

The economics of cultural diversity: what have we learned?

Max Nathan

LSE | NIESR | IZA

m.a.nathan@lse.ac.uk | @iammaxnathan

Pathways, Circuits and Crossroads, Wellington, 23 July 2015

What I'm going to talk about

- Basics
- A very simple impacts framework
- The evidence
- Some high-level policy implications
- A future research agenda

Main messages

- Migration, diversity as influences on long term growth
- Range of production side and consumption side channels
- In theory – ambiguous economic impacts
- In practice – net positive effects, especially on productivity, innovation, trade. Not always large
- Big evidence gaps, especially outside the US and on the consumption side
- More experimental policy, better policy evaluation

Caveats

- No equations
- Some economic jargon, some economic perspectives
- I will irritate you all by generally drawing on UK experience

Basics

Terminology: diversity

- ‘Cultural diversity’ is a **fuzzy concept**
- ‘Culture’ informs identity; identity as a basis for action (Akerlof and Kranton 2010)
- We could think of **the variety of identity groups**; the **number** and **size** of these groups (Ottaviano et al 2007)
- **Aspects of cultural identity**: country of birth, nationality, religion, ethnicity, language, gender, sexuality ...
- I’m going to focus on some of these

Sameness

- The literature also talks about forms of **‘cultural sameness’**, **nested within the larger mix:**
 - Co-ethnic groups
 - Diasporic communities
 - Linkages and leverage within identity groups
- ... linkages to existing bodies of work on **‘middleman minorities’**, **minority ethnic entrepreneurs** (Bonacich 1973; Light 1984; Aldrich and Waldinger 1990; Kloosterman and Rath 2001)

