

Missing the boat:

Outdated Immigration Policies and Threats of International Competition

By Josh Bedi



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Table of Contents

Introduction	4
The Immense Benefits of Legal Immigration	4
Pathways to Entrepreneurship for Immigrants and the Barriers They Face	5
Permanent Residency (The Green Card)	6
Temporary Residency - Work Authorization Not Dependent on Specific Employers	6
E Visas - The Investor Visa	6
A Comparative Case Study	7
Policy Proposals, Discussion, and Conclusion	9



Introduction

Immigrant¹ entrepreneurship invigorates the economies of New England and the country. Despite the widespread conceptions that increased immigration puts American citizens' jobs at risk, immigrants, on net, create more jobs as entrepreneurs than they take². This is particularly true for highly educated immigrants, who are much more likely than those born in the U.S. to start large, high-growth tech businesses³. In the process, these immigrant entrepreneurs generate revenue, tax dollars, life-changing innovations, and hundreds of thousands of jobs⁴. Other countries, including Canada, are openly poaching this foreign talent to the detriment of American enterprise⁵.

Yet, U.S. policymakers are not taking advantage of the plentiful opportunities these immigrants offer. The last major overhaul of immigration policy happened almost 40 years ago when President Reagan signed into law the Immigration Reform and Control Act of 1986⁶. U.S. Immigration policy reflects outdated thinking that has not kept pace with market developments.

More importantly, the U.S. allows a low number of immigrants relative to its size. And while integration happens among most immigrants, severe limitations on even highly educated immigrants constrain those who can most easily integrate into U.S. society⁷. These limitations include restrictions that broadly limit an entrepreneur's ability to start a business. For each of these immigrants who are denied entry or deterred from pursuing a business venture, U.S. communities miss out on opportunities for jobs and economic growth.⁸ Meanwhile, other countries are threatening to outcompete the U.S. in the race for this global talent, potentially posing national security concerns. With less global talent, the U.S. may fall behind on innovations used in military defense, including artificial intelligence.⁹

Thus, despite immigrants' entrepreneurial proclivities and a plethora of highly specific visa categories—more than 180 in total—there are surprisingly few pathways for immigrants to become entrepreneurs in the United States. This report will outline those pathways and highlight common legal impediments. Afterwards, the report compares the U.S. system to how other countries welcome and attract educated and entrepreneurial immigrants. Further, the report highlights the importance of highly educated global talent not only for entrepreneurship and innovation, but also national security. Finally, this report offers policy proposals at both the national and state levels.

The Immense Benefits of Legal Immigration

In almost every country, immigrants with both high and low levels of education are more likely to open businesses compared to their native-born peers¹⁰. This means immigrants are more likely to run “Main Street” mom-and-pop shops as well as highly innovative Fortune 500 companies¹¹. In the U.S., immigrants are 80 percent more likely to start businesses compared to those who were born here¹².

Through their positive impact on tax revenue, job opportunities, and innovation, these businesses drive economic development. This is particularly true for places like Massachusetts with large immigrant populations. The Bay State hosts a disproportionate number of Fortune 500 firms, and half of these companies were founded by first- or second-generation immigrants. In total, these nine firms accounted for almost 900,000 jobs and \$300 billion in revenue. More importantly, these companies include pioneers in innovation like Moderna, Raytheon Technologies, and General Electric¹³. Economists have long identified entrepreneurship as a driver of improved living standards, and innovations by these large companies increase worker productivity and expand employment opportunities¹⁴.

Immigrants also revitalize neighborhoods by starting small businesses and as consumers by buying goods and services from other local businesses. In Boston alone, immigrants collectively spend \$4 billion (more than \$6,000 per Bostonian) in after-tax revenue and contribute \$1.3 billion (over \$7,000 per immigrant in Boston) to state and federal tax revenues each year. Estimates indicate

