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# Standing in the Way: Barriers to Entry for Immigrants and Entrepreneurial Engagement

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## Abstract

Many immigrant-receiving countries limit the labor market freedom of incoming immigrants. These limitations include barriers to entering into self-employment and entrepreneurship. We study the extent to which these barriers impede entry into entrepreneurship. Focusing on Denmark between 2003-2013, we take advantage of differences in labor market freedom immigrants from different countries face. Specifically, we compare immigrants who were born in the European Union with citizenship from a country in the European Union with immigrants who were born outside the European Union with citizenship from a country outside the European Union. We find entry into entrepreneurship is stifled by barriers to entry related to immigrant status. Our results come with important implications. First, host country immigrant labor market laws stifle entrepreneurship. Second, our results suggest when immigrants, including those with low education, have more labor market freedom, they choose entrepreneurship. This suggests conceptions of necessity-motivated entrepreneurship among low educated immigrants need to be rethought, at least.

## Introduction

Over the past several decades, research has overwhelmingly shown immigrants to be more entrepreneurial than natives<sup>1</sup>. This is important, because entrepreneurship can be a mechanism for economic growth and development<sup>2</sup>. This is also true because immigration has been increasing over time<sup>3</sup>. At the same time, immigrants suffer liabilities of foreignness that stifle their entrepreneurial propensities<sup>4</sup>. Often these liabilities are legal in nature, limiting the labor market freedom of immigrants specifically<sup>5</sup>. These legally imposed liabilities of foreignness motivate our research question: **How do immigrant-specific labor market restrictions impact those immigrants' engagement in entrepreneurship?**

While others have done important work on this topic<sup>6</sup>, we extend the conversation in a few important ways:

1. We control for important sources of selection by comparing only immigrant foreign citizens who are not eligible for host country citizenship or permanent residence
2. Our study covers entire education distribution, while others focus on STEM majors
3. The immigration restrictions we study act as barriers to entry, not outright bans on entrepreneurship that have been studied previously

**Table 1.** Summary Statistics by Immigrant Legal Status

Variables	Before Matching				After Matching			
	Full Sample		Only High Income Birth Countries		Full Sample		Only High Income Birth Countries	
	1	2	3	4	5	6	7	8
	No Barriers	Barriers	No Barriers	Barriers	No Barriers	Barriers	No Barriers	Barriers
Age	36	33	36	37	34	34	36	36
College Degree	0.478	0.299	0.478	0.570	0.445	0.445	0.564	0.564
Male	0.623	0.436	0.623	0.580	0.597	0.597	0.600	0.600
Married	0.472	0.696	0.472	0.709	0.518	0.518	0.687	0.687
Number of Children	0.767	0.845	0.767	0.862	0.705	0.705	0.786	0.786
Years Resident	4.792	5.144	4.792	4.689	4.938	4.938	4.785	4.785
Home Country Self-Employment Rate (1992-2002)	14.731	51.272	14.726	12.562	14.842	49.528	14.803	12.620
Home Country Economic Institutions (1992-2002)	8.057	5.910	8.057	8.410	8.048	5.942	8.062	8.413
Home Country Political Institutions (1992-2002)	10.000	3.130	10.000	9.344	10.000	2.795	10.000	9.355
Real GDP per capita, 2013 USD (1992-2002)	36612.340	9541.550	36615.290	37843.310	36606.540	10521.130	36484.050	37764.500
Year	2007	2007	2007	2007	2007	2007	2007	2007
N	67907	173042	67895	13388	50225	50225	11155	11155

## Methods and Materials

We use coarsened exact matching to compare immigrants who are similar but face different levels of labor market restrictions. Specifically, using registry data from Denmark from 2003-2013, we compare EU immigrants who have EU citizenship with non EU immigrants who have citizenship from outside the EU. EU immigrants with EU citizenship face negligible labor market restrictions, while non EU immigrants from outside the EU face significantly more legal obstacles with respect to their ability to change jobs and work for themselves.

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**Table 2.** Regression Results – Full Sample