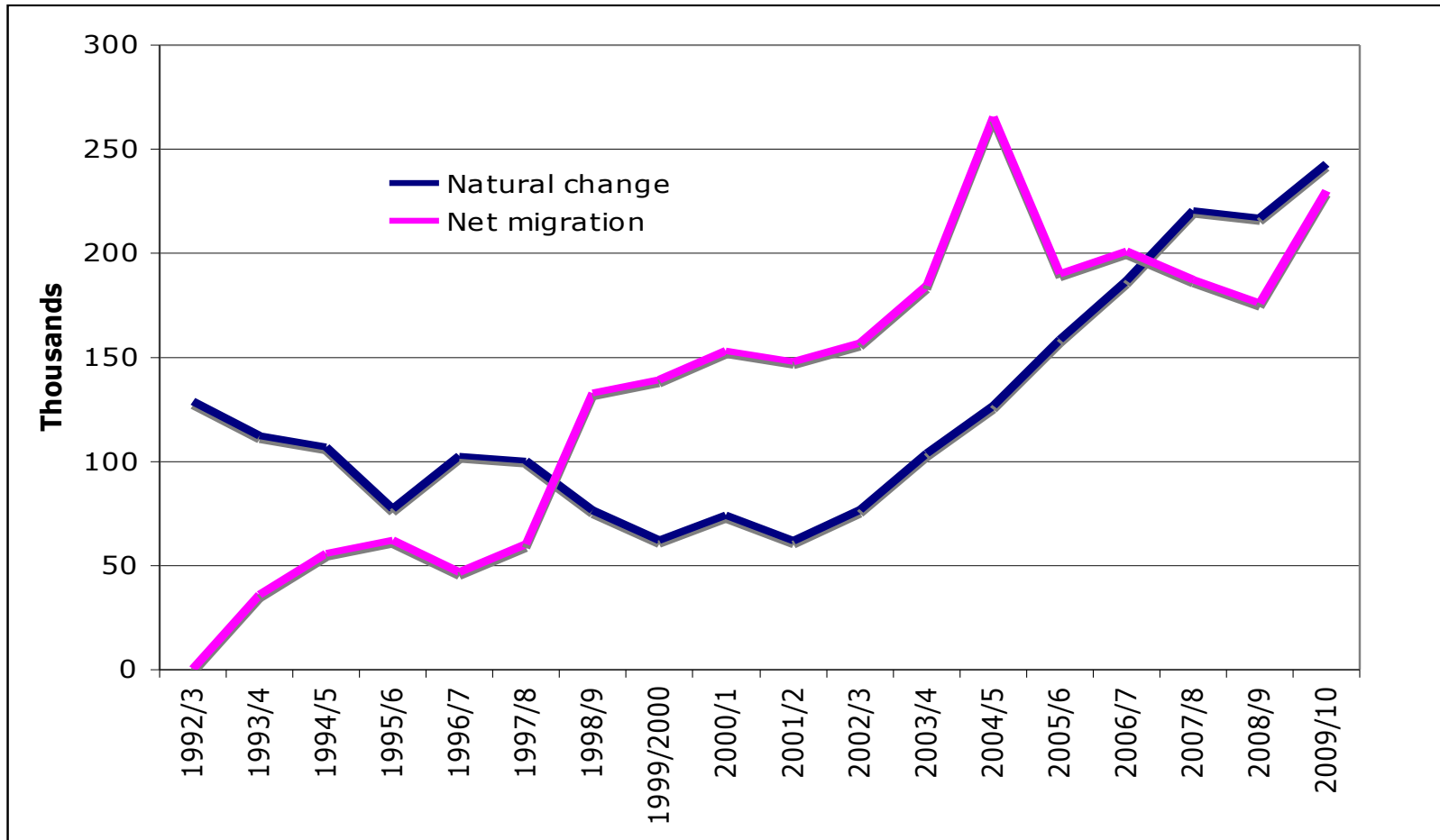
Limitations to this view

- **Some aspects of identity are givens** (country of birth); many others are not
- Example: we often expect immigrants to assimilate into 'our way of life' (Manning and Roy 2009)
- Real life identity is **multifaceted**
- So we are using **least worst proxies**, which we assume hold on the average, and in large datasets