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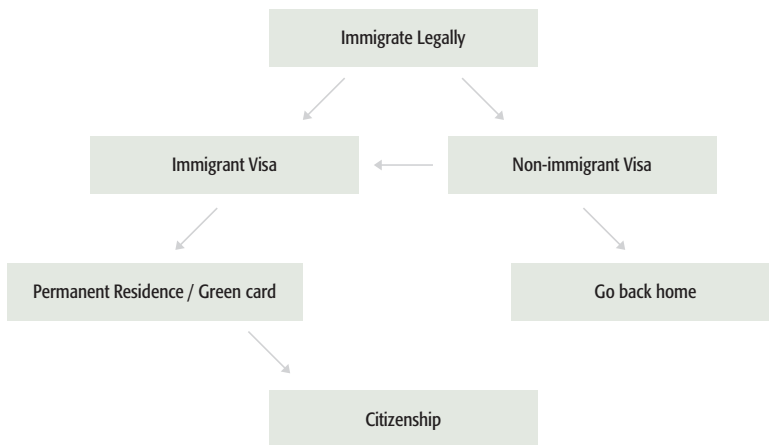
this consumer spending accounts for 25,800 jobs in the local economy. In addition, about 8,800 immigrant-owned small businesses are responsible for close to \$3.7 billion in annual sales and 16,900 jobs in the Boston metropolitan area¹⁵.

Pathways to Entrepreneurship for Immigrants and the Barriers They Face

And yet, there are surprisingly few pathways for immigrants to become entrepreneurs in the United States, at least in the short run. While the U.S. visa system includes over 180 complicated entry routes¹⁶, almost every visa restricts immigrants' ability to work for themselves or someone else for at least several years¹⁷.

Figure 1 shows that immigrants who come to this country legally have two broad paths available: they can enter on an immigrant visa or a non-immigrant visa. Immigrant visas are reserved for those who intend to stay in the U.S. permanently when they first arrive, while non-immigrant visas are reserved for those who wish to come to the U.S. temporarily for reasons like work, school, tourism, business, etc. Those who arrive on an immigrant visa eventually receive their "green card," or permanent residency, though this is by no means guaranteed. This process can take anywhere from three months to three years depending on why a person is immigrating and several other idiosyncratic factors, including whether immigration authorities desire follow-up interviews or additional evidence¹⁸. Most immigrants are eligible for citizenship starting five years after receiving permanent residency, conditional upon proving an adequate understanding of the English language and U.S. civics and history.

Figure 1: Pathways to Immigration in the United States¹⁹



Immigrants who arrive on a non-immigrant visa often do not intend to stay; they are simply tourists or foreign investors on short visits. However, because there is such a significant backlog for obtaining a green card, many immigrants view non-immigrant student and work visas as a pathway to gain more permanent residency and ultimately a green card.²⁰ And just like immigrants who arrive in the U.S. on immigrant visas, after receiving their green cards, many immigrants who initially arrived in the U.S. on a temporary (non-immigrant) visa may apply for citizenship, typically five years after receiving permanent residency. The U.S. issues many of these visas each year: in 2023 alone, over 10 million non-immigrant visas were issued. At the same time, almost three quarters of those visas are given to visitors on very short stays like tourists, business travelers, and people who cross the Canada-U.S. and Mexico-U.S. borders for day-to-day business purposes. There were just under 3 million non-immigrant visas issued to visitors on longer stays in 2023. Again, while the number seems large, many of these immigrants do not have a pathway to permanent residence and the vast majority cannot legally open and operate a business in the U.S.²¹

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Figure 1 indicates three broad pathways to entrepreneurship. That is, there are three types of immigration status that allow immigrants the legal right to self-employ:

1. Permanent residence (a green card) and citizenship
2. Work authorization not dependent on a specific employer
3. E visas

Permanent Residency (The Green Card)

Once immigrants are granted permanent residency, they gain the exact same labor market freedom as native-born U.S. citizens, except for a few special instances like the right to apply for a federal job. This includes the right to self-employ and start a business. However, only once immigrants become citizens can they run for most elected offices²². So permanent residency and citizenship, while most difficult to obtain, afford immigrants the broadest rights to start businesses.

The federal government issues 675,000 immigrant visas annually, though this number is often exceeded because certain visa categories, like family reunion visas, are not subject to caps. Yet, most of these slots are not reserved for high-skilled immigrants who are motivated to start a business. Only 140,000 immigrant visas per year are given to those who come to the U.S. expressly for employment opportunities²³, and about half of those visas are given to family members and not directly to immigrants whose skills employers can use²⁴.