VARIABLES	Full Sample	Full Sample	Full Sample	Full Sample
	Probit P(Self-Employed)	Probit P(Self-Employed)	Probit P(Unincorporated)	Probit P(Incorporated)
Labor Market Constraints	-0.117*** (0.0199)	-0.149*** (0.0236)	-0.198*** (0.0235)	0.151*** (0.0468)
Age	0.0149*** (0.000855)	0.0149*** (0.000855)	0.0121*** (0.000969)	0.00275 (0.00220)
College Degree	-0.142*** (0.0133)	-0.168*** (0.0170)	-0.178*** (0.0149)	-0.111*** (0.0334)
Labor Market Constraints*College Degree		0.0667** (0.0270)		
Male	0.278*** (0.0137)	0.278*** (0.0137)	0.350*** (0.0157)	0.157*** (0.0343)
Married	0.131*** (0.0166)	0.131*** (0.0166)	0.147*** (0.0182)	0.102** (0.0411)
Number of Children	0.0938*** (0.00737)	0.0936*** (0.00737)	0.105*** (0.00789)	0.0121 (0.0191)
Years Resident	0.0332*** (0.00315)	0.0332*** (0.00315)	0.0454*** (0.00351)	-0.00287 (0.00781)
Home Country Self-Employment Rate (1992-2002)	-0.00199*** (0.000414)	-0.00187*** (0.000413)	-0.00175*** (0.000513)	-0.00128 (0.00103)
Home Country Economic Institutions (1992-2002)	0.0246*** (0.00866)	0.0232*** (0.00867)	-0.00871 (0.0109)	0.0574*** (0.0215)
Home Country Political Institutions (1992-2002)	0.0128*** (0.00227)	0.0130*** (0.00227)	0.0149*** (0.00250)	0.00110 (0.00499)
Constant	-2.521*** (0.0718)	-2.504*** (0.0721)	-2.441*** (0.0900)	-3.446*** (0.184)
Year Fixed Effects	YES	YES	YES	YES
Observations	100,450	100,450	100,450	100,450

**Table 3.** Regression Results – Only High Income Birth Countries

VARIABLES	High Income Home Countries	High Income Home Countries	High Income Home Countries	High Income Home Countries
	Probit P(Self-Employed)	Probit P(Self-Employed)	Probit P(Unincorporated)	Probit P(Incorporated)
Labor Market Constraints	-0.0597** (0.0290)	-0.143*** (0.0395)	-0.0944*** (0.0327)	0.175** (0.0830)
Age	0.0194*** (0.00166)	0.0195*** (0.00166)	0.0160*** (0.00185)	0.00404 (0.00411)
College Degree	-0.142*** (0.0252)	-0.214*** (0.0340)	-0.173*** (0.0283)	-0.156** (0.0614)
Labor Market Constraints*College Degree		0.157*** (0.0504)		
Male	0.193*** (0.0270)	0.193*** (0.0270)	0.265*** (0.0309)	0.0838 (0.0650)
Married	0.154*** (0.0333)	0.154*** (0.0333)	0.165*** (0.0378)	0.106 (0.0781)
Number of Children	0.0932*** (0.0148)	0.0929*** (0.0148)	0.0928*** (0.0164)	0.0139 (0.0356)
Years Resident	0.00891 (0.00612)	0.00879 (0.00613)	0.0272*** (0.00682)	-0.0132 (0.0152)
Home Country Self-Employment Rate (1992-2002)	-0.0133*** (0.00261)	-0.0135*** (0.00262)	-0.0136*** (0.00290)	-0.0138 (0.0102)
Home Country Economic Institutions (1992-2002)	-0.233*** (0.0399)	-0.233*** (0.0400)	-0.317*** (0.0466)	-0.143 (0.124)
Home Country Political Institutions (1992-2002)	0.0750*** (0.00718)	0.0732*** (0.00723)	0.0771*** (0.00845)	0.118 (0.0827)
Home Country Real GDP per Capita, 2013 USD (1992-2002)	8.75e-06*** (2.88e-06)	8.08e-06*** (2.89e-06)	1.40e-05*** (3.18e-06)	-7.92e-06 (9.93e-06)
Constant	-1.265*** (0.282)	-1.193*** (0.283)	-0.938*** (0.319)	-2.442*** (0.722)
Year Fixed Effects	YES	YES	YES	YES
Observations	22,310	22,310	22,310	22,310

## Discussion

Our results imply that when immigrants are given more choice, they are more likely to be self-employed. Coupled with other evidence that shows immigration restrictions discourage integration among low-performance individuals, who already find it most difficult to integrate<sup>7</sup>, our results suggest labor market restrictions further prevent integration among low educated groups. Our results also suggest the barriers to entry that immigrant labor market restrictions represent disproportionately impact those with fewer outside labor market opportunities and those who open smaller businesses. Finally, our results show immigrants facing restrictions are more likely to open incorporated businesses compared to immigrants not facing restrictions, suggesting immigration restrictions positively select individuals with unobservable characteristics related to entrepreneurship, like risk attitudes. While scholars have rightly pointed out that encouraging all types of entrepreneurship and self-employment is bad public policy<sup>8</sup>, it also seems to be bad public policy to actively discourage people from entrepreneurship who are already prone to engaging in self-employment.

## Conclusions

We provide evidence that strongly suggests immigration restrictions negatively impact engagement in entrepreneurship, even after controlling for a host of individual and home country characteristics. We also show these effects are driven by low educated immigrants and those with unincorporated businesses. More specifically, immigration labor market rigidities decrease entrepreneurial probabilities between 0.8 and 1.4 percentage-points. For those without a college degree, the magnitude of this effect increases to about 2 percentage-points.

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