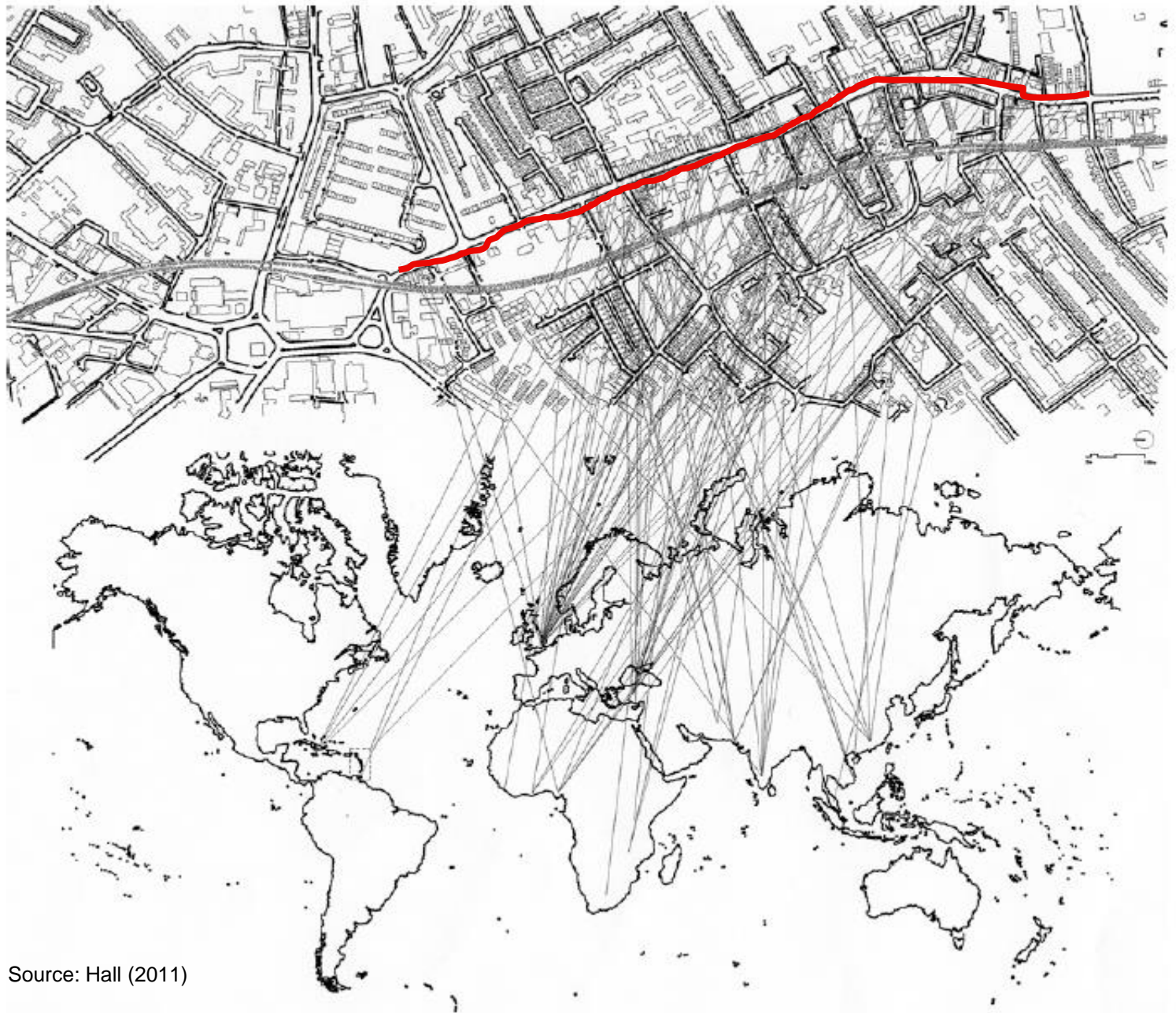
Drivers

- **What demographic shifters should we focus on?**
- Changes to stock, composition + location
- **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)
- **Settlement**
- **Natural change** (births minus deaths) (Putnam 2007)
- **Mediators**: public policy; transport and travel costs; technology, especially communications tools

Population change in the UK



Source: ONS (2011)



Source: Hall (2011)

Cities

- Migrants historically drawn to cities: ports, economic centres
- Globalisation and recent economic revival of many cities has reinforced this
- **Superdiversity in the UK** emerging in some London neighbourhoods – and elsewhere? (Vertovec 2007, Hall 2011)
- London is now **majority minority**: Census 2011 shows majority non-White British (ONS 2011)

Impacts

Basic argument

- Most economists have thought about impacts **narrowly** ...
 - Immigration
 - One-off shocks to jobs, wages (and sometimes housing) (Borjas 1994; Card 2005; Dustmann et al 2006; Saiz 2003, 2006)
- Instead we should ...
 - Think about **migration *and* diversity**
 - Nest these in models of **long term economic development** and **urban economic growth** (Lucas 1988, Romer 1990)

Growth framework

- Importance of **human capital, ideas to long-run growth**
- Skilled migrants, diversity help generate / diffuse ideas
- **Firms can gain market share via trade**
- Trade costs, co-ordination costs => opportunities for people, groups who enable market access, co-ordination
- **New firms enter and compete with incumbents**
- Entrepreneurs help bring new ideas to the market

Growth framework

- Migrants or (say) minority ethnic group members hold human / financial / social **capital**; play **multiple economic roles**; are **distinctive**
- Importance of both **group diversity** and **sameness**
- In theory, many of these wider impacts could be **positive or negative** in their effects on economic welfare

Places to look

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

Productivity

- Migration may **pre-select high-skilled people** (Borjas 1987)
- Workforce diversity => helps **innovation, problem-solving;** better **task specialisation** (Page 2007, Peri 2012)
- **Diasporic networks** help knowledge diffusion and the organisation of MNE activity (Kerr 2009)
- **Against this:** communication problems, lower trust
- **Winners and losers** if resources or opportunities are limited (e.g. lab space, jobs) (Borjas and Doran 2014)

Entrepreneurship

- **Migrants are more entrepreneurial.** More proactive and likely to 'disrupt' markets? Self-employed because excluded? (Duleep et al 2012, Rath and Kloosterman 2001)
- **'Middleman minorities'** spot and leverage market opps
- **Diasporas aid transnational entrepreneurship** – social capital reduces transactions costs (Honig et al 2010)
- **How strong are these links,** versus e.g. family ties?
- Again, likely to be **winners and losers from creative destruction**

Trade

- Migrants / diverse workforces have knowledge of other markets, can help **market access** (Rauch and Trindade 2002)
- **Diasporic networks** reduce trade costs (Javorcik et al 2011)
- For **larger firms** (e.g. MNEs), 'sameness' can help coordinate activity across borders (Foley and Kerr 2013)
- **New links** (e.g. UK and Eastern Europe) versus **deep links** (UK and Commonwealth countries) – which matters more?