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Temporary Residency - Work Authorization Not Dependent on Specific Employers

The only way an immigrant may start a business before receiving a green card is if their visa status grants them work authorization that is not dependent on a specific employer. For example, many foreign STEM majors come to the U.S. on a student visa, after which they receive an H-1B visa that allows them to work. But this visa stipulates that immigrants must be sponsored by a specific employer, and the immigrant must work only for that employer. This bars most foreign STEM majors from contributing to entrepreneurship until they gain permanent residency, and research shows that these immigrants would start companies much earlier after college if allowed²⁵. Conservative estimates indicate the U.S. visa system delays the creation of high-impact immigrant firms by at least five years, delaying the creation of 150,000 incorporated firms and 580,000 jobs from 2013–2021²⁶.

The story of Jyoti Bansal offers an illuminating example — Bansal had to wait seven years for his green card, after which he founded AppDynamics, a company worth \$1.9 billion that employs over 900 people²⁷. Further, other immigrants, including refugees, must wait up to 180 days before they are allowed to work at all²⁸.

Out of over 180 visa categories, or immigration statuses, only about 50 of these temporary statuses offer work authorization that is not dependent on a specific employer. However, many of these visas are not realistic for someone seeking to be a full-time entrepreneur, or they are reserved for specific occupations. For example, about six temporary visas are specifically for students, who are unlikely to be able to work full-time as entrepreneurs. Several are reserved for occupations like airline employees, physicians, and domestic servants²⁹.

E Visas - The Investor Visa

Additionally, a set of visas, known as E visas, exist to attract foreign investors. Just over 70,000 of these visas were issued in 2023, and a significant number are issued to family members³⁰. However, these visas are primarily designated as non-immigrant and only allow foreign entrepreneurs who

have invested in the United States to travel here temporarily for business interests. They are not intended for those who wish to stay and integrate into U.S. society. E visas that do offer a pathway to permanent residency are only given to business owners with at least \$800,000 on hand³¹.

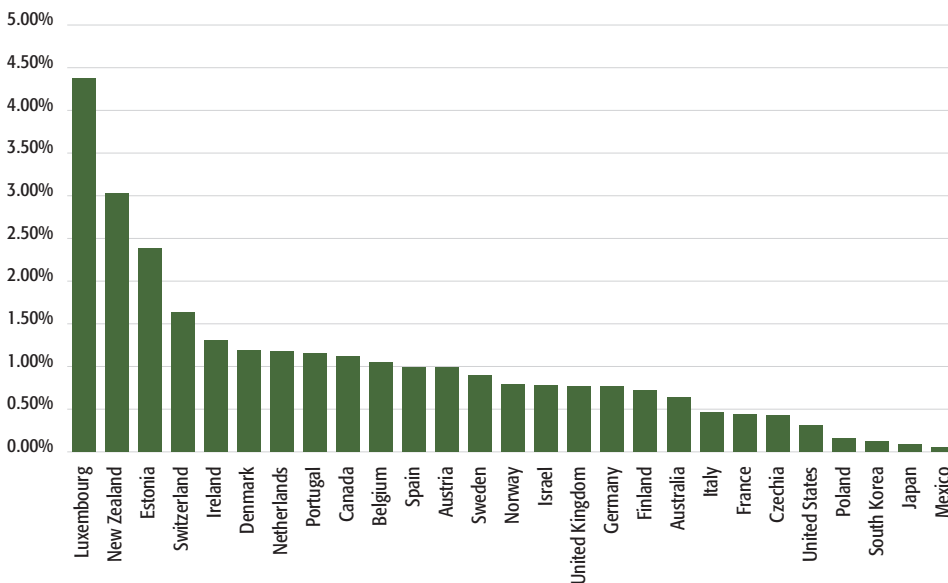
Finally, strict limits on immigration limit immigrant entrepreneurship in the United States. Over 99 percent of all immigrant applicants to the United States are rejected outright, including over 75 percent of H1-B visa applications, which are reserved for those who are highly educated³².

