011)

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Impacts: places to look

- **Labour markets** – employment, wages
- **Firms** – productivity and its drivers (innovation, task mix, management and strategy)
- **Market structure** – entrepreneurship, trade
- **Consumption** – demand for / mix of goods and services
- **Amenities** – public services, housing
- **Cities** as key physical sites of change





Theory

- Team diversity can help **generate / diffuse ideas**; improve **scrutiny**; help firms **match up workers to tasks**
- **Migrant / minority entrepreneurs** may be more **entrepreneurial**, more ready to **disrupt industries**
- **Trade** is costly => opportunities for **diasporic groups** who can **smooth access to new markets**
- In theory, many of these wider impacts could be **positive or negative** in their effects on economic welfare





Some recent evidence

- **Migrant diversity raises firm productivity => wages.** Task substitution explains about 50% of this (Peri + Sparber 2011)
- Workforce diversity **helps firms innovate**, and is linked to higher performance. **Effects vary across sectors and tasks** (Nathan 2017; Cooke and Kemeny 2016; Parotta et al 2014a/b; Ozgen et al 2013; Nathan & Lee 2013 etc.)
- UK Tier 1 migrant entrepreneurs support six jobs each – but not all high value firms (MAC 2015)
- **Diasporic groups help increase trade flows**, especially when participants are high-skilled (Docquier and Rapoport 2012)





Cities, again

- Cities are ‘where the diversity is’ (Champion 2004)
- Cities have a **productivity payoff for firms, workers**. So **diversity-growth channels might be amplified**.
- We now have some decent evidence for this. **More diverse cities have higher productivity, innovation, and wages**. (Ottaviano and Peri 2006; Kerr 2009; Hunt and Gauthier-Loiselle 2010; Peri et al 2013; Bosetti et al 2015; Trax et al 2015; Cook and Kemeny 2015 etc)
- But popular / growing cities get more **congested, expensive**. So **diversity-cost channels** may ramp up too.





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What now?

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“Once the complexity of reality is carefully considered,
the argument that applied policy concerns can be
reduced to economics becomes so unreasonable that
only an academic would dare consider it.”

JM Keynes





Skilled migration policy

- **We don't have strong priors on what works.** Very few cross-country comparisons or evaluations (Kerr et al 2016). The UK is unusual in having evaluated Tier 1 (MAC, 2015).
- This means that **skilled migration policy is necessarily experimental.** It's a bit like **industrial policy.** That means:
 - Pilots and experiments
 - Building in impact evaluation
 - Good data
 - Quick shut down and scaling (Rodrik 2002).
- Brexit forces the UK to experiment: but for the wrong reasons, and risks not learning the right lessons





Other policy tools

- **Skilled-biased migration policy.** Sounds sensible, but we don't yet know what works ...
- **Universities** are a big entry point for skilled talent, both students and researchers; evidence of +ve spillovers
- **Enable diasporic links** via trade agreements, dual/multi citizenship, portable rights & benefits. All this just got harder.
- **Better focussed business support** (advice, mentoring, access to finance, public VC etc.)
- **Pro-cities** economic development strategies





Summing up

- Migration, diversity influence long term economic growth
- ‘Production side’ and ‘consumption side’ effects
- In theory – ambiguous. In practice – net positive effects, especially on productivity, innovation, trade. Not always large.
- Big evidence gaps, especially outside the US
- We need more experimental policy, better policy evaluation
- Brexit forces the UK to experiment: but for the wrong reasons, and risks not learning the right lessons





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Thanks!

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