Consumption

- Diverse populations have **wider set of tastes, preferences**
=> increases the mix of goods / services on offer
- But this **may not expand diversity of producers**, if existing producers corner the market (Mazzolari and Neumark 2012)
- This **diversity may be an amenity** (Florida 2002)
- Big enough netflows **increase price of goods with inelastic supply**, e.g. housing (Saiz 2003, Ottaviano and Peri 2006)
- BUT migrants may consume less housing; rent not own
- (Dis)taste for diversity may also shape house prices / rents

Evidence

The evidence base

- Most studies **published in the last 10 years**
- **Dominated by North America** (36/78, of which 33 US)
- **Production side dominated** – I'll focus on this
- Some channels better covered than others
- **Very little on the consumption side.** Some work on housing but next to nothing on consumer preferences, public services

Evidence: productivity

- **US studies: migrant diversity raises firm TFP / wages** (Peri et al 2013, Peri 2012, Peri and Sparber 2011, Ottaviano and Peri 2006)
 - Importance of high-skill migrants, STEM sectors
 - Changes in task specialisation explains c. 50% of this (Peri and Sparber 2011)
- Strong evidence of **positive selection of skilled migrants into US science and tech** (Hunt and G-L 2010)
- **But mixed evidence of spillovers in US academia** (Kerr & Lincoln 2010; Stuen et al 2010; Gaulé & Piacentini 2013)

Evidence: productivity

- **European studies** echo some of this:
 - **Productivity gains from workforce diversity**
 - **Diversity helps innovation**, at firm and area level

(Parrotta et al 2011, Ozgen et al 2013; Parotta et al 2014; Gagliardi 2012; Niebhur 2010; Bosetti et al 2015, Trax et al 2015)
- In **other countries**, some evidence for spillovers inside firms, e.g. foreign investors / trainers; staff returning from abroad
(Malchow-Moller et al 2011; Gianetti et al 2012)
- **Do native workers lose out?** Not clear yet (Bound et al 2013; Moser et al 2014; Borjas and Doran 2014)

Evidence: entrepreneurship

- Migrants generally **more likely to be self-employed**
- In the US, importance of large, skilled diasporas (esp S / East Asian) in **tech firm formation and growth** (Hunt 2011, 2013; Saxenian 2002)
- **More mixed results from European studies to date**
- Some positive links, but clear that many factors are in play (class, education, family) (Kloosterman and Rath 2011)
- **Rest of the world:** very little quantitative / impacts analysis

Evidence: trade

- **Skilled / occupationally rich diasporas** are important predictors of future FDI flows (Kugler and Rapoport 2007, Javorcik et al 2011, Mundra 2012)
- **Equity holdings and VC portfolios** also shifted by migrants / skilled diasporas (Foad 2011)
- Co-ethnic links seem to **help MNEs organise activity** (Foley and Kerr 2013)
- **Importance of cultural distance** between home and host (Girma and Yu 2002, Peri and Requena 2010)

Cities, again

- Cities have a **productivity payoff for firms, workers**
- Popular / growing cities get more **congested, expensive**
- So **diversity-growth channels might be amplified in cities**; equally, **diversity-cost channels** may ramp up too
- US, European area-level studies offer some support for this (Ottaviano and Peri 2006; Kerr 2009 ;Hunt and G-L 2010; Peri et al 2013)
- **Diversity attracts the creative class** (Florida 2002)
- But goods and housing markets may respond differently to diversity shifts (Bakens et al 2014)

What now?

Summing up

- Think about migration, diversity as influences on growth
- Range of production side and consumption side channels
- In theory – ambiguous economic impacts
- In practice – net positive effects, especially on productivity, innovation, trade
- Big evidence gaps, especially outside the US and on the consumption side

Policy implications

“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

Policy implications

- **Skilled-biased migration policy**
- Select the high-skilled, entrepreneurial. Very hard to do well in practice. Involve private sector?
- **HE sector** as entry point for high skilled; site of spillovers?
- **Enable diasporic linkages** (trade agreements, dual citizenship, portable rights and benefits?)
- **Linking business support** (advice, mentoring, access to finance, public VC etc.) to migration, equalities functions
- **Pro-cities** economic development strategies

Policy implications

- On this evidence base, **we don't always have strong priors**
- **Policy is necessarily experimental**
- Importance of:
 - Pilots and experiments
 - Building in impact evaluation
 - Good data
 - Quick shut down and scaling
- Learning from other fields, e.g. **industrial policy** (Rodrik 2002)

What do we need to know?

- Non-US evidence
- In many countries, better and better-linked data
- Inside the firm, inside groups – task level, junior / senior
- Impact quality – highly cited patents, important innovations
- Distributional analysis

What do we need to know?

- Housing and public service impacts
- Low road employers and labour market re-regulation
- Forecasting, especially technological disruptions that affect labour demand: automation, the sharing economy ...
- Back to theory: modelling how aspects of cultural identity interact / change over time, and how this influences outcomes

Thanks.

m.a.nathan@lse.ac.uk
personal.lse.ac.uk/nathanm
@iammaxnathan