A Comparative Case Study

The lack of pathways to entrepreneurship for immigrants is causing the U.S. to lose ground in the race for global talent³³. While the U.S. lacks visas for immigrants who wish to start a business, other countries offer start-up visas. In the last few years, Australia, Canada, Chile, Denmark, Estonia, Finland, France, Ireland, Italy, Latvia, Lithuania, the Netherlands, Portugal, Spain, and the United Kingdom have launched start-up visa programs³⁴. Still, many of these countries, like Denmark³⁵ and the United Kingdom³⁶, limit the types of businesses immigrant entrepreneurs may own or impose onerous requirements on visa applicants. Germany requires immigrants to have capital in the hundreds of thousands of dollars³⁷.

Further, compared to other developed countries, the U.S. allows very few immigrants relative to its size. Figure 2, below, shows that yearly immigrant flows to the U.S. amounted to only 0.31 percent of its total population in 2022. Meanwhile, the closest competitor with the U.S. for immigrants, Canada, welcomed enough immigrants in 2022 that its population increased by 1.12 percent. And immigrant flows to other countries in 2022, including Luxembourg and New Zealand, surpassed 3 percent of those countries' total populations. Figure 2 provides information on immigrant flows in additional countries³⁸.

Figure 2: Immigrant Flows in OECD Countries



Other countries have started competing with the U.S. for global talent more directly, and they offer lessons for U.S. visa policy.

For example, since 2012, Germany has offered visas for immigrants wishing to start a business or do freelance work, albeit with capital requirements that range from \$50,000–\$100,000³⁹. More recently, Germany has instituted a new visa called the Chancenkarte (opportunity card) that makes it easier for foreign professionals to enter⁴⁰.

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Outside of Europe, Hong Kong provides several smooth pathways to business ownership for foreigners. Programs like the Technology Talent Admission Scheme provide a fast track for foreign tech professionals to engage in R&D in Hong Kong, and visa processing times are typically just four weeks. Online registration options further facilitate business creation among foreigners in Hong Kong⁴¹.

The United States’ Primary Competitor for Talent

No other country competes more heavily with the United States for global talent than Canada. Because of their geographic proximity, linguistic similarities, and the fact that the two countries are both wealthy and experience positive net migration flows, the U.S. and Canada are close substitutes for prospective migrants. In fact, the Canadian government has instituted a program intended to poach highly educated foreign talent in the U.S. The Canadian government has gone as far as posting billboards off California’s highway 101 reading, “H-1B Problems? Pivot to Canada.”⁴² In essence, Canadian officials have identified bottlenecks within U.S. immigration law and are taking advantage of them. And they do not just advertise to immigrants who are likely to be denied a U.S. visa — they also offer simplified pathways into Canada for those immigrants. Recent estimates show the program has made it 69 percent more likely for U.S.-based immigrants to start a business in Canada⁴³. Other estimates suggest Canada has poached 45,000 Indian college grads from the U.S. from 2017–2021⁴⁴. Thus, the U.S. is being outdone by its closest competitor in the race for global talent, entrepreneurship, and innovation.

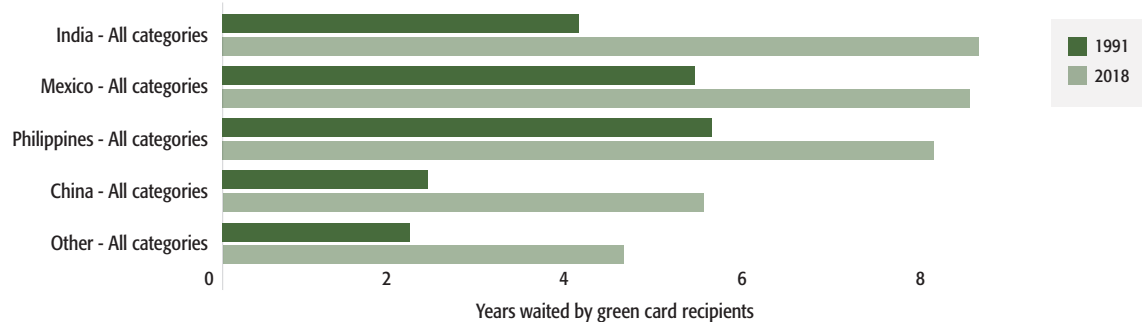
A more fine-grained comparison of the U.S. and Canadian immigration systems is even more informative. Not only are Canada and the U.S. neighbors, but both have historically had to rely heavily on immigration to boost their populations⁴⁵. Indeed, about 20 percent of Canadian residents are immigrants with permanent residence status, while 13 percent of American residents are foreign-born.

