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Free Enterprise:

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Welcome to Bangalore, India's "Silicon Valley" and "back office to the world."

While attending a conference with the theme of "innovation" in this vibrant metropolis, I was struck by the dichotomy of bad news and great hopes in daily conversations and by how those developments may impact the free enterprise system in the U.S.

The bad local news is related to a sharp decline in service industries that catered to the needs of consumption-happy Westerners, such as processing centers for financial transactions and call centers for large U.S.-based retail chains.

As one mid-level IT-manager told me: "Several employee perks, such as free cab rides and free food, have been reduced, making life more difficult." Also, salary growth has been slowed in the technology services and IT industries.

One side effect, as reported by a local newspaper, is the disappearance of charitable donations by the so called "techies."

So, what are the great hopes?

As it turns out, amid this "creative destruction," many firms and individuals perceive plenty of opportunities. There is a fierce competition to pick up business when competitors falter.

Furthermore, more and more Indian citizens with advanced degrees from the U.S. continue to return, attempting to make their fortunes in India rather than in the U.S.

As one conference participant explained: "Gone are the days that people migrated to the U.S. because India was a closed market and lacked opportunities. In fact, now, if you have ideas, the chances of executing business plans are much higher in India."

A recent study by the Population Research Center at the University of Michigan titled the "Internationalization of the US Doctorate Education" (available at: <http://tinyurl.com/lwmdys> [1]) provides a glimpse at the effect this may have for the future productivity of the U.S. economy.

According to the authors: "Among doctorate recipients in 2003, those from outside the U.S. accounted for 50

percent of degrees in the physical sciences, 67 percent in engineering and 68 percent in economics."

Moreover: "Asian countries - particularly India (736), Taiwan (423), South Korea (842) and China (2452) - accounted for more than one-half of the doctorates in science awarded to" foreigners.

Some may see the repatriation of highly educated foreign scientists and engineers as a positive development. However, another just published study by the Small Business Administration's Office of Advocacy (available at: <http://tinyurl.com/lmvldt> [2]), should make one think twice about what one is wishing for.

"High Tech Immigrant Entrepreneurship in the United States," reports that members of this group, "account for a disproportionate share of job creation and economic growth."

The authors find that about 16 percent of the companies in a "survey of ... rapidly growing high-impact, high-tech companies" had at least one foreign-born person among their founding teams. Looking at the cross-country distribution of those immigrants, India is by far the largest contributor.

The two studies contain a clear warning.

On the one hand, a growing number of advanced degree recipients in critical areas are immigrants. Those are the best and brightest that the U.S. - with growing competition from other countries - wants to attract.

The second study provides new evidence for the entrepreneurial impact those immigrants provide.

The conclusion seems unambiguous: Losing the growth and innovation potential (and the income tax revenue) provided by those experts when they say goodbye is a prospect that we should find less than welcome.

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