The first major difference between the U.S. and Canada is in the number of visas each country offers. While the U.S. offers over 180 specialized visas with different bureaucratic hoops through which to jump, the Canadian government offers four types of temporary visas: visitor visas, student visas, temporary foreign worker visas, and temporary resident permit visas. This first major difference highlights an important advantage the Canadian visa system has over its American counterpart: simplicity. The complicated nature of the U.S. system introduces a bottleneck and leads to case backlogs. Figure 3, below, visualizes those backlogs by country of origin. Immigrants from four countries — India, Mexico, the Philippines, and China — experience significantly higher case backlogs on average compared to other immigrants. Still, the typical immigrant faced a four year wait for a green card in 2018, double the wait times experienced by immigrants in 1991. And immigrants from India and Mexico must wait nearly a decade for their green cards.

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Figure 3: Years Waited for Immigrants to Apply for Green Cards⁴⁶



Sources: U.S. Department of State, “Visa Bulletin”; U.S. Department of State, “Annual Report of the Visa Office.”

Officials have a much less cumbersome job in Canada, having to only consider the legalities associated with four temporary pathways.

Another major difference between the U.S. and Canadian visa systems is Canada's Comprehensive Ranking System (CRS), a merit-based system designed to prioritize immigrants who are likely to provide the biggest economic impact. Under this scheme, immigrants are awarded points for distinctive characteristics including education, proficiency in English or French, work experience in Canada, current employment status, and possessing a post-secondary degree from a Canadian institution. If a prospective immigrant meets a certain point threshold (each threshold is different depending on the immigrant's circumstances and where an individual is in the immigration process), he or she may apply for permanent residency⁴⁷. And while Canada was the first country to adopt a scheme like this, others have followed suit, including Australia and Great Britain. Australia instituted a point system in 1972, which, like the Canadian system, currently prioritizes work, education, and language ability. The Australian points-based visa system also considers past criminal behavior and, to reduce the spread of infectious disease, health. In 2008, the U.K. introduced its own point system, which replaced a complicated maze of 80 visas⁴⁸. Other countries with points-based immigration rules include New Zealand, Singapore, and Germany⁴⁹.

Thus, while immigration policy reform has stalled in the U.S., other countries have refined their systems to more effectively lure educated and relatively easily assimilable immigrants. From start-up visa programs specifically designed to poach the most entrepreneurial immigrants to points-based visa systems that drastically simplify and streamline immigrant pathways for highly educated immigrants, other countries have recently adopted innovative visa system reforms. Meanwhile, the United States is losing some of its competitive edge by leaving the same policy cards on the table.

If U.S. immigration legislation does not keep pace, Americans risk missing out on valuable innovations that improve quality of life. Further, the Department of Homeland Security has noted that drawing immigrants with STEM degrees to the U.S. is vital for national security⁵⁰. Foreign talent has proved crucial to U.S. national security in the past—several foreign scientists played pivotal roles in developing nuclear weapons during the Manhattan Project⁵¹. Today, many immigrants contribute to innovation in AI and other advanced technologies like medicine. For example, 65 percent of AI companies in the U.S. have immigrant founders⁵², and immigrants have contributed to medical breakthroughs including COVID vaccines⁵³ and research on celiac disease⁵⁴. Further, immigrants are authors or coauthors on 30% of all patents in strategic industries⁵⁵. Unfortunately, current immigration policy is limiting this flow of talent in tangible ways: researchers estimate immigration restrictions have reduced the average SAT score of prospective immigrants into the U.S. by 1.5 percent⁵⁶.

Policy Proposals, Discussion, and Conclusion

The U.S. has long had a competitive advantage over other nations in attracting hard-working immigrants. For centuries, the U.S. has drawn immigrants from every corner of the Earth, while European and other developed countries are only beginning to witness large immigrant inflows⁵⁷. This free flow of human minds into the U.S. economy helped drive innovation and economic dynamism in the 19th and 20th centuries⁵⁸.

A few policy changes can help the U.S. avoid losing this competitive advantage as other countries match U.S. economic growth and begin attracting their own immigrant populations:

1. ***Legal immigration should be increased, particularly for those who are highly educated.*** This report has shown that legal immigration to the U.S. is not just difficult for those with low levels of education—professionals are also routinely denied entry because of strict immigration quotas. At the federal level, officials should relax these quotas to prevent the U.S. from losing foreign talent to places like Canada. Even if federal officials are unwilling to act, state officials have policy options. For example, Massachusetts universities have taken advantage of a cap-exempt category of H-1B visas, reserved for non-profits, to sponsor graduates with advanced degrees who have gone on to found companies⁵⁹.

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2. ***Immigrant quotas should reflect real market conditions.*** Zeke Hernandez provides one way to relax quotas in a way that considers genuine U.S. labor market needs. He creatively evokes the 85th Percentile Rule, a rule used to set speed limits in many U.S. localities⁶⁰. According to this rule, the speed limit on any road should be the speed at which 85 percent of drivers travel when driving that road, on average. In the context of immigration quotas, this rule suggests that immigration quotas should be relaxed and tightened according to labor market needs. In other words, when the U.S. is doing well economically and there are many job opportunities, more immigrants should be allowed in the U.S. In fact, research shows that immigration flows typically increase when there are more jobs and higher wages in the U.S., while immigration ebbs when job opportunities are scarce, and wages are low.⁶¹ Immigration officials can take advantage of these natural market dynamics to set immigration quotas that make sense given current market conditions.
3. ***The U.S. visa system should be drastically simplified.*** With over 180 highly specific pathways into the U.S. and relatively few pathways to legal business ownership, the U.S. visa system is too complicated for its own good. The U.S. would receive more value per immigrant with a visa process that relied on just three permanent visa categories: work visas, family reunion visas, and humanitarian visas. This would achieve two goals. First, wait times for visas could be drastically lowered. In places with simpler visa systems, like Hong Kong, visa wait times are a fraction of those in the U.S. Even to travel for business or tourism, immigrants must wait up to a year for a visa⁶². Further, the complicated nature of the U.S. visa system prevents many immigrants from reaching their full potential. Immigrants who are qualified for highly skilled jobs are often denied entry because of quotas. When this happens, some foreign professionals who are also eligible for other types of capless visas, like family reunion visas, successfully apply for those entry permits. To the extent these capless visas offer worse employment opportunities and labor market freedom compared to visas with strict caps, the U.S. is squandering the talent of immigrants who are allowed in⁶³. Importantly, U.S. officials could simplify the immigration system without changing the number of legal immigrants the U.S. allows each year.
4. ***The U. S. can implement a points-based system.*** Another specific, patchwork solution would be to implement a points-based immigration system like that of Canada, Australia, and the U.K. Indeed, the U.K. was recently able to drastically simplify its visa system, a complex web of 80 different visas, by replacing it with a points-based system. The U.S. could implement a system like this in a very flexible way by using points to reward immigrant characteristics officials want to encourage like education, language ability, or possession of a STEM degree. However, implementation of a points-based system should be approached with caution. If not implemented carefully, points-based systems can result in more bureaucratic red tape as officials debate which criteria to consider and how to weight such considerations⁶⁴.
5. ***The U. S. can implement an express lane for some immigrants.*** Further, a points-based system could be combined with an express-entry line for particularly high-skilled immigrants. Under such a system, current U.S. immigration law could remain intact while expediting the applications of high-value immigrants. A visa program like this has recently been endorsed by the U.S. Conference of Mayors. Under this proposed reform, called the Heartland Visa, high-skilled immigrants would be encouraged to move to areas with declining populations or sluggish economic growth. The proposal would add an additional visa category capped at 50,000 slots per year, and recipients would be able to bring family members without contributing to that cap. While immigrants would not necessarily be awarded “points” per se, those with particularly high earnings could see their applications expedited⁶⁵. A visa like this would have a limited impact in Massachusetts, because Berkshire is the only eligible county in Massachusetts under this proposal. However, plenty of counties in other New England states, like Maine and New Hampshire, would potentially reap huge rewards. Other more general proposals would be more likely to help the Bay State. For example, others have suggested

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adding an “express lane” visa option by allowing immigrants to pay a few thousand dollars to have their applications evaluated sooner⁶⁶.

6. ***The U. S. should implement a genuine start-up visa.*** An alternative to drastically simplifying current immigration pathways in the U.S. could be to introduce a start-up or entrepreneur visa that is specially tailored to immigrants who want to start a business. Such a visa would have the most impact if it a) has clear-cut requirements that focus on an entrepreneur’s ability to contribute to the U.S. economy and b) avoids adding burdensome costs of doing business. This means visa fees and processing times should be minimized. Unlike the proposed Heartland Visa, this type of visa could benefit cities in Massachusetts if it did not come with restrictions on where recipients may live.
7. ***Officials should grant new immigrants similar levels of labor market freedom as permanent residents.*** By preventing immigrants who are professionals, as well as many other types of immigrants, from opening a business, the current visa system is delaying economic growth, tax revenue, job opportunities, and innovation. This policy need not increase the number of immigrants allowed into the U.S. each year. By simply freeing immigrants from burdensome regulations and allowing them to participate in the labor market to the same extent as permanent residents and citizens, officials can both ensure more value per immigrant and promote integration. For example, researchers estimate labor market restrictions lower median H1-B immigrant wages by \$10,500 per year⁶⁷. This means tax dollars are left on the table because of restrictions on immigrants’ abilities to switch jobs. Again, if federal officials are unwilling to act, there are actions that states can take. Most states currently impose immigrant-specific barriers to professional licenses. Arkansas, Colorado, and New Mexico, on the other hand, have passed laws to remove these barriers, allowing professional immigrants to more fully harness their potential and contribute to the U.S. economy⁶⁸. At the same time, there have been federal proposals to give college graduates an express lane to permanent residency, which would allow those immigrants to engage in entrepreneurship. Specifically, President Trump has floated the idea that noncitizens who graduate from U.S. universities could be granted permanent residency after a careful vetting process⁶⁹.

Immigrants are a major reason why the U.S. economy is the powerhouse it is today. By attracting hard-working, industrious, innovative foreign talent throughout its history, the U.S. enabled a dynamic and entrepreneurial economy, which in turn has delivered the world’s highest living standard. However, national policies are not moving quickly enough to maintain this status quo. The reality is that U.S. immigration policy is outdated. It is time to reassess the efficacy of the U.S. visa system. By fully capitalizing on the gains immigrants have to offer, the nation can continue to be a pioneer in innovation and economic development.

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Endnotes

- 1 Throughout this report, “immigrant” strictly refers to those who come to the U.S. legally. An immigrant can be on an immigrant or a non-immigrant visa. Green card holders and foreign-born U.S. citizens are also defined as immigrants throughout this report. In short, this report considers anyone who was born abroad, except U.S. citizens at birth who were born abroad, *and* who is in the country lawfully to be an immigrant.
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Josh Bedi began his undergraduate career with the International Business Program at Mississippi State University and received a Bachelor of Business Administration in business economics and a Bachelor of Arts in German. At Mississippi State, he worked with Germany Trade and Invest as a Service Industries Intern.

He earned his Ph.D. and was a Mercatus Center Fellow at George Mason University. From there, he began working at Copenhagen Business School as a Postdoc in Entrepreneurship at the Department of Strategy and Innovation. There, he worked under the Mærsk McKinney Møller Chair in Entrepreneurship.

Josh Bedi now works as an Assistant Professor of Economics at University of Wisconsin – Superior. He continues to do research on immigration, entrepreneurship, and a number of other topics. He also teaches several Economics courses, including Micro- and Macroeconomics, International Economics, Money and Banking, and Econometrics.

Mission

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